TREASURY ECONOMIC MONITOR

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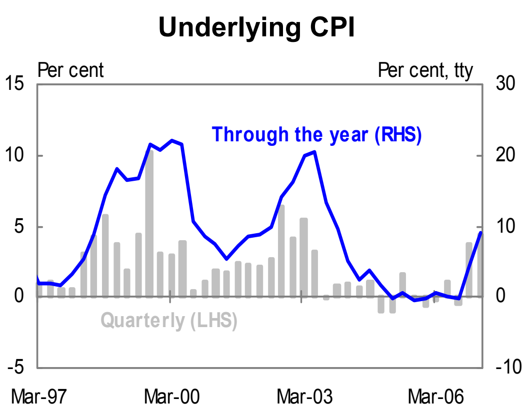

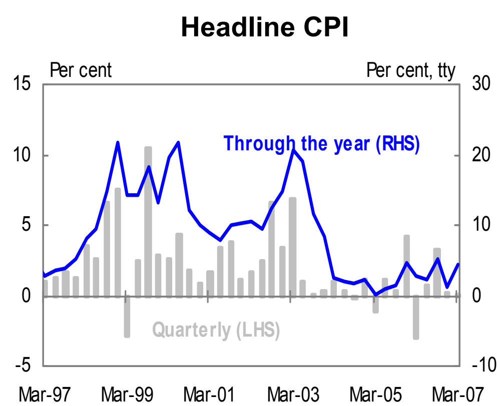

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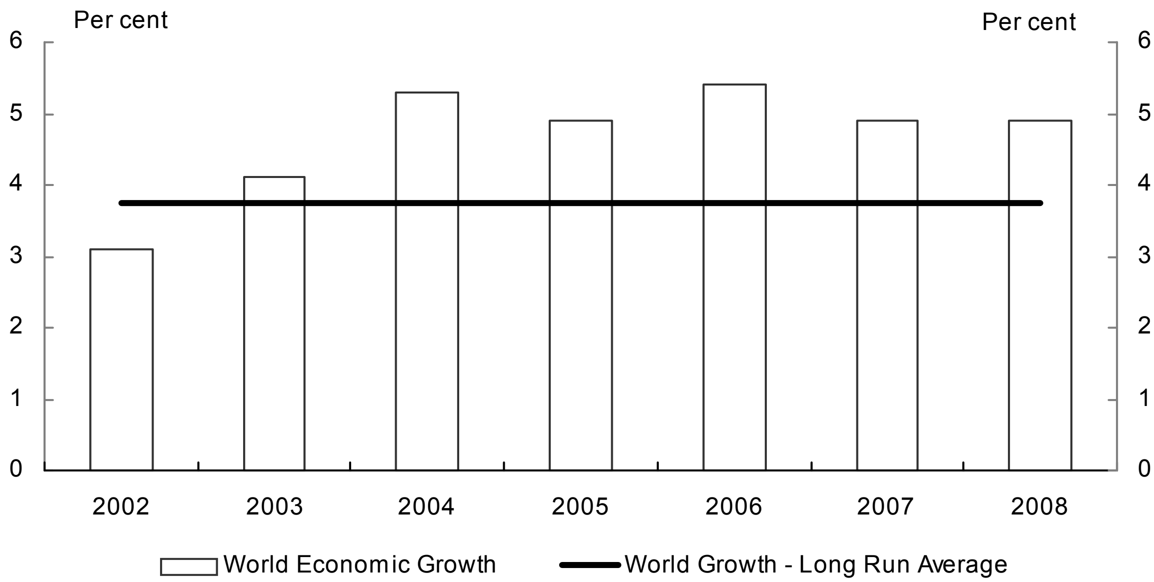
1. THE INTERNATIONAL ECONOMIC OUTLOOK

Global economy continued to expand vigorously in 2006 with strong growth in advanced economies and rapid growth in emerging markets pushing growth beyond 5 per cent. According to the April *World Economic Outlook*, world economy is expected to grow robustly in 2007 and 2008 however with a moderate deceleration as growth in US, Euro areas and Japan slow down. Nonetheless World Economy Growth is expected to be moderated to 4.9 per cent in 2007 and 2008 as the US housing market gradually dissipates from its drag, euro areas move to fiscal consolidation and concerns of over heating moderate growth in China and India from very high rates of 2006.

Chart 1: World Economic Growth



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

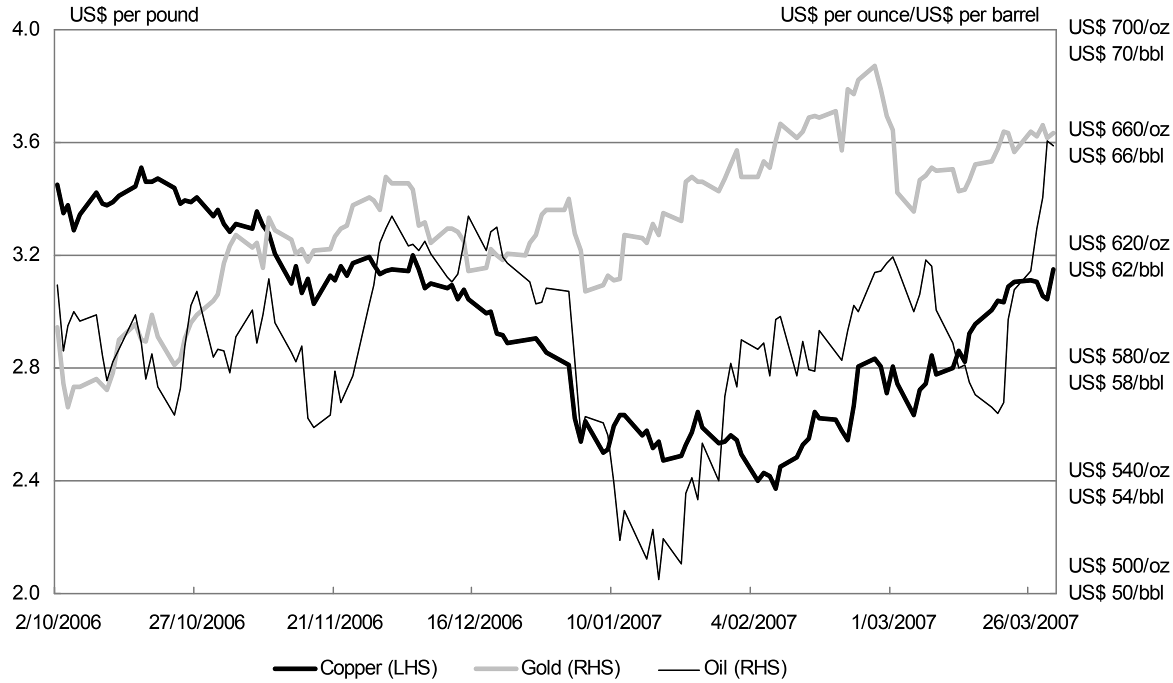
1.1 Commodity Markets

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

World copper price picked up in the March quarter of 2007 however remained low compared to the December quarter of 2006. In average terms World copper price fell by 16 per cent during the March quarter to US$2.7 per pound. According the April *World Economic Outlook* the fall in copper prices since mid-2006 is partly due to the slowdown in US housing market and a weaker demand from China.

