

**PAPUA NEW GUINEA**

PATRICK PRUITCH, Governor

It is a great pleasure for me to join my fellow Governors in extending our appreciation to the Spanish Government, and the people of Madrid for hosting this 41st Annual Meeting of the Asian Development Bank (ADB) and for the excellent arrangements provided to us in this wonderful setting. It is truly a pleasure to see, alongside Spain's remarkable private sector development, the beauty of the country's physical environment, and the richness of its culture.

I would also like to thank ADB for its continued assistance in the development of Papua New Guinea (PNG). ADB is an important development partner in our development initiatives and we appreciate the technical and financial support it continues to provide to PNG.

PNG, like its Pacific neighbors, faces many development challenges imposed by the difficult geography, extreme ethnic diversity, population dispersion, a serious HIV/AIDS epidemic, poor health and social indicators, and weak public services. These challenges make effective delivery of government services very difficult. The capacity constraints of the implementing agencies of the Government and stakeholders in the private sector to deliver services to the people effectively are an emerging concern. As a result, significant funds are held in trust accounts.

We consider these challenges are an opportunity for the Government and the private sector to work as a team to create a strong and robust economy that provides opportunities for businesses to invest and for people to have jobs and better incomes.

Our people aspire to higher living standards and improved wellbeing, but we continue to face huge challenges in improving government services and fostering an environment where a competitive and dynamic private sector can generate growth. We are working through a critical phase in our development, transforming the way we operate through strong political leadership and a commitment to reform in order to achieve effective public service delivery and to address key private sector issues. We need the continued assistance of ADB as we strive to achieve these.

We have introduced a number of political reforms in recent years to give us much needed political stability. This enabled the last government to last its full term, the first in our history, and it has been returned for a further 5-year term.

Political stability has also provided more policy stability. During the past few years, our budgets have been framed around medium-term strategies: the medium-term fiscal strategy, the medium-term development strategy, and the medium-term debt strategy. The medium-term fiscal strategy has been overtaken by events and the development of a new strategy is in its

final stage after exhaustive consultations with stakeholders, including ADB. We are also currently reviewing the medium-term development strategy.

These strategies are essential to the Government achieving stable and prudent economic management as the basis for a successful economy. We have worked hard over the past few years to bring much needed stability to the economy and we are now enjoying some of the benefits of our past efforts. We will build on these.

We are fortunate that the improved global environment has helped to strengthen PNG's economy, at a time when these initiatives have been put in place. These developments have been mutually reinforcing.

We are already enjoying better macroeconomic and fiscal outcomes. Economic growth has resumed, and employment is increasing. Inflation has fallen sharply and interest rates have declined. Our external position is healthy, with foreign exchange reserves at record levels. The exchange rate has stabilized.

We recorded a budget surplus in 2007 and exceeded the tight goals of our medium-term fiscal strategy for the year. Debt has fallen sharply as a percentage of GDP over the past 4 years. We are seeing a steady improvement in GDP per capita, which is a necessary precondition for an improvement in the living standards of our people.

We are fully aware of the danger of increasing expenditure on the assumption that high commodity prices will continue to provide additional revenues over the medium term. With that in mind, the Government has allocated additional revenue to the medium-term expenditure priorities. From 2008 to 2012, mineral revenue equal to 4% of GDP will be used to fund ongoing spending. The remainder will be regarded as additional revenue, to be allocated in ways which can be adjusted, with minimum disruption.

Our plan is to create an environment that is conducive to private sector investment and growth. We know that reducing poverty and promoting PNG's economic and social development depends on a competitive and dynamic private sector that generates income and employment. As part of our broader reform agenda, an immediate Government priority is to carry out much-needed structural reforms to the regulatory and institutional environment in which investment decisions are made. We expect to attract new foreign investment and to promote greater domestic investment, which will further drive economic growth.

More generally, as a crucial development partner, ADB has an important role to play in supporting members develop and implement their own growth and development strategies. It is important for the ADB to continue to draw on its special understanding of the Pacific region and its strong relationships with its Pacific developing member countries to ensure that the assistance it provides is well focused and meets our special needs.

Because of the recent improvements in our public finances, we do not want to take on more debt. Financial and technical support from ADB needs to be consistent with our own strategies. The support should not only focus on areas consistent with our needs, as identified in the medium-term development strategy, but should also be consistent with our budgetary needs and reform processes.

Matching ADB's strategies with a country's own development strategies is an important challenge for the bank. Ownership of reform and coherence of strategic direction between a

country and its development partners is an important ingredient of its success. We are very pleased that ADB has developed a PNG country strategy and program and incorporated our development aspirations. We see this as a positive approach to meeting our development challenges together.

We are grateful and commend the ADB's good work in PNG and the Asia and Pacific region more generally. We look forward to a rewarding partnership with ADB as we address the challenge of implementing policies to improve the lives of our people.