



Speech

2006 Budget

“Improving people’s lives through strong economic leadership”

Minister for Finance and Treasury

The Hon. Bart Philemon, MP

15th November 2005

1. INTRODUCTION

Mr. Speaker, I move that the Bill now be read a second time.

It is a great honour and a great responsibility to present to the House the Somare Government’s 2006 Budget. This is our Money Plan for the next year and into the medium term.

The 2006 Budget is this Government’s fourth full-year budget. Like the previous three budgets, the 2006 Budget is set within a medium-term framework.

It builds on the Government’s plan of building the economy over time through sustained reform.

Importantly, the 2006 Budget links better economic and financial management with better service delivery for ordinary people. This budget is about 'Improving People's Lives through Strong Economic Leadership'.

Mr Speaker, over the past three years the Government has acted firmly to restore fiscal management and improve economic conditions. Public finances are now better managed and the economy has picked up. Macroeconomic stability has been restored. The economy is growing again.

But of course, this is not an end in itself. Strong economic leadership ultimately delivers the things that we all aspire to: a better life for ourselves and better opportunities for our children.

Our challenge now is twofold. First, we need to continue laying the solid economic foundations that have delivered these good outcomes over the past three years. We cannot be complacent. Despite the impressive recovery, our economy is still fragile. If our reform effort falters now we will give up all of the hard-won gains that we have made.

Our second challenge is to build on these foundations to ensure that the benefits of a stronger economy flow through to the people through more income-earning opportunities and better service delivery.

Mr Speaker, over the past year I have traveled all over the country, providing my support for a range of initiatives at the district level. I have seen first hand how many of our people are suffering because of the lack of basic services. In many areas, roads are poor, health and education facilities have deteriorated, basic commercial services are lacking, and law and order is under threat.

It is clear to me that despite our progress over the past three years, much more work needs to be done. While public spending has gone up, including in

the areas of education, health, and law and justice, it is still not getting to areas where there is the greatest need. Too much of taxpayers' money is still being wasted by being spent on the wrong things, or by being poorly managed.

Despite the recovery, our private sector is still not growing fast enough to provide the income earning opportunities that are needed.

Mr Speaker, we have an opportunity to tackle these issues and we must do so. As leaders, we have to forgo our own interests, and pressures from special interest groups, and think about what is in the best interests of the nation and of the people we serve.

Spending money on unproductive things is not the answer. Borrowing more and more money is not the answer – we have fallen into that trap before and ended up in a cycle of deficit and debt.

Instead, we need to nurture our scarce resources and use them carefully. We need policies that will grow our economy and programs that will see the rewards of that growth distributed widely.

As leaders, we will be judged not by what we say, but by what we do to improve people's lives.

Mr Speaker, we have consulted widely in putting together the 2006 Budget. We have taken part in consultative regional forums, we have worked with the business community, and we have listened to voices of the ordinary people.

2. STATE OF THE ECONOMY 2005

Mr. Speaker, the Papua New Guinea economy has continued to strengthen in 2005 and the fiscal position has improved. Economic growth is now expected

to reach 3.0 per cent in 2005, with non-mining GDP expected to grow by 3.5 per cent in the year. Investment has increased, profits are up and more jobs have been created.

This is a good outcome, considering our recent history of economic contraction. Our economy, which was on life support three years ago, is now returning to health.

The improved economic outlook for 2005 reflects increased investor and consumer confidence in macroeconomic management and longer-term growth prospects for Papua New Guinea's economy.

The Government's prudent management of fiscal and monetary policy has ushered in a period of macroeconomic stability. The 'land of the unexpected' has become the 'land of the expected', at least in terms of economic stability, with consumers and investors now having a much more stable environment in which to make their decisions.

Inflation has fallen to around 1 per cent in 2005, so price increases are no longer eating away at people's incomes.

Interest rates have fallen sharply, with market rates under 5 per cent. Commercial interest rates have also declined, helping ordinary borrowers and investors.

The exchange rate has stabilized, due to better macroeconomic stability and higher world commodity prices. We no longer have to pay higher and higher prices to import goods and equipment from overseas.

Our external position is healthy. The current account is in surplus, due to high international prices for oil, metals and agricultural commodities as well as

increased domestic production. Foreign exchange reserves have also remained high and are around near-record levels.

As we move into 2006 we can have some confidence that our economy will continue to expand.