The World gold price surged further in the March quarter 2007 after a strong performance in December quarter 2006. In quarterly average terms, World gold price increased by 5.8 per cent in the March quarter, to US$650.0 per ounce. Crude oil prices also strengthened in the March quarter however remained volatile and sensitive to geopolitical concerns. In quarterly average terms, crude oil price fell by 3.2 per cent to US$57.9; however a surge in late March reflects the resurfacing of geopolitical tensions.

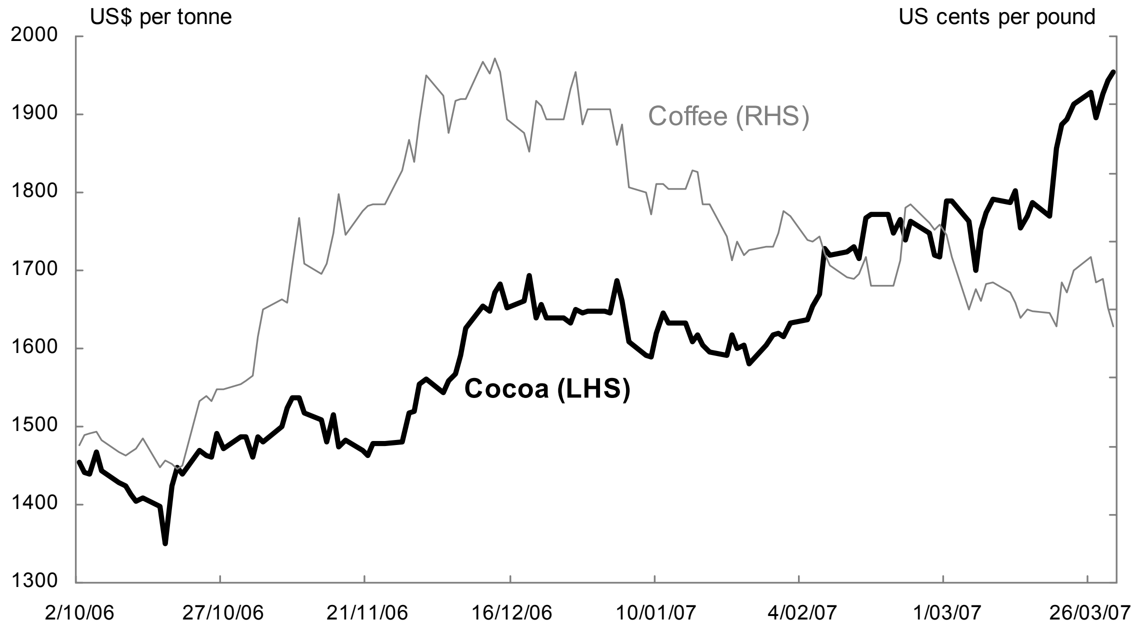
Chart 2: World Prices of PNG's Principal Mineral Commodity Exports



Source: Department of Treasury

For the World prices of Papua New Guinea's key agricultural commodity exports Treasury is only able to provide the prices for coffee and cocoa in this edition. Palm oil and copra prices not available.

Chart 3: World Prices for Cocoa and Coffee



Source: Department of Treasury

Stronger in the last quarter of 2006, World coffee price declined in the March quarter 2007. In average terms, coffee price rose by 0.8 per cent in March quarter, to US124.7 cents per pound.

World cocoa prices continued to surge higher in the March quarter 2007. In average terms cocoa price rose by 13 per cent in the March quarter 2007.

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 December quarter 2006, total private non-mineral sector employment rose by 8.6 per cent driven largely by employment growth in building and construction and supported by the wholsale and agriculture sectors. Employment in the mineral sector continued to increase in the December quarter 2006, up by 13.6 per cent over the December quarter 2005.

With all regions showing growth over 5 per cent through the year, employment in the non-mineral private sector was up 22.3 per cent as compared to base year March 2002. The mineral sector employment also continued to grow, up 17.2 per cent in the same period.

It still remains the case that only a relatively small proportion of the working age population is engaged in formal employment.

2.3 Prices

The inflation outcome for the March quarter 2007 shows that the underlying Consumer Price Index (CPI) rose by 4.4 per cent in the March quarter 2007, to be 9.2 per cent higher through the year, driven by increases in rents, council charges, fuel and power, and miscellaneous items.

- This is the second consecutive quarter of large increases in the CPI, with underlying inflation of 3.7 per cent in the December quarter 2006. This represents a significant acceleration in the rate of inflation, with the highest annual inflation figure since December 2003 (Chart 5).
- Treasury has some serious reservations about the accuracy of this report which appears to be overstating the increase in prices due to the errors in motor vehicle and tobacco prices. Nonetheless, with the amount of fiscal stimulus in the system, as well as the fact that money supply is growing at a very fast rate, it all points to concern about the inflation outlook.

The (typically) more volatile headline inflation increased by 0.1 per cent in the March quarter, to be 4.5 per cent higher through the year (Chart 6). The relatively modest increase in headline compared to underlying inflation is due to a sharp decline in the prices of seasonal produce.

Chart 4: Underlying CPI

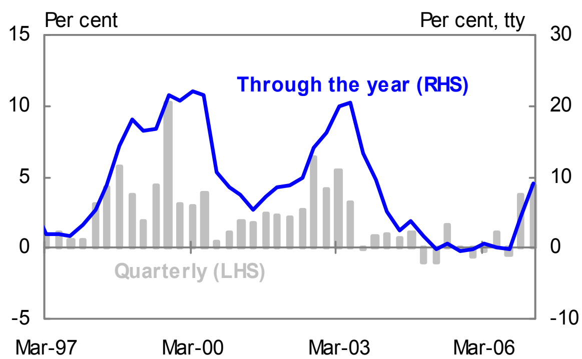
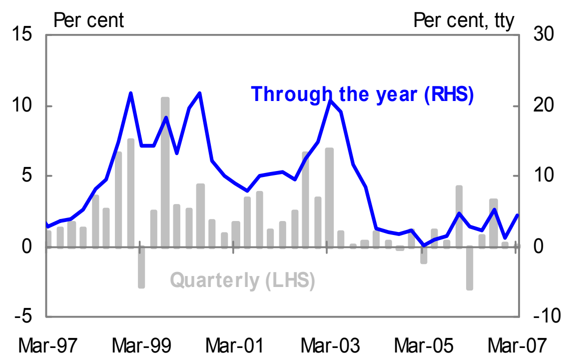


Chart 5: Headline CPI



Source: National Statistics Office

CPI by Expenditure Group

There was a sharp increase in *rent, council charges, fuel and power* prices in the March quarter (due to increased power prices), as well as a smaller increase in food prices. These increases were partially offset by large declines in prices of d*rink, tobacco and betelnut*, and *household equipment and operation* (Table 1).

