

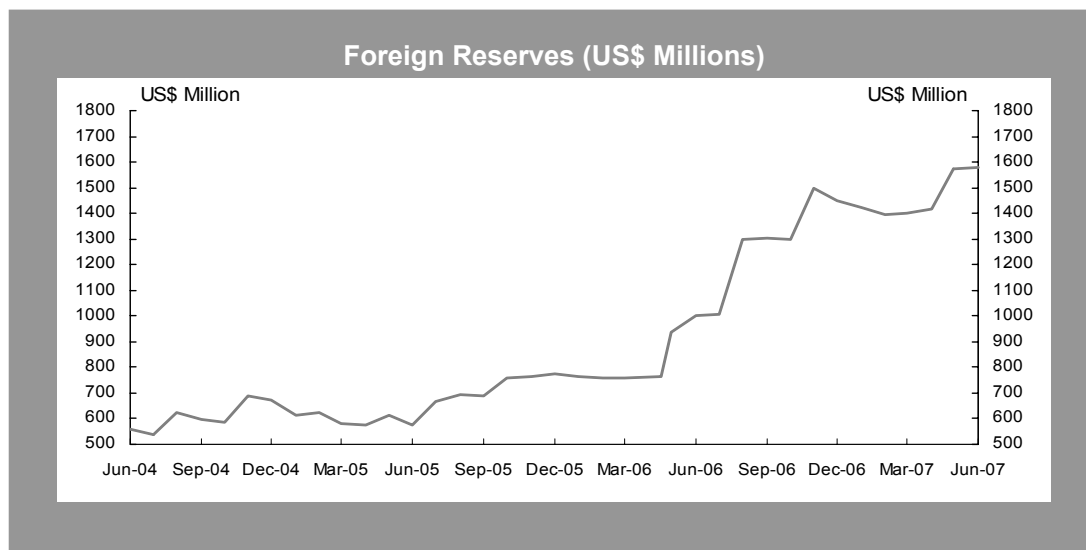


TREASURY ECONOMIC MONITOR

(TEM)

June 2007

Publication 2/2007



Economic Policy Division, Department of Treasury, P O Box 542, WAIGANI, Papua New Guinea:
Inquiries: Phone: (675) 312 8821 or 312 8757; Facsimile: (675) 312 8807

Address : Economic Policy Division
Department of Treasury
PO Box 542, WAIGANI
Papua New Guinea

Telephone : (675) 312 8821
Facsimile : (675) 312 8807

Website : www.treasury.gov.pg

Copyright Treasury Economic Monitor 2006.

This publication is not to be copied nor reproduced without the prior consent of Department of Treasury. Economic Policy Division disclaims any liability for the accuracy of information contained in this publication.

CONTENTS

1. THE INTERNATIONAL ECONOMIC OUTLOOK.....	1
1.1 COMMODITY MARKETS	2
2. DOMESTIC ECONOMY	4
2.1 GROSS DOMESTIC PRODUCT.....	4
2.2 LABOUR MARKET	4
2.3 PRICES.....	5
SOURCE: NATIONAL STATISTICAL OFFICE	6
3. MONETARY DEVELOPMENTS	8
3.1 EXCHANGE RATE DEVELOPMENTS	8
3.2 INTEREST RATE DEVELOPMENTS.....	8
3.3 FOREIGN RESERVES.....	9
4. COMMODITIES.....	10
5. BALANCE OF PAYMENTS	10
6. CENTRAL GOVERNMENT FISCAL OPERATIONS FOR MARCH 2007	11

TABLES

TABLE 1: JUNE 2007 CPI GROWTH BY EXPENDITURE GROUPS	6
TABLE 2: CPI BY REGION	6
TABLE 3: TOTAL EXPORT VALUES FOR COMMODITIES	10
TABLE 4: BALANCE OF PAYMENTS 2006 – 2007 (KINA MILLIONS)	11
TABLE 5: SUMMARY OF FISCAL OUTTURN – JUNE 2007.....	12
TABLE 6: CENTRAL GOVERNMENT REVENUE & GRANTS	17
TABLE 7: CENTRAL GOVERNMENT EXPENDITURE	18
TABLE 8: CENTRAL GOVERNMENT FINANCING.....	19

CHARTS

CHART 1: WORLD ECONOMIC GROWTH	1
CHART 2: WORLD PRICES OF PNG'S PRINCIPAL MINERAL COMMODITY EXPORTS.....	2
CHART 3: WORLD PRICES FOR PALM OIL	3
CHART 4: WORLD PRICES FOR COCOA.....	3
CHART 5: WORLD PRICES FOR COFFEE	3
CHART 6: UNDERLYING CPI.....	5
CHART 7: HEADLINE CPI	5
CHART 8: THROUGH THE YEAR CPI BY GROUP	6
CHART 9: THROUGH THE YEAR GROWTH IN MONEY SUPPLY	7
CHART 10: IMPORT WEIGHTED TRADE WEIGHTED INDEX (TWI).....	7
CHART 11: EXPORT PRICE INDEX AND EXCHANGE RATE MOVEMENTS.....	8
CHART 12: KINA FACILITY RATE (KFR) VS T' BILLS AND CBB	9
CHART 13: FOREIGN RESERVES (US\$ MILLIONS)	9
CHART 14: EVOLUTION OF THE GOPNG BUDGET BALANCE – ACTUAL VS TREND	13
CHART 15: ACTUAL REVENUE AGAINST THE TREND	14
CHART 16: ACTUAL EXPENDITURE AND NET LENDING AGAINST THE TREND	15

1. THE INTERNATIONAL ECONOMIC OUTLOOK

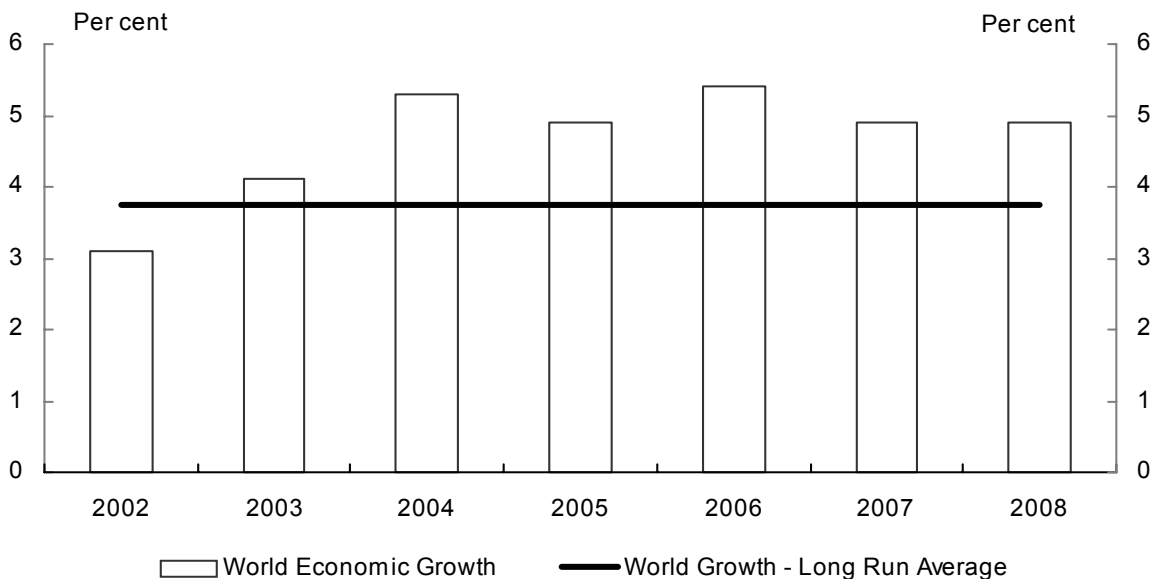
The Global economy expanded vigorously in 2006, growing at 5.4 per cent, a $\frac{1}{4}$ percentage point faster than anticipated at the time of the September 2006 World Economic Outlook. This strong growth was due to advanced economies growing by 3.1 per cent with emerging and developing group of countries growing by 7.9 per cent.

In the advanced economies, United States faced a sharp downturn in its housing market and a softening of corporate investments in plants and equipment. On a brighter note, United States consumption was sustained by continued employment and declining oil prices relative to August levels. In the Euro area, growth accelerated to its fastest pace in six years as domestic demand was boosted by increasing business confidence and improving labour markets. Activity, in Japan, on the other hand, slowed in the middle of 2006 but regained traction towards the end of 2006.

In the emerging and developing countries, growth was led by China and India. China's growth rate reached $10\frac{3}{4}$ per cent in 2006, driven by investment and export growth notwithstanding some easing in the second half of 2006 as policy tightening help to cool the pace of fixed asset investment. India's expansion, on the other hand, picked up momentum in the course of the year, with growth rising to $9\frac{1}{4}$ per cent. Elsewhere, growth was also generally sustained at robust rates, supported by high commodity prices and favourable financial conditions.

