

CHAPTER 8. MEDIUM TERM ECONOMIC & FISCAL OUTLOOK

8.1 OVERVIEW

Papua New Guinea's economy is expected to experience its strongest real economic growth in over a decade with GDP increasing by 6.6 per cent in 2008, underpinned by sustained strong global growth and robust domestic conditions. This vastly improved growth performance is more than twice population growth and represents a significant improvement in average per capita GDP and hence living standards of Papua New Guineans.

The International Monetary Fund (IMF) expects global economic growth to remain well above trend in 2008, reflecting very strong economic growth in emerging and developing countries, particularly China and India and moderate trend growth in advanced economies. Concerns were raised about international inflation in the beginning of last year but since then, pressures have moderated somewhat, dampened by monetary policy tightening. More recently, oil markets point to continued strong growth in demand, and there are continued high prices for major mineral commodities.

In PNG's economy employment in the formal sector has been very strong virtually across all sectors. Stronger growth in output is expected to see a continued increase in employment opportunities and income in PNG over the forecast period.

Inflationary pressures are expected to continue in 2008 with prices rising by 5.2 per cent. This rise in prices largely reflects headline inflation moving more in line with underlying inflation as low food prices experienced in 2007 cease to have a downward impact on the headline rate. While Government expenditure is increasing, particularly on important infrastructure development, prudent management of Government funds and the staggering of actual expenditure should assist to keep inflationary pressures in check over the medium term.

On the external front, the exchange rate will continue to be set by the market in 2008, with the Bank of Papua New Guinea's relatively high level of foreign reserves more than sufficient to perform the role of appropriately managing short-term exchange rate volatility.

Table 71: Principal Economic Forecasts

	2006 Actual	2007 Projection	2008 Projection
Real GDP ^(a)	2.6	6.2	6.6
Real Non-Mining GDP ^(a)	3.7	6.5	6.5
Inflation (Year Average)	2.3	1.8	5.2
Treasury Bill rate	5.0	5.0	6.0
World Economic Growth	5.4	5.2	4.8
Oil Price (US\$ per barrel)	64.3	67.3	61.9
Copper Price (US\$ per pound)	3.05	3.28	2.45

Sources: National Statistical Office, Department of Treasury and IMF

(a) Real GDP and Non-mining GDP for 2006 are Department of Treasury estimates

Over the medium term, the Government will consolidate and improve the macroeconomic performance of the economy by: attracting new investments in the mineral and energy sectors; strengthening the agriculture sector; making the economy more efficient and competitive; and creating an environment conducive for businesses and investment.

The Government has set the foundations for national prosperity using prudent fiscal management, shielding the recurrent budget from the effects of any possible downturn in international commodity prices.

The Government will live within its budget, while retiring debt and other liabilities in order to further improve the Government's financial position and continue to strengthen the private sector. The Government will continue to improve the maintenance of public infrastructure, and will gradually improve service delivery to the people of Papua New Guinea. This is aimed at enhancing confidence and capacity in the economy to promote long-term economic growth.

8.2 WORLD ECONOMIC OUTLOOK 2007 AND 2008

The global economy grew strongly in the first half of 2007, despite recent turbulence in financial markets. However, the turbulence in financial markets has reduced growth prospects in 2008 by almost 0.5 percentage point relative to the April 2007 World Economic Outlook Update. This would still leave global growth at a robust 4.8 per cent, supported by generally sound fundamentals and strong momentum in emerging market economies. The emerging market countries, particularly China and India are the main driving forces of global growth in 2007 and 2008. Overall growth in the emerging and developing countries is expected to be 8.1 per cent in 2007 and 7.4 per cent in 2008. The advanced countries, on the other hand, are expected to grow modestly by 2.5 per cent in 2007 and by 2.2 per cent in 2008.

Risks to the outlook are firmly on the downside, centered on the concern that financial market strains could deepen and trigger a more pronounced global slowdown. Thus, the immediate focus of policymakers is to restore more normal financial market conditions and to facilitate continued growth. Additional risks to the outlook include potential inflation pressures, volatile oil markets, and the impact on emerging markets of strong foreign exchange inflows.

Global inflation in advanced countries is expected to be low at around 2.1 per cent in 2007 and 2 per cent in 2008. For the emerging and developing countries, inflation is expected to be high at 5.9 per cent in 2007 but this should fall to 5.3 per cent in 2008. The declining inflation trend from these countries reflects tighter monetary conditions in the face of concerns about overheating growth and external pressures.

Table 72: IMF World Economic Outlook

	2006 Actual	2007 Projection	2008 Projection
World Economic Growth	5.4	5.2	4.8
<i>Advanced Economies</i>	2.9	2.5	2.2
United States	2.9	1.9	1.9
European Union	2.8	2.5	2.1
Japan	2.2	2.0	1.7
<i>Emerging & Developing Countries</i>	8.1	8.1	7.4
China	11.1	11.5	10
India	9.7	8.9	8.4
Inflation			
Advanced Economies	2.3	2.1	2.0
Emerging & Developing Countries	5.3	5.9	5.3
Interest Rates ¹			
US dollar deposits	5.3	5.2	4.4
Euro deposits	3.1	4.0	4.1
Japan Yen deposits	0.4	0.9	1.1

Source: International Monetary Fund, World Economic Outlook, September 2007

¹ Six-month rate for the United States and Japan. Three-month rate for the euro area.

