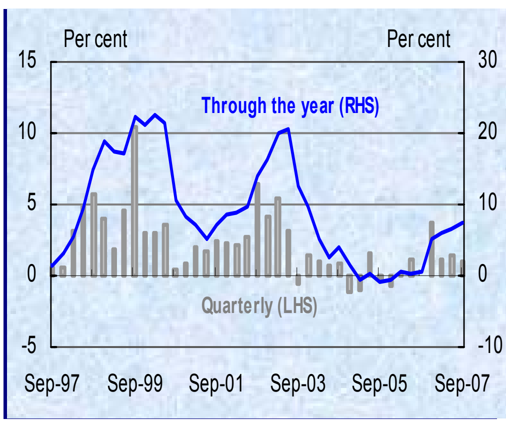
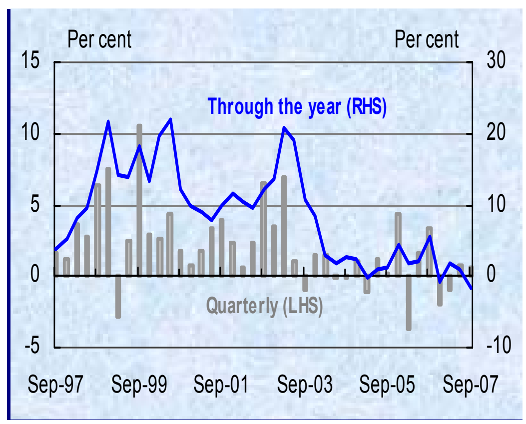
TREASURY ECONOMIC MONITOR (TEM)

September 2007 **Publication 3/2007**

Underlying CPI



Headline CPI



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1. THE INTERNATIONAL ECONOMIC OUTLOOK

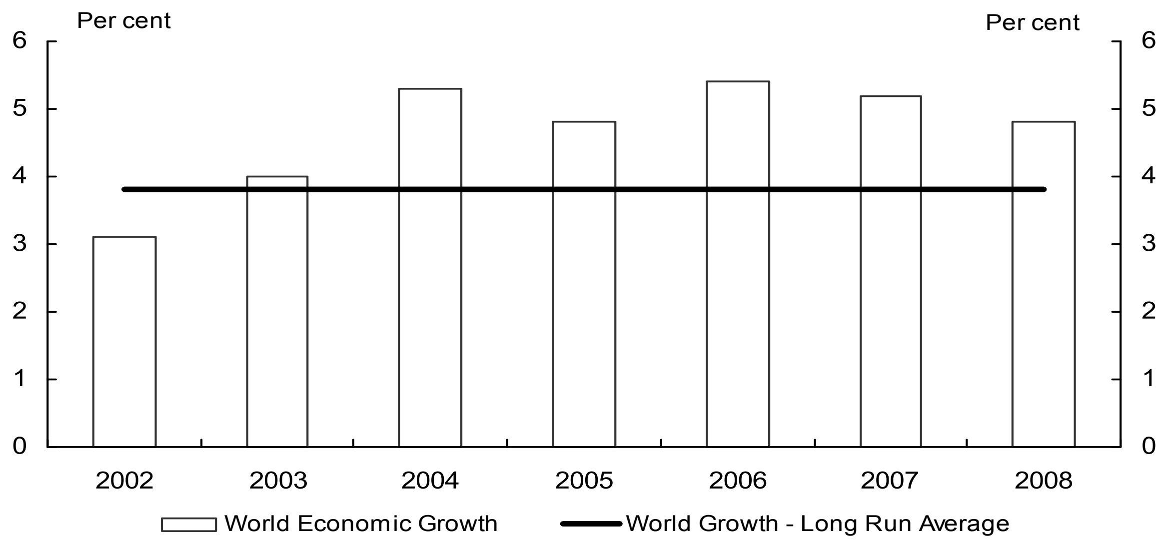
According to the October World Economic Outlook (WEO) global economy expanded vigorously in the first half of the 2007 with growth running above 5 per cent. Emerging market economy like China gained further momentum growing by 11.5 per cent while India continued to grow strongly. Robust expansion also continued in other emerging market and developing countries including low income countries in Africa.

Among the Advanced economies growth slowed down in the euro area and Japan after two quarters of solid gains. In the United States growth averaged 2.25 per cent in the first half of 2007 as the housing downturn continued to apply considerable drag.

In the face of turbulent conditions in financial markets the baseline projections for global growth have been marked down moderately since the July WEO update, although growth is still expected to continue at a solid pace. The global economy is projected to grow by 5.2 per cent in 2007 and 4.8 per cent in 2008 – the latter forecast is 0.4 percentage points lower then previously expected.

Inflation has been contained in the advanced economies however it has emerged in the market of the developing countries, reflective of the higher food and oil prices.

Chart 1: World Economic Growth



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

1.1 Commodity Markets

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

The world copper price (chart 2) remained high in the September quarter of 2007, averaging US$ 3.5 per pound, or US$ 8,000 a tonne, slightly higher by 1 per cent than in the June quarter. The strong global demand, driven by China continued to support the high prices in the September quarter. Supply disruptions from some of the small-scale productions also supported world prices in the September quarter.

The world gold price (chart 2) increased in the September quarter to US$680 per ounce, 2 per cent higher than in the June quarter. The increase in gold price was supported by investor expectations of a depreciation of the US dollar due to the expectations of interest rate cuts in late September and an increase in investment demand for gold as a hedge against inflation – higher oil prices have fuelled fears of global inflation.

Crude oil prices (chart 3) increased strongly in the September quarter of 2007 to US$75.2 per barrel, 16 per cent higher than in the June quarter. Strong demand from China, Latin America and the Middle East, limited spare capacity and the ongoing political tensions in the Middle East continued to be the main drivers of high oil prices during the quarter.

Chart 2: World Prices for Copper & Gold

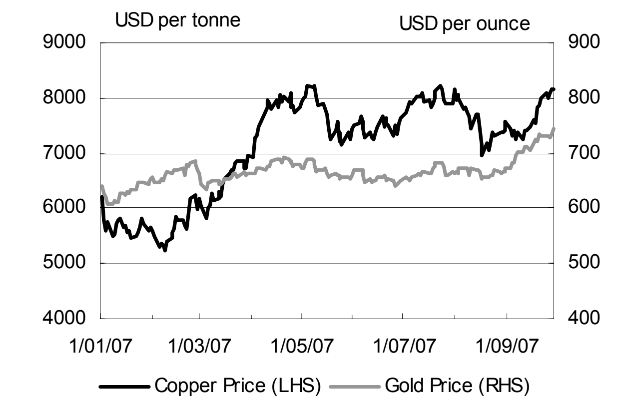
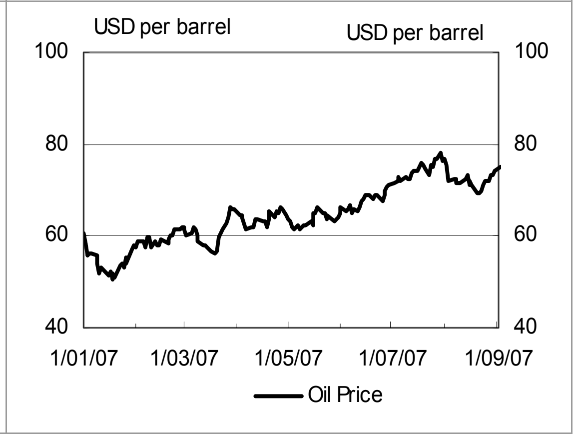


Chart 3: World Prices for Crude Oil



Source: Department of Treasury

The world prices for Papua New Guinea's Agricultural commodities such as oil palm, cocoa and coffee traded higher in the September quarter. Unfortunately Treasury is again not able to provide price movements of copra in this edition.

