



Press Release

THE 2009 FINAL BUDGET OUTCOME

The Minister for Treasury and Finance, the Honorable Patrick Pruaitch, MP released today the Final Budget Outcome (FBO) for 2009.

The FBO sets out the annual fiscal outcome and provides details of revenue and grants, expenditure and net lending and the financing requirements of the Government Budget. The FBO is released in accordance with the *Papua New Guinea Fiscal Responsibility Act 2006 (the Act)*.

The Minister said the release of the FBO represents a continuation of this Government's commitment to provide to the people of Papua New Guinea with a higher standard of transparency in budget process and reporting, consistent with the *Act*. The *Act* requires the Government to release the Report by end March the following year.

The Minister informed that the 2009 FBO recorded a deficit of K36.3 million or 0.2 per cent of GDP against a revised deficit of K86.0 million or 0.4 per cent of GDP announced in the 2010 Budget. The Minister said this was an improvement from the high deficit of K478.5 million (2.2 per cent of GDP) recorded for 2008. He attributed this outcome to the prudent fiscal management of the Government which demonstrated the Government's efforts to move towards a balanced budget.

The Minister announced that the improved budget deficit outcome was due to higher revenue, partially offset by higher expenditure. The budget deficit was financed through domestic borrowing and lower cash balances.

Total revenue and grants for 2009 was K6,651.3 million. The Minister noted that this level was slightly higher than the revised budget estimate by K11.7 million. The slightly higher revenue receipts were largely due to higher company tax and dividend withholding taxes. These higher outcomes more than offset the lower than anticipated outcomes of other tax revenue heads.

Abstracting from grants, total revenue collections in 2009 were higher by K172.8 million compared to the revised estimate.

On the expenditure side of the budget, the Treasurer informed that total expenditure and net lending in 2009 was K6, 687.6 million. This was lower than the revised budget estimate published in the 2010 Budget by K37.7 million.

Recurrent Expenditure in 2009 was K4,166.4 million. This was higher than the revised budget estimates by K213.8 million. The Treasurer said this was due to higher expenditure, particularly under personnel emoluments costs by provincial departments and national departments.

Total Development Expenditure was K2,348.7 million. This was lower than the revised budget estimate by K247.0 million. The Treasurer indicated that this was due mainly to the lower domestic funds spending of K37.3 million, project grants of K154.6 million, lower utilization of infrastructure tax credits by K6.5 million and lower draw downs of concessional loans by K48.6 million. The lower recording of project grants may reflect delays in reporting.

Minister Pruaitch re-iterated the Somare Government's commitment to increased levels of transparency, and recognizes that the large quantum of funds in trust requires increased accountability. Therefore, a considerable amount of information has again been provided in the FBO Report. Unfortunately, a number of executing agencies are not providing expenditure reports on their trust accounts. A detailed report on the expenditures from trust accounts will be provided in the Mid Year Economic & Fiscal Outlook Report in July 2010.

The Minister highlighted two most important facts about the 2009 Budget outcome:

- That total expenditure on personal emoluments was higher than the revised estimate. Treasury is currently reviewing the processes of monitoring and controlling expenditure incurred from the payroll and will monitor agencies that continue to overspend.
- The publication of this report and the continued inclusion of information on trust accounts is an important initiative that the Somare Government has taken to increasing the transparency and accountability of the Budget process, and in providing detailed information about how government agencies are spending public funds.

The Minister indicated that, though the Government had experienced another budget deficit in 2009, he has expressed satisfaction that this outcome is not as bad as that experienced for the 2008 fiscal year. The Minister said the Government will continue to endeavor to maintain fiscal discipline in 2010 in order to avoid or minimize any unplanned spending that may be outside the budget process.

In relation to PNG's current debt level, the Treasurer highlighted that the budget deficit in 2009 resulted in total public debt increasing to K6,944.1 million, up by K17.4 million from the debt level at the end of 2008 of K6,962.7 million. Strong nominal GDP growth contributed to debt as a percentage of GDP falling from 32.1 percent in 2008 to 31.9 percent in 2009.

The Treasurer indicated that domestic debt increased by only K84.0 million over 2009. This is in line with the Government's debt strategy objective of reducing foreign currency risk by increasing domestic issuance of long-term stock (Inscribed Stock) to retire foreign currency loans.

The level of external debt fell by K66.6 million over 2009, as scheduled amortization repayments to all external lenders were made.

The Treasurer emphasized that although there was a net increase in overall debt in 2009, public debt over recent years has declined as a proportion of GDP. This reflects a continuation of the responsible fiscal policies this Government had implemented over the term of this Government.

The FBO Report is available on the Treasury website at: www.treasury.gov.pg