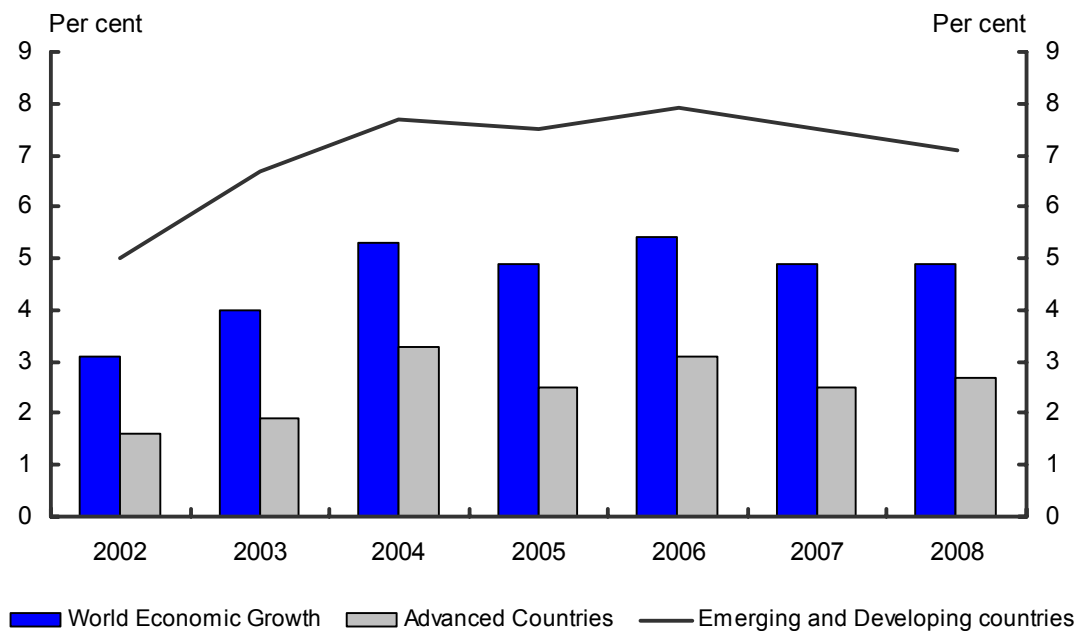
Global financial market conditions have become more volatile. Credit conditions have tightened as increasing concerns about the fallout from strains in the US sub prime mortgage market led to a spike in yields on securities collateralized with such loans as well as other higher-risk securities. Uncertainty about the distribution of losses and rising concerns about counter party risk saw liquidity dry up in segments of the financial markets. Equity markets initially retreated, led by falling valuations of financial institutions, although prices have since recovered and long-term government bonds yields declined as investors looked for safe havens. In the United States interest rates are 5.2 per cent in 2007 similar to 2006 levels but should slightly decline to 4.4 per cent in 2008. In the Euro area, interest rates have increased to 4.0 per cent in 2007 and should slightly increase to 4.1 per cent in 2008. In Japan, interest rates are expected to gradually increase throughout the two years from 0.9 per cent in 2007 to 1.1 per cent in 2008.

8.2.1 World Economic Growth

In the face of turbulent conditions in financial markets, the global economy is projected to grow by 5.2 per cent in 2007 and 4.8 per cent in 2008.

In the face of financial market turmoil, economic growth in the United States is projected to remain at 1.9 per cent in 2008. Ongoing difficulties in the mortgage market are expected to extend the decline in residential investment, while higher energy prices, sluggish job growth and weaker house prices are likely to dampen consumption spending. In the Euro area, growth is projected at 2.1 per cent in 2008, while in Japan growth is projected to be 2 per cent. The emerging market countries, particularly China and India are the main driving forces of global growth in 2007 and 2008. Overall growth in the emerging and developing countries is expected to be 8.1 per cent in 2007 and 7.4 per cent in 2008. The advanced countries, on the other hand, are expected to grow modestly by 2.5 per cent in 2007 and by 2.2 per cent in 2008.

Figure 20: World Economic Growth



Source: IMF World Economic Outlook, September 2007

8.2.2 Inflation

Inflation has been contained in the advanced economies in recent months, but rising food prices have contributed to heightened pressures. In the United States core inflation has gradually subsided to below 2 per cent. In the Euro area, inflation has generally remained below 2 per cent this year. In Japan, prices have been essentially flat. In aggregate, inflation in advanced countries is expected to be 2.1 per cent in 2007 and fall slightly to 2 per cent in 2008.

In the emerging and developing countries, inflation has picked up reflecting strong growth of domestic demand and the greater weight of rising food prices in the consumer price index. Inflation in emerging and developing countries is expected to be high at 5.9 per cent in 2007 but this should fall to 5.3 per cent in 2008.

8.2.3 Commodity Prices

Gold, oil and copper prices have continued to remain high in 2007, after significantly increasing in 2006. The very high gold prices are due to a combination of high investment demand for gold, continued weakness in the US dollar against other major currencies and production reductions of major gold producers. The record high oil prices in late 2007 are due to low oil production of OPEC and the increasing demand for energy by China and India. Two key factors in the rise of copper prices have been increased demand from China and a fall in the copper stock at the London Metals Exchange. Over the medium term, the IMF does not expect the current cyclically high metal prices to be sustained. In particular, this means that oil, copper and gold prices could fall further and more quickly than expected.

