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March 13, 2009

Statement by Mr. Talbot and Mr. Beck on Papua New Guinea
(Preliminary)
Executive Board Meeting 09/26
March 16, 2009

We are grateful to staff for a very clear set of papers. We also thank Mr. Legg for his comprehensive Buff Statement.

Papua New Guinea's economy continues to demonstrate strong fundamentals. High growth in recent years, combined with a relatively low inflation environment, fiscal surpluses and a low debt to GDP ratio have raised national income levels. However, structural constraints remain a limiting factor to meeting development needs and progress to meeting the Millennium Development Goals remains slow.

Strong policy and historically favourable conditions for the mineral economy have combined to put the economy in a strong position as the external environment has started to deteriorate. But we also recognise the risks that the downturn poses. We encourage the authorities to remain cautious when considering their policy choices, notably on the fiscal side, as the outlook for mineral revenues declines with prices and external demand.

We note the strong fiscal measures taken to date, especially the recently extended 2008-2012 Medium Term Fiscal Sustainability framework. The decision to limit ongoing spending to 'normal mineral revenues' and non-mineral revenues seems both prudent and far-sighted. But we agree with staff that spending must help meet Medium Term Development Strategy (MTDS) targets to help remove structural barriers to sustained non-mineral growth. We echo staff concerns about the risks of pro-cyclical spending as well as the magnitude and quality of spending at the sub-national level. *Can staff elaborate on what they mean in paragraph 12 by 'a balanced budget on staff's definition', relative to that of the authorities'?*

We recognise the value and smoothing effect of holding accumulated mineral revenues in trust and recognise the importance of maintaining sound governance structures of these trust funds.

With respect to monetary policy, we note the presence of potential inflationary pressures from a public sector wage increase, broad fiscal easing and sustained demand based on positive expectations around the Liquid Natural Gas project due to begin at end 2009. These may be outweighed by the effect of a deterioration of the global outlook. *Can staff elaborate on the relative upside and downside risks to the inflation outlook and under what scenario would they envisage a monetary easing?*

With these comments we wish the authorities success with their reform efforts.