3. FISCAL OUTCOMES 2005

Mr. Speaker, I can also report that our fiscal position has also continued to improve and we are on track to meet the commitments that we made at the time of the 2005 Budget.

We have kept to our expenditure ceiling and, with revenues stronger than expected, we are likely to record a better outcome in 2005 than we expected.

Mr Speaker, some people say that it is easy to achieve a good budget outcome during periods of stronger revenues. I can assure you that it is not, and we have seen plenty of examples in the past where the Government has simply spent the extra money without any long-term gains for the country.

In practice, managing the Government's finances is a difficult and challenging task. During the course of the year, there are many requests for money over and above the Budget appropriation that has been approved by Parliament. In the past, some governments have succumbed to these pressures and increased spending to levels that were not affordable or sustainable, often running up more debt in the process.

We have not gone down that path. In 2005 we have managed expenditures within the Budget appropriation approved by Parliament.

Some savings have been identified, particularly from lower interest payments, and that money has been redirected to priority areas, while remaining within

the overall spending ceiling. As an example, an additional K50 million was provided in 2005 for the rehabilitation and maintenance of the Highlands Highway. These are the types of tangible benefits that we are starting to see from sound economic management.

On the revenue side, higher commodity prices and a stronger economy have boosted revenues. Much of this was unexpected. Oil prices have surged in 2005 to very high levels; copper prices have also increased sharply. These high prices are unlikely to last, but they have provided a good windfall in 2005 and are likely to continue to provide strong revenues in 2006.

The combined effect of solid expenditure control and buoyant revenues is that the budget balance for 2005 is likely to be better than we predicted at the time of the last Budget. The deficit is expected to be around K97 million, which is around 0.6 per cent of GDP. This is much better than the deficit of K138 million that we forecast in the last Budget.

This is a very good outcome. Not only have we beaten the projections, but we have been also able to set aside K400 million to fund the Government's equity share in the gas pipeline.

In the past we have been tempted to spend windfall gains, for short-term benefit, but in ways that are not always sustainable. This time, however, we are using the money to buy an asset that will deliver a stream of revenue for many years in the future.

Because of our good management, debt as a percentage of GDP will fall to around 50 per cent by the end of 2005, down from 55 per cent at the end of 2004 and over 70 per cent when the Government came into office.

Mr Speaker, we are now starting to see the tangible benefits of lower debt. Interest rates are now much lower. The Government's interest payments are lower, which frees up more money to spend on important things.

More importantly, we have broken out of the debt trap that we were lured into by the promise of easy money. We have stopped placing more and more obligations on our children, and their children, to repay the money that we have borrowed and spent poorly.

4. ECONOMIC OUTLOOK 2006

Honourable Members, let me change tack and now look forward to 2006 and beyond.

Looking ahead, the economy should continue to improve in 2006 and strengthen in coming years. Global economic conditions are still supportive and commodity prices look set to hold up for another year. With stable macroeconomic management and ongoing reform we are now better positioned to benefit from these improved conditions.

The economy is forecast to grow by 3.5 per cent in 2006 and the non-mining part of the economy is forecast to grow by 3.2 per cent.

Some of our economic commentators say that this is too low and that we should target 5 per cent economic growth or more. Let me say that I agree with them – our economy can grow faster. But it doesn't happen just by making a higher forecast. Stronger growth will only come from hard work – disciplined and honest financial management, a better performance from our public sector and a better environment for the private sector to do business.

We are making steady progress. 2006 will be the fourth successive year of economic growth of around, or above, 3 per cent. By the end of the decade, economic growth is expected to be well over 5 per cent.

Employment and incomes are also expected to increase in 2006 in line with the strengthening economy.

Inflation is forecast to remain low in 2006. The exchange rate is expected to remain stable. Interest rates are also expected to remain low.

External conditions should continue to be solid. Although prices for some of our key commodities are unlikely to remain at their current very high levels, they should still be above their historical levels in 2006.

There are risks, of course. If oil prices fall back to more normal levels or other commodity prices decline, the outlook would not be quite so positive. If our macroeconomic management slips, or our reform effort falters, the outlook for 2006 and for future years will also dim. The sun is shining today, but as we know in Papua New Guinea, storm clouds can gather quickly.

Notwithstanding these cautions, the positive economic outlook provides us with an opportunity to build on the successes of the past three years.

