



## **PAPUA NEW GUINEA COUNTRY STATEMENT**

**By Secretary For Treasury**

### **ON THE OCCASION OF THE ASIAN DEVELOPMENT FUND TENTH DONORS' REPLENISHMENT MEETING**

**Sydney, Australia**

**12<sup>th</sup> – 14<sup>th</sup> September, 2007**

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#### **Introduction**

I would like to take this opportunity to thank the Australian Government for hosting this important ADF Donors meeting and the ADB for inviting Papua New Guinea to attend this occasion as a developing member country.

In this presentation, I would like to briefly highlight the fiscal and economic developments in recent years in Papua New Guinea and then look at the ADF facility and how it has assisted PNG in its development.

#### **Fiscal and Economic Performance**

PNG economy has returned to a path of positive growth, and 2007 will mark the fourth year in a row of solid economic growth. Real GDP growth has increased from negative 0.2 per cent in 2002 to an average 2.7 per cent over the past 4 years. The economy is projected to perform strongly in 2007 with growth rising to 5.4 per cent.

Prices of essential goods and services have fallen. Inflation has fallen from 11.8 per cent in 2002 to 2.6 per cent in 2006. However, there are signs that inflationary pressure

is building up and this will need to be monitored closely. The PNG Kina has stabilized at around 33 US cents from less than 20 US cents in 2002.

Interest rates (Treasury bill rates) have dropped from a high of over 13.5 per cent in 2002 to 3.3 per cent in 2006.

Government debt has fallen significantly from over 70 per cent of GDP in 2002 to less than 40 per cent at the end of 2006.

Government's budget position has turned around from a deficit of 3.9 per cent of GDP in 2002 to a surplus budget of 2.5 per cent of GDP in 2006. The Government had done better than the Medium Term Fiscal Framework that it set itself.

PNG's foreign exchange reserves are now at record levels, currently standing at around US\$1.58 billion (equivalent to PNGK4.8 billion).

The improvement in the economy has been due to several factors. The Government's sound fiscal management, changes to taxation and investment regimes, structural reforms and high international prices of major export commodities that has resulted in growth in both the mining and non-mining sectors of the economy.

### **ADF Resources and Projects**

ADB has provided a number of loans and grants to PNG over the years. Currently, there are 11 loan projects in the country and two more are in the pipeline. The current projects include the highlands highway, smallholder agriculture development, government financial management reform, employment and skills development, water transport and maritime navigational aids, microfinance, provincial water supply and sanitation, and the fisheries. There is also a grant-funded ADB project in HIV-AIDS

prevention and control, and a Japanese grant for low-cost community sanitation and health work which ADB administers.

The following projects are in the pipeline:

- (i) The proposed loan for redevelopment of Lae Port, which has high priority as an infrastructure improvement with great potential benefits for a wide range of PNG business and private sector development.
- (ii) The supplementary loan for extending the work being done at present in the Financial Management Improvement Program which is making crucial contributions to improving the public finance management.
- (iv) The possible issue by the ADB in early 2008 of a Kina denominated bond, for the first time in PNG. Such a bond will raise PNG's profile with international investors, attract new investors, assist develop the domestic financial market and provide low-cost finance for the Government with no foreign currency risk.
- (iv) The ADB Technical Assistance for private sector development. In monetary terms, this is insignificant but it represents a very constructive influence by the ADB as an advisor on PNG's economic policies, and in particular, our development priorities and strategies. PNG acknowledges ADB's expertise and objectivity in its advisory role that it plays and we always listen to and value the advice of the ADB - though we may not always agree, of course, but dialogue with the ADB is well worthwhile.

The above projects represent valuable contributions to PNG's economic and social development, particularly its efforts towards achieving the priorities as outlined in the Medium Term Development Strategy (MTDS) and ultimately, its endeavor to meeting the MDG targets.

With the economy performing well and the Government's strong financial position, PNG has not been borrowing extensively from external sources, even on concessional terms.

However, this does not imply that PNG is going to cease external financing completely. Having access to ADF resources is important and further borrowings (preferably on concessional terms) will be assessed on their costs, benefits and risks profiles and their impact on the overall economy.

### **Major Development Challenges**

PNG faces major development challenges including; very poor health indicators, low literacy rate, high unemployment rate, law and order problems, corruption and governance issues, high population growth rate outpacing GDP growth, poor water and sanitation, emerging HIV/AIDS pandemic and so forth.

These challenges cannot be addressed by the Government alone. Surely it needs external assistance from its donors and development partners.

If there will be any future borrowing, the proceeds will most likely go towards the MTDS seven priority expenditure areas and these are:

- (i) primary and preventive health care,
- (ii) HIV/AIDS Prevention,
- (iii) basic education,
- (iv) development oriented adult education,
- (v) transport rehabilitation and maintenance,
- (vi) Promotion of Income Earning Opportunities, and

(vii) Law and Justice.

Regardless of whether PNG borrows from ADF or not, the ADB's contributions to our development efforts are highly valued, particularly its technical know-how and the in-depth experiences it brings to project implementation, and for its constructive involvement with Government agencies, community organizations and the private sector.

### **PNG's Outstanding Debt to the ADB**

On debt servicing, out of a total external debt burden of K3.68 billion (US\$1.2 billion), 36% or K1.3 billion is PNG's debt outstanding to the ADB. At the beginning of last year, PNG had a total of 47 loans with ADB. Of this, we successfully prepaid 6 Yen denominated (OCR) loans in December 2006 totaling K100.35 million. This prepayment was consistent with our medium term debt reduction strategy.

The Medium Term Debt Reduction Strategy is to minimize the cost of debt consistent with the Government's tolerance for financial risk. Its three major strategies to support the objectives are; (i) reduce public debt to sustainable levels; (ii) reduce financial risks to prudent levels, and (iii) develop the Government's Inscribed stock, bill and secondary loan markets.

### **Comments on ADF Resources**

PNG as a developing member country is pleased to note that the ADF resource has increased remarkably from US\$0.8 billion in 1973 to USD\$7.3 billion (as at ADF IX), at a rate of 32% per replenishment in nominal terms. The growth in ADF resources demonstrates donors' commitment to addressing the development needs of developing member countries.

PNG further supports recent moves for utilization of ADF resources – introduction of grants since 2005. We believe that cheaper grants as opposed to loans initially, will enable many more developing member countries to access ADF funds for their development purposes as they continue to work towards addressing poverty and achieving their MDG targets. We would therefore like to see more grants provided to developing member countries, particularly lower income countries in the coming years.

PNG also agrees with ADB's proposal to provide debt relief to Heavily Indebtedness Poor Countries (HIPC) from the ADF resources. This will now provide a window of opportunity for ADB to assist members with unsustainably high levels of debt to free themselves from the debt-trap and to work on a sustainable path to economic independence and better prosperity.

However, the proposal also has a real potential for depleting ADF's financial base in the longer term without adequate reflows and we urge ADB to critically assess the long term financial implication of this initiative.

Thank you,