



Budget Strategy Paper 2008 Press Release

The Government is pleased to announce the release of the 2008 Budget Strategy Paper (BSP), which sets out the broad policy and fiscal framework underpinning the preparation of the 2008 Budget. This document has been made available to the public, consistent with the Government's approach of improving public transparency and accountability, and in accordance with the requirements of the Fiscal Responsibility Act.

The economic outlook for 2008 is for continued robust growth, and 2008 is expected to be the fourth year benefiting from windfall revenues resulting from high commodity prices, albeit with slightly lower prices than in 2006. Total revenues and grants are projected to be K5,325.6 million, with total expenditures and net lending of K5,096.5 million, resulting in an estimated Budget surplus of K229.1 million (or 1.3 per cent of GDP), in line with the windfall revenues.

As the windfall revenues are expected to be temporary, it is important to prevent them being factored into ongoing expenditure, thus avoiding the need for difficult cuts when commodity prices fall from current highs. It is also important that the windfall revenues are used for the long-term benefit of PNG. To date, the Government has used the windfall revenues to fund essential one-off expenditures, to invest in the gas project and public infrastructure rehabilitation, and for the repayment of high cost debt.

With most of the priority one-off expenditures financed; a large backlog of public infrastructure projects yet to be implemented, in an environment of capacity constraints; and the uncertainty surrounding the requirements of any Gas project; the most responsible and beneficial use of the windfall revenues in 2008 is for debt repayment.

Debt repayment frees up funds that are currently used for interest expenditure. In 2007, the Government expects to spend more on interest payments on old debt than it will on health. By repaying debt, the savings on interest can be used for sustainably increasing expenditure on Government services, new investments or better maintenance of existing assets, for each and every year thereafter.

This would strengthen the Government's balance sheet, increasing investor confidence and helping to lower interest rates – reducing the borrowing costs for all PNG households and businesses. It also provides the greatest flexibility for future Budgets.

With a sudden and large increase in revenues, and unexpected Budget surpluses, PNG is currently in a very fortunate position. But the country has been in similar situations before. Unfortunately, poor decisions that were unsustainable then resulted in major problems later on: large Budget deficits, high inflation, balance of payments crises and interest rates in excess of 20 per cent.

In the current environment it is easy for the importance of expenditure control to move into the background. However, the combination of a rising Public Service wage bill, and an expected decline in mineral revenues is forecast to result in Budget deficits in the out-years. The Government needs to act responsibly in responding to the pressures.

This Budget strategy aims to avoid the mistakes of the past, and to use the windfall gains for the long-term benefit of the country, rather than for short-term gains. By doing this, the Government is placing the country in the best position to develop in a sustainable manner, without overheating the economy.

The Budget Strategy Paper is available on the Treasury website: www.treasury.gov.pg