



INDEPENDENT STATE OF PAPUA NEW GUINEA

## 2010 BUDGET SPEECH

***“Promoting Sustained Economic Growth by  
Empowering and Transforming the Rural  
Economy”***

DELIVERED BY

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Minister for Treasury and Finance**

**On the occasion of the presentation of the  
2010 National Budget**

**Tuesday 17<sup>th</sup> November 2009**



**Hon. Patrick Pruaitch, MP**  
**Minister for Treasury and Finance**

## INTRODUCTION

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

It is a great honour for me to present to the Parliament the Government's 2010 National Budget. This is the Government's third budget since it was returned in the 2007 National Elections and the eighth successive budget under the Somare Government.

Mr. Speaker, the 2010 Budget is being delivered amid challenging economic circumstances. The global economy, which has experienced the worst recession since World War II, is recovering.

According to the International Monetary Fund, a stronger than previously expected global economic recovery is expected in 2010, which will help the PNG economy. Domestically, while commodity prices had previously fallen which had reduced our exports and Government revenue, PNG has otherwise remained relatively unscathed from the global economic recession and has benefited from the rebound in commodity prices over 2009.

Economic growth in PNG in 2010 is expected to continue to be broad based and very strong at 8.5 per cent, largely driven by the anticipated commencement of construction on the LNG project and other new mines.

The 2010 Budget is balanced and proposes very substantial increases in domestic funding to the Development Budget with the aim of continuing to fund the District Services Improvement Program, some of the commitments made under the Umbrella Benefits Sharing Agreement in relation to the LNG project and other high priority rural intervention programs in infrastructure, agriculture, health and education sectors. More importantly, the Government is committed to transforming successive economic growth to improving social indicators, which are lagging by regional standards.

Mr. Speaker, in summary, the Government's priority is to **promote sustained economic growth through empowering and transforming the rural economy**. As a result, the Government has used the 2010 Budget to:

- Continue expansion of the District Services Improvement Program in 2010, with planned funding being in addition to the substantial funding per district previously allocated in the 2007 Supplementary Budget, the 2008 Budget and the 2009 Budget.
- Undertake substantial investments in agriculture, infrastructure maintenance, improvement and development, in accordance with the Government's strategic plans and other priorities.
- Help promote the commencement of construction on the LNG project.

Mr. Speaker, I will now discuss the state of the economy and the contents of the 2010 Budget.

### **STATE OF THE ECONOMY**

Mr. Speaker, after the global financial crisis which has led to a significant deterioration of the global economic environment, real economic activity in PNG is expected to grow by a very strong 8.5 per cent in 2010. This represents a significant increase from the very credible 4.5 per cent growth rate forecast in 2009. A significant factor underpinning this forecast is the assumption that the LNG project will proceed as scheduled in early 2010. However, the fact that the decision on the project proceeding is still pending means that any significant delay in the commencement of the LNG project represents a risk to the forecast although the project looks to be on track to proceed. The LNG project is estimated to contribute 3 percentage points to overall GDP growth in 2010. The higher economic growth forecast in 2010 also reflects the commencement of production at the new Ramu Nickel and Hidden Valley mines plus the expected expansion at Lihir. The agriculture, forestry and fishing sector is expected to see a rebound in growth following weak growth in 2009.

Non-mining GDP growth is forecast to be very strong at 8.1 per cent in 2010 compared to 5.2 per cent in 2009. The higher growth forecast largely reflects the boost to economic activity from the expected commencement of construction on the LNG project. This is expected to lift activity in the non-agricultural sectors of the economy. The communication and construction sectors are again expected to

continue to be major drivers of growth. Continued expansion in the mobile phone sector is expected to be complemented by major construction projects due to the commencement of construction on the LNG project in 2010. To a lesser degree, the agricultural, forestry and fisheries sector is also expected to contribute to higher economic growth with a rebound in production across a number of agricultural products.

