



Press Release September Quarter 2008 Consumer Price Index

The underlying Consumer Price Index CPI rose by 2.9 per cent in the September quarter to be 12.2 per cent higher through-the-year, driven largely by increases in the price of food, rents, council charges, fuel and power. Headline CPI increased by 3.2 per cent in the September quarter to be 13.5 per cent higher in through-the-year terms.

Underlying inflation continues to be uncomfortably high, and is threatening to become entrenched in the PNG economy. Higher food and energy prices witnessed on the global market at the beginning of the year is still imparting pressure on prices however there is a continuing surge of inflationary pressures coming from the domestic economy.

The increase in prices continues to be broad with over half of the subgroups recording above trend increases in the September quarter. Over the last year prices of imported (or tradeable) goods increased by 12.1 per cent. Domestic demand is also very strong with non-tradeable inflation up 15.1 per cent in the same period.

All regions recorded price increase in the September quarter. Over the last year, growth in prices has been very sharp, with over 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 times like this that responsible economic management becomes most important. The Government and the Bank of PNG will continue to operate fiscal and monetary policy in a coherent manner in order to prevent inflation increasing further and becoming entrenched into the system.

Despite the higher outcome in the September quarter, some risks to the downside have emerged. Crude oil prices have fallen significantly from peaks recorded around July. While this has not yet fully passed into the economy, the Government expects this to fully translate into lower fuel prices in the December quarter.

The kina has also appreciated sharply against the Australian dollar our major trade partner in the last three months. This should ease import prices hence stem some of the external inflationary pressures. The government encourages businesses to start passing lower costs realised to consumers to assist relieve some pressures, especially on food prices.

The Government also reaffirms the independence of the Bank of PNG, which is charged with maintaining price stability. The Bank of PNG continues to react to increased inflation by raising the indicator Kina Facility Rate (KFR) by another 50 basis points in September and allowing the Kina to appreciate. This is aimed at slowing activity reducing some of the inflationary pressures.

The Somare-Temu Government remains committed to maintaining macroeconomic stability, and the benefits that it entails: 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.

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Minister for Treasury and Finance