



2007 SUPPLEMENTARY BUDGET PRESS RELEASE: REDUCING THE GOVERNMENT'S DEBT TO A SUSTAINABLE LEVEL

Papua New Guinea's public net debt as a percentage of GDP has declined impressively from 72 per cent of GDP in 2002 to 39 per cent of GDP at the end of 2006 - and is moving to around 34 ½ per cent of GDP by end of 2007, Minister for Finance and Treasury, Patrick Pruaitch said, when releasing the 2007 Supplementary Budget that this is returning debt towards a more sustainable level.

Minister Pruaitch said, when allocating the additional revenue of K1,637 million, the Government decided to appropriate K297 million to retire public debt. He added that additional debt repayment will further strengthen the Government's financial position as it reduces vulnerability in the event of any downturn or any shock to the economy.

Minister Pruaitch also highlighted the four different ways the appropriation of the K297 million to retire public debt will benefit the country:

- Debt will immediately strengthen the Government's financial and fiscal position, particularly on the spending side of the Budget. Every year, resources will be freed from debt servicing and redirected to fund priority expenditures. For example, repaying K297 million of debt will free up about K15 million of interest savings in a full year. These funds can be used for service delivery, new investments, or maintenance of public infrastructure on an on-going basis.
- Debt repayment reduces risk — if interest rates rise, or the currency depreciates, the impact on interest expenses will be smaller. This provides the greatest flexibility for future Budgets.
- Debt repayment has a positive effect on the economy. It assists to lower interest rates, helping to reduce borrowing costs for all businesses and individuals within the country. This creates an environment conducive for private sector led economic growth.
- Debt repayment reduces the country's stock of debt and improves the Government's balance sheet. An allocation of K297 million for debt repayment would bring the ratio of public debt to GDP down from 39 per cent at the end of 2006 to about 34½ per cent of GDP at the end of 2007. This generates two positive effects - it helps to improve the country's credit rating which builds international and domestic confidence, as per the recent Standard and Poor's upgrading of Papua New Guinea. It also reduces the debt obligations on our children, and their children, creating a better future for Papua New Guinea.

Minister Pruaitch concluded that money used for debt retirement is money well spent. The 2007 Supplementary Budget's allocation of K297 million to debt retirement will be followed up by an objective for further reductions in the Government's new medium term fiscal strategy.

The 2007 Supplementary Budget Speech is available on the Treasury website: www.treasury.gov.pg