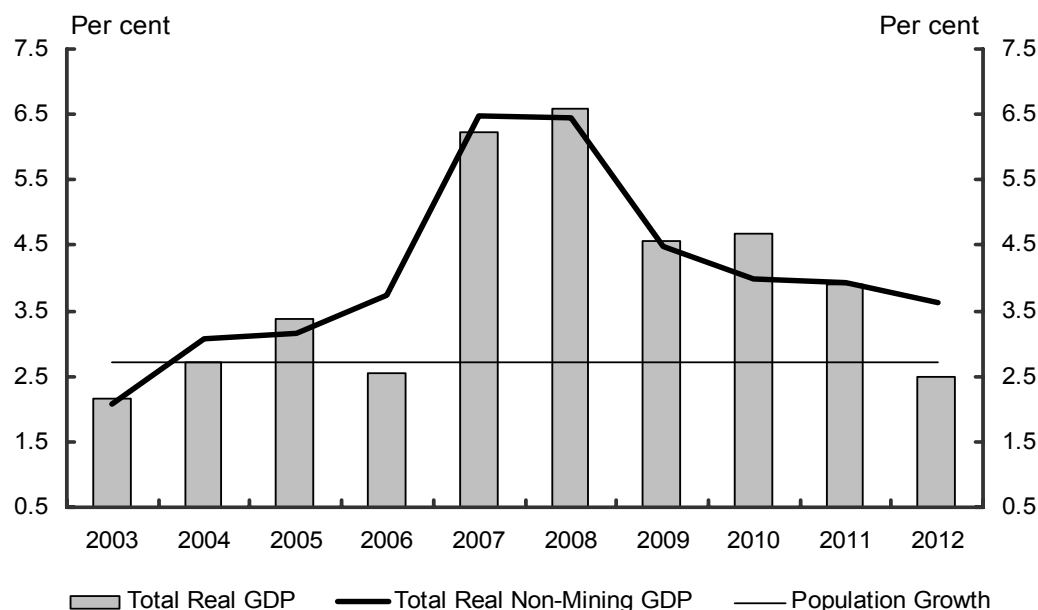
8.3 GROSS DOMESTIC PRODUCT OUTLOOK

8.3.1 Overview

PNG's outlook for 2008 is for continued strong real economic growth which is expected to rise to 6.6 per cent, with non-mining GDP also growing strongly at 6.5 per cent.

After five years of economic growth averaging at 2.1 per cent, 2007 and 2008 are expected to be substantially stronger, with growth in excess of 6 per cent in both years. This represents the strongest growth since 1996, and the strongest consecutive two years of growth since the oil driven growth of the early 1990s. With real economic growth expected to be significantly above population growth, the average standard of living, measured by GDP per capita, is expected to increase by around 7 per cent over 2007 and 2008. However, strong economic growth needs to be sustained over the medium term in order for the population to notice a discernable improvement in the standard of living.

This improved economic outlook stems from a combination of the commodity price boom arising from positive international developments, political stability, microeconomic reforms, prudent macroeconomic policies and low interest and inflation rates.

Figure 21: Real Economic Growth 2003-2012

Source: Department of Treasury

With signs of expansion in most sectors of the economy, the Government will need to pursue structural reforms aimed at sustaining and improving economic growth prospects. The positive impact of microeconomic reform in the telecommunications sector on services, employment, prices and growth provides a guide to the potential benefits of reform in other sectors.

Over the medium term, the economy is expected to continue to grow but not at the same strong rate forecast in 2008. This largely reflects the natural decline of existing oil reserves, as well as the maturing of the mobile phone market.

Government expenditure on infrastructure improvement should help to sustain the high levels of activity – particularly in the building and construction sector. However, with large amounts of Government funds remaining in trusts awaiting distribution, actual Government expenditure will need to be monitored carefully and spread out over the medium term in order to ensure that the fiscal stimulus does not overheat the economy. This is especially the case given the already building inflationary pressures.

Towards the end of the projection period, GDP growth is expected to come off with the decline in oil production and the winding down of some of the major mining projects. While some of the major potential projects that are currently being announced could commence over the projected period, they are not yet sufficiently certain to include them in the projections. However, some proposals are extremely large and will have a big positive impact on the economic growth outlook if one or more of them proceed.

8.3.2 Agriculture, Forestry and Fisheries

The Agriculture, Forestry and Fisheries sector is projected to grow by a robust 4.9 per cent in real terms in 2008.

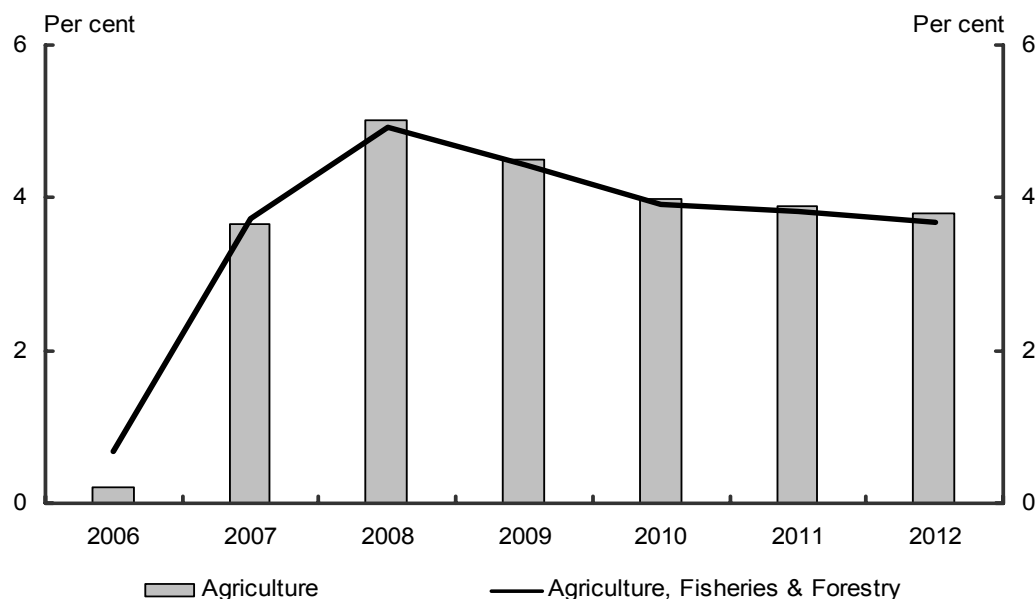
The Agriculture sector is forecast to grow by 5.0 per cent in real terms in 2008 reflecting higher production of major cash crops including palm oil, cocoa, coffee and copra oil for export, as well as increased production for domestic consumption. In the outer years, agriculture production is expected to continue to grow solidly.

