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PAPUA NEW GUINEA

Bart Philemon, Governor

I would like to take this opportunity to join my colleague governors and extend our appreciation to the President of the Asian Development Bank (ADB) and also to the Indian Government, and the people of Hyderabad for hosting this 39th Annual Meeting of the Board of Governors of the Asian Development Bank (ADB) and for the warm welcome and excellent arrangements provided to us in this wonderful setting. It is truly a pleasure to see, alongside the India's remarkable private sector development, the beauty of the country's physical environment and the richness of its culture.

I would also like to thank ADB for its continued assistance in the development of Papua New Guinea (PNG). ADB is an important development partner and we appreciate the counsel and support that it provides. Like ADB itself, PNG is working through a critical phase in its development, transforming the way it operates through strong political leadership and a commitment to reform.

PNG, like other Pacific island countries, faces many challenges. Our people have aspirations of higher living standards and improved well-being. However, resources are limited and we continue to face a huge challenge in improving government services and fostering an environment where a competitive, dynamic private sector generates growth.

These challenges, however, are bringing opportunities. The Government and the private sector have an opportunity to work together to fashion a strong and robust economy that provides opportunities for businesses to invest and for people to have jobs and better incomes.

In recent years we have introduced a number of political reforms to give us much-needed political stability. The current government is likely to be the first government in our history to go its full term.

Political stability has provided more policy stability. During the past few years our budgets have been framed around medium-term strategies—the medium-term fiscal strategy, the medium-term development strategy and the medium-term debt strategy.

These strategies are key to the Government achieving stable and prudent economic management as the basis for a successful economy. We have worked hard over the past few years to bring much-needed stability to the economy and we are now starting to reap some rewards for these efforts. We have also embarked on a reform agenda, which is progressing well.



We are fortunate that the improved global environment has helped strengthen PNG's economy, at a time when these initiatives are underway. These developments have been mutually reinforcing.

As I reported last year, we are already enjoying better macroeconomic and fiscal outcomes. Economic growth has resumed, and employment is increasing. Inflation has fallen sharply and interest rates have declined. Our external position is healthy, with foreign exchange reserves at record levels. The exchange rate has stabilized.

We recorded a budget surplus in 2004 and more than met the tight goals of our medium-term fiscal strategy for 2005. Debt has fallen sharply as a percentage of GDP over the past 3 years. Importantly, living standards are now rising.

However, we have not been lulled into a false sense of security by these early successes. We are fully aware, for example, of the danger of increasing our ongoing expenditure on the assumption that high commodity prices will continue to provide additional revenues over the medium term—we don't want to squander the opportunities as we have in the past. The Government is committed to learning from past mistakes and is proactively pursuing a structural economic reform agenda from a position of strength, on our own terms, and in our own way. With funds now available, a major challenge is to ensure our reforms do not fail due to poor implementation.

Fundamentally, our plan is to create an environment that is conducive for private sector investment. We know that reducing poverty and promoting PNG's economic and social development depends on a competitive and dynamic private sector, generating income and employment. As part of our broader reform agenda, an immediate Government priority is to carry out much-needed reforms to the regulatory and institutional environment in which investment decisions are made. We expect to attract new foreign investment and greater domestic investment, which will drive economic growth. ADB is well placed to support countries moving down this path.

More generally, as a crucial development partner, ADB has an important role in supporting members develop and implement their own growth and development strategies. It is important for ADB to continue to draw on its special understanding of the Pacific region and its strong relationships with its Pacific island partners to ensure that the assistance provided is well focused and meets our special needs.

We do not, for example, want to take on more and more debt. We particularly appreciate the response of ADB to our call last year that support needs to be consistent with our own processes—for example, our medium-term fiscal strategy and our medium-term debt strategy. Financial and technical support need to focus on areas consistent with our needs identified in the medium-term development strategy. The support should also be consistent with our budgetary needs and reform processes.

Matching ADB's strategies with a country's own development strategies is an important challenge for ADB. Ownership of reform, and coherence of strategic direction between a country and its development partners is an important ingredient to its success. We are very pleased by the outcome of recent discussions between ADB and PNG on a country strategy program last week, which demonstrates that ADB is meeting the challenge.

We commend ADB's good work in PNG and the Asia and Pacific region more generally and look forward to a rewarding partnership with ADB as we address the challenge of implementing policies to improve the life of our people.