According to the April *World Economic Outlook*, world economy is expected to continue growing vigorously in 2007 and 2008 at 4.9 per cent for both years. The advance countries are expected to experience a moderate deceleration as growth in US, Euro areas and Japan slow down. United States is expected to continue resolving challenges to its housing market. The euro area is expected to undergo fiscal consolidation while Japan's expansion is expected at the same pace. For the emerging and developing countries, concerns of over heating would moderate growth in China and India in 2007 and 2008 from very high rates of 2006.

Chart 1: World Economic Growth



Source: International Monetary Fund, *World Economic Outlook*, April 2007

1.1 Commodity Markets

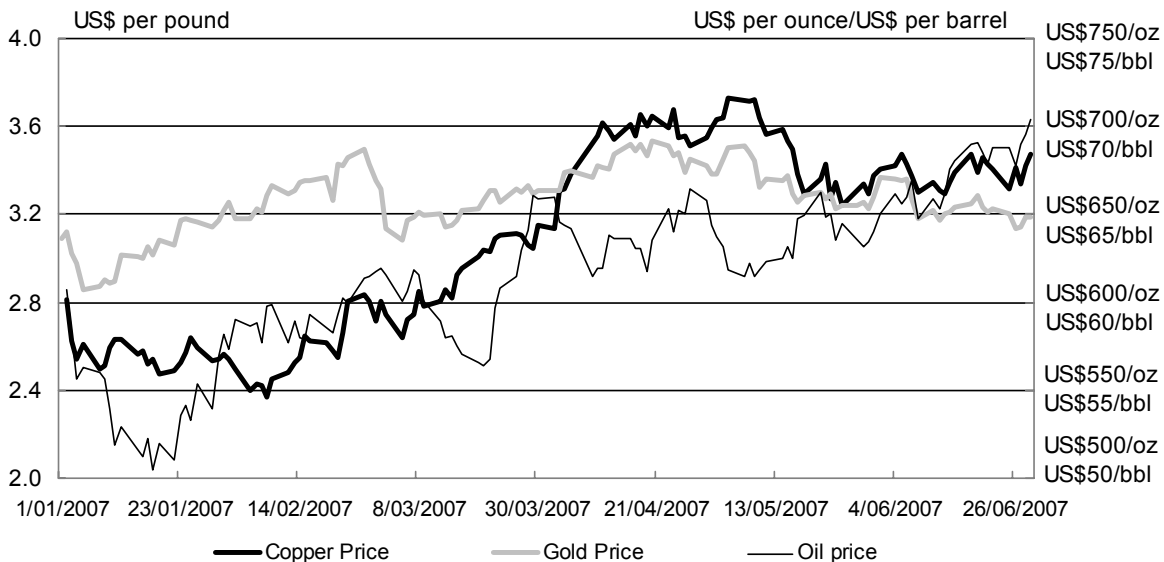
The world prices of Papua New Guinea’s main mineral commodity exports (copper, oil and gold) continued to trade higher in the June quarter of 2007.

World copper price increased in the June quarter of 2007 after a decline starting from the second half of 2006 which continued into March quarter of 2007. In average terms World copper price rose by 29 per cent during the June quarter to US\$3.5 per pound, which is over US\$ 8000 a tonne. According to Abare’s Australian Commodities for the June quarter, the rebound in copper prices is due to stock rebuilding in China and supply disruptions.

World gold price continued to hold high despite the ease in prices in the latter half June. In average terms Gold price increased by 2.7 per cent during the June quarter to US\$ 667 per ounce. Greater investment demand, the weakness of the US dollar against most other currencies and the dehedging from major gold producers were the main constituents to the high Gold price in the June quarter.

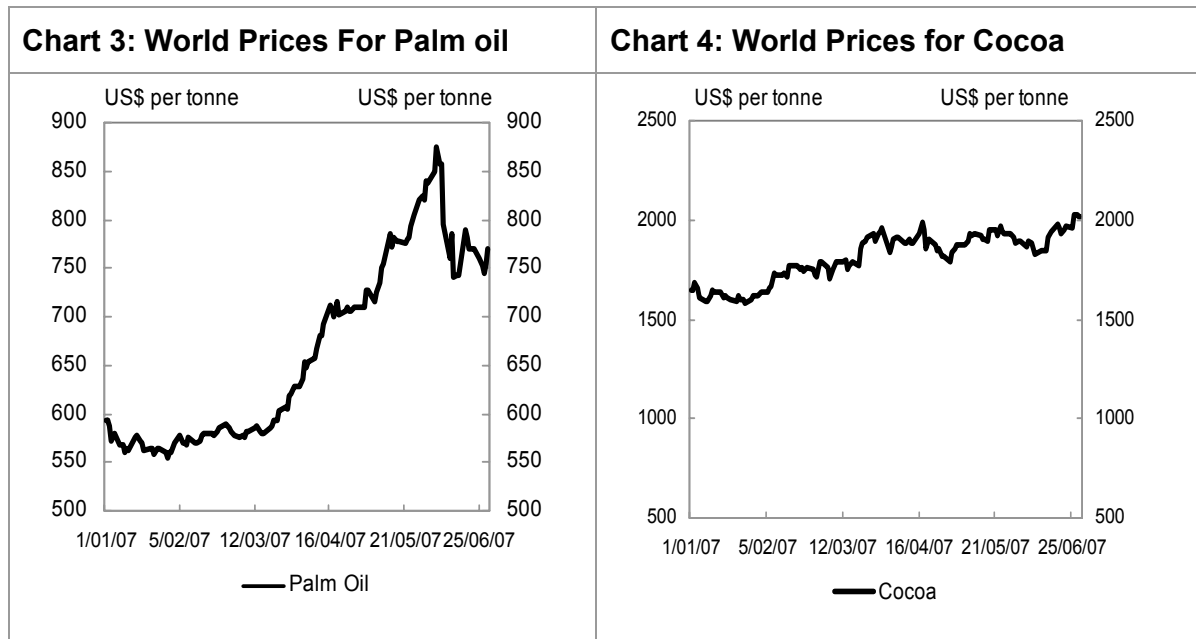
Crude oil prices continued to remain volatile and sensitive to supply disruptions in the June quarter 2007. In average terms, crude oil rose by almost 12 per cent in the June quarter to US\$65 per barrel. According to Abare’s Australian Commodities for the June quarter, this reflected the supply disruptions in Nigeria and the expectations of strong demand for crude oil by refineries in the United States and Europe following shut downs for maintenance in March and April.

Chart 2: World Prices of PNG’s Principal Mineral Commodity Exports



Source: Department of Treasury

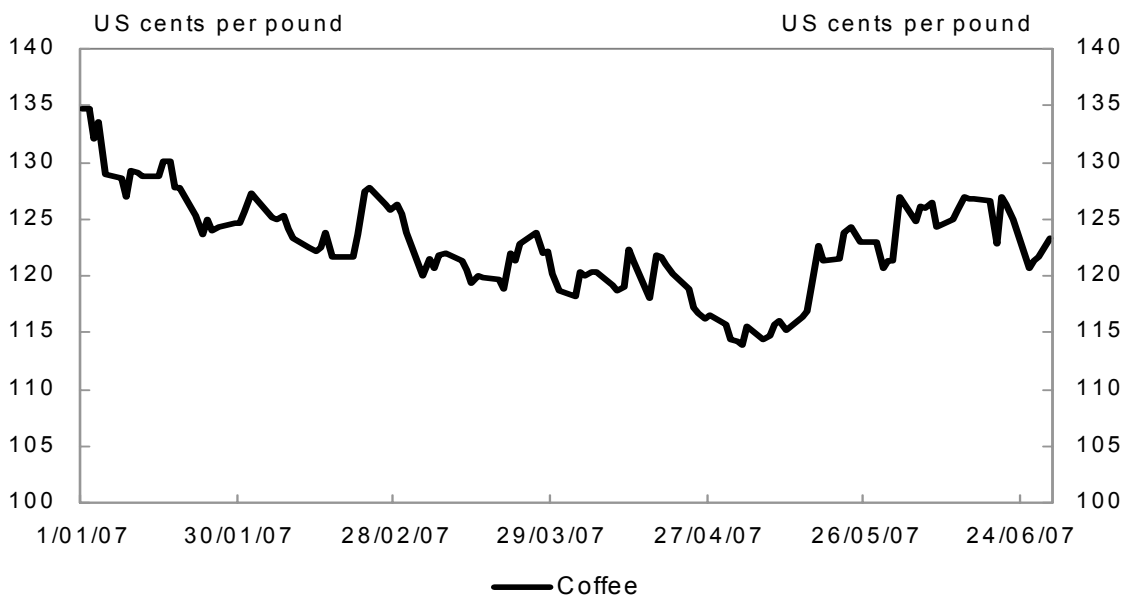
The world prices for Papua New Guinea’s Agricultural commodities such as oil palm and cocoa continue to hold high in the June Quarter while coffee was on the rebound following a downward trend in the first quarter of the year. Unfortunately Treasury is again unable to provide the prices for copra in this edition.



