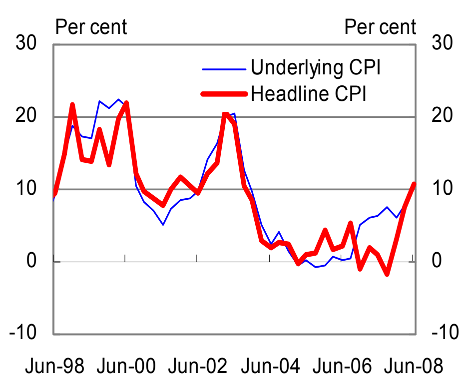
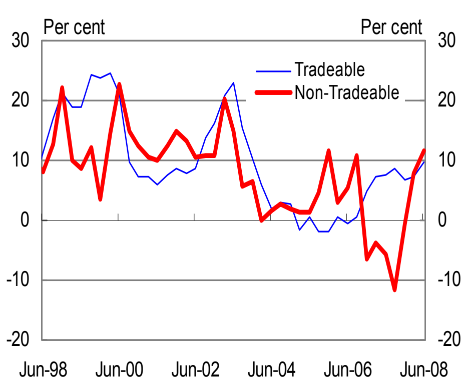
TREASURY ECONOMIC MONITOR (TEM)

June 2008 **Publication 2/2008**

Headline & Average Underlying CPI	Tradeable & Non-Tradeable Inflation
	

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1. THE INTERNATIONAL ECONOMIC OUTLOOK

According to the International Monetary Fund's (IMF), July 2008 update of the key World Economic Outlook (WEO) projections, the global economy is in a tough spot, caught between sharply slowing down demand in many advanced economies and rising inflation everywhere, notably in emerging and developing economies.

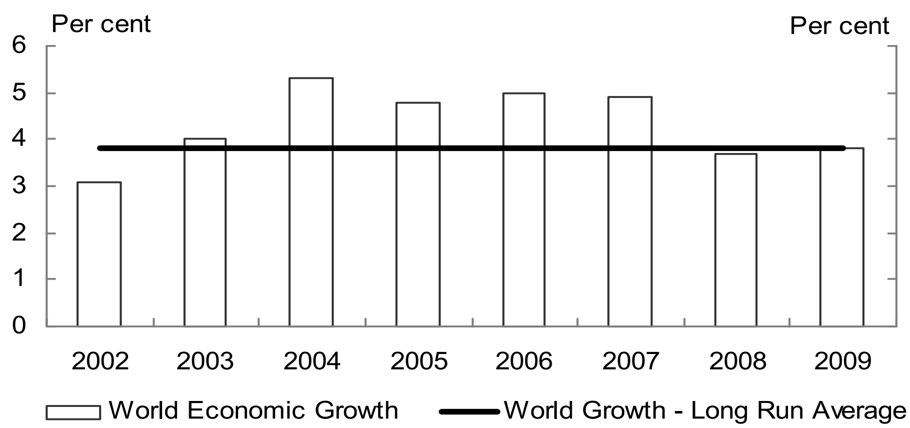
Global growth decelerate to 4.5 percent in the first quarter of 2008 down from 5 percent in the third quarter in 2007 reflecting slowing down in activities in both advanced and emerging economies. Accordingly, global growth is projected to moderate from 5 percent in 2007 to 4.1 per cent in 2008. In 2009, global growth is expected to decline further to 3.9 per cent if the current global trend in growth continues.

Expansions in emerging and developing economies are also expected to lose steam. Growth in these economies is projected to ease to around 7 per cent in 2008-09, from 8 per cent in 2007. In China growth is now projected to moderate from around12 percent in 2007 to around 10 per cent in 2008-09.

Growth for the United States in 2008 is expected to moderate to 1.3 percent on an annual average basis, an upward revision to reflect incoming data for the first quarter of the year. Growth projections for the euro area and Japan also show a slow down in activity.

Inflation is mounting in both advanced and emerging economies, despite the global slowdown. In many countries, the higher force behind higher inflation is higher food and fuel prices.

Chart 1: World Economic Growth



Source: International Monetary Fund, *World Economic Outlook, April 2008.*

1.1 Commodity Markets

The world price for PNG's key mineral exports of oil and copper continued to soar while gold eased slightly in the first half of 2008.

The world price for copper increased slightly in the June quarter by 8.8 per cent, up from 7.2 per cent in the first quarter of 2008. Continued demand from China and India, and the low inventory levels (supply) continue to be the driving force behind the price of copper.

The world gold price eased slightly in the June quarter of 2008 (chart 2) after tracking higher in the first quarter. On average, gold price has fallen by 2.9 per cent in the quarter to trade lower at US$896.5 per ounce. The moderation in the US economy, and the slow down in the demand of advanced economy and easing in the growth of emerging markets have caused the price of gold to ease slightly in the first quarter of 2008.