Chart 4: World Prices For Cocoa & Palm Oil

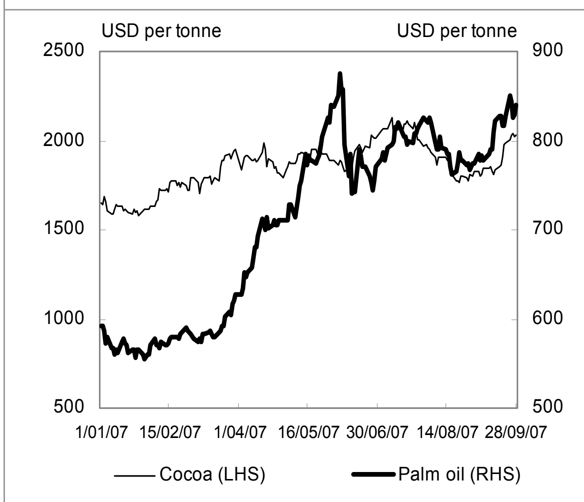
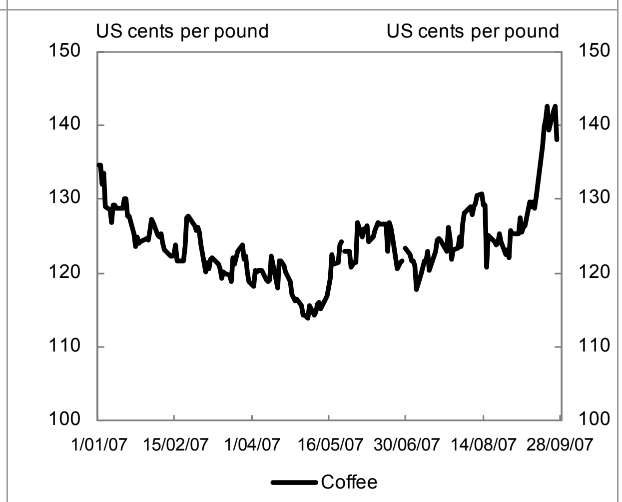


Chart 5: World Prices for Coffee



Source: Department of Treasury

The world Palm oil prices (chart 4) remained higher in the September quarter. In average terms Palm oil prices increased by 7 per cent in the September quarter to US$799.3 per tonne.

The world cocoa prices (chart 4) remained on its upward trend in the September quarter with the price growing by 1.6 per cent in average terms to be around US$ 1,936.2 per tonne.

The world prices for coffee (chart 5) continued to surge higher in the September quarter following the rebound in June Quarter. On average terms world coffee prices increased by 5.2 per cent to be around US cents 127.1 per pound

2. DOMESTIC ECONOMY

2.1 Gross Domestic Product

Real economic growth in 2007 is forecast to be the strongest in over a decade at 6.2 per cent, up from 2.6 per cent in 2006. Forecast GDP growth in 2007 has been revised up by one percentage point from the 5.2 per cent growth expected at the time the 2007 Mid Year Economic and Fiscal Outlook (MYEFO) report was prepared. This growth is broad based with strong growth in most sectors, including 35 per cent in communication, 14 per cent in building and construction and 3.7 per cent in agriculture. The major revision has been to the communication sector, due to the exceptionally large expansion in the mobile phone segment of the sector. This alone has added 0.9 percentage points to real GDP growth.

The commodity price boom has continued and strong global demand for PNG's major commodities has resulted in a significant increase in PNG's export prices from previously high levels, further strengthening PNG's favourable terms of trade. This is particularly the case for minerals such as copper, gold and oil where large increases in prices over the last few years have in some cases increased even further to reach record highs in 2007. At the same time, there are signs of an improvement in most sectors of the economy, especially in agriculture where commodity prices have also grown strongly. The fishery and forestry sectors have also boosted output, but the construction sector has experienced the strongest growth.

The oil and gas extraction sector is estimated to grow moderately by 0.9 per cent in real terms in 2007, which also reflects a natural decline from all the existing fields. The mining and quarrying sector is estimated to have increased by a robust 5.5 per cent in real terms in 2007, reflecting normal production from the existing mines and the inclusion of Simberi mine in the later part of the year. The Lihir and Porgera mines have ramped up production and continued to improve in line with their expansion plans, more than offsetting lower production from Ok Tedi and other smaller mines.

The agriculture, forestry and fisheries sector is expected to grow solidly by 3.7 per cent in real terms in 2007. The very strong performance of some key agriculture commodities in 2007 partly reflects recovery from large downturns in 2006. For example, copra is expected to record historically high growth of 82.8 per cent in 2007 following negative growth of 43.6 percent in 2006. Copra oil production is expected to rise by 32.5 per cent in 2007. Cocoa and coffee production are expected to grow well by 8.3 per cent and 6.2 per cent respectively in real terms, more than offsetting lower growth in the other sectors.

The non-mining sector of the economy is displaying robust real growth in 2007, driven by very high growth in construction, agriculture/forestry/fishery and the communication (especially mobile phone segment of the market) combined with solid growth in other sectors. Economic growth also reflects higher Government expenditure to improve and maintain public infrastructure, combined with increased private sector investment in the mineral sector, in particular, the new Ramu nickel project.

2.2 Labour Market

In the year to September quarter 2007, total private non-mineral sector employment rose by 11.3 per cent driven largely by employment growth in retail supported by the agriculture and building and construction sectors. Employment in the mineral sector increased further to 20.6 per cent in the September quarter 2007, compared to the September quarter 2006.

With all regions showing growth over 5 per cent through the year except the Highlands region gorwing at a lower rate. Morobe region showed a growth of 19.3 per cent followed by the Islands at 16.3 per cent in the September quarter 2007. Employment in the non-mineral private sector was up 31.3 per cent as compared to base year March 2002. The mineral sector employment also continued to grow, even to high levels at 36.5 per cent in the same period.

2.3 Prices

The underlying Consumer Price Index CPI rose by 1.0 per cent in the September quarter to be 7.5 per cent higher through-the-year, driven by increases in the price of food, transport and communication.

- This is the fourth consecutive quarter of underlying CPI growth of over 1 per cent compared to 0.6 per cent over the previous three years. This also represents another substantial increase in the underlying rate of inflation and is the highest annual underlying figure since 2003 (Chart 6).

Headline CPI increased by 0.6 per cent in the September quarter, however, is down by 1.6 per cent in through-the-year terms (Chart 7). This is because of large declines in the prices of seasonal products mainly fruit, vegetables and betelnut due to continued good seasonal conditions. These falls are unlikely to continue in the coming quarter.

