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Statement by the Hon. **PATRICK PRUAITCH**,  
Governor of the Bank and the Fund for **PAPUA NEW GUINEA**

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It is indeed a great honour and privilege for me to deliver this address on behalf of the people and the Government of Papua New Guinea on the occasion of the IMF and the World Bank Group Annual Board of Governors' meeting. I take this opportunity to convey my country's appreciation to the people and the Government of Peru for hosting this annual meeting in the spectacular backdrop of breath-taking scenery of this beautiful country and warm hospitality. I would also like to extend our sincere gratitude to the management and staff of the two institutions for arranging this important meeting.

**Global economic challenges**

Against the backdrop of the current global economic environment, in which the outlook remains gloomy, with sluggish growth in production and trade and continuing low commodity prices, we encourage the World Bank Group (WBG), the IMF, and other development institutions to continue to work with member countries to formulate and implement policies that will lift long-term growth potential. This is critical because economic growth remains an important pre-condition for the achievement of the World Bank's twin goals of eradicating poverty and boosting shared prosperity and the Sustainable Development Goals (SDGs).

We believe the theme, "Road to Lima" 2015, is timely and relevant in the context of the current global outlook, which aims to take Governors through the development milestones that are essential for emerging economies in the 21st century. Papua New Guinea is no exception and these challenges remain at the forefront of our development agenda, which seeks to promote equitable and inclusive growth, quality education, greater employment, and ways to address climate change and citizen insecurity.

We would welcome technical assistance in formulating and implementing policies on: boosting productivity through the liberalization of trade and the promotion of competition in product and labor markets; increasing human and physical capital through investments in education and

infrastructure; and structural reforms to improve governance and strengthen public services, including making delivery mechanisms more effective and efficient. Whilst stronger economic growth is necessary, a path to more inclusive growth is absolutely paramount to realizing the WBG's twin goals and the SDGs; and, as such, we encourage the continued assistance of the WBG and the IMF to ensure that the benefits of growth are shared and contribute to poverty reduction. We value and appreciate the continued support of the WBG and the IMF, particularly in providing policy guidance that broadens tax bases and increases the use of more efficient forms of taxation.

As we charter our development path, we are aware that there are a number of challenges that lie ahead that will require collaborative solutions and we welcome WBG's vast experience and networks to identify appropriate expertise. One outcome of such collaboration has been the development of the PNG Sovereign Wealth Fund. I am pleased to inform you that the Organic Law on the PNG Sovereign Wealth Fund was passed by our Parliament in July 2015 and the Fund will come into operation in 2016. This is critical to PNG, as we remain vulnerable to external shocks, such as falling oil prices that have affected significantly our ability to finance key development projects and deliver essential services to the poor and vulnerable. The PNG Sovereign Wealth Fund is a key macroeconomic mechanism to manage such external shocks, to support the Budget to fund key priority areas such as education, health and infrastructure, and to invest for the benefit of future generations.

Since the collapse of commodity prices, the Government has been closely monitoring its fiscal stance and has made necessary administrative adjustments to consolidate expenditure. The Government has recently endorsed fiscal adjustments to both expenditure and revenue to realign the 2015 Budget back to its original position. This will form the basis of the 2015 Supplementary Budget for Parliament to consider during a special session later this month. It is important to consolidate under tight fiscal circumstances, when prioritization and that quality of expenditures become absolutely crucial. Maintaining real expenditure growth in the delivery of development priorities, including education, health, infrastructure, law and order, agriculture, and improving settings for private sector development, is critically important. These are key considerations that will underpin the 2016 Budget Strategy, which will be a challenging one considering a number of big ticket items to be funded over the medium term; for example, the National Elections in 2017

and the hosting of the APEC forum in 2018. Despite these challenges, we looking forward to holding a successful APEC meeting. Hosting APEC in 2018 is a significant recognition of Papua New Guinea's growing economic position in the Asia Pacific region.

### **State of the economy**

In terms of macroeconomic performance, the PNG economy is projected to grow at 11.0 per cent in 2015, a downward revision of 4.5 percentage points from the 15.5 per cent expected in the 2015 Budget. Growth, although lower than originally projected, has largely been driven by a full calendar year of gas production and supported by a rebound in the non-mining sectors, which are expected to grow at 3.3 per cent. Overall, macroeconomic conditions remain positive in 2015, with inflation remaining at moderate levels and the exchange rate weakening against the US dollar.

