ANNUAL MEETINGS
2017 | WASHINGTON DC
WORLD BANK GROUP
INTERNATIONAL MONETARY FUND

Governor's Statement No. 27

October 13, 2017

Statement by the Hon. **CHARLES KAUVU ABEL,**
Governor of the Bank and the Fund for **PAPUA NEW GUINEA**

Statement by the Hon. Charles Kauvu Abel,
Governor of the Bank and the Fund for Papua New Guinea

President of the World Bank, Managing Director of the International Monetary Fund (IMF), fellow Governors, ladies and gentlemen. It is a great honor for me to deliver this address on behalf of the Independent State of Papua New Guinea and its people on this special occasion of the Annual Meeting of the International Monetary Fund (Fund) and the World Bank (Bank). I would like to commend the Bretton Woods Institutions in helping steer the global economy during the challenging times of continuing uncertainty and growing risks. I also take this opportunity to convey my country's utmost appreciation to the people and the Government of the United States of America for hosting this special event.

I am also very pleased to join my colleague Governors for the various meetings which are planned for the next couple of days to discuss the many important development challenges that our member countries face. The meetings provide a perfect opportunity for all of us to interact and share our ideas and learn from each other's lessons on how best the many challenges can be addressed more effectively going forward.

I take this opportunity to remind us that Papua New Guinea is the custodian of the third largest virgin rainforest, 20% of world tuna stocks and 8% of world biodiversity. We aspire to contribute to a world of responsible sustainability and inclusive economic growth, as expressed in our national strategy responsive sustainable development of StaRs.

This year has been difficult and the economy of Papua New Guinea has under-performed compared to our earlier expectations as presented in the 2017 National Budget. In particular, the world economic growth was lower than projected and commodity prices did not resume upward trends. Following the impact of the El Nino drought and the persistently low oil and gas prices, Government revenues have declined, some of our operating costs continued to rise, and the foreign exchange imbalance has affected commercial activity levels and confidence.

We have successfully conducted our 9th General Election in July this year and the new coalition Government that was formed has quickly thereafter moved to cushion the effects of these by announcing a 100-Day Economic Stimulus Plan which included cutting the 2017 fiscal deficit significantly. This Plan is expected to put the country's economy on a sound footing over the medium term and includes a mix of measures designed to address the immediate macroeconomic challenges as well as the longer-term development objectives. The Plan has received widespread support including from the private sector and the IMF.

On the political front, political stability is a very important factor which is a necessary pre-condition for macroeconomic and financial stability and for sustained economic growth.

The current Government has now been in office for several years and looks set to serve out its second term, following national elections this year.

Political stability has enabled us to introduce and maintain policy stability. The Government is setting its fiscal policy within the confines of its Medium Term frameworks. These frameworks are based on the Medium Term Development Plan (MTDP), Medium Term Fiscal Strategy, Fiscal Responsibility Act, and the Medium Term Debt Strategy, which clearly set out the Medium Term pathway for the Government to follow.

The Medium Term Development Plan (MTDP) sets out the Government's Medium Term development priorities and The Medium Term Fiscal Strategy maps out an affordable and sustainable path for public spending. The Medium Term Debt Strategy maps out a path for debt adjustment to provide for better management of public debt and reduced exposure to risk. Also, the Government is developing a Medium Term Revenue Strategy with technical assistance from the IMF. This Strategy is primarily centered around reforms to the tax system in order to improve the effectiveness in tax administration and collection. We hope to introduce a number of key taxation measures in the 2018 Budget to improve on our tax collection efforts.

Major expenditure commitments in MTDP enablers in the 2017 National Budget will continue to be delivered. These include key Government priorities such as Tuition Fee Free Education, free health care and infrastructure development such as roads and bridges.

Whilst our Medium Term prospects remain positive, our GDP growth in 2017 has slowed modestly from what was expected in the 2017 National Budget due to ongoing structural issues, weak recovery in commodity prices and deepening of foreign exchange imbalances. The domestic economy is projected to grow at 2.7 per cent, slightly lower than the 2017 Budget estimate of 2.8 per cent. However, non-mining GDP growth is expected to improve slightly to 2.4 per cent against an initial budget estimate of 2.3 per cent. Inflation is projected to increase from 6.7 per cent in 2016 to 6.8 per cent in 2017 following modest depreciation in the PNG Kina exchange rate.

