



2010 MID YEAR ECONOMIC AND FISCAL OUTLOOK REPORT PRESS RELEASE

The Minister for Public Service and Minister for Treasury and Finance, Peter O'Neill MP, today released the 2010 Mid Year Economic and Fiscal Outlook (MYEFO) Report. This is in accordance with the requirements of Sections 9 and 15 of the *Papua New Guinea Fiscal Responsibility Act 2006*.

Minister O'Neill stated that the PNG economy is expected to grow by a very strong 7.5 per cent in 2010, driven by the additional economic activity from the PNG LNG project and other mining projects, and a rebound in a number of sectors following softer conditions in 2009. Economic output is estimated to have expanded for nine successive years, representing the longest period of uninterrupted economic growth in PNG. The solid performance of the economy reflects increased investor and consumer confidence following a period of political and macroeconomic stability and the success of microeconomic reforms undertaken by the Government.

The revised economic growth estimate for 2010 is slightly lower than the 2010 Budget forecast of 8.5 per cent. This is primarily due to lower than expected production from the Ramu NiCo mine in 2010, with mine production anticipated to take place at a more moderate rate than initially expected. In addition, the pace of economic growth has not been quite as strong as previously expected in the first half of the year as indicated by weaker employment growth.

The 2010 MYEFO report also outlines that the global economic recovery in 2010 will be stronger than previously projected, following the global recession in 2009. General confidence has picked up among consumer and business and in international financial markets, with equity and commodity prices recovering from the lows of 2009. However, sovereign debt concerns in Greece and some other European countries combined with some mixed signals on the state of recovery in the US economy more recently has seen some concerns about the strength of the global economic recovery increase. This has led to further volatility in financial and commodity markets.

The prices of PNG's major export commodities rebounded in the second quarter of 2009 and better prices continued into the early parts of 2010, supported by the strengthening global economy. The prices of PNG's major mineral exports of gold, copper and oil have risen well above the 2010 Budget forecasts, and are expected to remain at elevated levels through the remainder of 2010. As a result, the value of PNG's exports is expected to remain at high levels, resulting in higher than previously expected government mineral revenue in 2010.

Annual inflation is now forecast to be 7.0 per cent in 2010, slightly less than the 2010 Budget forecast of 9.5 per cent. This is largely due to the weaker than anticipated March quarter 2010 inflation outcome and the slight downward revision to economic growth in 2010. Minister O'Neill was pleased that inflation had appeared to ease in the economy.

However, he raised concerns of rising inflationary pressures in the near term, as the economy faces the significant challenges of absorbing such a rapid ramp up in economic activity when there is already evidence of capacity constraints in the economy. Furthermore, there is a concern that official inflation figures are underestimating the true extent of inflationary pressures in the economy.

The 2010 MYEFO Report outlines that the expected budget position for 2010 is around K533.3 million better than indicated in the 2010 Budget, largely due to higher commodity prices. Minister O'Neill indicated that a Supplementary Budget is likely to occur in 2010 and that the additional revenue is expected to be allocated to high government priority expenditures such as the LNG related commitments and superannuation obligations.

Total Revenue and Grants for 2010 are now estimated at K8,159.5 million, a K669.8 million upward revision from the estimate published in the 2010 Budget. Total expenditure and net lending in 2010 is estimated to be K7,626.3 million. This is K136.5 million higher than the 2010 Budget estimate. Total recurrent expenditure is estimated to be K4,196.0 million in 2010. This is K100.1 million higher than estimated at Budget due to an expected overspend on payments of personal emoluments by National Departments and Provincial Governments of K145.0 million, partially offset by lower interest expenses. The Department of Treasury has established a Payroll Project Team to investigate the causes of these overruns and to examine ways to avoid future overruns.

Development expenditure in 2010 is estimated to be K3,430.6 million, K36.3 million above the 2010 Budget estimate. This higher estimate is for payment of the remaining Business Development Grants related to the PNG LNG project.

Total public debt by the end of 2010 will depend on the composition of the anticipated Supplementary Budget. However, assuming that all the additional revenue is allocated to high priority expenditure items such as LNG related expenditures, the total debt outstanding at the end of 2010 is estimated to be K6,944.2 million which is 27 per cent of GDP.