Rapid expansion in this sector is hindered by structural rigidities such as poor transport infrastructure and the high cost of utilities such as electricity, water and telecommunication. To assist in overcoming these difficulties, the Government remains committed to developing the non-mineral sector. In 2007, the Government approved the National Agricultural Development Plan to help growth in the agriculture sector. In addition, more funds have been allocated to the Maintenance and Transport Infrastructure sector to further improve accessibility to markets and boost output.

The Forestry sector is estimated to gradually decline in 2008 and into the medium term, with the expiration of a number of current timber permits more than offsetting new impact projects coming into operation.

The Fisheries sector is expected to grow at a solid rate of 3.5 per cent in 2008, on the back of strong growth achieved in previous years and the improved investment climate.

Figure 22: Agriculture, forestry and fisheries sector growth



Source: Department of Treasury

World prices of PNG's major agricultural commodities are projected to be relatively stable in 2008 following very strong growth in 2007. In US dollar terms, cocoa and palm oil prices are expected to be lower than the very high prices achieved in 2007 but higher compared to the average price for the last three years. Over the medium term, the IMF World Price Outlook reports that prices for PNG's major agricultural export commodities are expected to be mixed, with cocoa, palm oil and coffee declining, while prices for logs are expected to increase steadily.

8.3.3 Petroleum and Mining

The mining and quarrying sector is forecast to grow very strongly by 14.2 per cent in 2008, reflecting increased production from the major mines and the commencement of gold production from two new mines, Sinivit and Simberi.

Gold production is expected to increase in 2008 with Porgera and Lihir ramping up production. Ok Tedi is also expected to increase production in 2008. These will be supported by production from the two new mines; Sinivit and Simberi. The former has started production whilst the latter is expected to start operations in late 2007.

Over the medium term, the mining and quarrying sector is expected to grow strongly. This reflects production increasing in the major mines and also additional mining and quarrying production from Ramu Nickel that is expected to commence in 2010. However, towards the end of the projection period, production is expected to decline with the winding down of some major mining projects.

In the petroleum sector, a decline in production of 8.2 per cent is estimated in 2008 following slight growth of 0.9 per cent in 2007. This reflects the natural decline in oil reserve levels at the existing oil fields.

Over the medium term, oil production is expected to continue its declining trend as current oilfields continue their natural decline. Oil production is expected to fall from around 17 million barrels in 2008 to around 10 million barrels in 2012. By 2015, it is estimated that oil reserves could be depleted if there are no new discoveries made in the intervening period. While high oil prices may bring previously unviable fields into operation, this is yet to be demonstrated.

There are two major gas commercialisation proposals that are currently being discussed with Government. These discussions are continuing and the Government is expected to reach a decision in the near future. These potential projects are not included in the projections. Any gas production arising from these potential projects would not commence until towards the end of the projection period. However, the construction period of a large gas project would have a substantial impact on economic growth.

In terms of prices for 2008 used for Government revenue forecasts, gold is expected to be below the very high prices experienced in late 2007 but remain high at around US\$662/oz. The price of copper is also expected to ease to US\$5400/tonne. Over the medium term, oil and gold prices are projected to remain steady, reflecting continued strong global demand and a muted supply response, while the price of copper is expected to come off gradually from current high levels as supply increases.

The US dollar crude oil price is expected to be lower in 2008 than the record high levels experienced in late 2007.

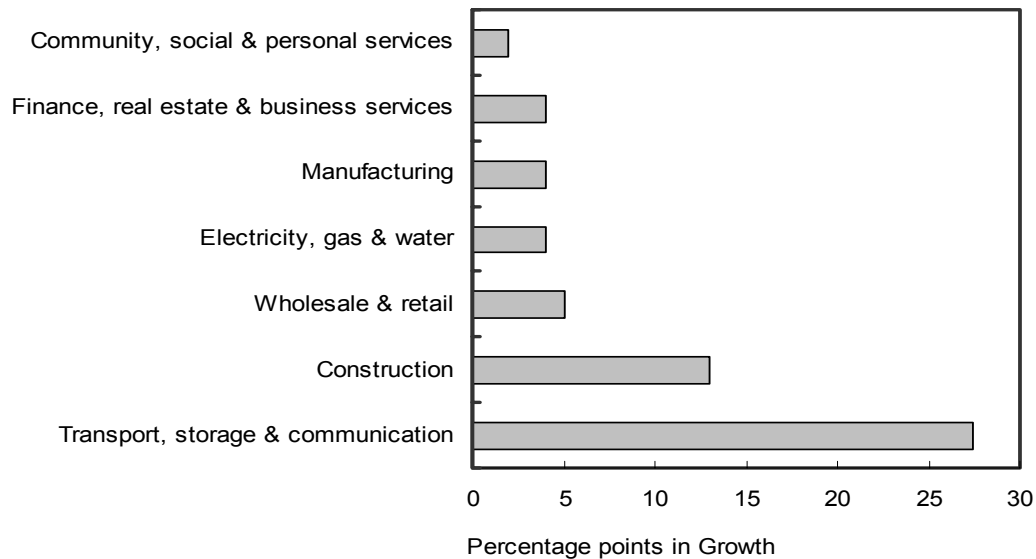
8.3.4 Other Sectors

While less information is available on prospects for the non-commodity sectors of the economy, most sectors of the economy are expected to contribute to economic growth in 2008, in line with the general improvement in business conditions and increased Government expenditure on the maintenance and rehabilitation of public infrastructure.

The Transport, Storage and Communication sector is expected to grow extremely strongly in 2008 by 27.4 per cent, as existing and new providers to the mobile phone segment of the market continue to expand services, before slowing in later years as the market matures.

Other non-commodity sectors are also expected to grow broadly in line with increased overall economic activity. This will be assisted by increased government spending on transport infrastructure and with the development of several new mineral projects in the short to medium term.