Source: Department of Treasury

World Palm oil prices surged higher in the June quarter. In average terms Palm oil prices increased by 29 per cent in the June quarter to US\$747.3 per tonne. This reflects the increased demand for palm oil for biodiesel fuel in places like Malaysia and Indonesia (Two of the world largest palm oil producers) where there has been a boom in investment in biodiesel plants. On the other hand World cocoa prices continued on its upward trend in the June quarter with the price growing by another 10.7 per cent in average terms to be US\$1904.9 per tonne. Reduced global supply due to the drought in Ivory Coast (One of the two largest producers from West Africa) has been the major cause of this price increase in the June Quarter.

Chart 5: World Prices for Coffee



Source: Department of Treasury

World prices for coffee were on the rebound in the June quarter following a period of downward pressure in first quarter of the year. This is due to lower world supply and global demand being robust in the face of strong marketing campaigns by some of the leading coffee chains around the world. However in average terms coffee prices decreased by 3 per cent in the June quarter to US120.8 cents per tonne.

2. DOMESTIC ECONOMY

2.1 Gross Domestic Product

Economic growth is expected to increase to 5½ per cent in 2007, up from 2.6 per cent in 2006, with non-mining GDP expected to grow by 5¼ per cent in the year. This forecast acceleration in growth is largely due to a rebound in the mineral and agriculture sectors from weaker performances in 2006.

While commodity prices are expected to fall from the record levels of 2006, they are expected to remain high compared to historical levels, and continue to be a major source of stimulus to the economy. As a result of high commodity prices, the value of PNG's exports is expected to remain at an elevated level, resulting in another large trade surplus.

The gold, oil, and agriculture sectors are expected to drive real GDP growth in 2007. Increased gold production should result in strong growth in the mining and quarrying sector. The return of the Oil and Gas extraction sector to normal levels of production after the unexpected shut down in 2006 will also boost growth.

The agriculture sector is expected to contribute strongly to growth in 2007, driven by a return to normal production levels of copra, copra oil and coffee, after 2006 production was disrupted by poor weather and volcanic activity. Growth will also be supported by the expected expansion in the palm oil industry.

PNG has been subjected to changes in major economic anticipated stimuli with the cancellation of the gas pipeline project. While this will reduce anticipated activity in 2007 and 2008, this will be largely offset by the increased public infrastructure spending coming out of the Additional Priority Expenditure announced in the 2007 Budget. This spending will have a particular impact on the building and construction sector, which is expected to continue growing strongly in 2007.

2.2 Labour Market

In the year to the June quarter 2007, total private non-mineral sector employment rose by 9.5 per cent driven largely by employment growth in retail supported by the building and construction and agriculture sectors. Employment in the mineral sector fell slightly in the June quarter 2007, down by 9.4 per cent over the June quarter 2006.

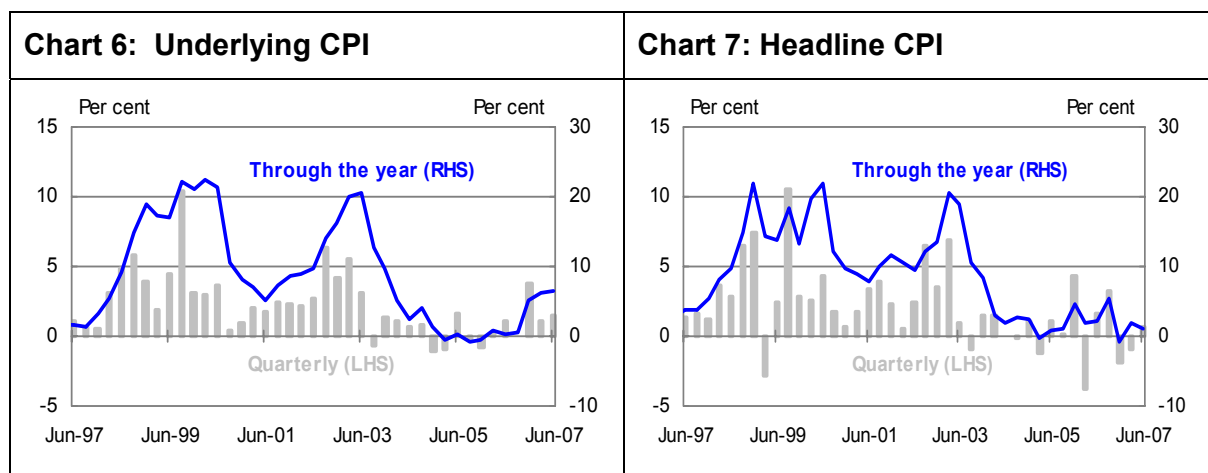
With all regions showing growth over 5 per cent through the year except the Highlands region in the June Quarter 2007, employment in the non-mineral private sector was up 31.9 per cent as compared to base year March 2002. The mineral sector employment also continued to grow, up 19.7 per cent in the same period.

2.3 Prices

The underlying Consumer Price Index (CPI) rose by 1.4 per cent in the June quarter 2007, to be 6.5 per cent higher through the year, driven by increases in the price of *miscellaneous* items (largely medical and health care), *food*, and *clothing and footwear*.

- This is the third consecutive quarter of large increases in the underlying CPI, which increased by 3.8 per cent in the December quarter 2006, and 1.1 per cent in the March quarter 2007. This represents a substantial acceleration in the underlying rate of inflation, being the highest rate of annual underlying inflation figure since December 2003 (Chart 6).

The NSO have made some significant downward revisions to the inflation figures since December 2006, due to a number of errors in the original releases. These revisions have brought underlying inflation down from the original estimate of 9.2 per cent through the year to March 2007, to 5.8 per cent in the most current release. These revisions were expected by Treasury, and were foreshadowed in the Mid-Year Economic and Fiscal Outlook (MYEFO)



Headline inflation, which is typically more volatile than underlying, increased by 0.7 per cent in the June quarter, to be 1.0 per cent higher through the year (Chart 7). The relatively modest increase in headline compared to underlying inflation is due to a sharp decline in the prices of seasonal produce due to better seasonal conditions.

1. CPI by Expenditure Group

There was a sharp increase in the price of miscellaneous items, primarily due to a 30 per cent increase in medical costs – associated with higher outpatient charges in hospitals – as well as smaller increases in *food*, *transport and communication* and *clothing and footwear* prices. These increases were partially offset by a decline in the prices of *drink*, *tobacco and betelnut* (Table 1).

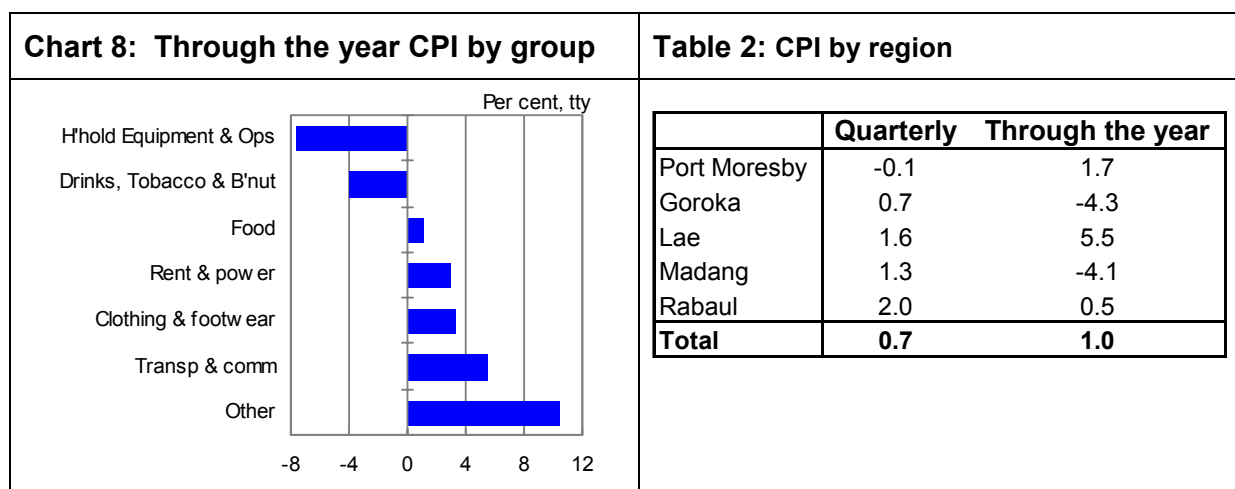
Over the last year, increases in the CPI have been driven by exceptionally large price increases in *miscellaneous* items and *transport and communication*. This has been partially offset by declines in *household equipment and operation* and *drink, tobacco and betelnut* prices (Chart 8).

