



2008 MID YEAR ECONOMIC AND FISCAL OUTLOOK REPORT PRESS RELEASE

The Minister for Treasury and Finance, the Hon Patrick Pruaitch MP, today released the 2008 Mid Year Economic and Fiscal Outlook (MYEFO) Report. This is in accordance with the requirements of Sections 9 and 15 of the *Papua New Guinea Fiscal Responsibility Act 2006*.

Minister Pruaitch stated that the PNG economy is expected to grow by a very strong 7.3 per cent in 2008 – the highest growth rate since 1993. This revised forecast is significantly higher than the 2008 Budget forecast of 6.6 per cent, and is due to higher than projected growth in the communication and agricultural sectors, as well as a broad based increase in economic activity in other non-mining sectors. The mining and quarrying sector is also expected to expand, largely due to higher production from Ok Tedi.

The prices of PNG's major export commodities have increased to historically high levels through the first half of 2008. The prices of PNG's major mineral exports of gold, copper and oil have also risen well above the 2008 Budget forecasts, and are expected to remain at elevated levels through the remainder of 2008. With the continued resilience of commodity prices, the value of PNG's exports is expected to remain at exceptionally high levels, resulting in a large trade surplus in 2008.

Annual inflation is now forecast to be 11.5 per cent in 2008, more than double the 2008 Budget forecast of 5.2 per cent. Minister Pruaitch indicated that inflationary pressures have continued to rise in 2008 to uncomfortably high levels and will need to be contained if macroeconomic stability is to continue into the future.

The 2008 MYEFO Report also highlights the significant increase in asset prices in PNG over the past few years. Equity, commercial building and housing prices have continued to grow at exceptional rates, in direct contrast to the sharp declines that have been witnessed in global markets.

The 2008 MYEFO Report also outlines the deterioration in the international economic environment over the past year. Since the emergence of the sub-prime mortgage crisis in the United States last year, there has been a huge amount of turmoil and weakness on world financial markets. As a result, finance has been much harder to raise on world markets, as risk is being repriced and interest rates have risen. Minister Pruaitch stated that the halving of public debt over the past 5 years, and the commodity price boom, has helped shield the PNG economy from the worst of these impacts.

Given the strength of the PNG economy, the rise in inflation and continued international economic uncertainty, Minister Pruaitch stressed the importance of having both monetary and fiscal policy operate in a coherent and restraining manner. He said that this is in order to prevent higher inflation being built into expectations, which could result in a wage-price spiral, and threaten the macroeconomic stability that has been the foundation of the strong economic growth experienced by PNG over recent years.

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The 2008 MYEFO Report outlines that the expected budget position for 2008 is around K1,414.7.0 million stronger than indicated in the 2008 Budget, largely due to stronger commodity prices, increased inflation and higher economic growth. Minister Pruaitch indicated that while there will be a Supplementary Budget in 2008, the shape and content of this is yet to be decided and appropriated, and is therefore not included in the 2008 MYEFO Report.

With respect to a possible Supplementary Budget, Minister Pruaitch indicated that it will need to be framed in accordance with the new *2008-12 Medium Term Fiscal Strategy* and in the context of an uncertain international environment, growing domestic inflationary pressures and volatile revenues arising from the commodity price boom.

Total Revenue and Grants for 2008 are now estimated at K8,648.7 million, a K1,447.1 million upward revision from the estimate published in the 2008 Budget. Total expenditure and net lending in 2008 is estimated to be K7,031.6 million. This is K32.4 million higher than the 2008 budget estimate. Total recurrent expenditure is estimated to be K3,619.0 million in 2008. This is K17.1 million less than estimated at Budget, due to a downward revision to interest expense.

Development expenditure is expected to be K1,936.7 million, K49.6 million above the Budget estimate. This is due to slight depreciation of the kina against the Australian dollar, which was partially offset by a K17.3 million downward revision of interest expenditure. Total expenditure by Provincial Governments is expected to be K723.7 million, about the same as appropriated at Budget.

Total public debt by the end of 2008 will depend on the composition of the 2008 Supplementary Budget. However, assuming all additional revenue is allocated to debt repayment, debt outstanding is forecast to be K4,702.1 million which is 21.1 per cent of GDP, significantly lower than the 2008 Budget estimate of K6,270.1 million or 31.8 per cent of GDP.

The 2008 MYEFO Report also provides full information on the status of Supplementary Budget Trust Accounts including information on expenditures, deposits and balances.

The 2008 MYEFO Report is available on the Treasury website: www.treasury.gov.pg.

Approved for release

Thaulz

Pruaitch