Over the last year, increases in the CPI have been driven by exceptionally large price increases in *transport and communication*, as well as large increases in *miscellaneous*, and *clothing and footwear*. This has been partially offset by declines in *drink, tobacco and betelnut*, and *household equipment and operation* (Chart 7).

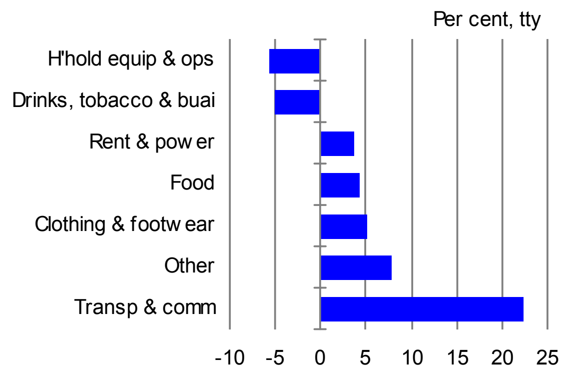
Table 1: Percentage Changes in CPI Expenditure Groups

	Quarterly	Through the year
Transport & Communication	1.1	22.3
Clothing &Footwear	-1.6	5.1
Miscellaneous	6.7	7.9
Drink, Tobacco & Betelnut	-6.6	-5.0
Household, Equipment & Operation	-5.8	-5.7
Food	2.6	4.3
Rents, Council Charges, Fuel & Power	9.7	3.7
Average Total CPI:	**0.1**	**4.5**

Source: National Statistical Office

The 22.3 per cent increase in transport and communication prices is due almost entirely to the 20.6 per cent increase in the December quarter, which does not appear accurate.

Chart 6: Through the year CPI by group



Source: National Statistics Office

Table 2: CPI by region

Region	Quarterly	Through the year
Port Moresby	2.1	9.7
Goroka	2.3	-3.4
Lae	-5.1	2.8
Madang	1.6	0.5
Rabaul	-1.9	-1.6
Total	**0.1**	**4.5**

CPI by Region

In quarterly terms, Goroka, Port Moresby and Madang recorded higher inflation outcomes while Rabaul and Lae recorded lower inflation rates in March 2007. Over the last year, Port Moresby, Lae and Madang have recorded increases in consumer prices, while prices in Goroka and Rabaul have fallen (Table 2).

Conclusion

According to the CPI, there has been a significant acceleration in inflation over the past 6 months, with underlying inflation averaging around 4 per cent in each quarter, resulting in through the year growth of 9.2 per cent. While these numbers may be inconsistent and should be treated with great caution, a continuation of the trend they are suggesting would be worrying.

Treasury has some reservations about the NSO's published CPI results which appear to be overstating the increase in prices due to inconsistencies in motor vehicle and tobacco prices.

Noting this, there is also the fiscal stimulus from the terms of trade boom and money supply growth that is also contributing to the high inflation outcome. If not headed off these factors are likely to create inflationary pressures.

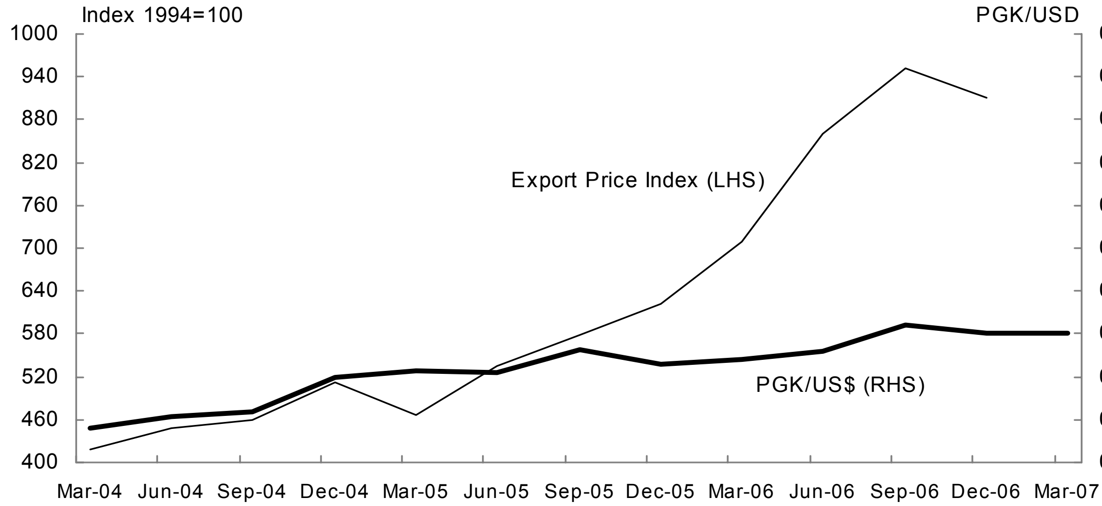
3. MONETARY DEVELOPMENTS

3.1 Exchange Rate Developments

The Kina has remained stable against the US dollar however it has depreciated slightly against the Australian Dollar in the March quarter of 2007.The Kina depreciated by 2.3 per cent against the Australian dollar in the first three months of 2007 due to the continued strengthening of the Australian dollar against most other currencies.

Chart 8 below continues to show that the terms of trade have increased by more than the exchange rate since 2004. Through the year to December 2006 Export price index has increased by another 46.6 per cent however in the last quarter of 2006 export price index fell by 4 per cent from the very high levels in September quarter 2006.This was due to the ease in commodity prices especially copper in the last three months of 2006. Nonetheless the terms of trade remain well above historical levels for the 2006 with a steady response in exchange rate.