Table 1: June 2007 CPI Growth by Expenditure Groups

	Quarterly	Through the year
Miscellaneous	3.3	10.4
Transport & Communication	1.0	5.5
Clothing & Footwear	1.0	3.4
Rent, Council Charges, Fuel & Power	0.6	3.0
Food	1.5	1.1
Drinks, Tobacco & Betelnut	-1.5	-4.0
Household Equipment & Operation	0.2	-7.6
Average Total CPI:	0.7	1.0
Average Underlying CPI	1.4	6.5

Source: National Statistical Office

The largest revision occurred in the Transport and Communication group, where through the year to March 2007 inflation was revised down from 22.3 per cent in the original estimate to 4.9 per cent in the current release. This was due to incorrect data in the *motor vehicle operation* and *airline, taxi, bus and PMV* sub groups.



2. CPI by Region

Rabaul, Lae, Madang and Goroka recorded price increases in the June quarter, while Port Moresby recorded a fall. Over the last year Lae, Port Moresby and Rabaul have recorded increases in consumer prices, while prices in Goroka and Madang have fallen (Table 2).

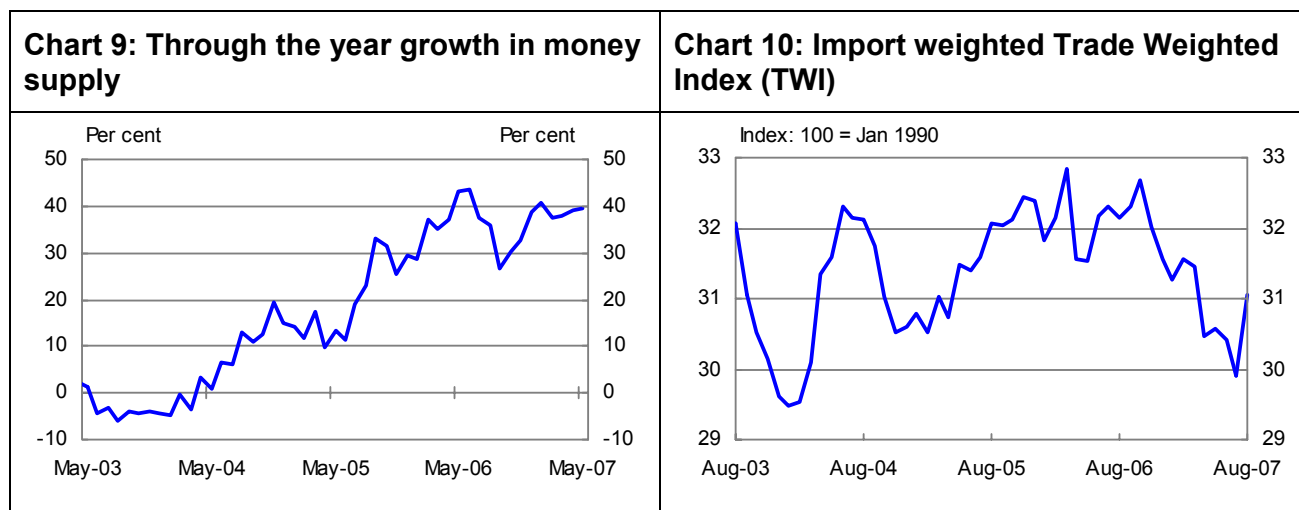
3. Contributing Factors

There are a number of factors that could be contributing to a high inflation result:

- The economy has experienced a large terms of trade shock, which is providing a great deal of stimulus to the economy. While the increase in export prices provides PNG with greater purchasing power, it has not increased the productive capacity of the economy. Hence, if some of the proceeds from the commodity price boom are used to purchase domestic goods and services (as against increased imports), this will create inflationary pressures.
- Money supply has been growing at exceptionally fast rates – upwards of 40 per cent (Chart 9). Sustained money supply growth of this magnitude is likely to result in inflationary pressures.

- The two 2006 supplementary Budgets added around K1.3 billion (or 7.4 per cent of GDP) of potential fiscal stimulus into the economy. While a large portion (K550m) of the funds has been placed into trust accounts, a significant amount (K750m) has been released.

The Kina has depreciated by 5.5 per cent on a trade weighted basis through the year to June, which is likely to have contributed to higher inflation, in the form of higher prices on imported goods (Chart 10).



4. Conclusion

According to NSO, there has been an acceleration in underlying inflation over the past 9 months, with quarterly underlying inflation averaging 2.1 per cent, compared to 0.3 per cent over the previous 3 years. This is yet to flow into the headline figures, due to a 31 per cent fall in the price of fruit and vegetables, and a 42 per cent fall in the price of betelnut over the past year. It is likely that these falls will be reversed in coming quarters.

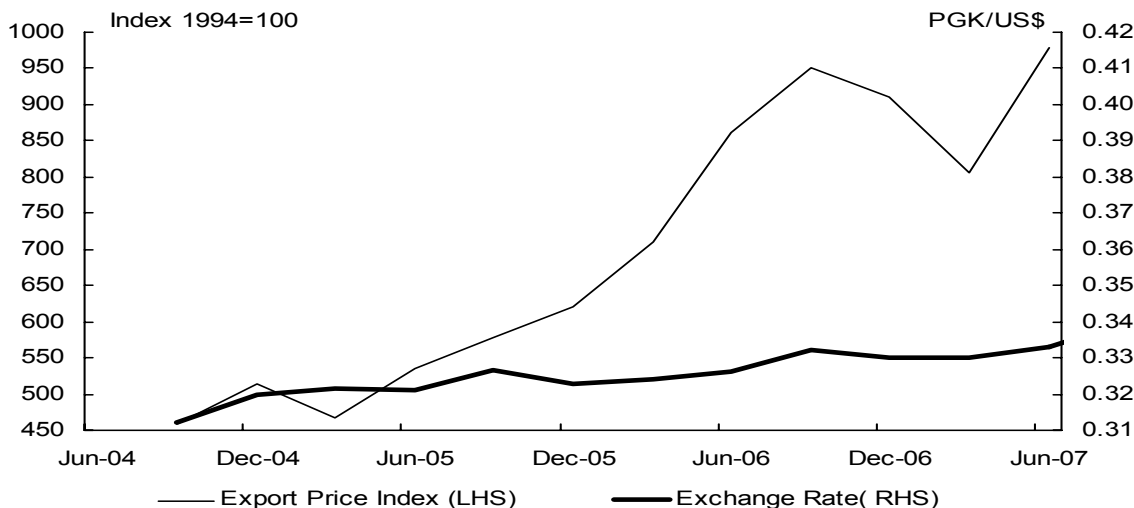
3. MONETARY DEVELOPMENTS

3.1 Exchange Rate Developments

The Kina has remained stable against the US dollar, however, it has depreciated slightly against the Australian Dollar. The Kina depreciated by 6 per cent against the Australian dollar in the first half of 2007 due to the continued strengthening of the Australian dollar against most other currencies.

Chart 11 below continues to show that the terms of trade have increased by more than the exchange rate since 2005. Through the year to June 2007, Export price index has increased by another 13.8 per cent, supported by huge increase in export price index of 7.6 per cent in the first half of 2007 and by 21.7 per cent in the June quarter. This was due to the robust increase in commodity prices especially copper and crude oil in the first half of 2007. Nonetheless, the terms of trade remain well above historical levels for the 2007 with a steady response in exchange rate.

Chart 11: Export Price Index and Exchange Rate Movements

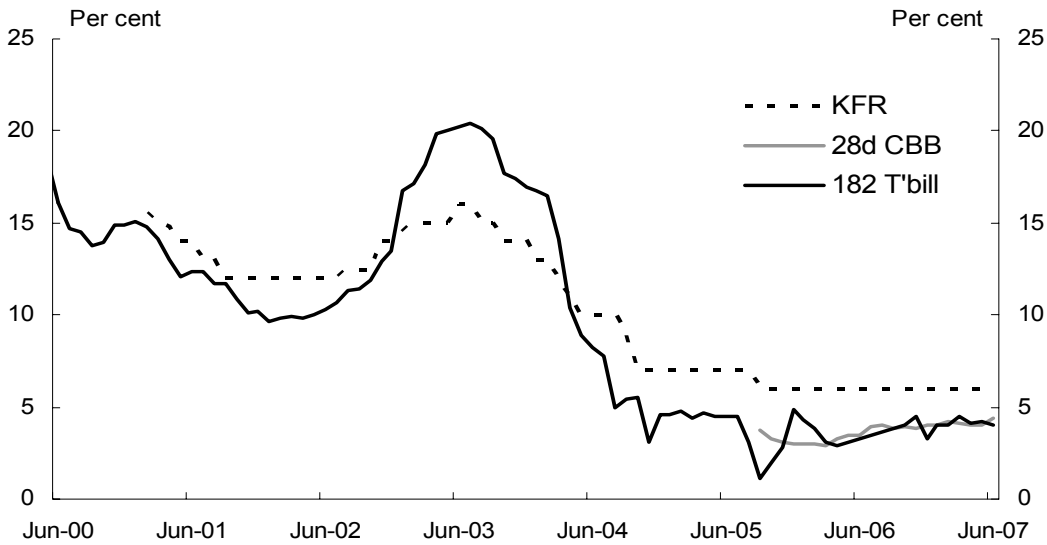


Source: Bank of Papua New Guinea, *Quarterly Economic Bulletin*.