Crude oil prices continued to surge higher in the June quarter of 2008. On average, oil price increased by 26.5 per cent to trade at US$123.7 per barrel in the June quarter. The price per barrel eclipsed the US$100 mark during the quarter with continued speculation that demand will continue to grow faster than supply – global demand for oil remains very strong, supply response haven't materialized to keep up with demand, a depreciating dollar and geopolitical concerns surrounding supply continue to be the main drivers.

Chart 2: Prices for Copper & Gold

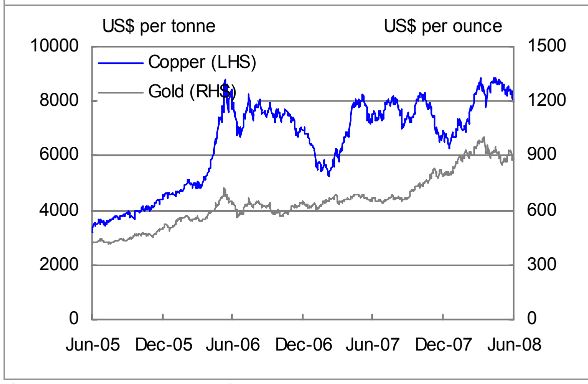
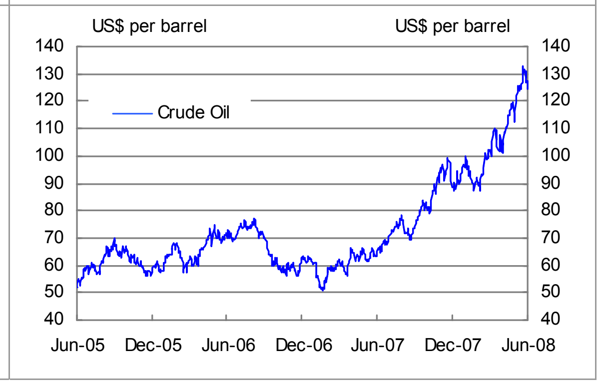


Chart 3: Prices for Crude Oil



Source: Department of Treasury

World prices for Papua New Guinea's Agricultural commodity exports of Palm oil, Cocoa and Copra performed very strongly in the June quarter of 2008 while Coffee eased slightly off from highs recorded in the March quarter.

Chart 4: Prices Coffee

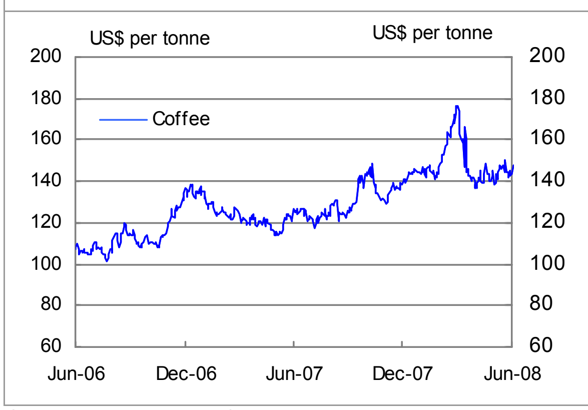
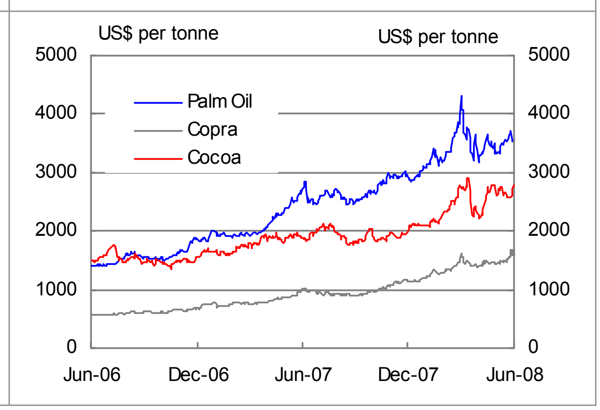


Chart 5: Prices for Copra, Palm Oil and Cocoa



Source: Department of Treasury

The price of coffee eased slightly by 5.1 per cent to trade lower at around US cents 145.4 per pound in the June quarter as compared to higher price recorded in the March quarter of 2008.

The world price for palm oil increased by 0.5 per cent during the June quarter to trade around US$3497.5 per tonne, 20 per cent lower compared to March quarter of 2008. The rise in price continue to reflect a booming growth in China and India where demand for palm oil is huge in the food and cosmetics industry, tight supply from Malaysia and rising crude oil price which is increasing the demand for vegetable oils for biofuel production.

The world price for cocoa increased by 12.6 per cent during the June quarter to trade around US$2716.3 per tonne. The increase in price is attributed to shift in investment funds to commodities and supply issues from producers in developing countries due to pest infestation.

