Papua New Guinea

**2007 SUPPLEMENTARY BUDGET PRESS RELEASE:
MAINTAINING MACROECONOMIC STABILITY**

Maintaining macroeconomic stability was at the forefront of considerations while allocating the K1.637 billion 2007 Supplementary Budget, according to the Minister for Treasury and Finance, Patrick Pruaitch. In an environment of robust economic growth and building inflationary pressures, the Government has been mindful not to inject too much fiscal stimulus into the economy.

This is particularly important given the range of factors pointing towards an acceleration in underlying inflation. These include the commodity price boom, which is injecting substantial external stimulus into the economy; the fast growth in money supply and near record low interest rates; the depreciation of the Kina over the last year against major countries that PNG imports from; the large amounts already appropriated for spending in 2007; and the significant funds that are currently available to be spent in trust funds.

In order to prevent the harm that a large increase in spending would cause through inflation, the 2007 Supplementary Budget allocation was made responsibly, with the bulk of funds not flowing immediately into domestic demand. This includes K893 million for public investment – spending that will take place over a period of time as plans are developed – and K547 million for debt repayment.

The amount of recurrent spending allocated towards immediate uses was kept to K197 million, Minister Pruaitch explained. This has been allocated towards a broad range of areas, and includes money for the National Agriculture Development Plan, cocoa-pod and coffee borer counter measures, the provincial and local level disaster funds, and the resettlement of the Murik Lakes and Carteret Island communities, amongst others.

This increase in recurrent spending is consistent with returning domestic tax collections arising mainly from higher non-oil and mineral economic growth to the people through increased services, while keeping the net impact of Government spending on domestic demand neutral. This strategy will also keep recurrent domestic spending shielded from the impact of any fall in high commodity prices back to more typical levels.

Any further spending in the immediate future would be likely to result in higher inflation – an outcome that the Government is committed to avoiding. This is because of the importance of macroeconomic stability in maintaining business and consumer confidence, as well as the pain that high inflation brings, through higher prices and the erosion of the purchasing power of savings.

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