That said, the medium-term outlook for the non-commodity sectors depends on continued macroeconomic stability and on the Government addressing structural issues impeding the economy's competitiveness and productivity.

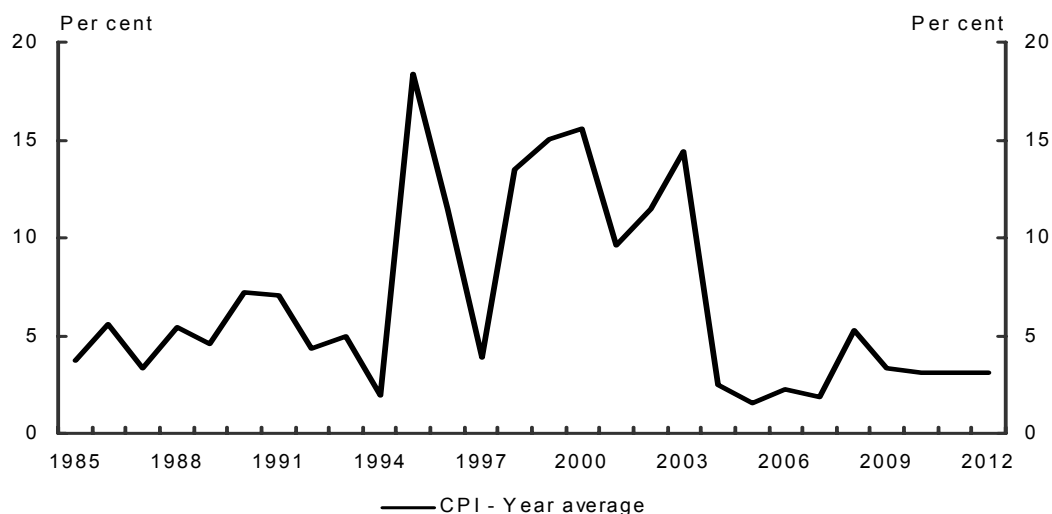
Figure 23: Expected Sectoral Growth in Non-Commodity sectors in 2008

Source: Department of Treasury

8.4 PRICES

Annual inflation as measured by the consumer price index (CPI) is projected to be 5.2 per cent in 2008. This outlook reflects the build up in inflationary pressures from the fast growth in money supply, the increased terms of trade and the fiscal stimulus from the Supplementary Budgets in 2006 and 2007. Furthermore, the expected government spending arising from the 2007 Supplementary Budget and 2008 Budget, especially on maintenance and infrastructure projects, will inject further stimulus into the economy as the funds for the projects are used to buy goods and services.

Over the medium term, annual average inflation is expected to average around 3.1 per cent reflecting ongoing fiscal discipline, an easing in government expenditure and sound monetary and wages policy.

Figure 24: Inflation outcome and Projection (1985-2012)

Source: Department of Treasury, NSO

8.5 EMPLOYMENT AND WAGES

Employment has generally improved in 2007 and is expected to further strengthen in 2008. This reflects increased private sector investments, particularly in the non-mineral sector including construction, and increased Government spending on public sector infrastructure and maintenance. The strong demand for labour continues to respond to the strong growth in real GDP.

Strong employment growth reflects a broad economic recovery and the strong platform that the Government has built over the years. New mining projects have boosted employment growth and the likelihood of further strengthening of the economy. A sustained increase in employment is expected from agriculture, construction, transport and communication and the wholesale and retail sectors.

Given the allocation of Government windfall revenues in 2006, 2007 and 2008, the implementation phase is expected to spread through 2008 and beyond. This is aimed at addressing impediments on business, and improving inadequate public infrastructure in transport, communication, electricity, education and health and the agriculture sector. This is expected to further boost the economy and employment prospects.

The new public sector wage agreement for 2007 to 2009 links improvements in the remuneration structure and pay increase to increases in productivity and performance. Over the three year period, the bulk of pay increases will be affected through the increment structure. The agreement will ensure affordable and sustainable wage increases in real terms that should assist to keep inflationary pressure low.

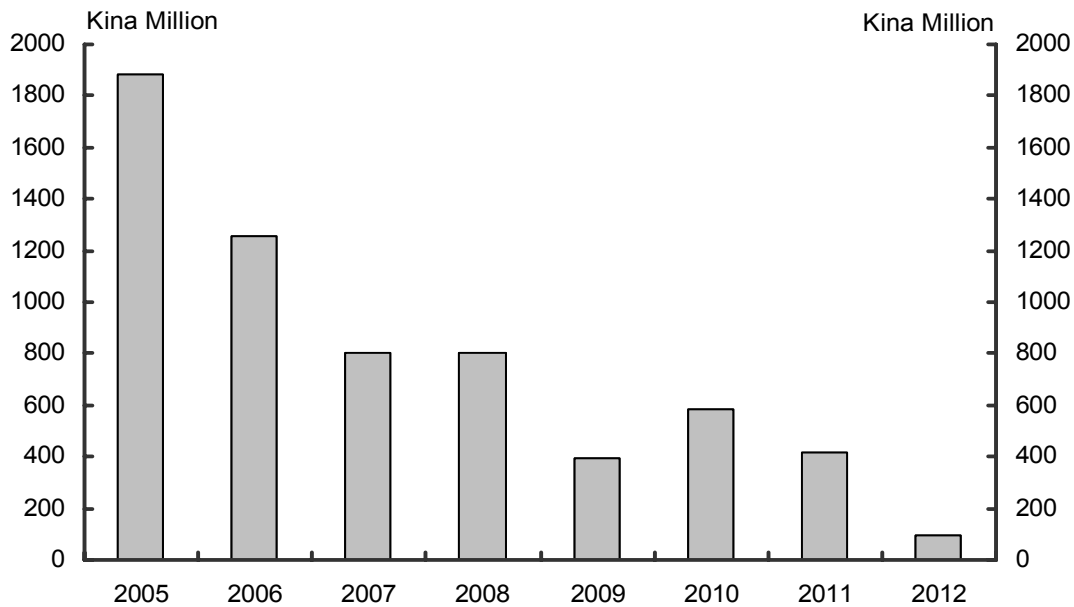
8.6 BALANCE OF PAYMENTS

In 2008, the current account surplus is expected to be K806 million (4.1 per cent of GDP). This is slightly higher than in 2007 due to the value of imports falling by more than the value of exports. The value of exports is expected to fall slightly in 2008, in line with falling mineral prices which is partially offset by rising volumes of export as new projects come into full production.