The price of Copra also increased in the June quarter. The price of copra increased by 11.2 per cent to trade around US$1527.6 per tonne. The increase in price of copra as with all other commodities is attributed to rising global demand, supply issues and rising oil prices in the world market.

2. DOMESTIC ECONOMY

2.1 Gross Domestic Product

The PNG economy is expected to grow by a very strong 7.3 per cent in 2008 – the highest growth rate since 1993. This is significantly higher than the Budget forecast of 6.6 per cent, although there has been a slight downward revision from the 7.6 per cent forecast in the 2009 Budget Strategy paper, due to lower projected gold production at some mines.

The upward revision since Budget is due to higher than projected growth in the communication sector, in line with the continued stronger than expected expansion of mobile phone services; higher than projected cash crop production in the agricultural sector, as well as a broad based increase in economic activity in other non-mining sectors.

The robust Gross Domestic Product (GDP) growth in 2008 is broad based and mainly driven by the non-mining sectors. The mining and quarrying sector is also expected to expand, largely due to higher production from Ok Tedi. While the natural decline in the oil sector is expected to be temporarily arrested in 2008, due to increased workovers in existing fields in order to take advantage of high prices, this will not be sufficient to prevent the natural decline in oil production in later years.

Growth in the mining sector is expected to be around 6.9 per cent in 2008, due to increased production in Ok Tedi as well as the commencement of the (smaller) Simberi and Sinivit gold mines. Projected growth has been revised down slightly since the 2008 Budget due to lower production estimates from Porgera and Lihir, although this is partially offset by higher production expected from Ok Tedi.

Non-mining GDP growth is expected to remain high, at a very strong 7.5 per cent in 2008, driven by a continuation of growth in the transport, storage and communication sectors; and more robust growth in the agriculture, forestry and fishing sector. Projected growth has been revised up from the 6.5 per cent forecast in the 2008 Budget, due to increased growth in the communications sector, as well as wholesale and retail, and finance, real estate and business services.

Strong economic growth has also been supported by a favorable combination of the terms of trade (the price of exports relative to the price of imports), low interest rates, high money supply and credit growth, as well as increased Government spending.

2.2 Labour Market

In the year to June quarter 2008, total private non-mineral sector employment rose by 8.3 per cent driven by higher employment growth in most sectors, particularly financial, business and other services, manufacturing, retail and agriculture, forestry and fisheries sectors.

Employment in the mineral sector also recorded robust growth, up 13.5 per cent in the year to June 2008.

Employment pace continues to vary by region but generally all regions have shown growth over the year to June 2008 with Momase and New Guinea Islands recording the highest growth rates of 16.4 per cent and 11.1 per cent respectively.

2.3 Prices

The underlying Consumer Price Index (CPI) rose by 3.6 per cent in the June quarter to be 10.2 per cent higher through the year, driven by increases in the price of *rents, council charges, fuel and power* and *food*. Headline CPI increased by 3.7 per cent in the June quarter to be 10.7 per cent higher in through-the-year terms (Chart 6).

Underlying inflation has been uncomfortably high for some time now (Chart 6), and is threatening to become entrenched in the PNG economy. While some of the increase in inflation is due to increasing world prices, there is also strong inflationary pressure coming from within the domestic economy.

Chart 6: Headline and Avg Underlying

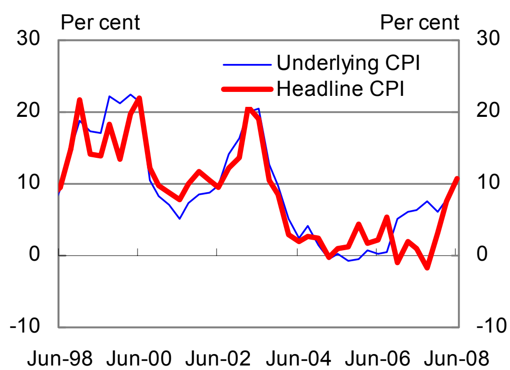
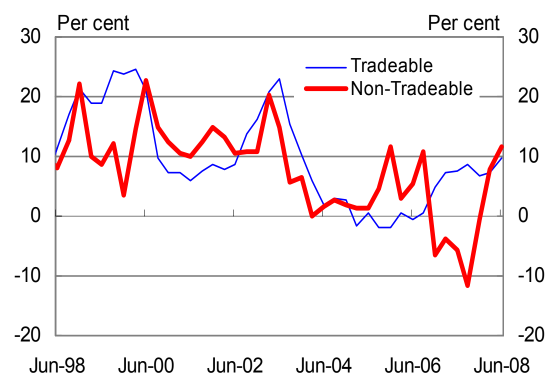


Chart 7: Tradeable and Non-Tradeable Inflation



Source: National Statistics Office and Treasury

The increase in prices continues to be broad with 12 of the 24 subgroups recording above trend increases in the June quarter. Over the last year prices of imported (or tradeable) goods increased by 9.8 per cent due to continued higher world oil and food prices, however domestic demand is also very strong with non-tradeable inflation up 11.7 per cent in the same period (Chart 7). Contrary to what some commentators assert, this is not just due to imported inflation.