Chart 6: Underlying CPI

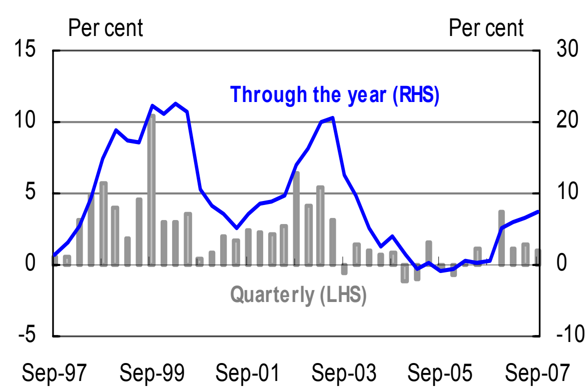
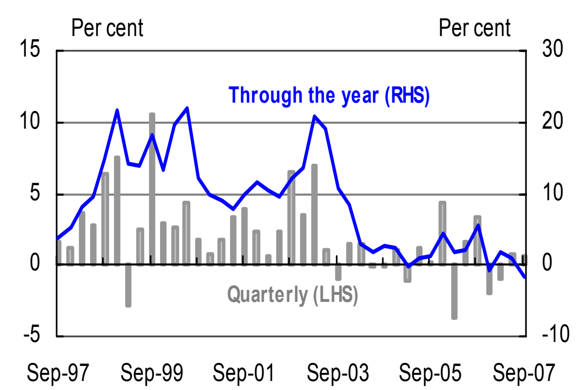


Chart 7: Headline CPI



Source: National Statistics Office and Treasury

CPI by Expenditure Group

In quarterly terms increases in CPI by expenditure group was spread with the main increases coming from household equipment and operation, clothing and footwear and rent, council charges, fuel and power. These increases were partially offset by a decline in drinks, tobacco and betelnut (Table 1).

Over the last year increases in CPI have been driven by large increases in miscellaneous items and clothing and footwear. This has been partially offset by declines in the prices of drinks, tobacco and betelnut and household equipment and operations (Chart 8).

Table 1: September 2007 CPI Growth by Expenditure Groups

	Quarterly	Through the year
Other	0.6	12.9
Clothing & Footwear	2.0	8.6
Transport & Communication	0.1	5.9
Rent, Council Charges, Fuel & Power	2.0	0.5
Food	1.2	-3.1
Household Equipment & Operation	2.3	-6.3
Drinks, Tobacco & Betelnut	-0.6	-8.6
Average All groups CPI	**0.6**	**-1.6**
Average Underlying CPI	**1.0**	**7.5**

Source: National Statistical Office

CPI by Region

All regions recorded price increase in the September quarter. Over the last year Lae and Rabaul recorded increases in consumer prices while prices in Goroka, Madang and Port Moresby have fallen (Table 2).

Chart 8: Through the year CPI by group

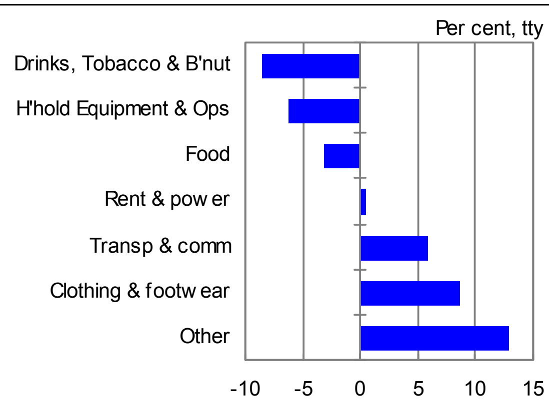


Table 2: CPI by region

	Quarterly	Through the year
Port Moresby	0.3	-0.7
Goroka	0.9	-10.5
Lae	1.0	2.5
Madang	0.8	-4.2
Rabaul	0.8	1.5
Total	**0.6**	**-1.5**

Source: National Statistics Office and Treasury

Contributing Factors

A number of factors continue to contribute to the high inflation outcome.

- Since the commodity boom began to boost Government revenues in 2005 there has been more than K3.8 billion provided for additional spending through the supplementary budgets (November 2005: K400 million, August 2006: K682.5 million, November 2006 K1.100 million and October 2007: K1,637 million). As at 23 October 2007 K860 million has been spent, K1,318 million is in trust accounts while yet to be released is K1,642 million. The spent funds represent a substantial injection of funds into the economy which has placed upward pressure on domestic prices. The potential for spending is greater since a vast amount of funds is yet to be spent from the trust accounts. This represents a huge amount of potential fiscal stimulus that is still in the pipeline.

- Despite the commodity price boom, monetary policy remains essentially unchanged. Interest rates have remained very low since 2005 and liquidity continues to build up in the economy. Money supply although easing in the months after May is up again at 25 per cent through the year to September 2007. Sustained growth in money supply will lead to further inflationary pressures.

- While the Kina has appreciated slightly against the US dollar over the past year, it has depreciated significantly against a number of major currencies such as the Australian dollar, Euro and Singapore dollar. These currencies represent PNG's major source of imports, resulting in an 8 per cent depreciation of the import weighted Trade Weighted Index (TWI) over the year to September 2007. This depreciation of the Kina is increasing the price of imported goods.

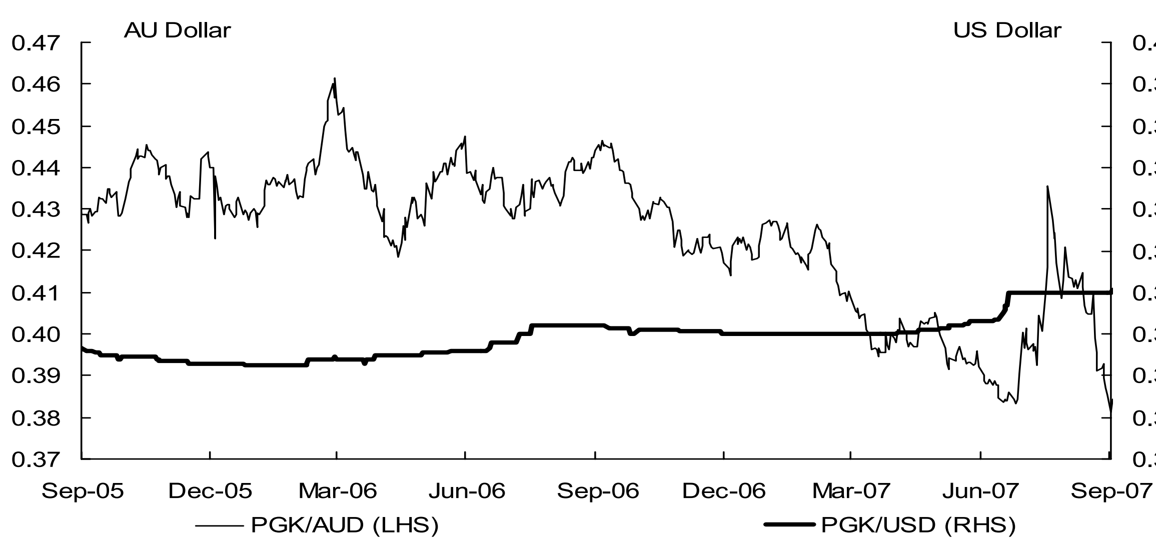
According to NSO this is the fourth consecutive quarter of continuing increase in inflation with quarterly underlying CPI growing at over 1 per cent compared to 0.6 per cent over the past three years. This growth is yet to show up in headline inflation due to the large falls of 60 per cent and 48 per cent in the prices of betelnut and fruit and vegetable over the past year. These falls are unlikely to continue in coming quarters.