The petroleum sector is expected to decline by 19 per cent in 2010, due to lower extraction rates from maturing existing fields. The mining and quarrying sector is expected to grow by an extremely strong 23.4 per cent in 2010. The expected increase is largely due to the commencement of the new Ramu Nickel and Hidden Valley mines. The major existing mines of Ok Tedi, Porgera and Lihir are also expected to expand production.

Mr. Speaker, a consequence of this strong economic growth is that in comparison to the rest of the world, PNG's inflation is expected to remain relatively high. Inflation is forecast to be 7.4 per cent in 2009. In 2010, inflation is expected to rise to 9.5 per cent, due to the commencement of construction on the LNG project and high government spending – from trust funds and measures announced in the 2010 Budget.

Mr. Speaker, an exceptionally large current account deficit is also anticipated in 2010, reflecting the significant increase in imports required for the construction phase of the LNG project. In line with stronger economic growth, general goods and services imports are also likely to increase. The current account is expected to remain in a sizeable deficit over the medium term due to the scale of imported resources required for the construction phase of the LNG project. Given that the LNG project will only proceed if private sector financing commitments are confirmed, the financing of the current account deficit should not be of undue concern. The current account is likely to move into a large surplus position once gas production comes on line around 2014 and beyond.

Mr. Speaker, underlying the overall outlook in 2010 is continued political and economic stability. However, there are inherent risks to the 2010 Budget which we need to be mindful of and they include: the commencement of the LNG project

being delayed, unforeseen shutdowns in the mineral sector, volatility or falls in commodity prices and an unforeseen stalling in the global economic recovery. In the near term, the very fast drawdown of Government trust funds and high budgetary spending coupled with an economy that is already running up against capacity constraint also presents a risk that the economy could overheat and drive up inflation. Further, if the LNG project suffers any major setback, it could wane on confidence in the economy. The Government will continue to monitor these risks very closely.

## **REVENUE IN 2010**

Mr. Speaker, let me outline the revenue projections for the 2010 Budget.

The Total Revenue and Grants for 2010 are expected to be K7,489.7 million, which is K850.1 million or 12.8 per cent higher than the revised 2009 estimate of K6,639.6 million. The majority of the increase is attributable to higher tax revenues compared to 2009 due to higher commodity prices and the commencement of construction on the PNG LNG project. Project Support Grants are also expected to be higher, largely due to the depreciation of the Kina against the Australian dollar. These more than offset the lower non-tax revenues which include the removal of one-off injection of funds from Trust Accounts that occurred in 2009.

Total Tax Revenue is projected to increase by K906.7 million or 18.8 per cent to K5,735.3 million in 2010, compared with the K4,828.6 million estimated for 2009. This reflects increased domestic economic activities in 2010, particularly with the commencement of construction on the LNG project, with strong profit and employment growth. Mining and Petroleum Taxes are expected to be higher due to higher commodity prices for oil and copper than in 2009. Though strong mining growth is expected in 2010, it will not add to tax revenue due to tax concessions that were provided, particularly, the 10 year tax holiday granted to the Ramu Nickel project. Dividend Withholding Taxes are also expected to be higher due to slightly higher dividend receipts from Ok Tedi in 2010 while a proportion of profits are expected to be retained for capital expenditure. The majority of the tax categories are expected to be higher than in 2009.

Non-Tax Revenue is projected to decline by K338.4 million or 45.8 per cent in 2010 to K400.5 million compared with the revised estimated for 2009. The very large decrease in Non-Tax Revenue is largely due to there being no injection of funds from the Trust Accounts in 2010.

Dividends of K285.2 million are expected in 2010. These dividends are comprised of Bank of Papua New Guinea – K20 million, National Fisheries Authority – K10 million, Independent Public Business Corporation - K25 million, Ok Tedi – K220.2 million and Petromin - K10 million.

Project Support Grants for 2010 are expected to be K1,293.9 million, K261.8 million higher than the estimated level for 2009. The projected increase largely reflects the depreciation of the Kina against major currencies, particularly against the Australian dollar. This brings the 2010 Total Revenue and Grants estimate to K7,489.7 million.