5. THE 2006 BUDGET STRATEGY

Mr. Speaker, the 2006 Budget continues to be set in a medium-term framework. This medium-term setting is very important since it allows us to consider not only the effects of policies on our lives now, but also how they might affect us in the future.

Some policies – such as extra spending and borrowing – may at first sight seem popular now, but do not seem so good when we consider that we have to forgo things to pay interest and to repay the borrowed money later on. Other policies – such as preventative health care – may seem to provide very little now, but will provide good benefits later on.

By setting our budget in a medium-term framework, we can take into account the costs and benefits of policies, both now and in the future. We can set policies now which will benefit us in the future.

The two main medium term frameworks that guide the formulation of the Budget are the *Medium Term Fiscal Strategy*, which sets out how much we can spend, and the *Medium Term Development Strategy*, which sets out the most important things on which we want to spend our money.

Under the *Medium Term Fiscal Strategy*, the targeted deficit in 2006 will be K90 million or around 0.6 per cent of GDP. Like any household, the Government has to live within its means, and adherence to the *Medium Term Fiscal Strategy* means we are not getting into more debt. If we hit this target, the level of public debt to GDP will fall over the course of 2006.

Of course, it is not just important to live within our means. It is also important to spend our money wisely on the most important things. The priority areas for Government spending are set out in the *Medium Term Development Strategy*. They continue to be basic education, primary health care, law and justice and the rehabilitation and maintenance of transport infrastructure, particularly roads.

These spending priorities are not just about economic development – they are also the necessary building blocks for longer-term economic growth. Stronger economic growth will deliver the income-earning opportunities that our people need.

Mr Speaker, the 2006 Budget also provides additional resources for HIV/AIDS prevention. HIV/AIDS is a grave risk to our people and we are already starting to see the effects of this on individuals and communities. If HIV/AIDS continues to spread unchecked it will have very damaging effects on all aspects of people's lives. It will have very damaging effects on Papua New Guinea's economic growth and on the Government's capacity to provide services to the people.

Mr Speaker, a stronger economy can deliver increased income earning opportunities for our people. It can provide additional revenues for the Government to improve service delivery. The 2006 Budget continues to be supportive of private sector development and growth, continuing with reform initiatives introduced in the 2005 Budget. The three main elements to this strategy are:

- creating a stable investment climate;
- providing an efficient, effective and affordable public sector; and
- creating a competitive and dynamic private sector.

If we do these things well, the Government will be much better placed in the future to provide the services that people need.

6. REVENUE MEASURES

There are no new taxes or tax increases in the 2006 Budget and some taxes have been reduced.

Mr Speaker, it is important for everyone to pay their fair share of tax and for the Government to raise enough money to pay for the services that it provides to the people. Without taxes we would not be able to afford schools, hospitals, police and the other services that the Government provides.

At the same time, however, excessive taxes can deter people from working harder and businesses from making new investments.

The Government therefore needs to strike a fair balance between raising money to fund its activities and the needs of individuals and businesses to be properly rewarded for their work and their investment.

Over the years people have progressively moved into higher tax brackets and we are now uncompetitive with other tax regimes in the region.

Accordingly, in this budget I am announcing a major reform to the tax system, spread over two years, which will make it fairer and reduce the amount of income tax paid by most people.

From 1 January 2006, there will be an increase in the tax-free threshold from K6,000 to K6,300. That is, people earning low incomes will be able to earn more money before they have to pay tax. People earning more than the old threshold will not have to pay tax on a further K300 per year.

A new 30 per cent tax band will be introduced between the current 25 per cent and 35 per cent tax bands. People earning between K18,000 and K33,000 will now only pay a marginal tax rate of 30 per cent. This means that some people who have been paying tax at 35 per cent on every extra kina will now only have to pay 30 per cent. The top marginal tax rate will be reduced to 45 per cent and will apply from a new threshold of K150,000.

From 1 January 2007 the tax-free threshold will be increased again, to K6,600. The top marginal tax rate will be reduced to 42 per cent and the top threshold will be increased to K250,000.

These changes do not guarantee that other taxes will not rise in the future. There may come a time where our development spending needs do require an

increase in another type of tax, such as GST, but this is not our intention now. Our first priority is to ensure our spending is properly managed and controlled, so that taxpayers are getting good value for the money they already pay.

There are also other tax reductions in the 2006 Budget. The final phase of the current tariff reform program will occur from 1 January 2006, with tariffs on a range of goods falling by 5 percentage points. This means that the prices of some foods, clothing, some building materials and other goods will fall.

