



## 2013 NATIONAL BUDGET - PRESS RELEASE

The Minister for Treasury Hon. Don Pomb Polye proudly presented the first O'Neill-Dion Government's National Budget. Minister Polye said that the 2013 Budget is a historic budget of a record K13 billion, which he described as a decisive and responsible budget that cares for the livelihood of all Papua New Guineans. He said, "*The 2013 Budget will be a budget for growing our future, empowering our people for inclusive and sustainable growth, giving much greater responsibility to government outside of Waigani and delivering on our promises to the people of Papua New Guinea*". Minister Polye emphasised that it is a deliberate intervention by the O'Neill-Dion Government to have a development strategy focused on inclusive and sustainable growth for all our people, especially those in our rural areas.

In looking at the state of the economy, Minister Polye announced that the country's economic growth has been strong and is now expected to reach 9.2 per cent in 2012. More jobs have been created, inflation has been revised down to around 4.1 per cent and interest rates remain low. The exchange rate has appreciated and the external position is at manageable levels. He added that the outlook for 2013 remains positive with PNG economy forecast to grow by 4.0 per cent in real terms and 8.9 in nominal terms with its lower rate of growth due to the expected winding down in PNG LNG construction activity. This would represent 13 years of uninterrupted economic growth. He also added that over the medium term, economic growth is projected to pick up in 2014, reflecting commencement of PNG LNG production with full production in 2015. The commencement of production at PNG LNG is expected to provide a large boost to GDP growth in 2015.

The Minister said that the 2013 Budget is focused on the key enablers to nurture the development of our children and our economy – towards better education, better health, better infrastructure, and better law and order.

### MTDP Key Enabler Appropriation (Km)

	2012	2013	Increase (%)
Education	1,631	2300	41.0%
Health	818	1,344	64.3%
Infrastructure	1,521	2,580	69.6%
Law and Order Land	1,000	1,079	7.9%
Land	57	281	393.0%
<b>Total MTDP Enablers</b>	<b>5,027</b>	<b>7,584</b>	<b>50.9%</b>

He highlighted that there are three (3) historic reforms in the 2013 Budget which are:

- To focus on increasing the share of the Budget to key enablers such as education, health, infrastructure, and law and order. In this Budget, we take a historic "step-up" with an overall 50.9 per cent funding increase in these key areas. By 2017, we want such critical funding to have more than doubled- from around K5 billion in 2012 to over K10 billion by 2017. In 2013, we will increase support for infrastructure by 69.6 per cent to K2,580 million, mainly through support for roads. Health will see a 64.3 per cent increase to K1,344 million, including free primary health care. Education will have a 41 per cent increase, including extending the tuition fee free education policy to years 11 and 12 and supporting the recruitment of a further 3,352 teachers. Funding for the police forces will also be substantially strengthened with on-going

funding to support an extra 400 recruits every year. We will also support key sectors such as agriculture and small and medium sized enterprises by good policies to ensure they can efficiently prosper, as well as programs to assist with their development.

- To empower our people by giving greater financial responsibility and accountability to lower levels of the Governments. It is our conviction that empowering Governments that are closer to our people will significantly improve the delivery of vital goods and services. From 2013, a total of K1,492 million will be provided in direct financing to the Provinces, Districts and LLGs. From 2013 onwards, each District will receive funding of K10 million each year (K890 million per year), Provinces will receive K5 million per District (K445 million per year) in addition to the existing functional grants, and Local Level Governments will receive K0.5 million each (K157 million per year). Overall, funding to sub-national levels of Government will increase by 87 per cent to K3.6 billion in 2013.
- To ensure that there is greater certainty of funding for key Nation Building Productive Investments Infrastructure, such as the Highlands Highway, through the introduction of multiyear budgeting through the use of 'forward estimates'. This is a significant budgetary reform undertaken by this Government to demonstrate its commitment to investing in our future in a smarter and cost effective way, with emphasis on project design and scoping before these projects are fully funded. Over K6 billion is earmarked for Nation Building Productive Infrastructure Investment over the medium term with the Highlands Highway getting K3.1 billion, Lae City and Port Moresby roads getting K184 million and K500 million respectively. A further K1,370 is set aside for other priority projects such as future major hospital refurbishments based on the K300 million set aside for the Port Moresby Hospital over the next 4 years with K50 million provided in 2013. Combined with an estimated K4,041 million in concessional loans focused on infrastructure, supported with counterpart funding of K1,531 million, this Budget includes a Priority Nation Building Productive Infrastructure package totalling over K12.1 billion over the next five years. This supports our philosophy of growing our future.