3. MONETARY DEVELOPMENTS

3.1 Exchange Rate Developments

In the first nine months of 2007 the Kina appreciated slightly against US dollar, however, depreciated against the Australian Dollar. The Kina depreciated by 7.3 per cent against the Australian dollar in the first nine months of 2007 due to the continued strengthening of the Australian dollar against most other currencies in particular the US dollar.

Chart 9: Exchange Rate Movements

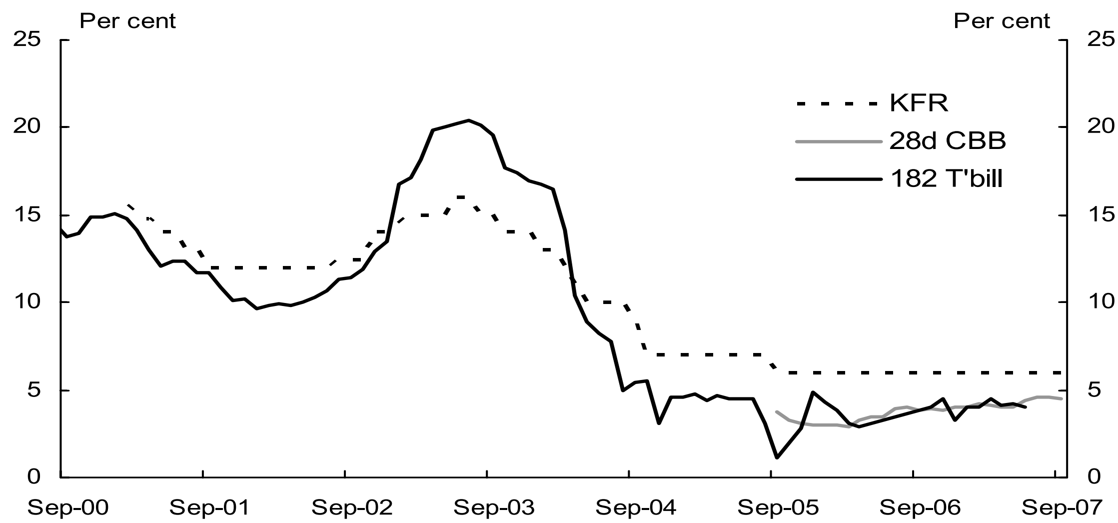


Source: Bank of Papua New Guinea, *Quarterly Economic Bulletin*.

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 in the September quarter of 2007. Central Banking bills have remained unchanged in the September quarter, and still remain below the KFR benchmark. For Treasury bills, data were unavailable so it remains as per the June quarter report.

Chart 10: Kina Facility Rate (KFR) vs T' bills and CBB

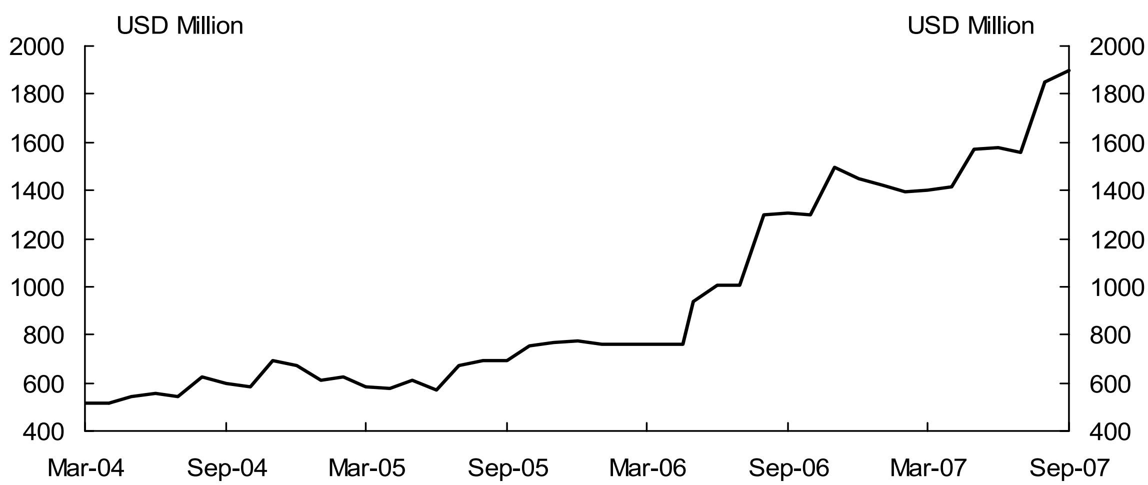


Source: Bank of Papua New Guinea, *Quarterly Economic Bulletin*

3.3 Foreign Reserves

Foreign Reserves for end of September 2007 totalled K5,500 million (US$1,897.8 million) compared to K3,873.6 million (US$1,305.4 million) for September 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 11: Foreign Reserves (US$ Millions)



Source: Bank of Papua New Guinea

4. COMMODITIES

Table 3: Total Export Values for Commodities

TOTAL EXPORTS	Sep-06			Sep-07			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)	36.7	1519.4	171.1	32.4	1840.8	179	-11.7	21.2	4.6
Coffee (000 tonnes)	42.9	2056.4	270.7	37	2457.6	272.9	-13.8	19.5	0.8
Copra Oil(a) (000 tonnes)	42.5	429.4	56.0	48.5	694.6	101.1	14.1	61.7	80.5
Copra Oil	*33.8*	482.1	*50*	*40.8*	774.2	*94.8*	*20.7*	*60.6*	*89.6*
Copra	*8.7*	224.8	*6*	*7.7*	272.6	*6.3*	*-11.5*	*21.3*	*5.0*
Palm Oil (000 tonnes)	266.3	374.5	306	310.1	578.9	538.8	16.4	54.6	76.1
Other Agriculture(b)	n.a.	n.a.	243.3	n.a	n.a	230.0	n.a	n.a	-5.5
Tea	5.1	102.2	16	4.9	104.7	15.4	-3.9	2.4	-3.8
Rubber	3.3	175.8	17.8	3.4	186.2	19.0	3.0	5.9	6.7
Other(c)	n.a.	n.a.	209.5	n.a	n.a	195.6	n.a	n.a	-6.6
Forest Products (including logs)	n.a.	n.a.	368.7	n.a	n.a	482.1	n.a	n.a	30.8
Logs	n.a.	n.a.	341.6	n.a	n.a	441.1	n.a	n.a	29.1
Marine Products	n.a.	n.a.	77.4	n.a	n.a	26.9	n.a	n.a	-65.2
Agriculture,Forestry and Fishing Exports			**1493.2**			**1830.8**			22.6
MINERALS									
Gold (000 oz)	1487.7	501.0	2287.1	1523.5	575.5	2631.2	2.4	14.9	15.0
Copper (000 tonnes)	171.6	6306.2	3320.5	154	6885.6	3182.4	-10.3	9.2	-4.2
Oil (m barrels)	11.0	67969.6	2287.9	10.7	69276.3	2220.5	-2.6	1.9	-2.9
Refined Petroleum Products	n.a	n.a	201.2	n.a	n.a	414.9	n.a	n.a	106.2
Mineral Exports(d)			**8096.7**			**8449.0**			4.4
TOTAL EXPORTS			**9589.9**			**10279.8**			7.2

(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.