3.2 Interest Rate Developments

Interest rates have remained at historically low levels. The Kina Facility Rate (KFR) – which is the benchmark interest rate targeted by the BPNG – continued to remain unchanged at 6 per cent in the first half of 2007. Treasury bills have fallen slightly in the June quarter, and still remain below the KFR benchmark.

Chart 12: Kina Facility Rate (KFR) vs T' bills and CBB

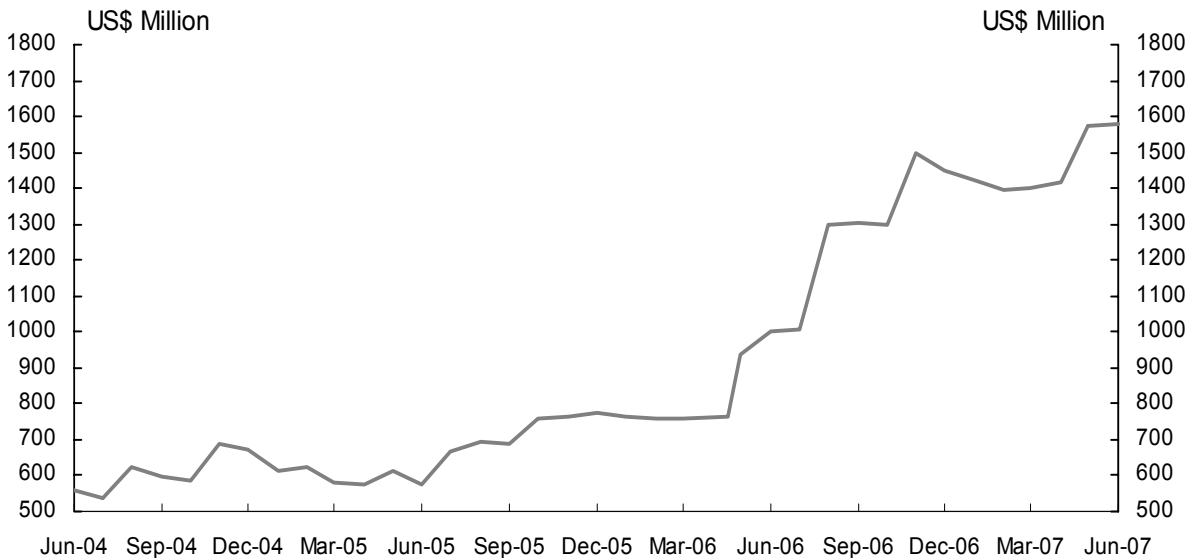


Source: Bank of Papua New Guinea, *Quarterly Economic Bulletin*

3.3 Foreign Reserves

Foreign Reserves for end of June 2007 totalled K4,725.4 million (US\$1,579.6 million) compared to K3,029.5 million (US\$1,002.8 million) for June quarter 2006. This very high level of reserves is more than sufficient to perform the role of appropriately managing short term exchange rate volatility.

Chart 13: Foreign Reserves (US\$ Millions)



Source: Bank of Papua New Guinea

4. COMMODITIES

Table 3: Total Export Values for Commodities

TOTAL EXPORTS	First Half of 2006			First Half of 2007			Year-on-Year % Change		
	Quantity	Price(USD)(d)	Value (K,million)	Quantity	Price(USD)(d)	Value (K,million)	Quantity	Price(USD)	Value (K,million)
AGRICULTURE, FORESTRY, FISHERIES									
Cocoa (000 tonnes)	24.3	1490.7	111.8	19.6	1785.7	105.9	-19.3	19.8	-5.3
Coffee (000 tonnes)	25.3	2.0	155.5	17.7	2.43	130.3	-30.0	22.2	-16.2
Copra Oil(a) (000 tonnes)	30.9	434.1	41.4	33.4	663.0	67.0	8.1	52.7	61.8
Copra Oil	23.6	497.0	36.2	28.2	46.9	4.0	19.5	-90.6	-89.0
Copra	7.3	230.8	5.2	5.2	4004.1	63.0	-28.8	1634.9	1111.5
Palm Oil (000 tonnes)	171.7	374.4	198.4	206.2	597.2	372.6	20.1	59.5	87.8
Other Agriculture(b)	n.a.	n.a.	139.6	n.a.	n.a.	126.2	n.a.	n.a.	-9.6
Tea	3.5	99.1	10.7	3.6	105.6	11.5	2.9	6.6	7.5
Rubber	2.0	180.4	9.9	1.8	178.1	9.7	-10.0	11.1	-2.0
Other(c)	n.a.	n.a.	119	n.a.	n.a.	105	n.a.	n.a.	-11.8
Forest Products (including logs)	n.a.	n.a.	246.6	n.a.	n.a.	262.4	n.a.	n.a.	6.4
Logs	n.a.	n.a.	229.4	n.a.	n.a.	232.5	n.a.	n.a.	1.4
Marine Products	n.a.	n.a.	57.2	n.a.	n.a.	6.6	n.a.	n.a.	-88.5
Agriculture, Forestry and Fishing Exports			950.5			1071.0			12.7
MINERALS									
Gold (000 oz)	1019.3	497.1	1563.9	972.8	561.6	1653	-4.6	13.0	5.7
Copper (000 tonnes)	115.2	5683.2	2020.7	114.3	6624.2	2290.9	-0.8	16.6	13.4
Oil (m barrels)	8.2	66.3	1670.9	7.2	69.8	1521.6	-11.9	5.4	-8.9
Refined Petroleum Products	n.a.	n.a.	186.3	n.a.	n.a.	276.0	n.a.	n.a.	48.1
Mineral Exports(d)			5441.8			5741.5			5.5
TOTAL EXPORTS			6392.3			6812.5			6.6
(a) Includes copra.									
(b) Includes rubber, tea, vanilla & a small proportion of manufactured goods.									
(c) Includes vanilla and small proportion of manufactured goods									
(d) Includes silver.									
(e) Price of commodities in US dollars is derived by dividing export value in kina by the exchange rate and the reported level of export volume.									
Year average exchange rate	2006 (June)	2007 (June)							
USD:PGK	0.3240	0.3305							

Source: Bank of Papua New Guinea and Department of Treasury

Total export values increased by 6.6 per cent in the first half of 2007 as compared to the corresponding period of 2006. This increase reflects the continued high export values from both the agriculture, forestry, fishing and mineral sector during the period.

Exports from the agriculture, forestry and fishing sector increased by 12.7 per cent to K1,071 million in June 2007 compared to K950.5 million in June 2006. This reflects the high export values from copra, copra oil, palm oil and log as most commodities returned to normal production after poor performance in 2006 supported by continued high prices.

Mineral sector continued to support the increase in the first half of 2007 with a 5.5 per cent rise in export value to K5,741.5 million from K5,441.8 million in corresponding period of 2006. This was driven by the continued high commodity prices for PNGs key mineral exports of gold, copper and crude oil.

5. BALANCE OF PAYMENTS

The current account balance recorded a surplus of K304 million in the first half of 2007, which is lower than the surplus of K1,059 million recorded in the corresponding period of 2006. This is due to higher imports outweighing smaller increase in exports

Table 4: Balance of Payments 2006 – 2007 (Kina Millions)

	2006	2007	Change
	First Half	First Half	
Current Account Balance	1059	304	-755
Balance of Trade in Goods & Services	1913	734	-1179
<i>Exports of Goods and Services</i>	6971	7431	+460
<i>Imports of Goods and Services</i>	-5057	-6697	+1640
Balance of Income	-1307	-973	-334
Balance of Transfer	453	543	+90
Capital and Financial Account*	-988	-198	-690
Net Errors and Omissions	-71	-6	-65

Source: BPNG

*Includes changes in official reserves

The surplus in the Balance of Trade in Goods and Services was K734 million, K1,179 million lower in 2007 than in 2006. This is attributed to the lower merchandise trade account which recorded a surplus of K7,431 million in the year compared with a surplus of K6,971 million in the corresponding period of 2006.

The lower merchandise trade account surplus reflects higher import values of outweighing the export of our major commodities. The higher import values were from capital goods and equipment for the new mining projects, in particular Ramu Nickel.

The value of merchandise imports increased by 32.1 per cent to K3,754 million in 2007 compared with K2,844 million in 2006. The increase reflects continued strong imports in all sectors.

The deficit in services trade increased at around 34 per cent to K2,394 million in 2006 as service imports continued to be higher than the service exports due to the higher import payments associated with the transportation service, insurance cost, construction cost, information technology and other service cost such as refining and smelting.

The balance of income was a deficit of K973 million in 2007 compared with a deficit of K1,307 million in 2006. The lower deficit was due to lower dividends and interest payments on foreign loans, combined with higher income receipts.