There will also be a reduction in tariffs for a range of goods that are not produced in Papua New Guinea. This will reduce prices for consumers and investors. A lower cost structure makes Papua New Guinea a more attractive place for businesses to invest and create jobs.

We will undertake a more comprehensive review of tariff structures during 2006 to assess how we should proceed in this area following the completion of the current tariff reform program.

Mr Speaker, as you know, we have frequent discussions with business people about taxation issues. One issue that frequently comes up is the double taxation of dividends. Under present arrangements, companies are taxed on their profits and then individuals are taxed on this money again when dividends are distributed.

This 'double taxation' creates a very high effective tax rate on income from companies when it is distributed to domestic shareholders. From 1 January 2006, the Government will relieve double taxation of dividends. Dividend withholding tax will be a final tax on company income that is distributed to shareholders.

Mr Speaker, we will also be continuing the significant tax incentives for the agricultural sector outlined in the 2004 and 2005 Budgets under the Green Revolution initiative.

From 2006, the infrastructure tax credit for agricultural activities will be increased from 1 per cent to 1½ per cent of assessable income, to provide increased support for agricultural road maintenance and other important infrastructure.

The eligibility period for the concessional tax rate on investment in new agricultural projects will be extended to 2011 and the minimum investment required will be reduced from K5 million to K1 million to make the scheme more accessible for smaller and medium-sized businesses.

The excise exemption for tractors will be simplified and companies will no longer have to prove that their tractors are for use in agricultural projects.

Today, I am also announcing some tax incentives to boost tourism. Tourism businesses that advertise overseas will be entitled to double deductions for their advertising expenses. These expenses will include publicity and advertisements in media outside Papua New Guinea, participation in trade fairs and a range of other promotional activities for the purpose of promoting PNG tourism.

They will also be entitled to accelerated depreciation provisions for capital expenditure for hotels, restaurants and recreational activities.

We are also reducing tariffs on a range of items used in tourism. These are items which are not produced in Papua New Guinea, and which unnecessarily add to costs in the tourism industry. Things such as towels and bed-linen,

cups and plates, glass tableware, wetsuits, and photographic film will all be duty free under the new arrangements.

We have also reduced tariffs on a range of other items that are not produced in PNG and which unnecessarily add to the costs of production. These are detailed more fully in the Budget papers.

Mr Speaker, the tax cuts in the 2006 Budget are affordable and sustainable. They do not draw on the 'one-off' windfall gains that we are enjoying at the moment from high commodity prices and they do not require additional borrowing. These cuts are underpinned by a stronger economy and improved underlying revenue streams.

They are a signal of the Government's preparedness to support individuals and businesses who are prepared to work hard to provide an income for themselves and their families.

7. EXPENDITURE PRIORITIES

Mr. Speaker, the 2006 Budget will see additional funds allocated to priority areas.

More money is provided for law and order, including police, primary education, basic health and infrastructure maintenance.

In 2006 around K390 million in recurrent funding has been allocated to law and order. The police budget has been increased to around K150 million, a 20 per cent increase on 2005.

Around K490 million has been allocated for basic education, with a substantial increase in spending on primary education, including for additional teachers.

A total of K370 million has been allocated in the recurrent budget for health expenditure, with K125 million provided to the Health department, including funding for medical supplies of K63 million, and K161 million for hospitals and church health services. Health funding is also provided for provincial health workers and function grants.

A greater proportion of existing spending in each of these portfolios has been directed to priority programs and activities.

Mr Speaker, one of Government's key priorities is to improve service delivery to rural communities. We have all seen the hardships that our people are enduring because of the deterioration in basic services over the years. In many of these areas there is no electricity, water, telephones, banking services, medical facilities, or usable roads. In some areas people have to walk for days to receive or cash a cheque.

The same problems occur in posting or receiving a letter, or making a phone call. Teachers often stay in the provincial headquarters so they can get regular pay. Aid posts have closed down in many areas; schools have closed. Not surprisingly, commerce of any sort is limited. This cannot be allowed to continue.

The District Services Improvement Program is one of the Government's key initiatives to bring basic services back to the people.

The program is an integrated and co-ordinated approach to provide basic services to people who live in the Districts. One important part of the District Services Improvement Program involves placing small Treasuries in each of the Districts. This year, around 24 District Treasuries have been officially opened, and the remainder will be in place by the end of 2006.

