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Statement by the **HON. RABBIE NAMALIU**,
Governor of the Bank for **PAPUA NEW GUINEA**,
at the Joint Annual Discussion

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I would like to thank the President of the World Bank Group, Managing Director of the IMF, and the Singapore Government for hosting the 2006 Annual Board of Governors Meeting and for the warm welcome that we have received. This is an excellent opportunity for all of us to share, and learn from, the wealth of experience and knowledge that organizers and participants bring to these discussions.

Papua New Guinea continues to be faced with many challenges imposed by difficult geography, extreme ethnic diversity, population dispersion, a serious HIV/AIDS epidemic, poor social indicators, and weak public service capacity.

To meet those challenges, we have drawn on assistance from others, such as our development partners, and worked hard ourselves to ensure that we build a strong and robust economy to support the development needs of our people. I am proud to report that the Government's persistent effort to adhere to our goals has reaped good results in our economic and fiscal performance.

We have achieved political stability, which is a necessary condition for macroeconomic and financial stability and for sustained economic growth. The current government has now been in office for four years and looks set to serve out its full term. Political stability has been enhanced by a range of measures including the introduction of Limited Preferential Voting and the enactment of the Political Parties and Integrity Act.

Political stability has enabled us to introduce more policy stability. The Government is conducting its fiscal policy within a framework of clear medium-term strategies. These strategies – the *Medium Term Fiscal Strategy*, the *Medium Term Development Strategy* and the *Medium Term Debt Strategy* – lay out plans which the Government has followed and will continue to follow. To confirm this medium term strategic framework, the Government introduced a *Fiscal Responsibility Act*, passed in August 2006, which calls for regular and public reporting of the budget position, and adherence through the term of each government to a set of fiscal principles including balancing the budget.

The *Medium Term Fiscal Strategy* maps out an affordable and sustainable path of public spending, and the *Medium Term Development Strategy* sets out the Government's priorities for its spending. The *Medium Term Debt Strategy* maps out a path of debt rebalancing to provide reduced exposure to risk.

These strategies have been complemented by an ambitious reform agenda. The

Government's public sector reform has been promoted under the *Strategies for Supporting Public Sector Reform 2003-2007*, and the *Public Expenditure Reform and Rationalisation* process which has received welcome support from our development partners including the World Bank. Trade and financial services liberalisation, and a range of other reform initiatives aimed at reducing business impediments, have created a more supportive environment for private sector growth.

We have also benefited from a supportive global economy. Global economic activity has grown strongly and the prices of the major commodities that we export to the rest of the world have increased sharply.

Together, prudent economic and financial management, and a supportive world economy, have started to produce results. There is now increased investor and consumer confidence in macroeconomic management and longer-term growth prospects for Papua New Guinea's economy. Investment has increased, profits are up and more jobs have been created.

Economic growth is now expected to reach 3.7 per cent in 2006. And the outlook for 2007 is even better, with economic growth increasing to 4.0 per cent. We expect next year to be the fifth successive year of economic growth equal to or above population growth of 2.7 per cent. In other words, we are seeing a steady improvement in GDP per capita. This is a more consistent performance, and a better result on average, than was achieved from the mid 1990s through to 2002.

Prices remain low, with an inflation outcome in 2005 of 1.7 per cent in year-average terms, the lowest annual outcome since Independence. Interest rates remain around historically low levels. The exchange rate remains stable, with a slight appreciation against the United States and Australian dollars in the first half of this year. Foreign exchange reserves have increased further, and are now at levels sufficient to serve comfortably the role of managing short term exchange rate volatility. The Government will continue with the floating exchange rate system.

On the fiscal side, the combined effect of expenditure control and buoyant revenues was that in our mid-year review we expected to find a substantial surplus in 2006. Accordingly, a Supplementary Budget was prepared and passed in August. The government has taken care not to spend temporary windfall revenue in ways that would place pressure on future budgets. The additional revenue was allocated to the priorities in our *Medium Term Development Strategy*, and to meeting outstanding state obligations.

Despite this good economic and fiscal situation we are not complacent. We recognize that the macroeconomic outlook is still open to risks, and that we could easily be derailed by adverse domestic or global shocks.

We also understand how easy it is for fiscal discipline to slip, especially when conditions appear to be improving.

We are well aware of the daunting challenges we face in getting our economy to work well at the micro level and in improving service delivery to the community.

We are also aware of the risks from the HIV/AIDs pandemic and our other problems of public health, and the difficulty of putting in place systems to manage these risks.

More generally, we recognize the ongoing challenge we face to grow the economy and meet our development aspirations. There remains much to be done.

Like other developing countries, we know we can not, and should not, face these challenges alone. The increased linkages between countries through trade and investment, and the commonality of interests in poverty reduction, health, security and a host of other issues, mean that cooperation and sharing solutions to shared problems are increasingly important.

We are fortunate to have the knowledge and expertise, and in many cases the financial support, of our development partners around the world.

We need to ensure that we are able to make use of this support most effectively. International institutions can help in this by ensuring their support is properly targeted and coordinated, and that it is provided in such a way that it complements our own institutional development and policy design.

More specifically, in Papua New Guinea's case, we wish to mesh the development support from our partners with our own medium-term management strategies and development priorities. National ownership, leveraged by international support, will be a potent force to sustain our momentum.

I look forward to our discussions at this meeting and the insights that participants will bring. We have much to discuss and hopefully much to learn.

In concluding, I would like to acknowledge and express my Government's sincere gratitude to the management and staff of the World Bank and the Fund for their continuous support in Papua New Guinea's development effort.