The capital and financial accounts recorded a deficit of K298 million in the first half of 2007 compared with a deficit of K988 million in 2006. The lower deficit was due to fall in the net capital outflow and an increase in net capital inflow reflecting increase foreign direct investment in the mining sector in 2007 compared to 2006.

The level of gross foreign exchange reserves for the first half of 2007 was K4,725.4 (US\$1,579.6) million, more than sufficient to perform the role of appropriately smoothing any short term exchange rate volatility.

6. CENTRAL GOVERNMENT FISCAL OPERATIONS FOR MARCH 2007

This Technical Note outlines the fiscal performance for the June outturn 2007.

It is stressed that care is needed in interpreting this data. In particular, readers should be aware that, for a variety of reasons, revenue and expenditure do not occur evenly through the year. For example, in an average year:

- Expenditure tends to occur later in the year than the receipt of revenue,
- Agencies are slow in drawing down on their warrant authorizations,
- Reporting and recording lags in projects funded by grants and external loans,
- Interests on Inscribed Stock are mainly paid in May and November.

To assist in the use of this raw data to track progress against the projections in the 2007 Budget, Treasury has included “trend” benchmarks for revenue and expenditure.

The trend calculation measures how much would have been received or paid for revenue and expenditure items in each month based on the average pattern over the past five years if the projections in the 2007 Budget were to be achieved.

Table 5 summarises the fiscal outturn (in millions of Kina) for the June 2007 Fiscal Outturn.

Table 5: Summary of Fiscal Outturn – June 2007

TOTAL	Budget	Apr	May	Jun	Jun Trend¹	% of Trend	% of Budget
Total Revenue	4457.1	1120.8	1956.6	2286.1	1820.7	126%	42%
Total Expenditure	4492.1	1120.7	1442.6	1865.5	1752.1	106%	34%
Budget Balance	-35.0	0.1	514.0	420.6	68.6		
% of GDP	-0.2%	0.0%	2.9%	2.4%	0.4%		

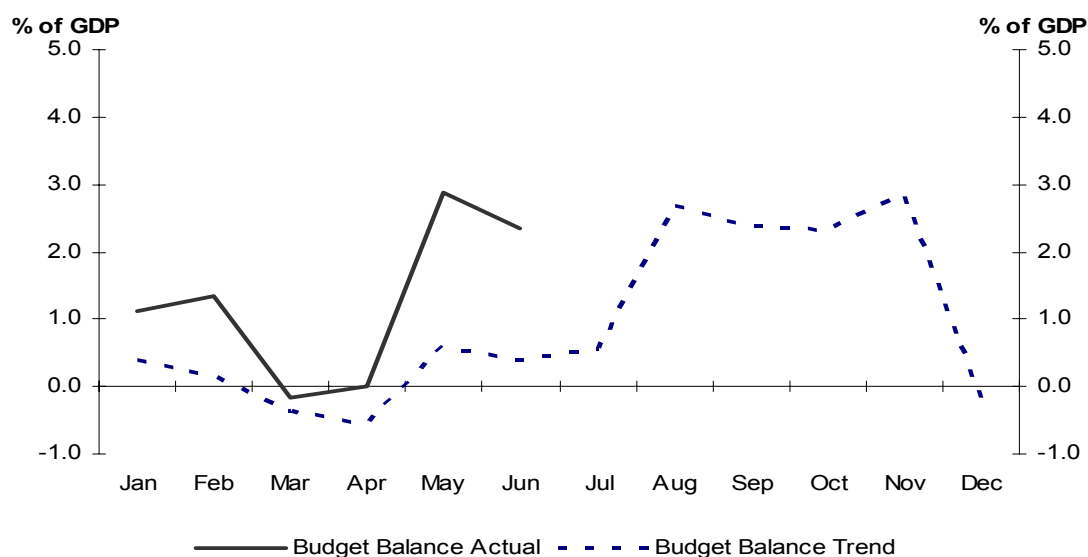
Source: Department of Treasury (based on Treasury Management System reports)

Total GoPNG revenue was well above trend to June 2007, with collections 26 per cent above the trend required to meet 2007 Budget estimates.

Total GoPNG expenditure is on trend to the June 2007 outturn and represents only 42 per cent of the 2007 Budget.

Overall, the Government’s Budget position was a surplus of K420.6 million or 2.4 per cent of GDP, compared with the expected (trend) surplus of K68.6 million or 0.4 per cent of GDP if we were on target to meet the 2007 Budget target of a K33.0 million (or 0.2 percent of GDP) deficit. The evolution of the Budget Balance as depicted in Chart 14 reflects the actual budget balance incurred against the anticipated monthly trend base on the 2007 Original Budget.

¹ Trend is the average Revenue and Expenditure pattern over the last 7 years (2000-06) and applied to the 2007 Budget.

Chart 14: Evolution of the GoPNG Budget Balance – Actual vs Trend

Source: Department of Treasury

2. Revenue and Grants

Total Revenue (GoPNG)

Total GoPNG revenue was well above trend in the June Fiscal Outturn of 2007.

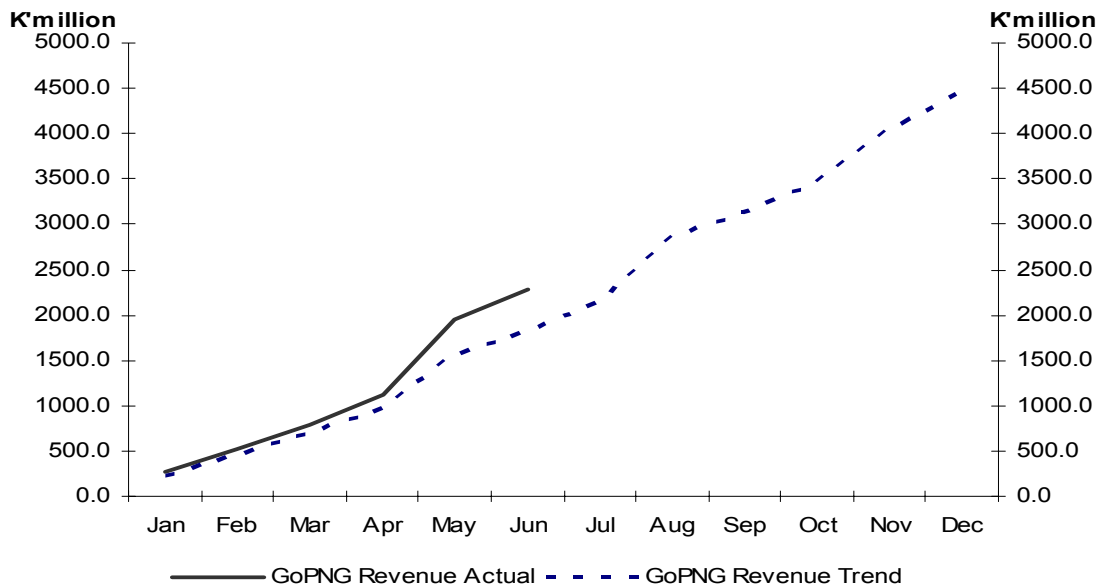
Tax receipts in the June 2007 Outturn were K2253.9 million, which is 32 per cent above trend. This is primarily attributable to the receipt of a larger than expected instalments of mining and petroleum taxes, company taxes, and personal income taxes. All domestic tax heads as well as all taxes on international trade performed better than trend.

More generally, most tax revenue items recorded collections at or above trend to June, reflecting continued strong economic conditions and continued good performance by the Internal Revenue Commission in ensuring compliance. Notably exceptions were interest withholding tax (reflecting lower interest rates), dividend withholding tax (reflecting lower payments of dividends in the first half of 2007).

Non-tax revenue receipts for the June Outturn were K32.2 million, which is 29 per cent of trend. This is primarily attributable to lower mining and petroleum dividends and to a lesser extent, lower departmental revenues.

Tax Credits and Grants

While not technically PNG Government revenue, project support grants from donors and infrastructure tax credits are included in Budget estimates of revenue and expenditure in order to give a better picture of the total resources applied to development in Papua New Guinea.

Chart 15: Actual Revenue against the Trend

Source: Department of Treasury

Unfortunately, tax credits utilized are only partially recorded on the Government's accounting system, making it difficult to assess progress in the implementation of this program, and the only grants report received from donors are recorded on a quarterly basis making it difficult to assess its implementation on a monthly basis.

Infrastructure tax credits of K7.3 million are recorded as being utilized in the June Outturn, which is 17 per cent of trend and Project support grants from donors totalled K208.2 million (AusAID first quarter report) which is 50 per cent above trend.

Total revenue and grants were K2501.6 million at the end of June 2007. This is higher than the trend expected at K2001.8 million by 25 per cent.

3. Expenditure and Net Lending

Total Expenditure (GoPNG)

National Departments' recurrent expenditure totalled K845.9 million as at June 2007. This is 2 per cent above trend, and represents 44 per cent of the 2007 Budget appropriation.

National Departments' personnel emoluments expenditure was K359.2 million in June Outturn, compared to the K358.9 million anticipated in trend expenditure. This expenditure head is on trend.