Chart 7: Export Price Index and Exchange Rate Movements

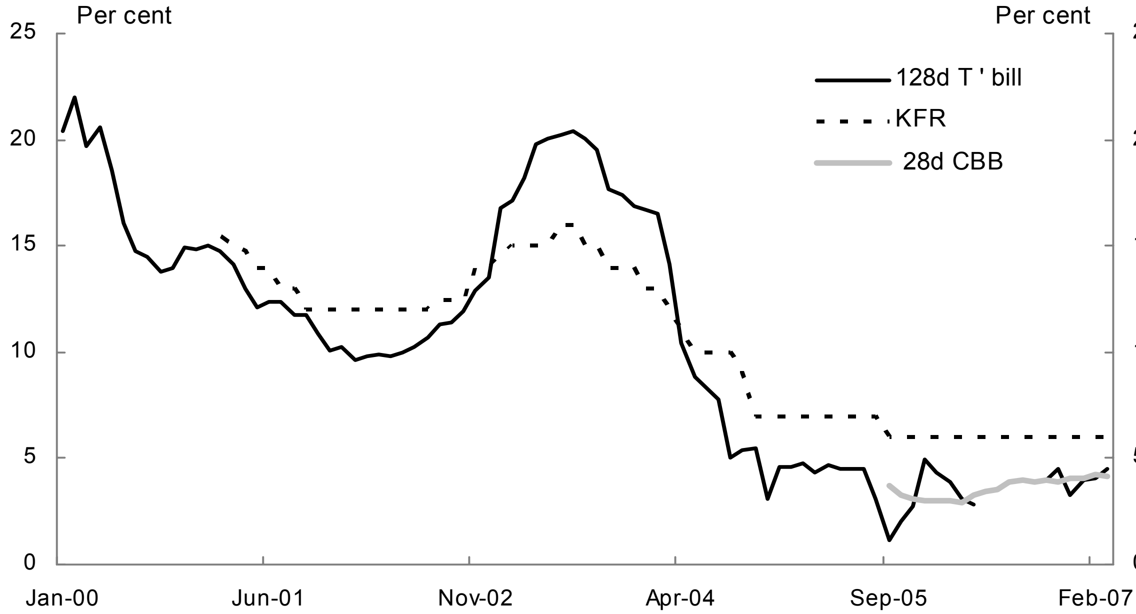


Source: Bank of Papua New Guinea, *Quarterly Economic Bulletin*.

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 – remained unchanged at 6 per cent as in the year 2006. Treasury bills increased slightly in the quarter, but remain below the KFR benchmark.

Chart 8: Kina Facility Rate (KFR) vs T' bills and CBB

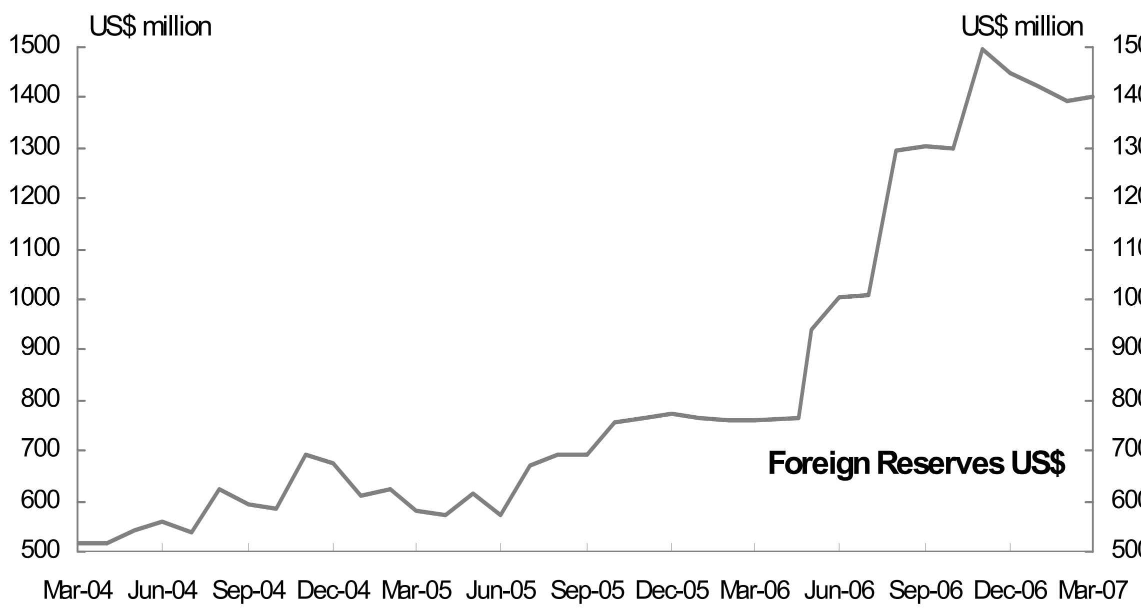


Source: Bank of Papua New Guinea, *Quarterly Economic Bulletin*

3.3 Foreign Reserves

Foreign Reserves for end March 2007 totalled K4,219.0 million (US$1,400.6 million) compared to K2,313.4 million (US$761.1 million) for March 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 9: Foreign Reserves (US$ millions)



Source: Bank of Papua New Guinea

4. COMMODITIES

Table 3: Total Export Values for Commodities

TOTAL EXPORTS	End year 2005			End year 2006			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)	44.2	1448.9	198.7	44	1520.0	204.4	-0.5	4.9	2.9
Coffee (000 tonnes)	72.1	2.11	471	52.3	2.11	337	-27.5	0.1	-28.5
Copra Oil(a) (000 tonnes)	76.7	466.4	111.0	54.2	414.7	68.7	-29.3	-11.1	-38.1
Copra Oil	*54.4*	*555.1*	*93.7*	*41.5*	*476.2*	*60.4*	*-23.7*	*-14.2*	*-35.5*
Copra	*22.3*	*250.0*	*17.3*	*12.7*	*213.8*	*8.3*	*-43.0*	*-14.5*	*-52.0*
Palm Oil (000 tonnes)	345.8	364.8	391.4	362.3	386.4	427.9	4.8	5.9	9.3
Other Agriculture(b)	n.a.	n.a.	281	n.a	n.a	269.1	n.a	n.a	-4.2
Tea	6.9	94.4	20.2	6.6	105.1	21.2	-4.3	11.4	5.0
Rubber	4.8	1208.6	18	4.4	177.0	23.8	-8.3	-85.4	32.2
Other(c)	n.a.	n.a.	242.8	n.a	n.a	224.1	n.a	n.a	-7.7
Forest Products (including logs)	n.a.	n.a.	476.3	n.a	n.a	520.3	n.a	n.a	9.2
Logs	n.a.	n.a.	404.9	n.a	n.a	491	n.a	n.a	21.3
Marine Products	n.a.	n.a.	69.4	n.a	n.a	89.1	n.a	n.a	28.4
Agriculture,Forestry and Fishing Exports			**1998.8**			**1916.5**			-4.1
MINERALS									
Gold (000 oz)	2521.3	362.3	2834.1	1995.6	503.3	3069.4	-20.9	38.9	8.3
Copper (000 tonnes)	226.1	3560.4	2497.7	216.7	6537.2	4329.5	-4.2	83.6	73.3
Oil (m barrels)	13.3	55.3	2283.1	14.4	67.4	2967.3	8.3	21.9	30.0
Refined Petroleum Products	n.a	n.a	496.8	n.a	n.a	263.9	n.a	n.a	-46.9
Mineral Exports(d)			**8111.7**			**10630.1**			31.0
TOTAL EXPORTS			**10110.5**			**12546.6**			24.1

(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	2005	2006
USD/PGK	0.3223	0.3272

Source: Bank of Papua New Guinea and Department of Treasury

Total export values increased by 24.1 per cent in the year 2006 as compared to the year end 2005.This increase reflects the continued high export values from the mineral sector during the year which largely offsets the continued low export values from the agriculture, forestry and fishing sectors.