#### **BUDGET STRATEGY FOR 2010**

Mr. Speaker, the 2010 Budget is framed against the Government's medium-term economic strategies: the Medium-Term Fiscal Strategy (MTFS), the Medium Term Development Strategy (MTDS) and the Medium Term Debt Strategy. These strategies are further supported by the *Fiscal Responsibility Act, 2006* (FRA) and the 2010 Budget Strategy Paper (BSP). Taken together, the Government's adoption and adherence to these strategies underpinned the prudent economic and fiscal management adopted during the most recent commodities boom.

Mr. Speaker, the proposed 2010 Budget is balanced, with expenditure in line with forecast revenue.

A balanced budget in 2010 affirms the Government's commitment to fiscal responsibility after the unexpected budget deficit in 2008, and is appropriate in light of very strong economic growth, relatively high inflation and the additional very high spending in the economy from existing trust funds. The Government is mindful of past experience - for example in 1993/94 - when uncontrolled Government spending caused major economic hardship.

Mr. Speaker, due to relatively higher commodity prices, additional mineral revenues - mineral revenues above 4 per cent of GDP - is also expected in 2010. The Government has decided to allocate all additional mineral revenues to public investment programs through the Development Budget.

Finally, the Government is please to announce that there are no new tax measures contained in the 2010 Budget.

## **EXPENDITURE PRIORITIES**

Mr. Speaker, I would now like to discuss the Government's planned recurrent and development expenditure priorities in 2010 which seek to promote sustained economic growth and to further empower and transform the rural economy.

### **Recurrent Expenditure**

Mr. Speaker, the Government's planned Recurrent Budget in 2010 is K4,095.9 million. This comprises K2,380.2 million for the National Departments, K925.2 million for the Provincial Governments, K58.0 million for the Autonomous Bougainville Government, K269.4 million for Commercial Statutory Authorities and K467.1 million for Interest payments.

### ***National Departments***

The 2010 Budget for the National Departments is restrained to K2,380.2 million to allow for increased funding to the direct Government funding component of the Development Budget. The only increases allowed to the National Departments were for personnel emoluments that were unavoidable or mandatory as they related to industrial award increases, additional unfunded allowances approved by Salaries Condition and Monitoring Committee, unfunded structures approved by Department of Personnel Management or departmental heads under the devolved human resources powers and NEC Decisions.

### ***Provincial Governments***

The 2010 Budget provides K925.2 million for the Provincial Governments for both personnel emoluments and goods and services. The funding arrangements arising from the Intergovernmental Financing Arrangements (RIGFA) passed by

Parliament last year provided the basis for determining the Provincial Goods and Services funding levels.

### ***Bougainville Autonomous Government***

Funding for the Autonomous Bougainville Government increased to K58 million in 2010 in accordance with the indexing requirements set out in the *Organic Law on Peace Building in Autonomous Bougainville Government and Bougainville Referendum*.

### ***Transfers to Statutory Authorities***

The 2010 Budget provides an increase in Statutory Authorities' funding of K15.5 million from the 2009 level to K269.4 million.

### ***Interest and Other Fees Payments***

The 2010 Budget allocates K467.1 million for Total Interest and Other Fee Payments. The payment comprises K400.1 million in domestic interest and fees outlays and K67.0 million in external fees and outlays.

Some of major funding in the Recurrent Budget includes the following:

- Increased funding to individual agencies K170.8 million
- Education subsidies K144.3 million
- Superannuation obligations K118.0 million
- Court Orders K50.0 million
- LNG Project Support funding K20.0 million
- Retrenchment K20.0 million
- Pay increases under the Public Servants award K15.0 million
- Hela Transitional Authority; and K2.0 million
- Jiwaka Transitional Authority K2.0 million

### ***Increased funding to individual agencies***

The major increases are being provided to Health (K52.4 million), Hospital Management Services (K41.6 million), Provincial Governments (K21 million), Police (K16.2 million), Customs Office (K12.4 million), Education (K12.2 million), Immigration Office (K5.8 million), Foreign Affairs (K5.6 million), Border

Development Authority (K4 million), Department of Public Enterprises (K3 million), Office of the Public Prosecutor (K1.4 million) and Office of Tourism Arts and Culture (K1.5 million).

