

# FOREWORD

This is a Budget designed to serve an economy which is performing well in many ways, but which can perform better. By making the right investments and reforms now, we can give ourselves and our children a better future.

This year we expect growth in GDP – that is, in the national economy – to reach 3.7 per cent. We expect GDP growth in 2007 to be around 4.5 per cent. These are good rates of growth - but if we work hard together, we can do even better.

The improvements in the economy during the term of the Somare Government have been due to several factors. There can be no doubt that sound management of the national budget has helped. And our changes to taxation and investment policies have encouraged growth in both the mining and non-mining sectors of the economy.

But the economy is also benefiting from high international prices for some of our major exports – notably oil, copper and gold.

While these international prices are so high, the streams of revenue coming to the Government from natural resource industries are greatly enlarged. Our revenues are currently much greater than they have been in the past, and greater than we expect them to be within a few years when prices return to more normal levels.

This good fortune is an historic opportunity to make major investments in programs that will boost the productive capacity of the economy – such as roads, rural electrification and rural telecommunications – and in areas that are vital to the well-being of the community, such as hospitals, aid posts and schools.

The Government can make these large investments in high-priority infrastructure for the country's future, because we are not allowing the temporary increases in revenue to go into recurrent or ongoing spending.

This Budget is not only about allocating large amounts of windfall revenue to a range of investments. It is also about the reforms which are needed to make these investments, and the other, ongoing spending of the Government, more productive.

The Budget includes measures which will make our taxation system fairer and more efficient, while maintaining the revenue base needed to fund Government services.

- There is a second stage of reforms to personal income tax which will reduce the tax burdens on all those subject to it.
- There are additional incentives to encourage tourists to visit our country, and to encourage the further development of PNG's tourist industry.
- There is a reform of the log export tax which will fund agricultural and infrastructure development in areas where logging takes place, as well as making this tax fairer for operators.

This Budget is being accompanied by a major reform to the system of intergovernmental finance, through which the National Government transfers funds each year to provincial and local-level governments. It is also accompanied by improvements in the regulatory legislation for the superannuation industry.

So the Government is being active in making structural economic reforms. Nevertheless, when we consider the future, we know we have many challenges ahead.

The first great challenge we face is to ensure that what is outlined in the Budget is actually implemented. We know we have to improve a great deal on the disappointing implementation record of the past.

Another challenge is to make sure that new or rehabilitated infrastructure will be well maintained, so that we avoid in the future the costly mistakes of neglect.

We also face a set of challenges to raise the efficiency of the utilities which provide vital services to businesses and homes – electricity, water, telecommunications, and transport facilities like ports and airports.

In 2006 the Independent Consumer and Competition Commission reviewed opportunities for more efficiency and competition in telecommunications, shipping, stevedoring, and aviation. Flowing from these reviews, practical steps are being taken to improve efficiency.

But we know there is much more that has to be done in the years ahead to bring these utilities up to the standards of public access and performance which are needed – to support the growth of agricultural, industrial and service businesses, and to provide affordable, reliable services to a wide range of consumers.

In the teaching service and the rest of the public service, we must press on with efforts to focus resources on service delivery. In order to do that, while funding inevitably remains limited, we have to keep personnel numbers and remuneration under careful management. We have to make accountability for performance better understood, and better accepted, right through the public service.

The challenges I have just mentioned can be summed up this way:

- we, the members of governments at all levels, need to do better at delivering services to the people; and
- we need to create a more favourable environment for the private sector to flourish, and to boost employment prospects, especially in our rural communities.

But we have a strong economy, and a sound budget. In these conditions, we can make real progress towards meeting those challenges.

I commend the 2007 Budget to the Honourable members and the people of Papua New Guinea.



**RABBIE L. NAMALIU, CSM KCMG MP**  
**Minister for Treasury**