The value of imports is also expected to fall due to lower capital goods imports following very large imports in 2007. This is partially offset by continued strong non-mineral import growth.

For the income and transfer balance, it is projected that there will be increased outflows of income as mining companies realise large profits from higher volumes of exports and continued high mineral prices.

Over the medium term, the current account surplus is expected to fall steadily in line with a gradual reduction in export values, reflecting lower volumes and prices and higher levels of imports in line with increased domestic growth.

Figure 25: Current Account Balance (Kina Millions)

Source: BPNG for 2005 & 2006, Department of Treasury for 2007 to 2012

8.7 MONETARY POLICY

Monetary Policy formulation and implementation is the responsibility of the independent Bank of Papua New Guinea.

Interest rates have continued to remain below the KFR of 6 per cent since 2005. However, there are concerns that inflationary pressures are rising with excess liquidity building up due to the fast growth in money supply, particularly currency in circulation that has risen over the last two years. Monetary policy will need to be closely monitored to ensure that these pressures are contained. Margins between deposit and lending interest rates in the financial sector remain high.

The Government's policy is that exchange rate should be determined by the market and implemented by the independent Bank of Papua New Guinea. Consistent with Government policy, the exchange rate will continue to be set by the market in 2008, with the Bank of Papua New Guinea using foreign reserves only to perform the role of appropriately managing short-term exchange rate volatility.

The Government will continue to support the conduct of monetary policy through the continuation of prudent fiscal policy, the progressive shift to a productive wages policy and the allocation of additional revenues to capital investment in areas that will improve the productivity of the economy.

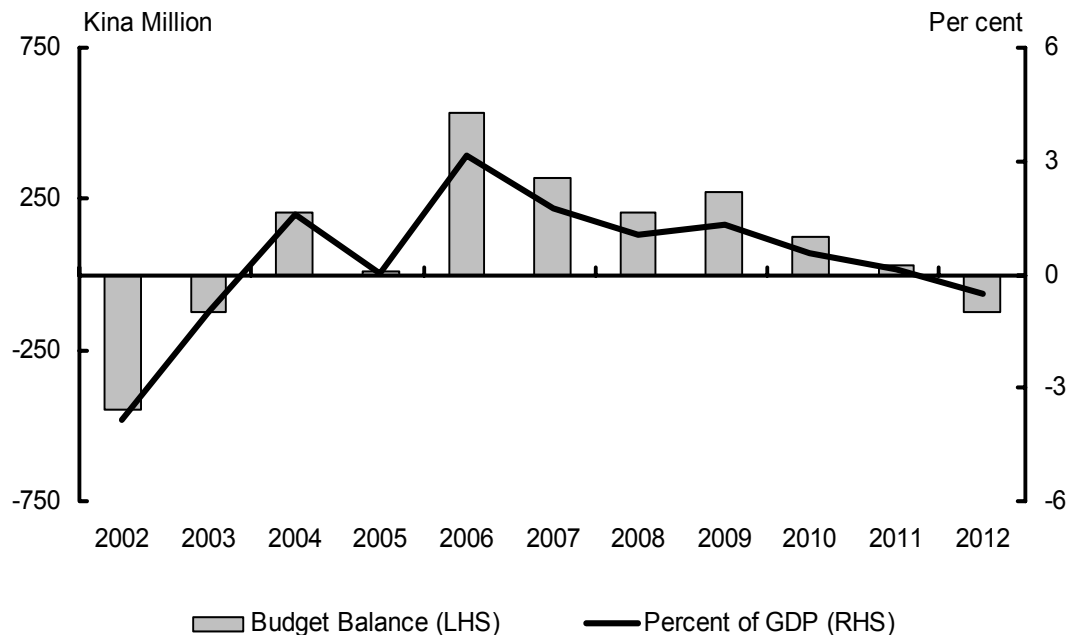
8.8 MEDIUM TERM FISCAL OUTLOOK

8.8.1 Overview

The medium term fiscal outlook has been prepared in the context of the proposed new Medium Term Fiscal Strategy (MTFS) 2008-2012 which aligns recurrent and development expenditure with 'normal' revenues (those revenues that could be expected in the absence of a commodity boom) over the forecast period. This is based on conservative and achievable estimates for economic growth and revenues.

Total Revenue and Grants are expected to decline over the medium term in line with projected declines in mineral commodity prices, declines in oil production and the winding down of some major mining projects. The government is focusing on spending additional revenue in priority areas including public infrastructure maintenance and development that will be spread out over the medium term such that when revenues fall, these improved areas can help to sustain growth in the non-mineral sector.