Average exchange rate	2006 (Sep)	2007 (Sep)
USD/PGK	0.3259	0.3332
AUD/PGK		

Source: Bank of Papua New Guinea and Department of Treasury

Total export values increased by 7.2 per cent in the in the September quarter 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.

Exports from the agriculture, forestry and fishing sector increased by as high as 22.6 per cent to K1,830.8 million in September 2007 compared to K1,493.2 million in September 2006. This reflects the high export values from copra, copra oil, palm oil and logs and forest products as most commodities returned to normal production after poor performance in 2006. Exports were also boosted by new projects in palm oil and logs which, supported by continued high prices.

Mineral sector continued to support the increase in the September quarter of 2007 with a 4.4 per cent rise in export value to K8,449.0 million from K8,096.7 million in the 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 K310 million in the September quarter of 2007, which is higher than the surplus of K68 million recorded in the corresponding period of 2006. This is due to higher values of exports outweighing smaller increase in imports.

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

	2006 September Qtr	**2007 September Qtr**	**Change**
Current Account Balance	68	310	242
Balance of Trade in Goods & Services	665	734	69
Exports of Goods and Services	*3408*	*3508*	*100*
Imports of Goods and Services	*-2743*	*-2747*	*-4*
Balance of Income	-700	-473	227
Balance of Transfer	103	22	-81
Capital and Financial Account*	-70	-296	-226
Net Errors and Omissions	2	-14	-16

Source: Bank Papua New Guinea
*Includes changes in official reserves

The surplus in the Balance of Trade in Goods and Services was K734 million, K69 million higher in 2007 than in 2006. This is attributed to the slightly higher merchandise trade account which recorded a surplus of K3,508 million in the year compared with a surplus of K3,408 million in the corresponding period of 2006.

The slightly higher merchandise trade surplus reflects increase in the value of merchandise export, which more the offset the value of merchandise imports. The higher export values were from both mineral and non mineral commodities.

The balance of income was a deficit of K473 million in the September quarter of 2007 compared with a deficit of K700 million in the corresponding period of 2006. The lower deficit was due to a decline in interest and dividends payments by resident companies, combined with higher income receipts.

The balance of transfer was a surplus of K22 million in the September quarter compared to a surplus of K103 million in the corresponding period in 2006. This resulted from lower receipts of grants and donors which more than offset lower transfer payments.

The capital and financial accounts recorded a deficit of K296 million in the September quarter of 2007 compared with a deficit of K70 million in the same period of 2006. This reflects higher net capital outflow which, outweighed the net capital inflow, reflecting a slow down in foreign direct investment and project financing and an increase in equity withdrawals and loan repayments in 2007 compared to the same period in 2006. Foreign exchange reserve has increased by K826.8 million in the period.

The level of gross foreign exchange reserves for the September quarter of 2007 was K5,552.2 million (US$1,887.7), more than sufficient to perform the role of appropriately smoothing any short term exchange rate volatility.

6. CENTRAL GOVERNMENT FISCAL OPERATIONS FOR SEPTEMBER 2007

Technical Note:

This report outlines the fiscal performance for the September 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 September 2007 Fiscal Outturn.

Table 5: Summary of Fiscal Outturn – September 2007

GoPNG ONLY	Budget	Jul	Aug	Sep	Sep Trend	% of Trend	% of Budget
Total Revenue	4457.1	2764.4	4064.3	4465.0	3132.8	143%	100%
Total Expenditure	4492.1	2576.4	2960.5	3266.5	3062.6	107%	73%
Budget Balance	-35.0	188.0	1103.8	1198.5	70.3		
% of GDP	-0.2%	1.1%	6.2%	6.7%	0.4%		

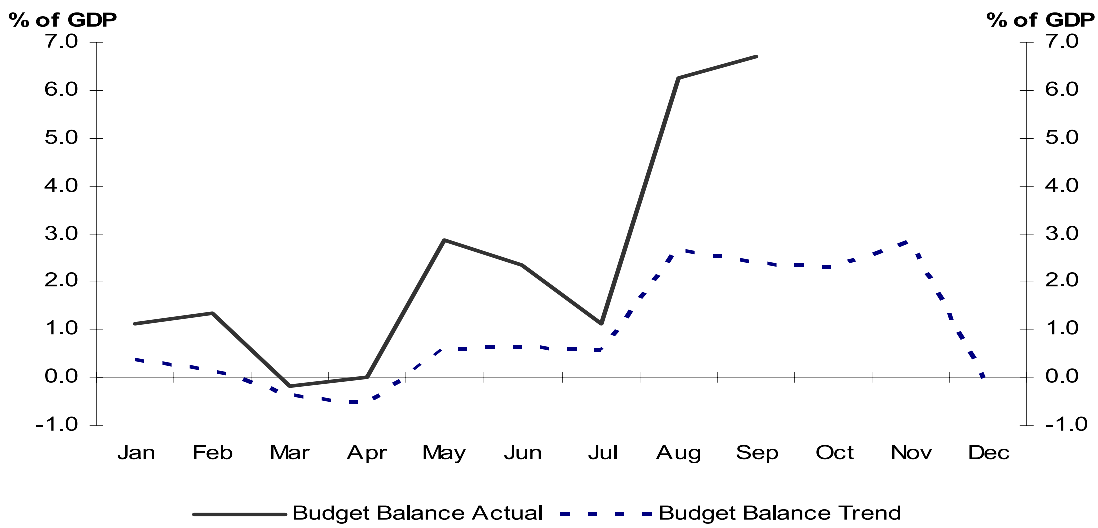
Source: Department of Treasury (based on Treasury Management System reports)

Collections for total GoPNG revenue was 43 per cent above the trend and expenditure was 7 per cent below trend required to meet the 2007 Budget estimates. This shows that end of year revenue will be higher than that anticipated in the beginning of the year.

Overall, the Government’s Budget position was a surplus of K1,198.5 million or 6.7 per cent of GDP, compared with the expected (trend) surplus of K70.3 million or 0.4 per cent of GDP if we were on target to meet the 2007 Budget target of a K35.0 million (or 0.2 percent of GDP) deficit.

The evolution of the Budget Balance as depicted in Graph 1.1 below reflects the actual budget balance incurred against the anticipated monthly trend base on the 2007 Original Budget. This is close to trend in the July Outturn as drawdowns in domestic funds under development budget increases. However, the September Outturn showed a huge surplus as revenue inflows were higher than the trend. This has been allocated to the Additional Priority Expenditure and is expected to be drawndown within the remainder of the year.

Chart 12: Evolution of the GoPNG Budget Balance – Actual vs Trend



Source: Department of Treasury

2. Revenue and Grants

Total Revenue (GoPNG)

Total GoPNG revenue continued from August to be substantially above trend in the September Fiscal Outturn of 2007.

