

FOREWORD

The 2008 Budget has been put together against a backdrop of strong domestic economic growth. This is being supported by ongoing favourable international conditions with the commodity price boom continuing and widening to include stronger agricultural prices.

Economic growth forecasts for 2007 have been revised up to a strong 6.2 per cent. The upward revision is largely due to intense competition and increased coverage across the country in the mobile phone market which is providing significant social and economic benefits. Economic growth in 2008 is forecast to strengthen even further to 6.6 per cent. If the forecasts are realized, 2007 and 2008 together will represent the two strongest years of consecutive economic growth in the last 15 years.

Economic growth is also very broadly based across all sectors of the economy and across virtually all parts of the country. Businesses are becoming more confident about the economic outlook and are investing more heavily. More of our people are finding work in the growing formal economy which translates into financial support for multiples of people for each additional new job created. With economic growth now well above population growth, we should start to see a gradual improvement in the average living standards of the population.

The 2008 Budget uses the same prudent fiscal thinking that has been used in framing recent Supplementary and Annual Budgets. This involves windfall revenues associated with the commodity price boom being isolated from the recurrent budget and used in a one-off manner that will provide future benefits for both current and future generations. Such revenues have continued to be used for paying down Government debt and superannuation obligations and providing large amounts to be used over time for infrastructure rehabilitation and improvement across the country.

In addition, the 2008 Budget has also been guided by the development work behind the proposed *2008-2012 Medium Term Fiscal Strategy* which is nearing finalization. Economic growth and prudent fiscal settings have allowed an additional K300 million to be used in the 2008 recurrent budget. This is being used to again provide relief from school fees and to strengthen service delivery capability across the public sector and to extend educational, health and agricultural services. At the same time, the 2008 Budget eliminates some nuisance taxes for business and provides tax cuts for all individuals in manner that provides the greatest proportionate benefit to low income earners.

The 2008 Budget is about sustaining economic growth, strengthening our financial position and improving service delivery, thereby **empowering the people of Papua New Guinea**. The Budget seeks to spread the benefits arising from the commodity price boom right across the country. A key aspect of this Budget is the allocation of K534 million to the districts which comes on top of the K356 million already allocated to the districts in the 2007 Supplementary Budget. Taken together, this represents an enormous commitment by the Government to empower people at the district level to improve the basic services that they need. The provision of such large funds at the district level brings with it a corresponding increase in responsibility and accountability at the district level.

Including the funds for districts, the 2008 Budget provides over K1 billion for the maintenance, improvement and development of infrastructure right across the country. These funds will go into trust and will add to what will be a massive pool of funds held in trust until appropriate implementation plans are developed. Given the time that it takes to prepare and implement quality and effective investment plans, together with capacity constraints in both the public and private sectors, it will take a number of years for these projects to be implemented.

It will be helpful for assisting to maintain macroeconomic stability if the funds held in trust are spent gradually over time. This is because the actual spending of these large amounts of Government funds will provide a large economic stimulus into an environment of higher inflationary pressures and already strong investment by the private sector. Actual Government spending will therefore need to be monitored and controlled very carefully to ensure that it does not overheat the economy but helps to sustain growth and strengthen the economy. We will all need to display some patience and practical understanding in not expecting to see all these projects come to fruition into the near future.

The Government realizes that the economic progress that has been made needs to be sustained and strengthened through further structural reforms that will facilitate private sector growth. This includes undertaking critical public sector reforms, corporatizing state-owned enterprises, tackling land reform, conducting sectoral reviews, increasing competition in key sectors of the economy and removing impediments to business and investment.

While many challenges remain, we should not lose sight that some good gains have been made and we are now facing the future much more optimistically than many of us can remember. The 2008 Budget builds on the gains that have been made and sets a solid financial foundation for us to be confident about the future.

I commend the 2008 Budget to the Honourable members and the people of Papua New Guinea.

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