



## **Press Release**

### **June Quarter 2008 Consumer Price Index**

The underlying Consumer Price Index CPI rose by 3.6 per cent in the June quarter to be 10.2 per cent higher through-the-year, driven largely by increases in the price of rents, council charges, fuel and power and food. Headline CPI increased by 3.7 per cent in the June quarter to be 10.7 per cent higher in through-the-year terms.

Underlying inflation has been uncomfortably high for some time now, and is threatening to become entrenched in the PNG economy. While some of the increase in inflation is due to increasing world prices, there are also strong inflationary pressures coming from within the domestic economy.

Price increases continue to be broad based with over half of the subgroups in the CPI basket recording above trend increases during the quarter. Imported inflation (or the price of tradeable goods) increased by 9.8 per cent largely due to higher world food and fuel prices. Domestic prices are also increasing very strongly with non-tradeable inflation up 11.7 per cent over the last year: this is not just imported inflation.

All regions recorded price increases in the June quarter. Over the last year, growth in prices has been sharp, with close to 10 per cent inflation in all major towns.

The Government is deeply concerned about this acceleration in inflation, and the impact that rising prices are having on the people of PNG. It is in times like this, where our economy is operating at near full capacity that responsible economic management takes on added importance.

This Government has delivered large Budget surpluses for the last 4 years, and has avoided spending all of the windfall revenues too quickly. While some have questioned the wisdom of placing large amounts of money into trust to be spent gradually over the next few years, inflation would have been a lot higher today if all the windfall revenues had been spent rapidly.

In order to continue responsible fiscal management into the future, and avoid adding too much stimulus to an already overheating economy, the Government has adopted a new Medium Term Fiscal Strategy. This Strategy will be used to guide the formulation of future Budgets, to ensure that they are made on a responsible and economically sound basis, which will assist to reduce inflationary pressures and avoid making the lives of every day Papua New Guineans even harder.

The Government also reaffirms the independence of the Bank of PNG, which is charged with maintaining price stability. The Bank of PNG has begun reacting to increased inflation by raising the indicator Kina Facility Rate (KFR) by 50 basis points over the past few months and allowing the Kina to appreciate modestly. The recent declines in oil and commodity prices can be expected to reduce some of the external inflationary pressures.

The Somare-Temu Government remains committed to maintaining macroeconomic stability, and capturing the benefits that follow: strong economic growth, strong employment growth and relatively low interest rates. For this reason, the Government will continue to be mindful of inflationary pressures in the conduct of fiscal policy.

**Hon. Patrick Pruaitch, MP**  
**Minister for Treasury and Finance**