



Press Release

The 2008 FINAL BUDGET OUTCOME

The Minister for Treasury and Finance, the Honorable Patrick Pruaitch, MP released today the Final Budget Outcome (FBO) for 2008.

The FBO sets out the annual fiscal outcome and provides details of revenue and grants, expenditure and net lending and the financing requirement 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 after six consecutive years of recording budget surpluses, a budget deficit of K478.5 million (or 2.2 per cent of GDP) was recorded in 2008, compared with the original budget surplus estimate of K202.4 million (1.0 per cent of GDP), and the revised estimate of a deficit of K9.5 million (or 0.05 per cent of GDP) announced in the 2009 Budget.

The Minister announced that the higher budget deficit outcome was due to lower than expected revenue collections as a result of the fall in commodity prices affected by the global financial crisis. The budget deficit and increased cash balances was financed through a net new borrowing of K540.0 million.

Total revenue and grants for 2008 was K7,073.3 million. The Minister noted that this level was lower than both the original and the revised budget estimates published in the 2009 Budget by K128.3 million (or 1.8 per cent) and K707.0 million (or 9.1 per cent) respectively. The reduced revenue collection mainly resulted from lower receipts from the mining and petroleum sector and lower than expected dividends.

On the expenditure side of the budget, the Treasurer informed that total expenditure and net lending in 2008 was K7,551.9 million. This was K552.6 million higher than the original budget estimate but K238.1 million lower than the revised estimate published in the 2009 Budget.

Recurrent Expenditure in 2008 was K3,745.8 million. This was higher than both the original and the revised budget estimates by K109.6 million (or 3.0 per cent) and K106.3 million (or 2.9 per cent) respectively. The Treasurer said this was due to higher expenditure by provinces and statutory authorities.

Total development expenditure was K1,630.1 million. This was lower than both the original and the revised budget estimates by K257.0 million (or 13.6 per cent) and K244.5 million (or 13.0 per cent). The Treasurer indicated that this was due mainly to the under utilization of infrastructure tax credits by K41.1 million, lower draw downs of concessional loans by K78.8 million and lower project grants due to the appreciation of the Kina.

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 been provided in the FBO Report on the Additional Priority Expenditures and the status of funding allocated in the recent Supplementary Budgets, the Minister explained. This includes information on spending from most trust accounts. Unfortunately, there remain a number of agencies that are yet to provide expenditure reports on their trust accounts, although the Government will continue to work towards improving standards.

The Minister highlighted two most important facts about the 2008 Budget outcome:

- That the revenue outcome was less than the revised target in the budget as a result of the significant falls in commodity prices resulting from the global financial crisis. This has weakened the Government's financial position for the 2009 Budget; and.
- The publication of this report and the continued inclusion of information on trust accounts is an important initiative that the Somare Government undertook a couple of years ago 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 the Government is concerned about the size of the budget deficit in 2008. In light of the significant deterioration in the 2008 fiscal position, and the uncertain economic and fiscal outlook, the Minister said that the Government will endeavor to maintain fiscal discipline in 2009 in order to avoid any unplanned spending that may be outside the budget process.

In relation to PNG's current debt level, the Treasurer highlighted that the higher budget deficit in 2008 resulted in total public debt increasing to K6,821.7 million, up from the debt level at the end of 2007 of K6,317.0 million. This is larger than the original and revised estimates, reflecting the increased financing requirement due to the unexpected budget deficit. Despite the increase in debt, strong nominal GDP growth reduced the ratio of debt to GDP from 33.9 per cent at the end of 2007 to 31.6 per cent at the end of 2008.

The Treasurer emphasized that the net reduction in public debt over recent years is a very significant achievement and reflects a continuation of the responsible fiscal policies this Government had implemented over the six years. The debt to GDP ratio has more than halved since this Government came into office in 2002.

As a result, payments on interest expenditure fell from K740.0 million in 2003 to K381.1 million in 2008.

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

Endorsed by: The Hon. Patrick Pruaitch, MP
Minister for Treasury and Finance