
FOREWORD

The 2009 Budget is being delivered amid very uncertain economic circumstances. The world has experienced the most severe financial crisis since the 1930's Great Depression. Across the world, major financial institutions have failed and stock markets have fallen dramatically. The global financial crisis is affecting economic growth prospects in both advanced and developing countries.

The extent of this crisis and the effects of the global downturn cannot be underestimated. Papua New Guinea is not immune from the fallout, with the commodity prices we receive for our exports and the fiscal outlook having deteriorated rapidly in recent months.

Given these developments, the Government is using the 2009 Budget to *promote sustained economic growth and to further empower and transform the rural economy*.

Despite the challenges ahead, the Papua New Guinea economy is forecast to grow at 6.2 per cent in 2009, the country's seventh consecutive year of economic growth. In-line with the International Monetary Fund's 2009 growth outlook for emerging and developing countries, this forecast is a little lower than the 7.2 per cent revised growth forecast for 2008 and reflects the continued fallout from the global financial crisis on the Papua New Guinea economy.

The deteriorating outlook for world growth has contributed to substantial falls in commodity prices over recent months, including for our major exports. Oil prices have fallen dramatically in recent months from a peak of over US\$140 barrel in July 2008. Copper and gold prices have also fallen sharply, as have agricultural commodity prices.

After benefiting from several years of low inflation, the past year has seen inflation in the country rise to uncomfortably high levels, driven by rapid growth in money supply and credit, strong domestic demand, increased Government expenditure and rising prices of oil and food. While inflation has been high in 2008, inflation is forecast to fall to a more manageable 6.1 per cent in 2009 given the weakness in the global economy that has seen oil prices, and some international food prices, such as rice and wheat, fall, and the lagged effects of the recent appreciation of the Kina against major trading currencies.

The Government's recently released *Medium-Term Fiscal Strategy (MTFS) 2008-12* provides a stable, responsible and prudent framework for the Government to ensure fiscal sustainability and promote macroeconomic stability over the medium term. Importantly, the MTFS anticipated the possibility that unusually high commodity prices experienced in recent years could fall sharply and result in a rapid fall in revenue. To this end, the MTFS ensured that the windfall revenue was not added to ongoing spending and was used to reduce the Government's public debt and superannuation liabilities or fund one-off additional priority expenditures.

With respect to planned expenditure in 2009, the Government has sought to align planned expenditures with forecast revenues while continuing to pursue its ambitious development priorities for the nation. The Government has also sought to insulate the economy from the current uncertainties and threats present in the global economy.

Overall, the Government's clear priority is to promote sustainable economic growth through empowering and transforming the rural economy. As a result, the Government has used the 2009 Budget to:

- Significantly expand the District Services Improvement Program in 2009, with planned funding being in addition to the substantial funding per district previously allocated in 2007 and 2008.
- Undertake substantial investments in agriculture, infrastructure maintenance, improvement and development, in accordance with the Government's strategic plans and other priorities.

The Government is mindful that in a rapidly changing economic environment, major uncertainties exist with the 2009 Budget. While the Government has been realistic with its economic assumptions and revenue forecasts, the Government recognizes that Government expenditure will need to be closely monitored in 2009, and, if needed, adjusted as economic circumstances dictate.

Nevertheless, the Government has substantial amounts in trust funds that were saved during the commodity boom period. These funds will be spent on infrastructure development over the next few years and should help to shield the PNG economy from some of the worst impacts of the international downturn. In addition, the LNG project has now entered the FEED stage and a decision will be made towards the end of 2009 about proceeding with the project. If this project proceeds, it will provide a substantial boost to economic growth and jobs in the PNG economy over the medium term.

The Government also realizes that the economy would be strengthened through further economic reforms to the private and public sectors. Government priorities for 2009 include pursuing opportunities for structural reform that encourage investment and promote a competitive private sector; as well as implementing existing public sector reform programs and ensuring that their progress does not stall.

The economic circumstances we face are challenging and the Government acknowledges that there may be difficult times ahead. However, the Government remains optimistic that through the adoption of prudent policies that promote macroeconomic stability and fiscal sustainability, the economic future of this country can be secured and our development priorities met.

I commend the 2009 Budget to Honourable Members and to the people of Papua New Guinea.

A handwritten signature in black ink, appearing to read 'Patrick Pruiatch', with a long horizontal line extending to the right.

HON. PATRICK PRUIATCH, MP
Minister for Treasury and Finance