National Departments' general goods and services expenditure was K432.1 million in the June Outturn. This is 12 per cent above trend and represents 46 per cent of the 2007 Budget appropriation.

Grants to Provincial Governments totalled K309.7 million in June compared to K291.2 million in trend expenditure.

Provincial Government personnel emoluments expenditure (including teachers) was K258.5 million in the June Outturn compared to K 233.5 million anticipated in trend.

Provincial Government goods and services grant expenditure totalled K33.2 million in the June Outturn compared to K34.5 million in trend expenditure.

Autonomous Bougainville Government totalled K28.2 million compared to K11.9 million on a prorated basis, being 56 per cent of its 2007 total budget appropriation.

Transfers to Statutory Authorities totalled K113.6 million in the June 2007 Outturn. This is 7 per cent above trend and is 51 per cent of the 2007 Budget appropriation

Interest payments and fees totalled K197.0 million in the June Outturn or is 20 per cent below trend representing 41 per cent of its total 2007 budget appropriation.

Domestic development expenditure in the June Outturn turned out to be K237.5 million, which is 38 per cent above trend, representing 65 per cent of the budget.

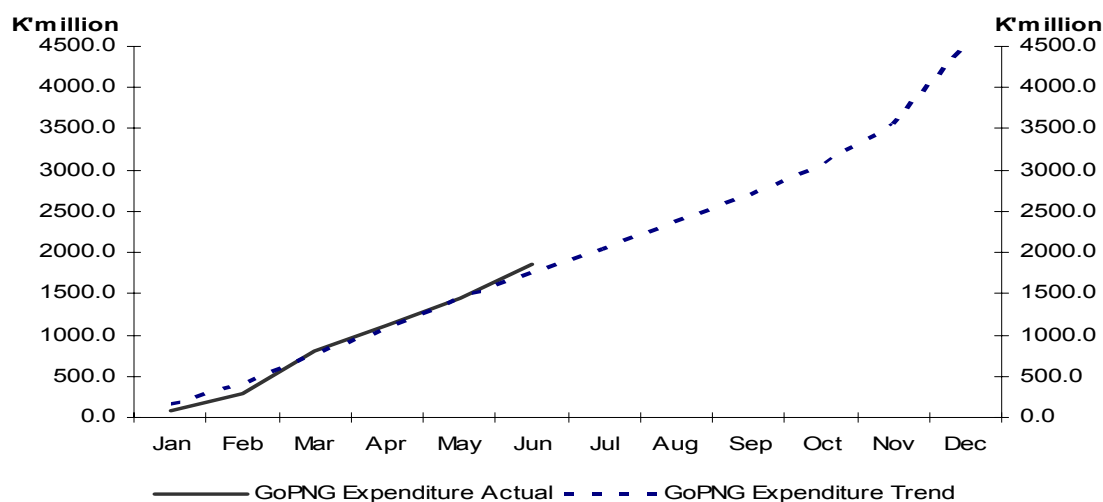
Draw downs on concessional project loans in the June Outturn were K44.4 million, which is 53 per cent above trend, and 27 per cent of the 2007 Budget appropriation.

Tax Credits and Grants

As noted above, while not technically PNG Government expenditure, project support grants from donors and infrastructure tax credits are included in Budget estimates of revenue and expenditure in order to give a better picture of the total resources applied to development in Papua New Guinea.

Unfortunately, tax credits utilized are only partially recorded on the Government's accounting system, making it difficult to assess progress in the implementation of this program, and the only grants report received from donors are recorded on a quarterly basis making it difficult to assess its implementation on a monthly basis.

Chart 16: Actual Expenditure and Net Lending against the Trend



Source: Department of Treasury

Infrastructure tax credits of K7.3 million are recorded as being utilized in the June Outturn, which is 17 per cent of trend and Project support grants from donors totalled K208.2 million (AusAID first quarter report) which is 50 per cent above trend.

Expenditure of funds totalling K450.0 million appropriated under the Additional Priority Expenditure in Department 207 will be provided in a separate report. Note that funds have been transferred out of Department 207 to its various ear-marked programs. As at June 2007, K15.0 million remains in Department 207.

Overall total expenditure and net lending for the June Outturn were K2081.0 million compared to the trend estimate of K1933.1 million. This is 8 per cent higher than the trend, representing 38 per cent of the 2007 Budget appropriation.

4. Financing

A Budget surplus of K420.6 million (or 2.4 per cent of GDP) was recorded in the June 2007 Outturn, compared to the expected (trend) surplus of K68.6 million (or 0.4 per cent of GDP).

Net external outflows totalled K72.2 million and net domestic market borrowing totalled an outflow of K348.4 million.

Based on TMS Rundate:19/07/07

Last Updated: 02/08/07

Table 6: **CENTRAL GOVERNMENT REVENUE & GRANTS**

Kina, million

	2007 Budget	Mar Outturn	May Outturn	June Actual	June Outturn	June Trend	% of Trend	% of Budget
A. TAX REVENUE	4,129.9	757.5	1,925.2	328.7	2,253.9	1,708.9	132%	55%
A1. TAX ON INCOME AND PROFITS	3,071.6	435.2	1,370.4	209.4	1,579.8	1,196.0	132%	51%
Personal Income Tax	890.3	286.9	435.8	71.7	507.5	440.2	115%	57%
Company Tax	511.7	74.1	264.9	18.9	283.8	178.9	159%	55%
Dividend Withholding Tax	168.1	22.7	36.7	7.1	43.8	76.3	57%	26%
Interest Withholding Tax	21.9	4.3	7.1	2.4	9.5	12.9	73%	43%
Mining and Petroleum Taxes	1,292.8	0.0	541.9	98.7	640.5	392.6	163%	50%
Gaming Tax	106.0	30.1	50.4	3.7	54.1	52.0	104%	51%
Other: Direct	80.8	17.1	33.6	7.0	40.6	43.1	94%	50%
A2. DOM. TAXES ON GOODS AND SERVICES	758.0	233.7	399.1	77.7	476.8	362.7	131%	63%
Excise	309.8	84.0	137.7	34.3	172.0	147.2	117%	56%
GST	420.0	127.0	230.7	40.0	270.7	202.0	134%	64%
Mining Levy	25.6	22.2	29.6	3.3	32.9	11.8	278%	128%
Other: Indirect	2.6	0.4	1.2	0.1	1.3	1.7	75%	49%
A3. TAXES ON INTERNATIONAL TRADE	300.3	88.6	155.7	41.6	197.3	150.2	131%	66%
Import Duty	96.9	27.0	51.7	12.6	64.3	47.9	134%	66%
Export Duty	118.0	42.4	67.4	19.7	87.1	57.7	151%	74%
Excise duties on Imports	85.4	19.2	36.6	9.3	45.9	44.5	103%	54%
B. NON-TAX REVENUE	327.2	20.6	31.4	0.8	32.2	111.8	29%	10%
B1. PROPERTY INCOME	242.8	10.0	10.0	0.0	10.0	75.2	13%	4%
Dividends	73.5	10.0	10.0	0.0	10.0	7.8	128%	14%
Mining and Petroleum Dividends	169.3	0.0	0.0	0.0	0.0	67.4	0%	0%
B2. INTEREST AND FEES FROM LENDING	2.6	0.2	0.2	0.0	0.2	1.1	21%	9%
B3. OTHER NON TAX REVENUE	81.8	10.4	21.1	0.8	21.9	35.5	62%	27%
B4. ASSETS SALES	0.0	0.0	0.0	0.0	0.0	0.0	...	...
C. TOTAL REVENUE	4,457.1	778.1	1,956.6	329.5	2,286.1	1,820.7	126%	51%
% of GDP	24.9%	4.4%	10.9%	1.8%	12.8%	10.2%	126%	51%
D. INFRASTRUCTURE TAX CREDIT	85.4	2.9	4.8	2.5	7.3	42.7	17%	9%
E. GRANTS	879.1	208.2	208.2	0.0	208.2	138.3	150%	24%
Budgetary Support	0.0	0.0	0.0	0.0	0.0	0.0	...	...
Project Grants	879.1	208.2	208.2	0.0	208.2	138.3	150%	24%
F. TOTAL REVENUE AND GRANTS	5,421.6	989.1	2,169.6	332.0	2,501.6	2,001.8	125%	46%
As % of GDP	30.3%	5.5%	12.1%	1.9%	14.0%	11.2%	125%	46%
G. PRINCIPAL RECEIPTS FROM LENDING	6.0	1.4	1.9	0.0	1.9	1.9	100%	31%
H. GROSS BORROWING	2277.7	160.0	121.2	101.8	223.0	555.9	40%	10%
I. ASSET SALES	0.0	0.0	0.0	0.0	0.0	0.0	...	...
J. TOTAL RECEIPTS	7,705.3	1,150.4	2,292.6	433.8	2,726.4	2,559.6	107%	35%
As % of GDP	43.1%	6.4%	12.8%	2.4%	15.2%	14.3%	107%	35%

