



## **2012 MID YEAR ECONOMIC AND FISCAL OUTLOOK REPORT PRESS RELEASE**

The Mid Year Economic and Fiscal Outlook released today indicates that the 2012 Budget has moved from a balanced budget to an expected deficit of K513.1 million.

Growth in the PNG economy has been revised upwards to be 11.0 per cent in 2011 and 9.9 per cent in 2012. Growth in non-mining GDP has also been increased to the very high levels of 13.1 per cent in 2011 and 10.4 per cent in 2012. These growth rates are some of the strongest of all nations in the world. Inflation has been revised upwards to 8.0 per cent for 2012.

Despite this strong growth performance, the fiscal position has deteriorated. This is due to increased uncertainties in the international economy, a fall in most commodity prices, especially gold and copper, and the strong appreciation of the Kina. Altogether, revenue is now estimated to be K392.5 million lower than at budget time. Over-expenditures of K120.7 million, especially in Provincial Personnel Emoluments, have been identified.

This is a responsible Government that is willing to make the decisive decisions that are vital for protecting our economy and maintaining macroeconomic stability. So this Government has a plan to address this deficit and bring us back to a balanced budget approach as outlined in 2012.

The first step in this plan is to ensure that all Ministries do not overspend their appropriations. Particular action will be taken to address the expected over-spend in personal emoluments, especially in the Provinces. This is necessary as managers of the economy and the public service.

Second, we will take immediate action to identify waste, duplication and lower priority expenditures. As mentioned by the Prime Minister, this will include looking for savings in the public service where there are inefficiencies. We need more expenditure out in the rural areas rather than public servants in Port Moresby.

Third, administrative actions also will be taken to slow the rate of expenditure. For example, within the Development Budget, the rate of actual spending indicates that some agencies do not have the capability to spend all the 2012 funding effectively by the end of the year. We can still support such programs in the 2013 Budget but they should not feel forced to spend the funds just because we are approaching the end of the year. We will also look towards the IRC and Customs to see if further revenues can be raised through higher compliance efforts. We will also approach SOEs to see if further dividends can be paid in 2012. Together with the actions to reign in over-expenditure, these administrative actions will aim to bring the Budget this year back to a balanced budget.

Fourth, we will introduce a Medium Term Fiscal Strategy that will focus on the key Medium Term Development Plan enablers including education, health, infrastructure and law and order. We want to create a plan that provides a framework that strikes the balance between maintaining macroeconomic stability, supporting current economic growth; and meeting the significant development needs of our people over the next five years. This Medium Term Fiscal Policy will allow for better expenditure planning. It is designed to allow for a very significant increase in funding for health, education, infrastructure and law and order. A key driver for this will be a commitment to lift the share of each budget that is allocated to each of these important areas.

Fifth, we will release a 2013 Budget Strategy that sets out how we can meet the targets of the MTFS while also making a strong start in meeting our key priorities such as expanded tuition fee-free education.

Finally, we will take actions to make for better public financial management, including improvements in accountability and transparency. Such changes will include a move towards multi-year budgeting, better information flows on the budget, stronger project screening and management processes and better systems of reporting on government finances.

Despite the projected deficit in 2012, the people have elected a Government that will act responsibly while also ensuring that it will deliver on its key priorities. Addressing the deficit through the above plan is but the first step along the road to a period of stronger and more effective spending growth in the key priorities for this Government over the next five years - education, health, infrastructure and law and order.

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