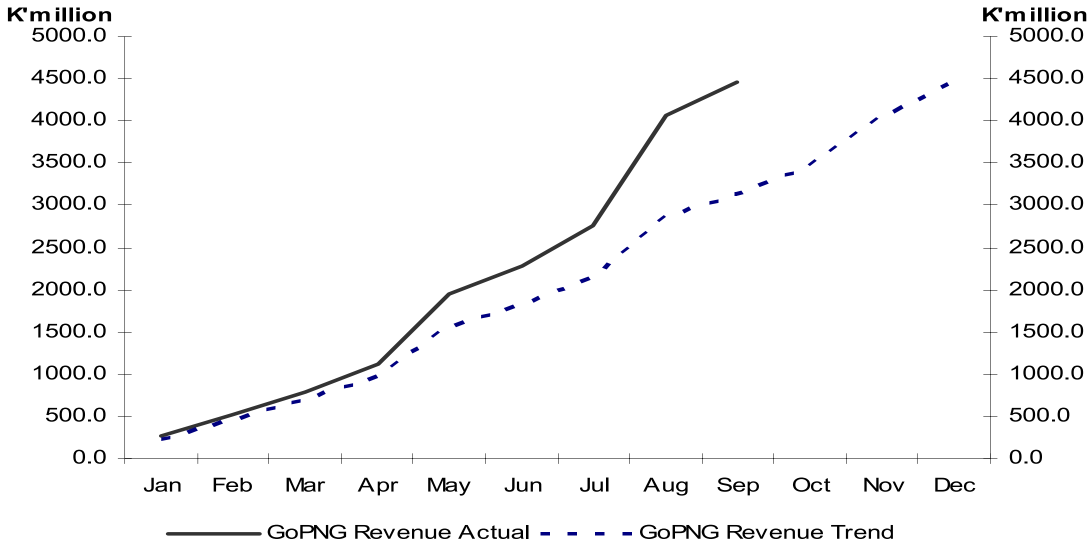
Tax receipts in the September 2007 Outturn were K4,272.3 million, which is 47 per cent above trend. This is primarily attributable to the receipt of the larger than expected instalments of mining and petroleum taxes which is 92 per cent above trend. Other direct tax heads were also above trend with the exception to interest withholding tax which is 21 per cent below trend due to lower debt levels as well as well as lower interest rates. All domestic tax heads as well as all taxes on international trade are performing above trend. The better performance in tax revenue reflects continued strong prices of our major export commodities, better economic conditions and continued good performance by the Internal Revenue Commission in ensuring compliance.

Non-tax revenue receipts for the September Outturn were K192.7 million, which is 17 per cent below trend. This is primarily attributable to lower mining dividend receipts, as well as lower departmental revenue.

Grants and Tax Credits

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 13: 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 recorded as being utilized in the September Outturn has been revised downwards to K14.9 million, which is 23 per cent of trend and project support grants from donors totalled K450.9 million which is 100 per cent of trend. An infrastructure tax credit has been revised downwards as alterations are made to the incorrect postings done earlier in the year. All project support grants are from the first and second quarter AusAID Expenditure Reports.

Total revenue and grants were K4,930.8 million at the end of September 2007. This is higher than the trend expected at K3,647.8 million by 35 per cent.

3. Expenditure and Net Lending

Total Expenditure (GoPNG)

National Departments' recurrent expenditure totalled K1,467.5 million as at September 2007. This is 21 per cent above trend, and represents 76 per cent of the 2007 Budget appropriation.

National Departments' personnel emoluments expenditure was K587.9 million in September Outturn, compared to the K549.7 million anticipated in trend expenditure. This is 7 per cent above trend and represents 72 per cent of the Budget appropriation.

National Departments' general goods and services expenditure was K761.6 million in the September Outturn. This is 27 per cent above trend and represents 80 per cent of the 2007 Budget appropriation.

Grants to Provincial Governments totalled K504.6 million as at September compared to K465.5 million in trend expenditure. This is 8 per cent above trend and is 72 per cent of the Budget.

Provincial Government personnel emoluments expenditure (including teachers) was K428.2 million in the September Outturn compared to K380.5 million anticipated in trend (higher than trend by 13 per cent), and represents 74 per cent of the Budget.

Provincial Government goods and services grant expenditure totalled K43.3 million in the September Outturn compared to K47.3 million in trend expenditure. This is 8 per cent below trend and represents 68 per cent of the Budget.

Conditional grants totalled K33.1 million compared to K37.7 million in trend expenditure. This is 12 per cent below trend and represents 58 per cent of the Budget.

Autonomous Bougainville Government totalled K39.5 million compared to K38.0 million on a prorated basis. This is 4 per cent above trend.

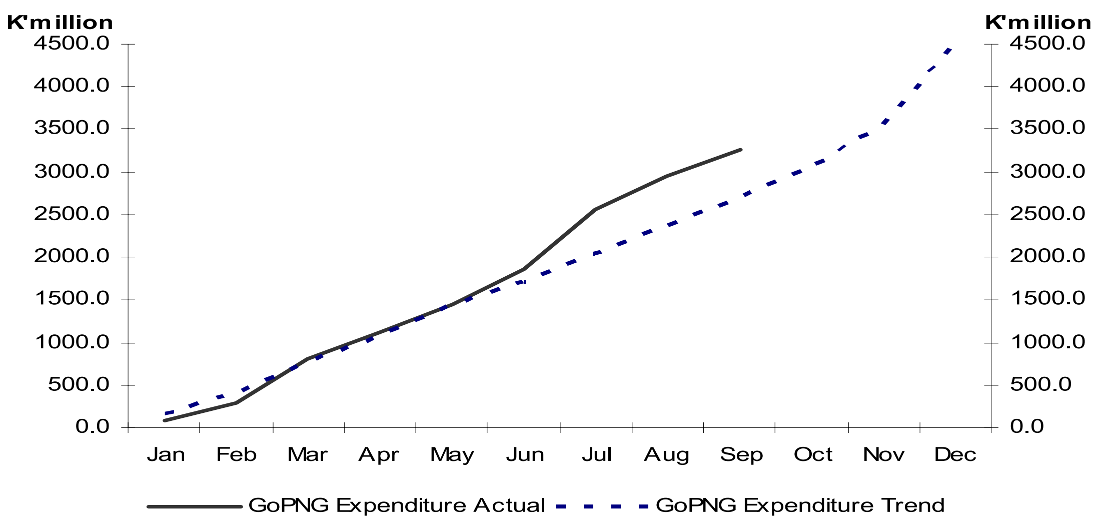
Transfers to Statutory Authorities totalled K170.9 million in the September 2007 Outturn. This is 5 per cent above trend and is 77 per cent of the 2007 Budget appropriation.

Interest payments and fees totalled K261.8 million in the September Outturn or is 27 per cent below trend; representing 55 per cent of its total 2007 budget appropriation.

Domestic development expenditure in the September Outturn turned out to be K762.8 million including K63.9 million in expenditure made out of the K450.0 million Additional Priority Expenditure (APE).