### ***Education subsidies***

Mr. Speaker, the 2010 Budget provides K144.3 million to subsidize school fees. This initiative builds on the generous funding provided to parents of school aged children by the Government since the 2007 Budget. The Government's decision to continue this subsidy in 2010 will assist its efforts to provide universal basic education. The 2010 Budget also provides an additional K8.5 million for educational quality programs bringing the total funding to K152.8 million.

Mr. Speaker, the increased funding will allow for the first time, free elementary education in 2010.

### ***Superannuation Obligations***

The Government under legislation is required to meet its employer superannuation obligations, including funding exit payments for public servants who access their retirement benefits. The Government is providing K118.0 million in the 2010 Budget for this purpose.

### ***Court Orders***

The 2010 Budget provides K50.0 million to facilitate payment of a backlog of legal claims still awaiting payment.

### ***LNG Project Support Funding***

The Government will provide K20.0 million in 2010 to meet the operating costs of the LNG Project Support Office and other LNG related costs. This is the same level of funding that was provided in the 2009 Budget for this purpose.

### ***Retrenchment***

The 2010 Budget provides K20.0 million for the Government to settle the carry-over of the 2007 public sector retrenchment exercise.

***Pay increases under the Public Servants award***

The 2010 Budget provides K15.0 million to meet the cost of pay increases negotiated across the public sector in 2010.

***Hela and Jiwaka Transitional Authorities***

Mr. Speaker, K4.0 million is provided in the 2010 Budget for the new Transitional Authorities for the newly created Hela and Jiwaka Provinces. Each Transitional Authority will receive K2.0 million.

**Development Expenditure**

Mr. Speaker, the total Development Budget in 2010 will be a record K3,393.8 million of which K1,771.0 million is from direct Government funding, K268.9 million from Concessional Loans and K60.0 million from Infrastructure Tax Credits.

Mr. Speaker, in announcing these figures, I can inform all members that domestic funding of the Development Budget has risen by K1,259.8 million or 246.4 per cent over the two year period from 2008 to 2010.

In the 2010 Budget, the Government has directed and reallocated additional funds to the Development Budget to pursue its ambitious development priorities. In doing so, the Government is seeking to promote sustained economic growth through empowering and transforming the rural economy and providing employment opportunities for our citizens. The Government's concerted increase in development spending is also focussed on improving our crucial infrastructure. The provision of better infrastructure will enhance our future economic growth potential.

The major programs that take up the majority of the domestic funding are:

- National and Rural Road Infrastructure K220.0 million
- National Investments K191.0 million
- Umbrella Benefit Sharing Agreement (UBSA) K180.0 million
- District Services Improvement Program K178.0 million
- National Agriculture Development Program (NADP) K109.0 million

• 2010 National Census	K66.0 million
• Treasury Rollout Program	K40.0 million
• Procurement of Aircraft (Air Niugini)	K30.0 million
• Former Provincial Assembly Members' Outstanding Entitlements	K30.0 million
• Provincial Service Improvement Program	K20.0 million
• Community Colleges	K20.0 million
• Other High Priority Development Expenditures	K94.0 million

### ***National and Rural Road Infrastructure***

The 2010 Budget provides a total of K220 million for a number of critical National and Rural Road Infrastructure development and maintenance. This consists of the National Road Maintenance Programme (K30 million), Baiyer-Madang road link (K20 million), Bogia-Angoram road link (K20 million), National Bridges Programme (K60 million), Lae Roads Rehabilitation (K20 million), East New Britain Roads (K10 million), Mt Hagen City Roads (K10 million) and Rural Roads (K40 million).

### ***National Investments Program***

Mr. Speaker, the Government is using the 2010 Budget to invest K191 million in a series of projects that will further develop this nation and enhance its productive capacity especially in rural areas. Funding is provided in the 2010 Budget to invest in Rural Electricity (K40 million), Coastal Vessels Programme (K50- million), Social Development Programme (K35 million), Large Plantation Rehabilitation (K26 million), Rural Markets (K20 million) and Cocoa Pod Borer (K20 million).

