

PRESS STATEMENT

IMF Mission Concludes Article IV Consultation with Papua New Guinea

An IMF mission led by Ms. Susan Creane, Deputy Division Chief in the Asia-Pacific Department, visited Port Moresby during November 6-17, 2006, to conduct the Article IV consultation discussions. The mission met with senior officials from the government and Bank of Papua New Guinea, and representatives from the private sector and civil society, to discuss recent economic developments and the outlook for 2007 and the medium-term.

Papua New Guinea is enjoying its fourth year of recovery and macroeconomic stability. High world prices continue to spur activity in the mineral sector, while improved fiscal conditions and low interest rates have increased business confidence, resulting in continued growth in the non-mineral sector. The external current account surplus strengthened significantly in 2006 and international reserves have reached historical levels. Positive debt dynamics should lower the public sector debt-to-GDP ratio from 60 percent in 2004 to 42 percent of GDP in 2006.

The near-term challenge is to continue the appropriate fiscal-monetary policy mix needed to maintain macroeconomic stability. The mission views the current monetary policy stance as appropriately seeking a balance between maintaining low inflation and encouraging non-mineral private sector growth. It notes the need to stand ready to tighten should signs of inflation pressure emerge. Expenditure restraint by the government has been the key to the good economic performance in recent years, and is essential for continuation of macroeconomic stability. The 2006-07 budgets are appropriately focused on infrastructure rehabilitation, social service needs, one-off capital investment, debt repayment and domestic arrears clearance, and correctly emphasize the temporary nature of the current mineral revenue. Given critical development needs, the mission strongly recommends strengthening implementation of the development budget, by employing existing reporting requirements and controls to ensure appropriations are directed to their intended areas and scarce public monies are efficiently spent. The mission welcomes the continued shift in the expenditure mix toward public investment and encourages further steps, including implementing the 'rightsizing initiative' recommendations as quickly as possible.

The longer-term challenge is to reinvigorate the structural reforms set out under the Medium-Term Development Strategy to significantly accelerate economic growth, job creation, and poverty reduction. Stronger growth is within reach, but requires appropriate use of Papua New Guinea's mineral wealth, a sustainable medium-term fiscal policy, continued prudent monetary policy, and, in particular, significantly more decisive efforts on structural reforms. Poor infrastructure, unreliable basic utilities, weak governance, high crime and weak prosecution, land issues, insufficient access to skilled labor, and an overall difficult business environment continue to constrain growth prospects. Addressing these issues would help build a robust Papua New Guinea economy able to compete in a globalized world.

IMF Resident Representative Office
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