Exports from the agriculture, forestry and fishing sector fell by 4.1 per cent to K1,916.5 million at December 2006 compared to K1,998.8 million in 2005. This decline reflects the low export values from copra, copra oil and coffee due to the volcanic eruptions in late 2006 which affected the copra productions and a biannual season for coffee (off season for coffee).

Mineral sector continued to drive the increase in 2006 with a 31.0 per cent rise in export value to K10,630.1 million from K8,111.7 million in 2005. 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 for the year ending 2006 recorded a surplus of K1,238 million compared to a surplus of K1,886 million in 2005. The lower surplus of 2006 reflects the high outflow from net service and income payments which more than offset the surplus from the trade account.

Table 4: Balance of Payments 2005 – 2006 (Kina Millions)

	2005	2006	Change
Current Account Balance	1886	1238	-648
Balance of Trade in Goods & Services	2753	3066	+313
Exports of Goods and Services	*11106*	*13529*	*+2423*
Imports of Goods and Services	*-8353*	*-10463*	*-2110*
Balance of Income	-1670	-2424	-754
Balance of Transfer	802	597	-205
Capital and Financial Account*	-1884	-1179	+705
Net Errors and Omissions	-1	-59	-58

Source: BPNG

*Includes changes in official reserves

The surplus in the Balance of Trade in Goods and Services was K3,066 million, K313 million higher in 2006 than in 2005. This is attributed to the higher merchandise trade account which recorded a surplus of K6,631 million in the year compared with a surplus of K5,436 million in the corresponding period of 2005.

The higher merchandise trade account surplus reflects higher export values of our major commodities due to the continuing high world market prices. The higher export values were from copper, crude oil gold, rubber, marine products, logs, tea and palm oil which more than offset the decline in values of copra, copra oil coffee and other non-mineral receipts.

The value of merchandise imports increased by 26.5 per cent to K5, 986 million in 2006 compared with K4,732 million in 2005. The increase reflects continued strong imports in all sectors.

The deficit in services trade increased at around 33 per cent to K3,566 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 K2,424 million in 2006 compared with a deficit of K1,670 million in 2005. The higher deficit was due to higher payments in compensation of employees, dividends and interest on foreign loans which more than offset higher income receipts.

The capital and financial accounts recorded a deficit of K1,179 million in 2006 compared with a deficit of K1,884 million in 2005. This lower deficit was due to an increase in net inflow of K763 million in 2006 compared to net outflows in 2005.

The level of gross foreign exchange reserves at end of December 2006 was K4,330.7 (US$1,450.8) 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

Technical Note:

This report outlines the fiscal performance for the March 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.

The table below summarises the fiscal outturn (in millions of kina) for the March 2007 Fiscal Outturn.

Table 5: Summary of Fiscal Outturn March 2007

TOTAL	Budget	Feb Outturn	Mar Outturn	Mar Trend	% of Trend	% of Budget
Revenue and Grants	5421.6	522.4	780.9	732.8	107%	14%
Expenditure and Net Lending	5454.6	283.1	812.3	798.4	102%	15%
Budget Balance	-33.0	239.3	-31.4	65.6		
% of GDP	-0.2%	1.3%	-0.2%	-0.4%		

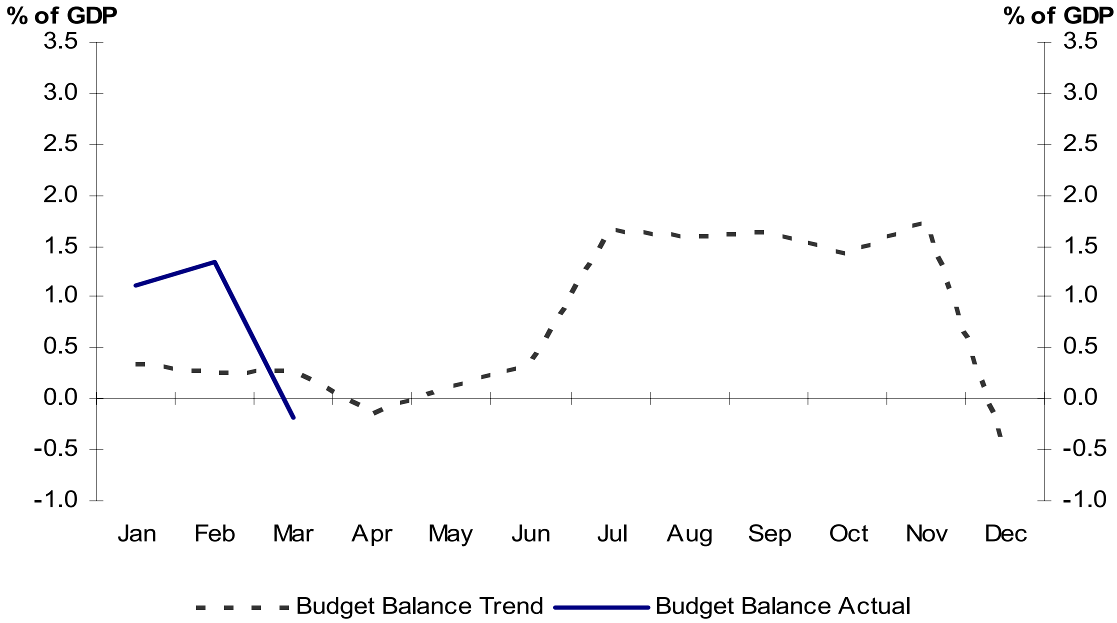
Source: Department of Treasury (based on Treasury Management System reports)

Total GoPNG revenue was well above trend to March 2007, with collections 7 per cent above the trend required to meet 2007 Budget estimates.

Total GoPNG expenditure has been higher and the March 2007 outturn indicates 2 per cent of trend.

Overall, the Government's Budget position was a deficit of K31.4 million or 0.2 per cent of GDP, compared with the expected (trend) deficit of K65.6 million or 0.4 per cent of GDP. The evolution of the Budget Balance as depicted in chart 10 below reflects the actual budget balance incurred against the anticipated monthly trend base on the 2007 Original Budget. The trend also reflects the impact of the high mining and petroleum prices.

Chart 10: Evolution of the Budget Balance – Actual vs Trend



Source: Department of Treasury

6.1 Revenue and Grants

Total Revenue (GoPNG)

Total GoPNG revenue was well above trend in the March Fiscal Outturn of 2007.
Tax receipts in the March 2007 Outturn were K757.5 million, which is 16 per cent above trend. This is primarily attributable to the receipt of a larger than expected instalments of company taxes, personal income taxes and gaming taxes. Major domestic tax heads also performed better than trend as well as import and export duties.