### ***Umbrella Benefit Sharing Agreement (UBSA)***

Mr. Speaker, under the Umbrella Benefit Sharing Agreement, the Government has agreed to provide funding for a number of commitments as part of its undertaking to secure the LNG Project by providing assistance to the LNG Project landowners. The Government is now honouring these commitments by providing a total of K180 million in 2010. This consists of K120 million for Infrastructure Development Grant and K60 million for the Business Development Grant. A further K60 million for the Business Development Grant was funded in 2009.

In addition, the Government is providing K10 million in 2010 to fund the feasibility studies of the UBSA negotiated high impact projects for the LNG project areas.

***District Services Improvement Program (DSIP)***

Mr. Speaker, in recent years, the Government has made substantial investments in our districts to directly improve the provision of services to all our citizens right across PNG.

In the 2007 Supplementary Budget, the Government allocated K4 million per district, or K356 million to the District Services Improvement Program. In the 2008 Budget, the Government allocated a further K6 million per district, or a further K534 million in total, and provided a further K4 million per district, or a further K356 million funding in 2009. This funding has been used to help improve Transport, Health, Education, Water, Law and Justice and Agriculture programs and services in each of the nation's 89 districts.

Mr. Speaker, in recognition of the importance the Government places on the District Services Improvement Program, I can announce today that the Government has allocated a further K2 million per district, or K178 million funding in 2010 to the District Services Improvement Program.

***National Agricultural Development Program (NADP)***

Mr. Speaker, the National Agriculture Development Program is a very important program for this Government. A total of K200 million has been provided in the last three years and the funds were managed by the National Departments through the Departments of Agriculture and Livestock and more recently the National Planning and Monitoring. For 2010, the Government is providing K109 million for the National Agriculture Development Program. The program however will be now managed at the district level with K89 million or K1.0 million each given to the 89 districts for agriculture interventions. The other K20 million will be provided to the National Development Bank to facilitate credit to the agriculture sector as was in 2009.

### ***2010 National Census***

The PNG National Census is conducted every 10 years. The last National Census was conducted in 2000 and the next Census is due in 2010. The 2010 Budget is providing K66 million for the 2010 National Census.

### ***Treasury Rollout Program***

Since its commencement in 2004, the District Treasury Rollout provides financial management services to the Local Level Governments, District Administration, Provincial Governments, and other stakeholders based in the provinces and districts. To date, fifty-six District Treasuries have been launched and are now functional.

The 2010 Budget provides K40 million for a further twenty of the thirty District Treasuries that have been identified for rollout in 2010.

### ***Procurement of Aircraft (Air Niugini)***

The Government will provide K30 million for the procurement of aircraft by Air Niugini. The same level of funding was provided in 2009 for Air Niugini to meet costs associated with refueling and other operational issues.

### ***Former Provincial Assembly Members' Outstanding Entitlements***

Mr. Speaker, given the inability of provincial governments to settle their former provincial assembly members outstanding entitlements, the Government is providing K30 million in the 2010 Budget to address this issue.

### ***Provincial Service Improvement Programme***

In what represents a new initiative, the Government is allocating K20 million, or K1.0 million per province, to fund a range of priority Provincial Service Improvement Program in 2010. This is in addition to the provision of K20 million funding for a range of priority Provincial Impact Projects in 2009.

### ***Community Colleges***

The Government is allocating K20 million in the 2010 Budget to fund the Community Colleges programme, an important initiative that seeks to enhance

educational outcomes in the country. This brings the total funding for the project to K50 million as K30 million was provided in the 2009 Budget.

### ***Other High Priorities Development Expenditures***

Mr Speaker, the 2010 Budget is also providing additional funding for a series of other high priority development expenditures including for the Waigani Office Redevelopment (K15.0 million), Public Service Housing (K15.0 million), National Housing Corporation (K15.0 million), Sports (K10.0 million), National Strategic Plan (K10.0 million), Land Acquisition (K10.0 million), National Disaster Office (K5.0 million), Small Medium Enterprises (K5.0 million), Industrial Centres Development Cooperation (K5.0 million), and Kokoda Initiative (K4.0 million).

