
FOREWORD

It is a great honour for me to deliver the 2011 National Budget and the 2010 Supplementary Budget. These Budgets reflect the Government's ongoing commitment to building the foundation for economic growth and prosperity.

2010 has been a good year for Papua New Guinea. The economy is expected to grow strongly at 7.1 per cent in 2010 supported by favourable commodity prices and strong domestic demand. This has seen the Government report in its Mid-Year Economic and Fiscal Outlook Report (MYEFO) an expected budget surplus of K533.3 million in 2010. Since MYEFO the Government expects to collect an additional K120.0 million, bringing the revised Budget surplus to K653.3 million in 2010.

The Government foreshadowed at MYEFO that it would prepare a Supplementary Budget to use this surplus to fund a range of unfunded expenditure pressures and high priority initiatives. In fulfilling this undertaking, the Government will deliver a 2010 Supplementary Budget of K653.3 million while still ensuring a balanced budget in 2010.

Looking ahead to 2011, the 2011 National Budget is being delivered amid complex economic circumstances for Papua New Guinea and the rest of the world. The 2011 National Budget is being delivered in the midst of a recovering global economy but uncertainties remain. Domestically, our economy remains very resilient and while it faces challenges, we cannot understate the opportunity the PNG LNG project offers to transform our economy and substantially improve our socio-economic development.

In 2011, the economy is expected to grow at a very strong 8.0 per cent. A significant factor underpinning this forecast is the assumption of strong mining activities and the increase in construction associated with the PNG LNG project, which will have a direct impact on the construction and transport sectors. The PNG LNG project is also expected to provide a significant boost to activity in other sectors of the economy, with rising incomes and consumption from businesses and households. Inflation in 2011 is expected to increase and be relatively high at 8.2 per cent. With risks to the upside, the Government will be monitoring inflation very closely.

Within this economic outlook, the 2011 National Budget is a balanced budget with record spending totaling K9,328.1 million. The Government's highest priority is implementing the new *Medium Term Development Plan (MTDP) 2011-2015*, which will underpin the achievement of the objectives set out in the *PNG Development Strategic Plan (DSP) 2010-2030*, and *PNG Vision 2050*.

The Government remains committed to advancing development across the country, particularly through its continued efforts to transforming the rural economy. In light of the transformation that is underway in the economy and the planning and policy framework to support it, the theme for the 2011 National Budget is ***"Building the Foundation for Economic Growth and Prosperity"***.

Major initiatives announced in the 2011 National Budget include:

- Increasing Development Budget funding to historically high levels to fund high priority rural intervention programs in infrastructure, agriculture, health, law and order and education sectors;

- Increasing the Recurrent Budget to support MTDP enablers, accommodate transfers from the Development Budget and meet government obligations, including PNG LNG project related commitments;
- Announcing a series of taxation policy measures to further improve efficiency and effectiveness of our taxation system;
- Building the economy through sustained reforms; and
- Providing a framework to manage future revenues arising from the PNG LNG project.

The 2011 National Budget is fiscally responsible. It is focused on the policy-priorities of the nation as reflected in the MTDP, the DSP and the Vision 2050. Spending is being shifted to high policy-driven development priority areas to underpin the implementation of these important plans. The Government is also moving to introduce measures that will impose more discipline and control over the Government's payroll.

The 2011 National Budget also establishes a framework for stronger economic growth in PNG by building on past reforms and announcing the establishment of a coordinated and integrated Papua New Guinea Sovereign Wealth Fund to support the management of future windfall revenues to underpin the long-term social and economic development in PNG.

Much work will need to be undertaken in 2011 to give effect to the Government's decision on the Sovereign Wealth Fund but this announcement reflects the substantial efforts of the Department of Treasury, Bank of Papua New Guinea and Department of Public Enterprises in 2010, which arose following the discussion initiated by the Department of Treasury in the 2010 National Budget.

The 2011 National Budget continues the Government's efforts to build the foundation for economic growth and prosperity. This Budget will deliver a better future for Papua New Guineans.

I commend the 2011 National Budget and the 2010 Supplementary Budget to Honourable Members and to the people of Papua New Guinea.

HON. PETER O'NEILL, CMG MP
Minister for Treasury & Finance, and Public Service