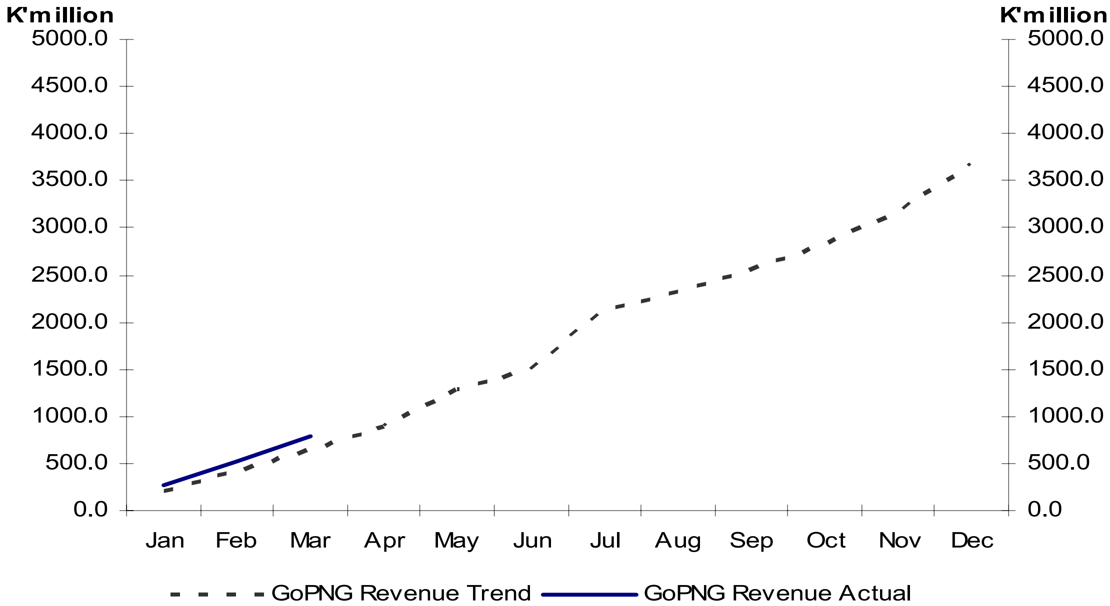
More generally, most tax revenue items recorded collections at or above trend to March, reflecting continued strong economic conditions and continued good performance by the Internal Revenue Commission in ensuring compliance. Notably exceptions were interest withholding tax (reflecting lower interest rates), dividend withholding tax (reflecting lower payments of dividends in early 2007), mining levy (reflecting its phasing out), and excise duty on imports (reflecting increased domestic production of refined fuel).

Non-tax revenue receipts for the March Outturn were K20.6 million, which is below trend by 50 per cent. 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 11: 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 asses its implementation on a monthly basis.

Infrastructure tax credits of K2.9 million are recorded as being utilized in the March Outturn, which is 21 per cent of trend and Project support grants from donors has yet to be recorded.

Total revenue and grants were K780.9 million at the end of March 2007. This is higher than the trend expected at K732.8 million by 7 per cent.

6.2 Expenditure and Net Lending

Total Expenditure (GoPNG)

National Departments' recurrent expenditure totalled K380.4 million as at March 2007. This is 1 per cent below trend, and represents 20 per cent of the 2007 Budget appropriation.

National Departments' personnel emoluments expenditure was K171.1 million in March Outturn, compared to the K159.3 million anticipated in trend expenditure, which is 7 per cent above trend. This was due to the backdated 4 per cent CPI payment to the PNG Defence force, Payments to the National Doctors Awards which was backdated to the beginning of 2007 and retrenchment payments were made in the month of March also.

National Departments' general goods and services expenditure was K189.8 million in the March Outturn. This is 8 per cent above trend and it represents 20 per cent of the 2007 Budget appropriation.

Grants to Provincial Governments totalled K149.3 million in March compared to K118.2 million in trend expenditure. This is due to retrenchment payments.

Provincial Government personnel emoluments expenditure (including teachers) was K128.8 million in the March Outturn compared to K 97.5 million anticipated in trend.

Provincial Government goods and services grant expenditure totalled K12.5 million in the March Outturn compared to K11.2 million in trend expenditure.

Transfers to Statutory Authorities totalled K63.8 million in the March 2007 Outturn. This is 23 per cent above trend and is 29 per cent of the 2007 Budget appropriation

Interest payments and fees totalled K99.4 million in the March Outturn and is 15 per cent below trend.

Domestic development expenditure in the March Outturn turned out to be K89.3 million, which is 13 per cent above trend.

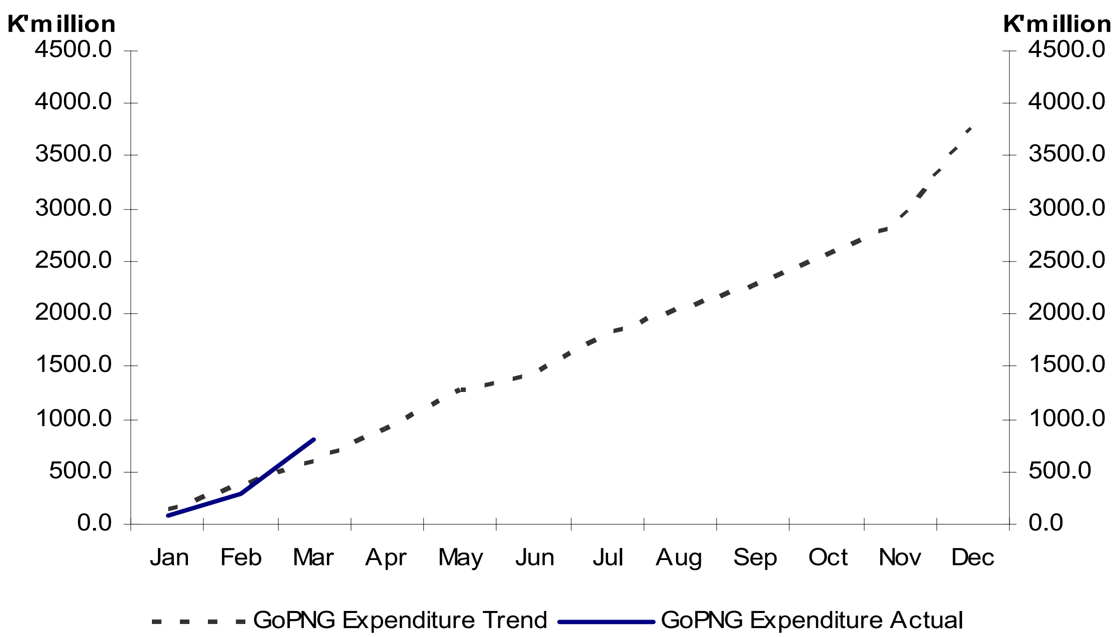
Draw downs on concessional project loans in the March Outturn were K19.4 million, which is well above trend but only 12 per cent of the 2007 Budget appropriation.

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 asses its implementation on a monthly basis.

Chart 12: Actual Expenditure and Net Lending against the Trend



Source: Department of Treasury

Infrastructure tax credits of K2.9 million are recorded as being utilized in the March Outturn, which is 21 per cent of trend and Project support grants from donors, are yet to be recorded.