Source: Treasury

**Table 7: CENTRAL GOVERNMENT
EXPENDITURE
(Kina, Million)**

	2007 Budget	Mar Outturn	May Outturn	June Actual	June Outturn	June Trend	% of Trend	% of Budget
1 RECURRENT BUDGET								
A. NATIONAL DEPARTMENTS	1,929.2	380.4	586.6	259.3	845.9	830.5	102%	44%
Personnel Emoluments	816.2	171.1	262.3	96.9	359.2	358.8	100%	44%
Total Goods & Services	1,112.9	209.3	324.3	162.3	486.7	471.7	103%	44%
General Goods & Services	948.4	189.8	276.2	155.8	432.1	385.6	112%	46%
Education Subsidies	43.0	10.4	24.7	0.6	25.3	25.3	100%	59%
Arrears Payments	0.0	0.0	0.0	0.1	0.1	0.0	...	...
SAP Payments	69.6	0.3	2.3	2.2	4.5	34.8	13%	7%
Court Orders	52.0	8.8	21.1	3.6	24.7	26.0	95%	47%
B1. PROVINCIAL GOVERNMENTS	696.6	149.3	264.0	45.6	309.7	291.2	106%	44%
Personnel Emoluments	576.0	128.8	214.5	44.0	258.5	233.5	111%	45%
Staffing Grants	156.4	47.3	72.4	11.1	83.5	73.6	113%	53%
Teachers Salaries	419.6	81.5	142.1	32.9	175.1	159.9	109%	42%
Goods & Other Services	63.4	12.5	32.4	0.8	33.2	34.5	96%	52%
Administration Grants	14.2	4.0	6.6	0.7	7.2	7.1	101%	51%
Health Function Grant	13.4	3.2	6.0	0.1	6.1	6.6	92%	46%
Education Subsidies	21.6	1.9	13.2	0.0	13.2	12.9	102%	61%
Derivation Grants	14.2	3.4	6.6	0.0	6.6	7.8	85%	47%
Conditional Grants	57.2	7.9	17.1	0.9	17.9	23.2	77%	31%
Trans/Infra/Maint. Grants	15.3	4.0	7.2	-0.4	6.8	7.3	93%	44%
Local & Village Services Grants	32.5	3.1	8.5	0.1	8.6	11.4	76%	27%
Town & Urban Services Grants	7.2	0.3	0.4	1.1	1.5	3.4	43%	20%
Village Courts	2.2	0.6	1.0	0.0	1.0	1.1	94%	47%
B2. AUTONOMOUS BOUGAINVILLE GOVT	50.7	9.2	25.4	2.8	28.2	11.9	237%	56%
Police Grant	2.5	0.6	0.6	0.0	0.6	1.3	47%	24%
Recurrent Grant	48.0	8.6	24.8	2.8	27.6	10.6	260%	58%
Conditional Grants	0.2	0.0	0.0	0.0	0.0	0.1	0%	0%
C. TRANSFERS & LOANS TO C.S.A	221.6	63.8	101.1	12.5	113.6	106.4	107%	51%
D. INTEREST PAYMENT & FEES	475.9	99.4	130.8	66.2	197.0	247.5	80%	41%
Domestic	358.8	71.6	77.0	63.5	140.5	188.7	74%	39%
External	117.1	27.8	53.8	2.7	56.5	58.8	96%	48%
E. NET LENDING TO C.S.A	-4.0	-1.4	-1.9	0.0	-1.9	-1.9	100%	46%
Gross Lending	0.0	0.0	0.0	0.0	0.0	0.0	...	...
Less : Loan Repayments	4.0	1.4	1.9	0.0	1.9	1.9	100%	46%
F. RECURRENT EXPENDITURE & NET LENDING	3,370.0	700.7	1,106.1	386.4	1,492.5	1,485.6	100%	44%
As % of GDP	18.8%	3.9%	6.2%	2.2%	8.3%	8.3%	100%	44%
2 DEVELOPMENT BUDGET								
Domestic Funds	509.1	89.3	299.7	28.9	328.6	237.5	138%	65%
Project Grants	879.1	208.2	208.2	0.0	208.2	138.3	150%	24%
Infrastructure Tax Credits	85.4	2.9	4.8	2.5	7.3	42.7	17%	9%
Concessional loans	163.0	19.4	36.8	7.6	44.4	29.0	153%	27%
Commercial loans	0.0	0.0	0.0	0.0	0.0	0.0	...	...
G. TOTAL DEVELOPMENT BUDGET (PIP)	1,636.6	319.7	549.5	39.0	588.5	447.5	132%	36%
As % of GDP	9.2%	1.8%	3.1%	0.2%	3.3%	2.5%	132%	36%
ADDITIONAL PRIORITY EXPENDITURE	450.0	0.0	13.1		13.1			
H. TOTAL EXPENDITURE & NET LENDING	5,456.7	1,020.5	1,655.6	425.4	2,081.0	1,933.1	108%	38%
As % of GDP	30.5%	5.7%	9.3%	2.4%	11.6%	10.8%	108%	38%
I. AMORTISATION	2242.7	128.6	635.2	8.3	643.5	696.7	92%	29%
Domestic	1996.0	74.0	526.9	0.0	526.9	566.6	93%	26%
External	246.7	54.6	108.3	8.3	116.6	130.1	90%	47%
J. LOAN REPAYMENTS	4.0	1.4	1.9	0.0	1.9	1.9	100%	46%
K. TOTAL PAYMENTS	7,703.4	1,150.4	2,292.6	433.8	2,726.4	2,631.7	104%	35%
As % of GDP	43.1%	6.4%	12.8%	2.4%	15.2%	14.7%	104%	35%

Source: Treasury

Table 8: **CENTRAL GOVERNMENT FINANCING**
(Kina, million)

	2007 Budget	Mar Outturn	May Outturn	June Actual	June Outturn	June Trend	% of Trend	% of Budget
A. TOTAL REVENUE AND GRANTS	5,421.6	989.1	2,169.6	332.0	2,501.6	2,001.8	125%	46%
B. TOTAL EXPENDITURE AND NET LENDING	5,456.6	1,020.5	1,655.6	425.4	2,081.0	1,933.1	108%	38%
C. DEFICIT (-) / SURPLUS (+)	-35.0	-31.4	514.0	-93.4	420.6	68.6	na	na
% of GDP	-0.2%	-0.2%	2.9%	-0.5%	2.4%	0.4%		
D. EXTERNAL FINANCING	-83.7	-35.1	-71.4	-0.8	-72.2	-87.5	na	na
D1. CONCESSIONAL FINANCING	-4.3	-11.1	-2.1	5.2	3.1	-59.7	na	na
New Borrowing	163.0	19.4	36.8	7.6	44.4	29.0	153%	27%
Less Amortisation	-167.3	-30.5	-38.9	-2.4	-41.3	-88.7	47%	25%
D2. COMMERCIAL FINANCING	-18.2	0.0	-7.8	0.0	-7.8	-9.3	na	na
New Borrowing	0.0	0.0	0.0	0.0	0.0	0.0	...	...
Less Amortisation	-18.2	0.0	-7.8	0.0	-7.8	-9.3	84%	43%
D3. EXCEPTIONAL FINANCING	-61.2	-24.0	-61.5	-6.0	-67.5	-18.6	na	na
New Borrowing	0.0	0.0	0.0	0.0	0.0	0.0	...	...
Less Amortisation	-61.2	-24.0	-61.5	-6.0	-67.5	-18.6	363%	110%
E. DOMESTIC FINANCING	118.7	66.5	-442.5	94.2	-348.4	18.9	na	na
E1. DOMESTIC MARKET BORROWING (NET)	118.7	203.0	-72.5	48.0	-24.5	229.3	na	na
New Domestic Borrowing	2114.7	277.0	454.4	48.0	502.4	737.4	68%	24%
Less Amortisation	-1996.0	-74.0	-526.9	0.0	-526.9	-508.0	104%	26%
E2. OTHER DOMESTIC FINANCING (b)	0.0	-136.5	-370.0	46.2	-323.9	-210.4	na	na
E3. ASSETS SALES FINANCING	0.0	0.0	0.0	0.0	0.0	0.0	...	...
E4. NET FINANCING	0.0	0.0	0.0	0.0	0.0	0.0	...	...
F. TOTAL FINANCING	35.0	31.4	-514.0	93.4	-420.6	-68.6	na	na
G. GROSS BORROWING	2277.7	160.0	121.2	101.8	223.0	555.9	40%	10%
Concessional	163.0	19.4	36.8	7.6	44.4	29.0	153%	27%
Commercial	0.0	0.0	0.0	0.0	0.0	0.0	...	...
Exceptional	0.0	0.0	0.0	0.0	0.0	0.0	...	...
Domestic	2114.7	140.5	84.4	94.2	178.5	526.9	34%	8%
Financing Gap	0.0	0.0	0.0	0.0	0.0	0.0	...	...

Source: Treasury