



BANK OF PAPUA NEW GUINEA

PRESS RELEASE

SUPPLEMENT TO THE JULY 2007 MONETARY POLICY STATEMENT

1. Introduction

The Bank of Papua New Guinea on releasing the July 2007 MPS stated that the Bank would reassess its neutral monetary policy stance when the outcomes of the June quarter inflation and fiscal operations of the National Government in the first six months of 2007 became available. The availability and assessment of these data were considered critical to determining the stance of monetary policy in the second half of 2007.

2. Inflation

The Consumer Price Index (CPI) released by the National Statistical Office (NSO) for June 2007 indicated downward revisions for the annual headline inflation of negative 1.0 percent in the December quarter of 2006 and 1.0 percent in the March quarter of 2007. The annual June headline inflation was 1.0 percent, which is well below the Bank's projections of 6 to 8 percent made in the July 2007 MPS.

The Bank now projects headline inflation to be around 4 percent in 2007. While the revised headline inflation is low, the Bank is mindful that the underlying measures indicate that there are some inflationary pressures.

3. Fiscal Operations

Preliminary estimates of the fiscal operations of the National Government over the six months to June 2007 showed an overall surplus of K420.6 million, compared to a surplus of K363.0 million in the corresponding period of 2006. This represents 2.4 percent of nominal GDP. The surplus resulted from higher revenue, which more than offset a significant increase in development expenditure and a moderate increase in recurrent expenditure.

Total expenditure for the first six months of 2007 was K2,323.6 million, and represents 42.6 percent of the budgeted amount for 2007.

Total development expenditure for the first six months of 2007 was K831.1 million, and represents 50.8 percent of the budgeted expenditure for 2007. The increase was related to higher counterpart funding for projects, combined with higher foreign grants for AusAID related projects.

Recurrent expenditure over the first six months of 2007 was K1,492.5 million, and represents 44.3 percent of the 2007

budgeted appropriation. Of this total, K845.9 million relates to National Departmental expenditure, and represents 43.9 percent of the budgeted appropriations. Provincial Government recurrent expenditure was K337.9 million, and represents 45.2 percent of the budgeted amount. Interest payments totalled K197.0 million, reflecting the increased issuance of Inscribed stocks.

The Government's deposits with the banking system was K1,495.2 million at the end of June 2007, which reflected the surplus deposited in trust accounts for development projects.

The development and recurrent expenditure is within Budget and consistent with the Medium Term Development Strategy.

4. Monetary Policy Stance

Given the low headline inflation and favourable fiscal outcomes and low inflation expectations, the Bank reaffirms its neutral stance of monetary policy for the second half of 2007.

The Bank will continue to monitor developments in the monetary aggregates and the proposed Supplementary Budget for 2007 and other potential risks outlined in the July 2007 MPS, and adopt appropriate monetary policy management strategies to achieve price stability.

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Governor