Funds appropriated under the Additional Priority Expenditure, are yet to be recorded.

Overall total expenditure and net lending for the March Outturn were K812.3 million compared to the trend estimate of K798.4 million. This is 2 per cent higher than the trend, and 15 per cent of the 2007 Budget appropriation.

6.3 Financing

A Budget deficit of K31.4 million (or 0.2 per cent of GDP) was recorded in the March 2007 Outturn, compared to the trend deficit of K65.6 million (or 0.4 per cent of GDP).

Net external outflows totalled K35.1 million and net domestic market borrowing totalled an outflow of K203.0 million.

TABLE 6: CENTRAL GOVERNMENT REVENUE & GRANTS
(Kina, million)

		2007 Budget	Feb Outturn	Mar Actuals	Mar Outturn	Mar Trend	% of Trend	% of Budget
A.	**TAX REVENUE**	**4,129.9**	**502.2**	**255.3**	**757.5**	655.6	116%	18%
A1.	**TAX ON INCOME AND PROFITS**	**3,071.6**	**296.1**	**139.1**	**435.2**	415.1	105%	14%
	Personal Income Tax	890.3	179.7	107.2	286.9	228.4	126%	32%
	Company Tax	511.7	63.5	10.6	74.1	45.1	164%	14%
	Dividend Withholding Tax	168.1	16.8	5.9	22.7	31.6	72%	14%
	Interest Witholding Tax	21.9	2.5	1.8	4.3	5.1	85%	20%
	Mining and Petroleum Taxes	1,292.8	0.0	0.0	0.0	53.2	0%	0%
	Gaming Tax	106.0	20.5	9.6	30.1	25.7	117%	28%
	Other: Direct	80.8	13.1	3.9	17.1	26.1	65%	21%
A2.	**DOM. TAXES ON GOODS AND SERVICES**	**758.0**	**156.4**	**77.3**	**233.7**	168.2	139%	31%
	Excise	309.8	56.6	27.5	84.0	72.1	117%	27%
	GST	420.0	85.0	42.0	127.0	88.5	144%	30%
	Mining Levy	25.6	14.6	7.7	22.2	6.2	356%	87%
	Other: Indirect	2.6	0.2	0.1	0.4	1.4	28%	15%
A3.	**TAXES ON INTERNATIONAL TRADE**	**300.3**	**49.7**	**38.9**	**88.6**	72.2	123%	29%
	Import Duty	96.9	15.2	11.7	27.0	19.9	135%	28%
	Export Duty	118.0	22.3	20.1	42.4	30.1	141%	36%
	Excise duties on Imports	85.4	12.2	7.0	19.2	22.2	87%	22%
B.	**NON-TAX REVENUE**	**327.2**	**18.2**	**2.4**	**20.6**	41.6	50%	6%
B1.	**PROPERTY INCOME**	**242.8**	**10.0**	**0.0**	**10.0**	24.9	40%	4%
	Dividends	73.5	10.0	0.0	10.0	1.0	965%	14%
	Mining and Petroleum Dividends	169.3	0.0	0.0	0.0	23.9	0%	0%
B2.	**INTEREST AND FEES FROM LENDING**	**2.6**	**0.0**	**0.2**	**0.2**	0.7	34%	9%
B3.	**OTHER NON TAX REVENUE**	**81.8**	**8.1**	**2.2**	**10.4**	15.9	65%	13%
B4.	**ASSETS SALES**	**0.0**	**0.0**	**0.0**	**0.0**	0.0	..	..
C.	**TOTAL REVENUE**	**4,457.1**	**520.4**	**257.7**	**778.1**	697.2	112%	17%
	% of GDP	24.9%	2.9%	1.4%	4.4%	3.9%	112%	17%
D.	**INFRASTRUCTURE TAX CREDIT**	**85.4**	**2.1**	**0.8**	**2.9**	13.5	21%	3%
E.	**GRANTS**	**879.1**	**0.0**	**0.0**	**0.0**	**22.1**	0%	0%
	Budgetary Support	0.0	0.0	0.0	0.0	0.0	..	..
	Project Grants	879.1	0.0	0.0	0.0	22.1	0%	0%
F.	**TOTAL REVENUE AND GRANTS**	**5,421.6**	**522.4**	**258.5**	**780.9**	732.8	107%	14%
	As % of GDP	30.3%	2.9%	1.4%	4.4%	4.1%	107%	14%
G.	**PRINCIPAL RECEIPTS FROM LENDING**	**6.0**	**1.1**	**0.3**	**1.4**	1.0	138%	23%
H.	**GROSS BORROWING**	**2275.7**	**-189.1**	**349.0**	**160.0**	286.1	56%	7%
I.	**ASSET SALES**	**0.0**	**0.0**	**0.0**	**0.0**	0.0	..	..
J.	**TOTAL RECEIPTS**	**7,703.3**	**334.4**	**607.8**	**942.3**	1,019.9	92%	12%
	As % of GDP	43.1%	1.9%	3.4%	5.3%	5.7%	92%	12%

Source: Treasury

TABLE 7: CENTRAL GOVERNMENT EXPENDITURE
(Kina, Million)