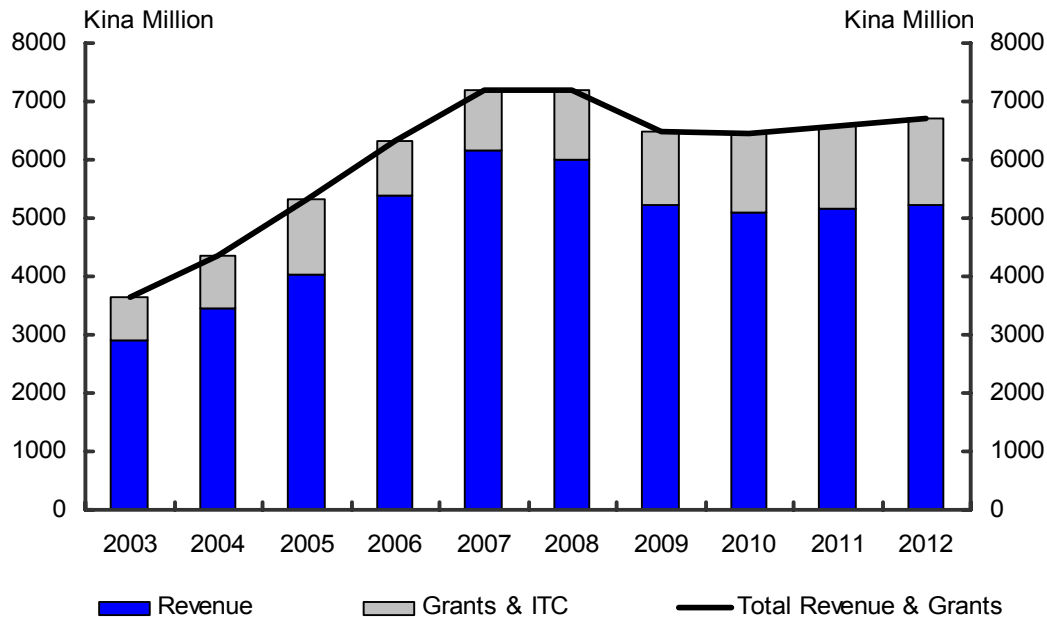
Figure 26: Medium Term Fiscal Outlook



Source: Department of Treasury

8.8.2 Revenue and Grants

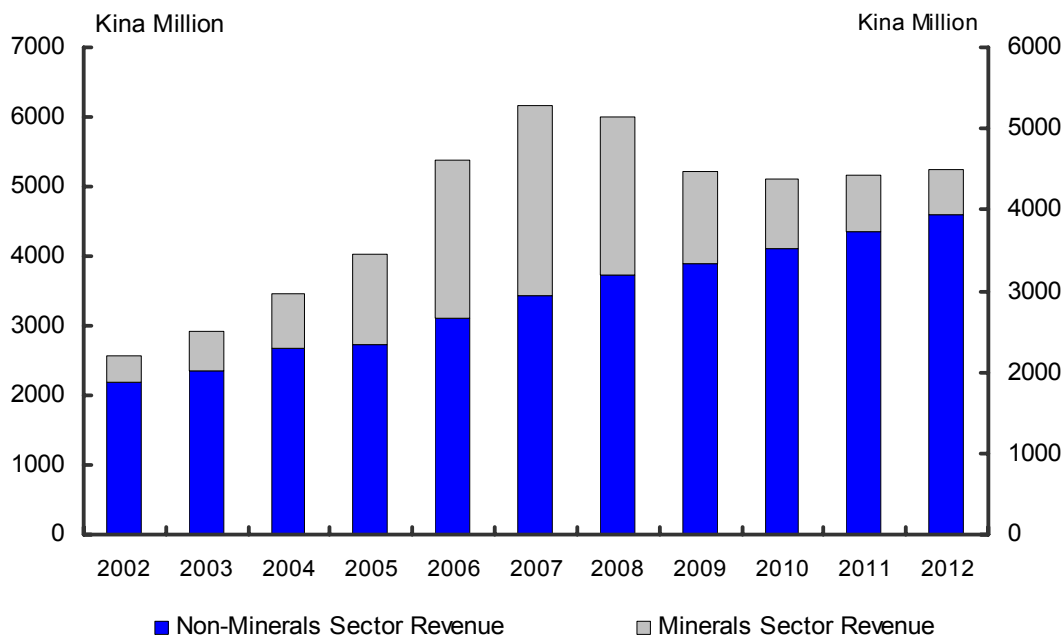
Total Revenue and Grants are forecast to decline from K7,201.7 million in 2008 to K6,721.4 million in 2012, reflecting declining minerals tax revenue that are partially offset by growth in non-minerals revenue. As a percentage of GDP, total revenue and grants are expected to decline from 36.5 per cent in 2008 to 28.5 per cent in 2012. While there are some projects that are expected to come on stream (Ramu Nickel, Simberi, Sinivit) during the projection period and contribute to GDP, they will not be in a position to pay income tax.

Figure 27: Total Revenue and Grants 2003-2012 (Kina Millions)

Sources: Department of Treasury, Department of National Planning and Monitoring

8.8.2.1 Revenue

Government Revenue is projected to fall from K6,004.3 million (30.4 per cent of GDP) in 2008 to K5,238.8 million (22.2 per cent of GDP) in 2012. Mineral revenue is expected to gradually decline in line with projected price declines, while non-mineral revenues are expected to continue to grow in line with economic growth.

Figure 28: Minerals and Non-Mineral Sector Revenue 2002 – 2012 (Kina Millions)

Source: Department of Treasury

8.8.2.1.1 Tax Revenue

Tax Revenue is projected to fall from K5,516.8 million in 2008 to K4,999.4 million in 2012. Mining and Petroleum Taxes are projected to decline from K2,011.8 million in 2008 to K583.8 million in 2012. This includes the natural decline in oil production, the projected decline in prices in the outer years as well as new mining projects coming into operation but not able to pay income tax.

However, other non-mineral tax revenue such as personal income tax, company tax, GST and import duty are expected to be stronger in 2008 as well as into the outer years in line with continued economic growth, though not large enough to offset the decline in mineral tax revenue and phasing out of the mining levy.

8.8.2.1.2 Non-Tax Revenue

Non-Tax Revenue is projected to decline from K487.5 million in 2008 to K239.4 million in 2012, mainly reflecting lower dividends from the State's 15 per cent share of the Ok Tedi mine due to assumed lower price projections.