These Treasuries perform a range of functions including receiving local revenues, handling bank deposits and withdrawals, providing postal services and generating cheques for the purchase of goods and services.

In addition, under the District Services Improvement Program, each district will have a small police contingent, and some will have a magistrate and corrective services officers. Aid posts are being incorporated in some areas. Telikom is currently looking at placing small satellite dishes on each office as part of their community service obligations. This will provide voice and data transmission and allow us to monitor the operations of these offices closely.

The Bank of South Pacific has already opened banking facilities in several of the newly opened offices and is expanding its presence. Basic water systems are to be provided under the Water Board's community service obligations.

So the program is not just about District Treasuries. It is about bringing Government services back to the people by re-establishing a very basic public/commercial service hub in each District.

The full program needs to be rolled out steadily over several years. There are clearly risks involved and so we need to manage the process carefully. In particular, we need to ensure that the operation of the Districts is well integrated both with the Provincial governments and with the National line agencies.

We need to ensure that officers are properly trained, business rules are in place and oversight mechanisms are effective. Security issues must be managed.

Clearly, we cannot rush the program. But nor should we step back because the task is difficult. We will move forward cautiously and manage the risks around the program to ensure that it delivers the benefits that are promised.

Mr Speaker, to be successful this program has to be properly resourced. Over K35 million has been allocated in the 2006 Budget to the program, including spending within line agencies' budgets, to provide for infrastructure costs associated with next year's phase of the program. The Government has made a commitment to provide substantial amounts for the full eight-year duration of the program.

Mr Speaker, I would like to draw your attention to the amount of money that has been put into the Districts in this Budget, since this has been a controversial issue over the past few months. In the 2006 Budget, we have, as required by law, K54.5 million for District Support Grants.

We have over K35 million for the District Services Improvement Program. There is over K35 million for the District Road Improvement Program. There is K10.9 million for the Special District Support Grant. And there is K3 million in the Least Developed District Support Grants.

Of course, these are not the only expenditures for districts. For example, we have allocated nearly K417 million for teachers' salaries, K63 million for medical supplies and K40 million for Special Support Grants. All of this money, and more, gets spent in the districts. We now have to ensure that this money is used effectively. As I said earlier, this Budget is about delivering better services to the people and you can see that we have provided funding to support that commitment.

Mr Speaker, let me turn to some other expenditure commitments that we have made in the 2006 Budget.

When this Government came to office we were faced with a large amount of unpaid obligations, many of which had accumulated over several years. In the 2004 and 2005 Budgets we provided a substantial amount of money and we have been able to pay off many of these debts. We have paid off debts to POSF, a substantial amount of money for outstanding arrears and courts orders, and various rental and utility arrears.

We will continue to provide for this in the 2006 Budget. Funding has been provided to pay off a range of outstanding obligations including pre-2003 arrears and outstanding court orders.

Importantly, we have made sufficient provision in the 2006 Budget for ongoing obligations such as SSGs.

Money has been allocated to honour our commitments to the Autonomous Government of Bougainville. Over K50 million will be provided in 2006.

More money has also been provided to the other provinces, with higher funding for provincial wages and salaries, goods and services, and conditional grants.

Mr Speaker, next year we will host the EU African, Caribbean and Pacific meeting. Leaders and officials from over 100 countries will be visiting Papua New Guinea for this meeting. This will be an opportunity to showcase our country and raise our profile in the international community. Funds have been allocated in the 2006 Budget for this event.

The Development Budget will see a substantial increase in domestic funding. The Government's total contribution to the Development Budget, including money provided through infrastructure tax credits, will be K693.2 million in 2006, a substantial increase on the allocation provided in recent years. The domestic funding component alone is over 30 per cent higher than last year and over 90 per cent higher than when we came into office.

One of the key priorities of the Development Budget is the rehabilitation and maintenance of transport infrastructure. The Development Budget includes an additional K70 million for the rehabilitation and maintenance of the Highlands Highway. In addition, over K35 million will go to the District Roads Improvement Programme.

More funds have been provided for health and more funds allocated to tackle the looming HIV/AIDS threat. HIV/AIDS is a critical development issue which can have major economic and social costs if left unaddressed. Recurrent funding for the work of the National AIDS Council has been more than doubled to K4.1 million and additional money is provided in development funding through our donor partners.