Over the medium term, the PNG economy is expected to adjust back to the traditional drivers of the economy in the non-mining sectors, following the construction and production phases of the LNG project. This adjustment is expected to start after the economy absorbs peak levels of LNG production in 2015.

### **The Government's development strategy**

As stated earlier, this Government is committed to building our nation and providing opportunities for our people. To this end, it has embarked on making historic investment decisions in its 2015 Budget from a position of economic strength, while continuing to fund key development programs to meet the country's development needs. This includes enhancing opportunities for our people by improving the investment climate, while recognising the need for macroeconomic stability; further promoting the efficient and effective implementation of major projects; increasing direct funding to Provinces and Districts, with more emphasis on monitoring, evaluation and compliance; and continuing to support policy priorities in key sectors of the economy.

In terms of specific initiatives, the Government is developing a framework to encourage the small and medium-sized enterprise (SME) sector, facilitating the development (and progression) of the

informal economy, establishing an agenda to reform and minimize the impact of regulation on business, and reforming the way in which the country's State Owned Enterprises operate to make them more commercially orientated. The Government also recognises the importance of promoting good governance and transparency to help build a predictable and more certain environment for business. These reforms are central to our development of a new Kumul structure (named after our national bird) that will manage all state assets and SOEs in PNG. We strive to have our SOEs operate on a commercial footing, exposing them to competitive forces and increasing their efficiency. These are areas where we have valued, and continue to value, the WBG's immense contributions.

The Government has also announced (and commenced) a number of reviews, the outcomes of which are expected to benefit the private sector: the Tax Review; a Financial Services Sector Review; and a Competition Policy Framework Review. In addition, there are already a number of projects aimed at addressing specific limitations, including establishing electronic business registration, developing a secured lending registry, and promoting financial literacy and inclusion.

The Government is also committed to improving the transparency, accountability and availability of critical economic data, and has introduced a number of institutional and policy reforms, such as a single, fully integrated multi-year Budget; legislation to establish an Independent Commission against Corruption; and progress to join the Extractive Industries Transparency Initiative (EITI).

### **World Bank Group reform**

With regard to the World Bank Group reforms, we join our constituency to congratulate the WBG on the progress that has been made in bedding down the structural reforms that were introduced in July 2014. We encourage management to continue to look for opportunities to improve service delivery to clients and maximize financial efficiency of the organization.

We welcome the introduction of a new procurement framework and look forward to the successful completion of the review of environmental and social safeguards. The success of both reforms is dependent on the quality of implementation. As part of the implementation strategy, we expect the

WBG to provide adequate support to all developing countries (and particularly to our smaller and capacity-constrained members) to implement the new frameworks.

We also welcome the Bank's decision to integrate climate change and disaster risk management into country planning, strategies and financing. This is an area of critical importance to small island nations.

### **IMF engagement**

We welcome preliminary findings of the recent IMF Article IV Mission, including its recommendation for renewed policy focus on inclusive growth in the post-LNG construction phase and the importance of accelerating structural reforms to improve the business environment to promote economic transformation. Likewise, we acknowledge the Mission's recommendation for a comprehensive policy response to falling commodity prices and the temporary suspension of some mining operations that will lower Government revenue prospects substantially, and related shocks. To this, we would welcome IMF expertise in supporting a measured, but ambitious, medium-term fiscal consolidation to safeguard fiscal sustainability.

At this juncture, we would like to acknowledge the IMF's continued technical assistance through the following projects: technical assistance for the Mining and Petroleum Taxation Regime review as part of the PNG Taxation Review; reforms to national statistics and the adoption of 2001 Government Financial Statistics; strengthening cash management; and the debt sustainability review.

### **Conclusion**

I believe that the collaborative and mutual relationship we have built over the years with the international community has enabled us to improve progressively the delivery of our shared priorities. This is an ongoing journey and the Government highly values our international relationships. We look forward to continuing working with the WBG and the IMF in the years ahead.