The revised lower real growth projection of 2.7 per cent for 2017 is largely due to lower than anticipated growth in output in the mining and agricultural sectors, with the oil and gas sector projected to contract by 0.5 percentage points in real terms. The downward revision reflects a benign world economy where gold and oil prices have not resumed clear upward trends, and where many of PNG's agricultural commodity prices (particularly coffee, cocoa and palm oil) have deteriorated further over the first half of 2017.

The declining commodity prices have translated into lower mineral and petroleum revenue for the Government in the first half of the year. In particular, we expect a revenue shortfall in company tax receipts, royalties tax and gaming machine tax receipts in 2017. However, the Government revenue in the mining sector is expected to increase by 12 per cent in 2017 following full year production from the Ok Tedi mine and higher volumes from Ramu Nickel, although gold production is expected to decline in both the Ok Tedi and Porgera mines. The downward revision is also as a result of other domestic conditions, particularly the shortage of foreign exchange and fiscal consolidation of the Government.

Overall, the agriculture, forestry and fisheries sector is expected to grow at 3.2 per cent, which is slightly lower than the 2017 Budget estimate of 3.3 per cent. The decline reflects lower log production, the base effects of weaker growth in 2016 following the drought and some output effects from lower commodity prices. Encouragingly, production of some agricultural commodities are expected to improve due to favorable weather and growing conditions.

The immediate challenge for the Government now is to tighten the fiscal position throughout the second half of 2017. The performance of our borrowing, in particular the external financing and all other funding sources, will continue to be monitored and if necessary, adjustments will be made as and when required. This is important for our debt sustainability going forward.

As a responsible Government, we have decided to make the required downward adjustment to appropriate expenditures to ensure that the deficit remains at the budgeted level of 2.5 per cent as contained in the 100-Day Economic Plan.

The Government is fully committed to implement these adjustments to restore a prudent, responsible and sustainable fiscal path for the remainder of 2017 and beyond. Importantly, it should be noted that many commodity-dependent exporting economies that have been hit hard by depressed commodity prices are experiencing slow growth, widening fiscal and external deficits, and some combination of exchange rate depreciation and decline in foreign reserves.

More generally, we recognize the many ongoing challenges we face in growing our economy and meeting the development aspirations of our people who are largely rural and subsistence-based. This makes the effective delivery of basic goods and services to the people who need them most a daunting task for the Government.

Like many other developing countries, we know that we cannot, and should not, face these challenges alone in isolation. The rapid globalization of our communities provides a perfect opportunity for positive interaction and engagement in order to find solutions to our many problems. The increased linkages between countries through trade and investment, and the commonality of interests in poverty reduction, health, security and a host of other issues mean that cooperation and shared solutions to shared problems is becoming increasingly important. The Annual Meeting provides a very important forum through which such development issues can be discussed and progressed.

I am very grateful for the continued assistance and support of the Bank and the Fund in addressing some of the development challenges we face. We hope to continue with such partnerships going forward. I am also grateful for the knowledge and expertise, and in many cases, the financial support of our other development partners around the world as we embark on addressing these challenges

For such partnerships to be effective, the Bank and the Fund need to ensure that their assistance and support are properly targeted and coordinated, and that they are provided in such a way that they complement the institutional development and policy design of their member countries.

We would like the Bank and the Fund, including other donors, to harmonize and integrate their assistance and support in our development efforts as reflected in our key development plans and priorities. Effectively, an approach that takes national ownership, leveraged by international support, will be a potent force to sustain our momentum.

In conclusion, I look forward to very fruitful discussions as we deliberate on important issues at this Meeting and the insights that participants will bring - we have much to discuss and hopefully much to learn. I would also like to acknowledge and express my sincere gratitude to the management and staff of both the Bank and the Fund for their continuous engagements and interactions on many fronts that keep our mutual relationship alive.

Thank you.