		2007 Budget	Feb Outturn	Mar Actuals	Mar Outturn	Mar Trend	% of Trend	% of Budget
1	**RECURRENT BUDGET**							
A.	**NATIONAL DEPARTMENTS**	**1,929.2**	**117.6**	**262.8**	**380.4**	385.0	99%	20%
	Personnel Emoluments	816.2	16.7	154.3	171.1	159.3	107%	21%
	Total Goods & Services	1,112.9	100.9	108.5	209.3	225.7	93%	19%
	General Goods & Services	948.4	93.8	96.0	189.8	176.6	108%	20%
	Education Subsidies	43.0	6.0	4.4	10.4	18.7	55%	24%
	Arrears Payments	0.0	0.0	0.0	0.0	0.0	..	..
	SAP Payments	69.6	0.3	0.0	0.3	17.4	2%	0%
	Court Orders	52.0	0.7	8.1	8.8	13.0	68%	17%
B.	**PROVINCIAL GOVERNMENTS**	**696.6**	**10.0**	**139.3**	**149.3**	118.2	126%	21%
	Personnel Emoluments	**576.0**	**0.6**	**128.2**	**128.8**	97.5	132%	22%
	Staffing Grants	156.4	0.2	47.1	47.3	34.0	139%	30%
	Teachers Salaries	419.6	0.4	81.1	81.5	63.5	128%	19%
	Goods & Other Services	**63.4**	**6.1**	**6.4**	**12.5**	11.2	112%	20%
	Administration Grants	14.2	1.3	2.6	4.0	3.6	110%	28%
	Health Function Grant	13.4	1.3	1.9	3.2	3.1	105%	24%
	Education Subsidies	21.6	1.7	0.1	1.9	1.1	168%	9%
	Derivation Grants	14.2	1.7	1.7	3.4	3.4	100%	24%
	Conditional Grants	**57.2**	**3.2**	**4.7**	**7.9**	9.4	84%	14%
	Trans/Infra/Maint. Grants	15.3	1.6	2.3	4.0	3.3	122%	26%
	Local & Village Services Grants	32.5	1.1	2.0	3.1	4.1	75%	9%
	Town & Urban Services Grants	7.2	0.2	0.0	0.3	1.6	18%	4%
	Village Courts	2.2	0.3	0.3	0.6	0.6	112%	28%
	Autonomous Bougainville Govt	**50.6**	**5.0**	**4.3**	**9.2**	5.2	178%	18%
	Police Grant	2.5	0.6	0.0	0.6	0.6	94%	24%
	Recurrent Grant	48.0	4.4	4.3	8.6	4.5	192%	18%
	Conditional Grants	0.2	0.0	0.0	0.0	0.1	0%	0%
C.	**TRANSFERS & LOANS TO C.S.A**	**221.6**	**35.5**	**28.3**	**63.8**	51.8	123%	29%
D.	**INTEREST PAYMENT & FEES**	**475.9**	**88.7**	**10.7**	**99.4**	116.7	85%	21%
	Domestic	358.8	66.4	5.2	71.6	92.0	78%	20%
	External	117.1	22.3	5.5	27.8	24.8	112%	24%
E	**NET LENDING TO C.S.A**	**-6.0**	**-1.1**	**-0.3**	**-1.4**	-1.0	136%	23%
	Gross Lending	0.0	0.0	0.0	0.0	0.0		
	Less : Loan Repayments	6.0	1.1	0.3	1.4	1.0	136%	23%
F.	**RECURRENT EXPENDITURE & NET LENDING**	**3,367.9**	**255.6**	**445.1**	**700.7**	675.9	104%	21%
	As % of GDP	18.8%	1.4%	2.5%	3.9%	3.8%	104%	21%
2	**DEVELOPMENT BUDGET**							
	Domestic Funds	509.1	21.8	67.4	89.3	79.3	113%	18%
	Project Grants	879.1	0.0	0.0	0.0	24.4	0%	0%
	Infrastructure Tax Credits	85.4	2.1	0.8	2.9	13.5	21%	3%
	Concessional loans	163.0	3.6	15.9	19.4	5.3	368%	12%
	Commercial loans	0.0	0.0	0.0	0.0	0.0		
G.	**TOTAL DEVELOPMENT BUDGET (PIP)**	**1,636.6**	**27.5**	**84.1**	**111.6**	122.5	91%	7%
	As % of GDP	9.2%	0.2%	0.5%	0.6%	0.7%	91%	7%
	ADDITIONAL PRIORITY EXPENDITURE	**450.0**	**0.0**	**0.0**	**0.0**	0.0	0%	0%
H.	**TOTAL EXPENDITURE & NET LENDING**	**5,454.6**	**283.1**	**529.2**	**812.3**	798.4	102%	15%
	As % of GDP	30.5%	1.6%	3.0%	4.5%	4.5%	102%	15%
I.	**AMORTISATION**	**2242.7**	**50.3**	**78.3**	**128.6**	222.5	58%	6%
	Domestic	1996.0	19.0	55.0	74.0	167.8	44%	4%
	External	246.7	31.3	23.3	54.6	54.7	100%	22%
J.	**LOAN REPAYMENTS**	**6.0**	**1.1**	**0.3**	**1.4**	1.0	136%	23%
K.	**TOTAL PAYMENTS**	**7,703.3**	**334.4**	**607.8**	**942.3**	1,021.9	92%	12%
	As % of GDP	43.1%	1.9%	3.4%	5.3%	5.7%	92%	12%

Source: Treasury

TABLE 8: CENTRAL GOVERNMENT FINANCING
(Kina, million)

		2007 Budget	Feb Outturn	Mar Actuals	Mar Outturn	Mar Trend	% of Trend	% of Budget
A.	**TOTAL REVENUE AND GRANTS**	**5,421.6**	**522.4**	**258.5**	**780.9**	732.8	107%	14%
B.	**TOTAL EXPENDITURE AND NET LENDING**	**5,454.6**	**283.1**	**529.2**	**812.3**	798.4	102%	15%
C.	**DEFICIT (-) / SURPLUS (+)**	**-33.0**	**239.3**	**-270.7**	**-31.4**	-65.6		
	% of GDP	-0.2%	1.3%	-1.5%	-0.2%	-0.4%		
D.	**EXTERNAL FINANCING**	**-83.7**	**-27.7**	**-7.5**	**-35.1**	-49.1		
D1.	**CONCESSIONAL FINANCING**	**-4.3**	**-18.4**	**7.3**	**-11.1**	-33.0		
	New Borrowing	163.0	3.6	15.9	19.4	5.3	368%	12%
	Less Amortisation	-167.3	-22.0	-8.6	-30.5	-38.2	80%	18%
D2.	**COMMERCIAL FINANCING**	**-18.2**	**0.0**	**0.0**	**0.0**	-4.2		
	New Borrowing	0.0	0.0	0.0	0.0	0.0	0%	0%
	Less Amortisation	-18.2	0.0	0.0	0.0	-4.2	0%	0%
D3.	**EXCEPTIONAL FINANCING**	**-61.2**	**-9.3**	**-14.7**	**-24.0**	-11.9		
	New Borrowing	0.0	0.0	0.0	0.0	0.0	0%	0%
	Less Amortisation	-61.2	-9.3	-14.7	-24.0	-11.9	202%	39%
E.	**DOMESTIC FINANCING**	**116.7**	**-211.7**	**278.2**	**66.5**	114.7		
E1.	**DOMESTIC MARKET BORROWING (NET)**	**118.7**	**150.0**	**53.0**	**203.0**	352.2		
	New Domestic Borrowing	2114.7	169.0	108.0	277.0	518.4	53%	13%
	Less Amortisation	-1996.0	-19.0	-55.0	-74.0	-166.1	45%	4%
E2.	**OTHER DOMESTIC FINANCING (b)**	**-2.0**	**-361.6**	**225.2**	**-136.5**	-237.5		
E3.	**ASSETS SALES FINANCING**	**0.0**	**0.0**	**0.0**	**0.0**	0.0		
E4.	**NET FINANCING**	**0.0**	**0.0**	**0.0**	**0.0**	0.0		
F.	**TOTAL FINANCING**	**33.0**	**-239.3**	**270.7**	**31.4**	65.6		
G.	**GROSS BORROWING**	**2275.7**	**-189.1**	**349.0**	**160.0**	286.1	56%	7%
	Concessional	163.0	3.6	15.9	19.4	5.3	368%	12%
	Commercial	0.0	0.0	0.0	0.0	0.0		
	Exceptional	0.0	0.0	0.0	0.0	0.0		
	Domestic	2112.7	-192.6	333.2	140.5	280.8	50%	7%
	Financing Gap	0.0	0.0	0.0	0.0	0.0		

Source: Treasury