Minister Polye said that the Budget will continue to implement key institutional and regulatory reforms in the areas of governance and public finance management to support and strengthen the delivery of the Government's development objectives. One of the focus areas will be the implementation of the Right sizing Report to reduce wastage and duplication to improve the effectiveness and efficiency of service delivery. He added that the country will also move towards an integrated budget for next year's 2014 Budget so that the recurrent and development budgets are brought together. This will make for more effective expenditure, so that we can make sure that when we build new schools we are thinking also about teachers, or when we fund hospitals, we are also thinking about health workers, or when we build roads, we are also thinking about their future maintenance. We will also be introducing financial management reforms, including the introduction of Government Finance Statistics 2001, to update our systems for a much more modern economy and to ensure greater support for and accountability from the sub-national level.

Minister Polye announced that the 2013 Budget has been framed in the context of the new Medium Term Fiscal Strategy 2013-2017, where total revenue as a share of non-resource GDP is set to decline over this period particularly in 2013 and 2014. This poses a significant challenge in devising a prudent and feasible medium term fiscal strategy that ensures fiscal sustainability, macroeconomic stability and at the same time promotes growth and meets the significant development needs of our people. The challenge is to get the balance right, and we believe we have a strategy that meets this requirement.

Against this setback of an ending of the rapid growth in revenues of recent years, we must take action to support our revenues. For the second year, we are providing the Internal Revenue Commission and Customs with substantial extra funding to ensure they have the resources to build their agencies. With this improved resourcing, we expect much stronger levels of compliance with the law. Some of this will be improved education on the responsibilities we have towards paying tax. But these will increasingly be backed by more comprehensive audit programs to ensure there is a level playing field with all businesses paying what they should be. We will also conduct a taxation review in 2013 with a focus on the minerals sector to ensure that the people of PNG are receiving their fair share of their mineral wealth.

#### **Medium Term Multi-Year Budgeting Estimates (Km)**

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Total Revenue and Grants</b>	10,481.2	11,299.0	13,467.0	14,603.0	15,659.0
<b>Total Exp. and Net Lending</b>	13,030.8	13,651.0	14,280.0	14,934.0	15,621.0
<b>Budget Deficit/Surplus</b>	-2,549.0	-2,352.0	-813.0	-331.0	38.0
<b>% of GDP</b>	-7.2%	-5.9%	-1.6%	-0.6%	0.1%

The 2013 Budget will be the first deficit budget of K2.6 billion or 7.2 percent of GDP. Whilst the size of the deficit is unprecedented, Minister Polye said that there are exceptional justifications which he had highlighted. He reassured that the country can afford this within the fiscal sustainability framework because our prudent fiscal and macroeconomic management of the past that has created the fiscal space by lowering our debt to GDP ratio below debt sustainability levels. He added that there is a financing strategy in place to cover significant financing task in 2013. New issuance methods and products are required to manage the financing task. The strategy for this new borrowing is to diversify the funding base to manage risks; use concessional loan funding where available; and harness the power of domestic savings (including superannuation) to build PNG's financing market and to minimise exchange rate risk. We are working already with a range of organisations to raise the necessary financing, and I am confident that we can do so.

Minister Polye said the O'Neil-Dion Government is committed to moving back to a small surplus in 2017. This will require some tough expenditure decisions in future years, but we believe we can do this by actions such as reducing the number of departments and authorities, through the better design and costing of our infrastructure, through focusing on core areas of government and selling non-core assets. To demonstrate commitment to these expenditure reforms, the 2013 Budget announced an immediate action to reduce waste and duplication in the public service by combining of several Departments and agencies.

Looking ahead and over the medium term, Minister Polye said the Government will continue to support growth in 2014 with a similar deficit forecast, but then move gradually to reduce deficits so as to reach a balanced budget by 2017. This is enshrined in new MTFS 2013 – 2017 which he was proud to announce as a key component of the 2013 Budget. He said that such a strategy is crucial to our business and international community as it demonstrates the Government's genuineness and commitment of its fiscal stance and discipline.

Minister Polye concluded by saying that this is a peoples' budget. He added "*The peoples' empathetic voices have been heard. It is time to grow the future – in empowering our people for inclusive and sustainable growth*". However, he said the challenge is now on effective implementation of this K13 billion Budget, and then urged all Government departments and agencies to ensure an effective and efficient implementation of the 2013 Budget.