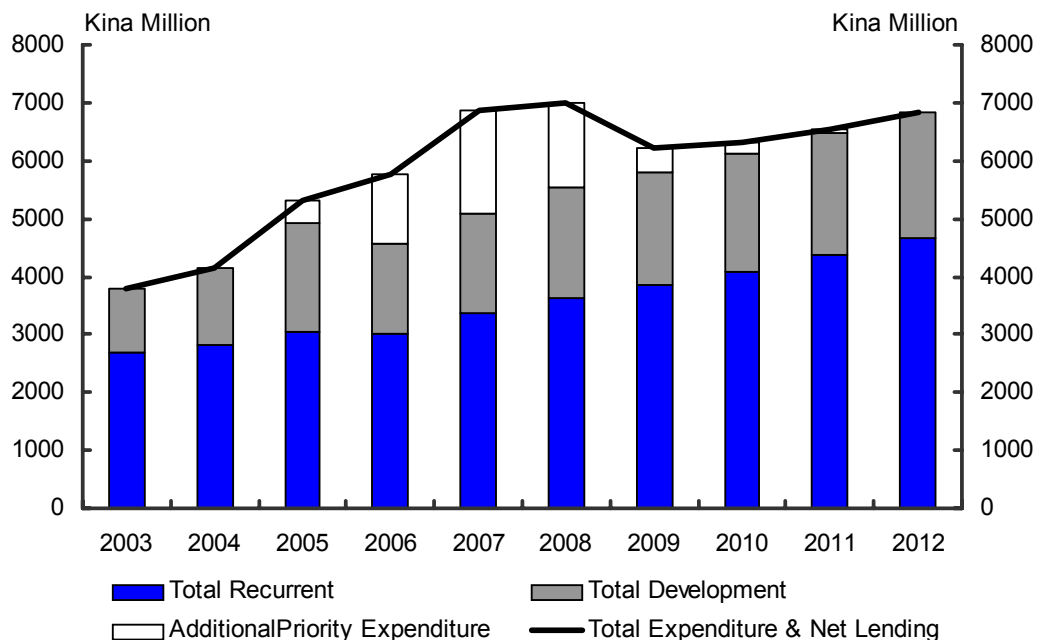
8.8.2.2 Grants

Grants are provided at the discretion of donors. In the medium term, total grants are estimated to increase from K1123.7 million in 2008 to K1461.2 million in 2012, mainly reflecting an expected increase in AusAid's grant of 8 per cent each year starting in 2009.

8.8.3 Expenditure and Net Lending

Total Expenditure is expected to decline from K6,999.4 million (35.5 per cent of GDP) in 2008 to K6,847.8 million (29.1 per cent of GDP) in 2012. This decline is in line with the expenditure profile in the new proposed Medium Term Fiscal Strategy 2008 to 2012 where forecast additional mineral revenue declines with assumed lower mineral prices and natural decline in oil reserves and closure of some major mines.

Figure 29: Total Expenditure and Net Lending 2003-2012 (Kina Millions)



Source: Department of Treasury, National Planning and Monitoring.

8.8.3.1 Recurrent Expenditure

Total Recurrent Expenditure is projected to increase from K3,636.3 million in 2008 (18.4 per cent of GDP) to K4,653.8 million in 2012 (19.8 per cent of GDP).

Total Government personnel emoluments expenditure is projected to increase by an average annual growth rate of 6.5 per cent over the medium term. The increase for personal emoluments expenditure includes increase funding provisions for superannuation and public servants' pay increases.

Goods and Services Expenditure by National Departments is projected to increase from K1,330.2 million in 2008 to K1,729.7 million in 2012 by applying indexation for general price increase. It also includes additional expenditure from projected normal revenues in the forecast period based on the proposed new Medium Term Fiscal Strategy.

Education subsidy funding is projected to increase to take into account the population growth and inflation as well as an additional K100 million per annum allocated over the medium term.

Goods and Services Transfers by Provincial and Regional Governments allow for the expected cost of the new arrangements for Intergovernmental Government Finance, expected to commence in 2009. For the 2008 Budget the interim financing arrangements and funding levels introduced in the 2004 Budget will be maintained.

Transfers to Statutory Institutions are projected to increase by the estimated inflation rate over the medium term. Nevertheless, it is expected that over time agencies should become increasingly self-funding and looking to cost savings and productivity gains to fund additional expenditures themselves.

Interest payment and fees on existing debt are projected to increase moderately over the medium term, reflecting the shift away from high-risk external debt to domestic debt, consistent with the Medium Term Debt Strategy, which is partly offset by the lower interest payment due to the external repayment of debt.

8.8.3.2 Development Budget

Domestic Funds from the Development Budget expenditure is expected to increase from K526.7 million in 2008 to K548.4 million in 2012. The projected increase in domestic funds provided for development spending over the medium term reflects the Government's commitment to shift resources to development spending as specified in the Medium Term Development Strategy (MTDS).

8.8.3.3 Additional Priority Expenditure

The additional priority expenditure has been sourced from additional mineral revenues using the proposed new MTFS and will be used for investment purposes or the repayment of debt or other liabilities. It will be spread over time to ensure maximum benefit and in order to reduce inflationary pressures. This is highly likely to be variable, in line with volatile commodity prices.

8.8.4 Financing

The medium term outlook is consistent with the proposed new Medium Term Fiscal Strategy. As a result, financing requirements are expected to be manageable over the medium term with expected moderate Budget surpluses to be used for debt repayment.

8.8.5 Public Debt

Government indebtedness is expected to decline under the Government's proposed new Medium Term Fiscal Strategy. Fiscal consolidation, coupled with economic growth, is projected to yield successive declines in the debt-to-GDP ratio, from current levels of 34.9 per cent of GDP in 2007 to 25.4 per cent of GDP in 2012.