Draw downs on concessional project loans in the September Outturn were K63.3 million, which is 15 per cent below trend, and only 39 per cent of the 2007 Budget appropriation.

Chart 14: Actual Expenditure and Net Lending against the Trend



Source: Department of Treasury

Additional priority expenditure of K63.9 million includes K50.0 million for Higher Education Infrastructure, K8.9 million for NBC Infrastructure and K5.0 million for District Treasury Rollout.

Overall total expenditure and net lending for the September Outturn were K3,732.3 million compared to the trend estimate of K3,577.6 million. This is 4 per cent higher than the trend, representing 68 per cent of the 2007 Budget appropriation.

4. Financing

A Budget surplus of K1,198.5 million (or 6.7 per cent of GDP) was recorded in the September 2007 Outturn, compared to the expected (trend) surplus of K70.3 million (or 0.4 per cent of GDP).

Net external outflows totalled K106.3 million and net domestic market borrowing totalled an outflow of K1,092.2 million.

Based on TMS Rundate:19/07/07
Last Updated: 02/08/07

Table 6: CENTRAL GOVERNMENT REVENUE & GRANTS

(Kina Million)		2007	August	Sept	Sept	Sept	% of
	Budget	Outturn	Actuals	Outturn	Trend	Trend	Budget
A. TAX REVENUE	**4,129.9**	**3,891.1**	**381.2**	**4,272.3**	**2,900.2**	147%	103%
A1. TAX ON INCOME AND PROFITS	**3,071.6**	**2,981.9**	**271.1**	**3,253.0**	**2,117.9**	154%	106%
Personal Income Tax	890.3	687.3	77.0	764.3	660.6	116%	86%
Company Tax	511.7	493.4	72.5	565.9	350.8	161%	111%
Dividend Withholding Tax	168.1	162.8	4.5	167.3	124.1	135%	100%
Interest Witholding Tax	21.9	12.1	1.8	13.9	17.7	79%	64%
Mining and Petroleum Taxes	1,292.8	1,485.4	101.0	1,586.4	825.8	192%	123%
Gaming Tax	106.0	70.3	7.3	77.6	77.9	100%	73%
Other: Direct	80.8	70.5	7.0	77.5	61.1	127%	96%
A2. DOM. TAXES ON GOODS AND SERVICES	**758.0**	**635.2**	**83.3**	**718.5**	**561.0**	128%	95%
Excise	309.8	231.8	24.7	256.5	227.1	113%	83%
GST	420.0	360.7	55.8	416.5	314.0	133%	99%
Mining Levy	25.6	40.9	2.8	43.7	18.8	233%	171%
Other: Indirect	2.6	1.8	0.0	1.8	1.1	158%	70%
A3. TAXES ON INTERNATIONAL TRADE	**300.3**	**274.0**	**26.8**	**300.8**	**221.3**	136%	100%
Import Duty	96.9	90.9	8.4	99.3	73.5	135%	102%
Export Duty	118.0	113.0	10.6	123.6	81.9	151%	105%
Excise duties on Imports	85.4	70.2	7.7	77.9	65.9	118%	91%
B. NON-TAX REVENUE	**327.2**	**173.2**	**19.5**	**192.7**	**232.6**	83%	59%
B1. PROPERTY INCOME	**242.8**	**141.0**	**0.0**	**141.0**	**166.4**	85%	58%
Dividends	73.5	43.0	0.0	43.0	40.7	106%	59%
Mining and Petroleum Dividends	169.3	98.0	0.0	98.0	125.6	78%	58%
B2. INTEREST AND FEES FROM LENDING	**2.6**	**0.5**	**0.0**	**0.5**	**1.5**	31%	18%
B3. OTHER NON TAX REVENUE	**81.8**	**31.7**	**19.5**	**51.2**	**64.7**	79%	63%
B4. ASSETS SALES	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	na	na
C. TOTAL REVENUE	**4,457.1**	**4,064.3**	**400.7**	**4,465.0**	**3,132.8**	143%	100%
% of GDP	24.9%	22.7%	2.2%	25.0%	17.5%	143%	100%
D. INFRASTRUCTURE TAX CREDIT	**85.4**	**12.9**	**2.0**	**14.9**	**64.1**	23%	17%
E. GRANTS	**879.1**	**450.9**	**0.0**	**450.9**	**450.9**	100%	51%
Budgetary Support	0.0	0.0	0.0	0.0	0.0	na	na
Project Grants	879.1	450.9	0.0	450.9	450.9	100%	51%
F. TOTAL REVENUE AND GRANTS	**5,421.6**	**4,528.1**	**402.6**	**4,930.8**	**3,647.8**	135%	91%
As % of GDP	30.3%	25.3%	2.3%	27.6%	20.4%	135%	91%
G. PRINCIPAL RECEIPTS FROM LENDING	**6.0**	**1.9**	**2.0**	**3.9**	**3.3**	117%	65%
H. GROSS BORROWING	**2277.7**	**85.3**	**3.0**	**30.1**	**1344.1**	2%	1%
I. ASSET SALES	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	na	na
J. TOTAL RECEIPTS	**7,705.3**	**4,615.3**	**407.7**	**4,964.8**	**4,995.3**	99%	64%
As % of GDP	43.1%	25.8%	2.3%	27.8%	27.9%	99%	64%

Source: Treasury

Table 7: CENTRAL GOVERNMENT EXPENDITURE
(Kina, Million)