More money has also been provided for disaster relief. Over the past couple of years we have been affected by several disasters and this has placed stress on the Budget because sufficient funds had not been set aside in the Budget to provide for these risks.

Funding has also been provided in the 2006 Budget to provide for some costs associated with the PNG to Australia Gas Project.

Mr Speaker, new elections will be held in 2007 and will be a significant cost to the Budget in both 2006 and 2007. The 2002 elections were very expensive and the costs were exacerbated by poor budgetary planning and poor financial management. Financial transparency and accountability were poor. We cannot let that happen again. We have a lot of work to do in 2006 to ensure that the 2007 elections are properly managed.

Accordingly, up to K20 million has been allocated for the Electoral Commission in the 2006 Budget to continue preparations for the 2007 elections. Additional funding will, of course, be provided in the 2007 Budget.

We have already started working on establishing financial systems and controls around election funding and have started discussions with stakeholders on how election funding will be managed.

Mr Speaker, let me just comment on one other aspect of the 2006 Budget that relates to both public revenues and expenditures, and more generally to our fiscal strategy. As I said earlier, revenues in 2005 have been higher than we expected because of the windfall gains from unusually strong prices for the main commodities that we export to the rest of the world, such as oil and copper. We expect that revenues in 2006 will also be higher than normal as commodity prices hold up for another year.

In the past when we had a minerals boom, we made the mistake of spending these windfall revenues in ways that committed us to ongoing expenditures in the future. When prices and revenues fell back to normal, we were unable to fund the higher expenditure levels through our revenue. We found it difficult to cut expenditure and so we resorted to more and more borrowing.

We will not fall into that trap again. Instead, we plan to use the windfall gains from 2005 to purchase a substantial part of Papua New Guinea's equity stake in the PNG to Australia Gas Project.

This has several advantages. It ensures that the one-off windfall gains do not get built into ongoing expenditures. Second, it means that we do not have to borrow as much money to buy our equity share in the pipeline. And finally, it provides the Government with a future revenue stream which we can use to fund development expenditures in the future.

For 2006, we have sharply increased development spending. Windfall gains have not gone into unsustainable increases in recurrent spending. Our challenge going forward will be to ensure that we maintain these high levels of development expenditure, even when revenues moderate.

8. ECONOMIC GROWTH THROUGH SUSTAINED REFORM

Mr Speaker, stronger economic growth is the key to providing better income earning opportunities for our people.

The 2006 Budget continues to support private sector development and growth, continuing with reform initiatives introduced in the 2005 Budget. The three main elements to this strategy, which I introduced last year, are:

- creating a stable investment climate;
- providing an efficient, effective and affordable public sector; and
- creating a competitive and dynamic private sector.

The most important condition for a stable investment climate is political stability. Over the past three years both political and policy stability has improved. Political stability has been enhanced by a range of measures

including the introduction of the Political Parties and Integrity Act. We have put in additional resources in 2006 to ensure that we are well prepared for an orderly and well-managed political process in 2007.

We understand the financial risks ahead of an election. Let me be very open with you. I know some people are worried that spending will run out of control ahead of the 2007 elections, and that it will damage the economy.

I can tell you that we will not let that happen. Nor should *you* let it happen – in our 30th year I think we are all mature enough to recognize that politicians who would spend public money to further their own political careers will not get rewarded for it. Only responsible, disciplined and steady financial and economic leadership will improve people's lives.

Government will continue to provide policy stability by working within the range of medium-term frameworks that have been established. These frameworks – the *Medium Term Fiscal Strategy*, the *Medium Term Development Strategy* and the *Medium Term Debt Strategy* – lay out clear medium-term plans which the Government has followed in recent years, and will continue to follow.

Adherence to this approach provides a foundation for macroeconomic stability – steady economic growth, employment and income creation, low inflation and interest rates, and a stable exchange rate.

Government will manage its existing debt obligations consistent with its Debt Management Strategy. Accordingly, during 2006, the Government will continue with the Inscribed Stock program to lengthen the maturity structure of government debt.

Mr Speaker, an efficient, effective and affordable public sector is one of the cornerstones of effective government. A well-performing public service can

support the private sector through the efficient provision of services at a reasonable cost.

A number of reform initiatives are underway to reinvigorate our public sector but there is still a long way to go. Agencies need to be run more efficiently and use their resources more effectively.