### ***Loan Funded Projects***

The 2010 Budget also provides K268.9 million in Government concessional loan funded projects. The loan funded projects include: World Bank Road Maintenance and Rehabilitation Project, ADB Highlands Road Maintenance and Upgrading Project, Lae Port Development Project, Community Water Transport Project, Microfinance and Employment Project, Highlands Region Road Improvement Investment Program, Port Moresby Sewerage Project, Smallholder Agriculture Development Project, Mining Sector Technical Assistance Project, Wewak Storm Water Drainage Project, Civil Aviation Sector Development Investment-Tranche 1, Pacific Marine Industrial Zone Project, Expansion of Goroka University Project, Productive Partnership for Agriculture Development, and the Pilot Border Trade and Investment Development Project.

## **MANAGING GOVERNMENT EXPENDITURE IN THE CURRENT ENVIRONMENT**

Mr. Speaker, effective management of Government expenditure in a complex economic environment is a major challenge for the 2010 Budget. While the Government has been realistic with its economic assumptions and revenue forecasts for this Budget, it recognizes that the expenditure will need to be closely monitored in 2010 and, if needed, may need to be adjusted to reflect changing economic circumstances.

This is particularly important given the uncomfortably high inflation forecast in 2010 and when there is still uncertainty surrounding the global economic recovery and improvement in commodity prices. If inflation pressures are unable to be contained, commodity prices fall or other adverse circumstances arise, the Government recognises that expenditure plans may have to be reviewed and revised in line with changing circumstances.

Mr. Speaker, having said that, the Government remains optimistic about the outlook for PNG in 2010 and over the medium term.

### **GROWING THE ECONOMY THROUGH SUSTAINED REFORMS**

Mr. Speaker, the Government remains committed to supporting the growth and development of our private sector, which plays a significant role as a key partner in contributing to our development aspirations by creating employment, higher incomes, better standard of living and stimulating economic growth. In addition, addressing key obstacles to improve government service delivery to our people at the district level continues to be a major challenge.

In 2010, the Government will build on from the benefits of past reforms by pursuing opportunities for structural reform that encourage investment and promote a competitive and dynamic private sector including the need to explore further options to improve public service delivery.

The country has benefited greatly from the recent competition in both the telecommunications and the aviation sectors. The competition in the mobile phone sector between B-Mobile and Digicel has resulted in effective telecommunication service throughout the country as service coverage is expanded and prices driven down. This is especially important for PNG citizens and businesses that rely on the service.

The introduction of competition in the aviation sector has resulted in a new code sharing arrangement between Airlines of PNG and Pacific Blue Limited. The entry of an additional airline into PNG's aviation industry will continue to promote the benefits of competition, with potential reductions in the cost of fares and increased services for international travelers. This addition is expected to produce benefits

for the tourism sector and will hopefully generate additional income earning opportunities for Papua New Guineans.

The Government has made good progress in implementing the public sector reform programs, and has decided to explore options for further improvement in this area, including a review of the Public Sector Rightsizing initiatives to assist the Government in identifying additional funds for improving social indicators over the medium term and asking the Auditor General to lead an audit on the use of Human Resource powers in the public sector.

## **CONCLUSION**

Mr. Speaker, I would like to conclude by emphasizing to the House that the economic prospects for PNG in the medium term looks promising, particularly as a decision on the LNG project proceeding is imminent. However, the Government is mindful about the development challenges the country faces and uncertainties that may lie ahead.

Like the 2009 Budget, the Government is using the 2010 Budget to support its citizens **by promoting sustained economic growth and further empowering and transforming the rural economy.**

The Government has revised its revenue forecasts to reflect economic circumstances. The Government has also based its planned expenditures with forecast revenues while continuing to pursue its ambitious development priorities for PNG consistent with the various development strategies that are currently in place. In doing so, the Government remains optimistic that the economic future of this country can be secured and our development priorities met.

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