		2007 Budget	August Outturn	Sept Actuals	Sept Outturn	Sept Trend	% of Trend	% of Budget
1	**RECURRENT BUDGET**							
A.	**NATIONAL DEPARTMENTS**	**1,929.2**	**1,270.0**	**197.4**	**1,467.5**	**1,211.4**	121%	76%
	Personnel Emoluments	816.2	516.3	71.4	587.6	549.7	107%	72%
	Total Goods & Services	1,112.9	753.8	126.1	879.9	661.7	133%	79%
	General Goods & Services	948.4	681.7	79.9	761.6	601.4	127%	80%
	Education Subsidies	43.0	26.6	43.6	70.2	32.3	218%	163%
	Arrears Payments	0.0	0.1	0.0	0.1	0.0	na	na
	SAP Payments	69.6	5.2	0.5	5.7	20.3	28%	8%
	Court Orders	52.0	40.3	2.1	42.3	39.0	108%	81%
B.	**PROVINCIAL GOVERNMENTS**	**696.6**	**449.2**	**55.4**	**504.6**	**465.5**	108%	72%
	Personnel Emoluments	**576.0**	**379.2**	**48.9**	**428.2**	**380.5**	113%	74%
	Staffing Grants	156.4	120.5	13.7	134.3	109.6	122%	86%
	Teachers Salaries	419.6	258.7	35.2	293.9	270.9	108%	70%
	Goods & Other Services	**63.4**	**40.4**	**2.9**	**43.3**	**47.3**	92%	68%
	Administration Grants	14.2	9.6	0.9	10.5	10.1	104%	74%
	Health Function Grant	13.4	8.1	0.8	8.9	10.3	86%	67%
	Education Subsidies	21.6	13.2	0.2	13.5	15.6	87%	62%
	Derivation Grants	14.2	9.5	0.9	10.4	11.3	92%	73%
	Conditional Grants	**57.2**	**29.5**	**3.6**	**33.1**	**37.7**	88%	58%
	Trans/Infra/Maint. Grants	15.3	9.3	0.4	9.7	11.3	86%	64%
	Local & Village Services Grants	32.5	16.7	2.9	19.6	19.3	102%	60%
	Town & Urban Services Grants	7.2	2.2	0.2	2.3	5.5	42%	32%
	Village Courts	2.2	1.4	0.1	1.5	1.7	91%	68%
	AUTONOMOUS BOUG. GOVT.	**50.7**	**37.2**	**2.3**	**39.5**	**38.0**	104%	78%
	Police Grant	2.5	1.8	0.0	1.8	1.9	96%	72%
	Recurrent Grant	48.0	35.4	2.3	37.7	36.0	105%	79%
	Conditional Grants	0.2	0.0	0.0	0.0	0.2	0%	0%
C.	**TRANSFERS & LOANS TO C.S.A**	**221.6**	**154.4**	**16.5**	**170.9**	**162.9**	105%	77%
D.	**INTEREST PAYMENT & FEES**	**475.9**	**258.2**	**3.7**	**261.8**	**358.9**	73%	55%
	Domestic	358.8	182.2	-2.0	180.1	269.7	67%	50%
	External	117.1	76.0	5.7	81.7	89.2	92%	70%
E	**NET LENDING TO C.S.A**	**-4.0**	**-1.9**	**-2.0**	**-3.9**	**-3.3**	118%	98%
	Gross Lending	0.0	0.0	0.0	0.0	0.0	na	na
	Less : Loan Repayments	4.0	1.9	2.0	3.9	3.3	118%	98%
F.	**RECURRENT EXPENDITURE & NET LENDING**	**3,370.0**	**2,167.1**	**273.3**	**2,440.4**	**2,233.4**	109%	72%
	As % of GDP	18.8%	12.1%	1.5%	13.6%	12.5%	109%	72%
2	**DEVELOPMENT BUDGET**							
	Domestic Funds	509.1	731.2	31.5	698.9	417.4	167%	137%
	Project Grants	879.1	450.9	0.0	450.9	450.9	100%	51%
	Infrastructure Tax Credits	85.4	12.9	2.0	14.9	64.1	23%	17%
	Concessional loans	163.0	62.2	1.1	63.3	74.3	85%	39%
	Commercial loans	0.0	0.0	0.0	0.0	0.0	na	na
G.	**TOTAL DEVELOPMENT BUDGET (PIP)**	**1,636.6**	**1,265.4**	**34.6**	**1,227.9**	**1,006.7**	122%	75%
	As % of GDP	9.2%	7.1%	0.2%	6.9%	5.6%	122%	75%
	ADDITIONAL PRIORITY EXPENDITURE	**450.0**	**14.0**	**50.0**	**63.9**	**337.5**	19%	3%
H.	**TOTAL EXPENDITURE & NET LENDING**	**5,456.7**	**3,432.5**	**357.9**	**3,732.3**	**3,577.6**	104%	68%
	As % of GDP	30.5%	19.2%	2.0%	20.9%	20.0%	104%	68%
I.	**AMORTISATION**	**2242.7**	**1,180.9**	**47.8**	**1,228.6**	**1,414.4**	87%	55%
	Domestic	1996.0	1,031.1	28.0	1,059.1	1,231.8	86%	53%
	External	246.7	149.8	19.7	169.5	182.5	93%	69%
J.	**LOAN REPAYMENTS**	**4.0**	**1.9**	**2.0**	**3.9**	**3.3**	118%	98%
K.	**TOTAL PAYMENTS**	**7,703.4**	**4,615.3**	**407.7**	**4,964.8**	**4,995.3**	99%	64%
	As % of GDP	43.1%	25.8%	2.3%	27.8%	27.9%	99%	64%

Source: Treasury

Table 8: CENTRAL GOVERNMENT FINANCING
(Kina, million)

		2007 Budget	August Outturn	Sept Actuals	Sept Outturn	Sept Trend	% of Trend	% of Budget
A.	**TOTAL REVENUE AND GRANTS**	**5,421.6**	**4,528.1**	**402.6**	**4,930.8**	**3,647.8**	135%	91%
B.	**TOTAL EXPENDITURE AND NET LENDING**	**5,456.6**	**3,432.5**	**357.9**	**3,732.3**	**3,577.6**	104%	68%
C.	**DEFICIT (-) / SURPLUS (+)**	**-35.0**	**1,095.6**	**44.7**	**1,198.5**	**70.3**	na	na
	% of GDP	-0.2%	6.1%	0.2%	6.7%	0.4%	na	na
D.	**EXTERNAL FINANCING**	**-83.7**	**-87.6**	**-18.6**	**-106.3**	**-108.3**	na	na
D1.	**CONCESSIONAL FINANCING**	**-4.3**	**0.0**	**-6.1**	**-6.1**	**-57.5**	na	na
	New Borrowing	163.0	62.2	1.1	63.3	74.3	85%	39%
	Less Amortisation	-167.3	-62.2	-7.2	-69.4	-131.8	53%	41%
D2.	**COMMERCIAL FINANCING**	**-18.2**	**-7.8**	**0.0**	**-7.8**	**-13.3**	na	na
	New Borrowing	0.0	0.0	0.0	0.0	0.0	na	na
	Less Amortisation	-18.2	-7.8	0.0	-7.8	-13.3	59%	43%
D3.	**EXCEPTIONAL FINANCING**	**-61.2**	**-79.8**	**-12.5**	**-92.3**	**-37.5**	na	na
	New Borrowing	0.0	0.0	0.0	0.0	0.0	na	na
	Less Amortisation	-61.2	-79.8	-12.5	-92.3	-37.5	246%	151%
E.	**DOMESTIC FINANCING**	**118.7**	**-1,008.0**	**-26.1**	**-1,092.2**	**38.0**	na	na
E1.	**DOMESTIC MARKET BORROWING (NET)**	**118.7**	**-451.9**	**16.0**	**-435.9**	**20.2**	na	na
	New Domestic Borrowing	2114.7	579.2	44.0	623.2	1252.0	50%	29%
	Less Amortisation	-1996.0	-1,031.1	-28.0	-1,059.1	-1231.8	86%	53%
E2.	**OTHER DOMESTIC FINANCING (b)**	**0.0**	**-556.1**	**-42.1**	**-656.3**	**17.8**	na	na
E3.	**ASSETS SALES FINANCING**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	na	na
E4.	**NET FINANCING**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	na	na
F.	**TOTAL FINANCING**	**35.0**	**-1,095.6**	**-44.7**	**-1,198.5**	**-70.3**	na	na
G.	**GROSS BORROWING**	**2277.7**	**85.3**	**3.0**	**30.1**	**1344.1**	2%	1%
	Concessional	163.0	62.2	1.1	63.3	74.3	85%	39%
	Commercial	0.0	0.0	0.0	0.0	0.0	na	na
	Exceptional	0.0	0.0	0.0	0.0	0.0	na	na
	Domestic	2114.7	23.1	1.9	-33.2	1269.9	-3%	-2%
	Financing Gap	0.0	0.0	0.0	0.0	0.0	na	na

Source: Treasury