One area that we need to look closely at is accountability. We can provide agencies with more funds through the Budget but, unless they are used properly by agencies, service delivery will not improve. Agency heads should be held accountable for the outcomes they deliver using taxpayers' money.

Some agencies continue to spend more than their appropriation and use money for purposes other than what it was provided for. In 2006 we will use the provisions of the Public Finances (Management) Act to impose sanctions on those agency heads that do not manage their agencies within the funding limits prescribed by Parliament.

Mr Speaker, we will also continue to increase the resources going to priority areas. In the 2005 Budget, I announced that a Rightsizing review would be carried out to review the functions, structure and resourcing of government agencies to ensure priority functions are properly resourced and non-priority functions are not funded. The Rightsizing review has now been completed and the report has been given to the Government.

One of the key observations of the report is that, after 30 years of unchecked expansion, serious corrections are needed in the structure and size of government administration. The government sector has lived well beyond its means for a long time, propped up for many years by excessive borrowing. It is trying to do too many things, with too few resources.

As a result, the Government's development priorities are not being adequately funded, infrastructure maintenance has been seriously neglected and funding for goods and services has been inadequate.

The Rightsizing report calls for a more streamlined public service concentrating on delivering the core functions of government efficiently and effectively. The report details specific agencies, programs and activities where funding should be reduced or eliminated altogether, and identifies core areas of government where funding should be increased.

Mr Speaker, we know implementation of the Rightsizing recommendations will be difficult and will be resisted at many levels where some people's own interests are at risk. Nevertheless, the Government has accepted the need to rightsize public administration and will take these reforms forward in 2006.

Substantial funds have been provided in the 2006 Budget to ensure that the changes, including redundancies, are properly resourced. Increased spending in priority areas will occur as the Rightsizing reforms are implemented, freeing up resources.

Of course, the Rightsizing reforms are only one part of the Government's overall reform agenda and complement the other reforms that are currently underway. We know that parts of the public sector are still not performing well. Middle and top management are often weak, there is widespread lack of compliance with rules and directions and an accountability 'culture' is still absent. Unless these deficiencies are fixed, our other reforms will not be effective.

We will continue to support ongoing improvement in financial and human resource management systems and governance reforms to help improve the accountability of the public sector.

Additional funds will be provided in 2006 to support ongoing work on the Human Resource Integrated Payroll system which is now starting to show results.

Substantial funding will also be provided for the next phase of the Financial Management Improvement Program.

Mr Speaker, the third element in the Government's strategy is creating a competitive and dynamic private sector. There are a number of critical areas that are consistently raised by the private sector as impeding business. These include poor road maintenance, inefficient telecommunications, poor service delivery from utility providers (particularly power and water) and high transport costs. The 2006 Budget includes measures designed to address these issues.

Government will continue to implement the recommendations of the Foreign Investment Advisory Service review of PNG's investment regime, with a view to streamlining investment regulations and processes to remove unnecessary impediments to investment. Substantial progress has already been made in removing red tape through the National Working Group on Business Impediments.

Government will also look at options to improve the service provided to consumers by utility providers.

The ICCC will be asked to examine the regulatory changes needed to facilitate the transition to a more competitive and efficient telecommunications market. The telecommunications monopoly expires in 2007 and the Government needs to ensure that it puts in place an appropriate regulatory framework to support the changes.

Competition within coastal shipping will be examined by the ICCC to assess the merits of strengthening competition and regulatory control in this area. The

regulatory impediments around air transport will also be reviewed with a view to increasing competition and reducing air transport costs.

9. CONCLUDING REMARKS

Mr Speaker, in conclusion, let me reiterate the key messages from the 2006 Budget.

The 2006 Budget is about improving people's lives through strong economic leadership.

It is set in a medium-term framework that considers where we want to get to and how we go about getting there.

We are spending more money on the important things such as education, health, law and order and roads. Within those areas, we are also spending more money on the highest priority needs.

We have put in place policies that should boost private sector growth, improve employment opportunities and boost incomes.

We are looking to bring service delivery back to the people in rural and remote areas.

But we are not spending more than we can afford. Nor are we committing to expenditures in the future that we cannot afford. We are not putting up taxes. The 2006 Budget sticks with the fiscally responsible path that we have taken since this Government came to office.

The 2006 Budget is another step on a long journey that will lead us to a better future for Papua New Guineans.

Mr. Speaker, I commend the Bill to the House.