CPI by Expenditure Group

In quarterly terms expenditure groups that recorded large increases were rents, council charges, fuel and power and food. This was partially offset by the decline in clothing and footwear (Table 1).

Over the last year increases in CPI have been broad, with all groups increasing strongly. The largest increases have been recorded in *rents, council charges, fuel and power* and *food* with sharp increases coming from the price of *drinks, tobacco and betelnut* (Chart 8).

Table 1: June 2008 CPI Growth by Expenditure Groups

	Quarterly	Through the year
Clothing and Footwear	-4.5	0.3
Miscellaneous	0.2	1.6
Transport and Communication	2.3	4.9
Household equipment & Operations	1.6	6.3
Drinks, Tobacco & Betelnut	2.2	10.8
Food	6.2	15.2
Rent, Council Charges, Fuel and Power	7.3	21.3
Average All groups CPI	**3.7**	**10.7**
Average Underlying CPI	**3.6**	**10.2**

Source: National Statistical Office

CPI by Region

All regions recorded price increase in the June quarter. Over the last year growth in prices have been very sharp, with close to 10 per cent inflation for all the major towns in the country, where Lae, Port Moresby and Rabaul have recorded the largest increases (Table 2).

Chart 8: Through the year CPI by group

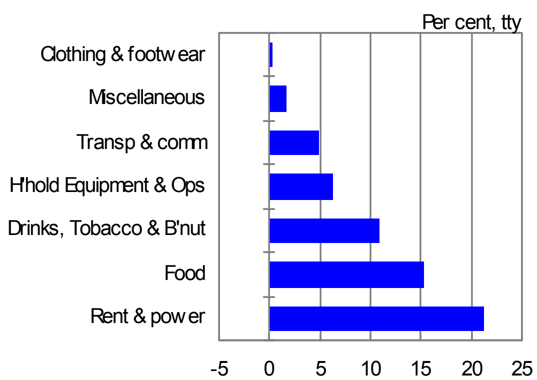


Table 2: CPI by region

	Quarterly	Through the year
Port Moresby	2.3	10.3
Goroka	4.3	9.5
Lae	6.5	13.5
Madang	2.4	8.9
Rabaul	4.6	9.6
Total	**3.7**	**10.7**

Source: National Statistics Office and Treasury

Contributing Factors

A number of factors continue to contribute to the high inflation outcome and are expected to persist over 2008.

- The PNG Economy is currently experiencing a huge terms of trade boom with export prices increasing by more than 80 per cent since 2005. This has provided greater purchasing power for PNG but has not increased the productive capacity of the economy. Even though, proceeds from the commodity price boom are used to purchase domestic goods and services (as against increased imports) this has and will continue to create inflationary pressures.
- Although monetary policy has reacted to inflationary pressures by increasing the KFR to 6.5 per cent, growth in monetary aggregates is still a concern. Money supply growth is still very high, at 28 per cent through the year to June 2008, while the growth in lending to the private sector is higher still, increasing by 39 per cent over the same period. This means there is a lot of liquidity in the system and monetary policy needs to be tightened further to prevent a further break out in inflation.

- The terms of trade boom has provided the government substantial mineral revenues. Since 2005 there has been over K5.4 billion in supplementary and additional appropriations. The government has taken the opportunity to increase its spending with over K1.2 billion in actual spending already undertaken, adding significant stimulus into the economy. As of (June), there was K3.9 billion sitting in the trusts accounts. Releasing these funds adds further fiscal stimulus to the economy, increasing inflationary pressure. Indications are that the rate of release has increased recently, which could add more fuel to the fire if not kept in check.
- The rapid expansion in the private sector due to increase business confidence, relatively low interest rates and high profitability. The private sector has been growing strongly for a number of years now, with consistently strong employment growth of almost 10 per cent since the beginning of 2006, and near record rates of non-mining GDP growth. However this expansion is taking place in an economy that is now facing significant capacity constraints and is resulting in skill shortages, higher wage demands and increasing willingness to pass higher prices onto consumers.
- The depreciation of the Kina over the period 2006 to 2007 resulted in increased import prices. This has reversed recently, due to a sharp appreciation against the Australian dollar, and a more gradual appreciation against the US dollar.

There are significant upside risks to inflation. The economy is in the midst of a terms of trade boom, money supply is growing rapidly, government expenditure has increased significantly with a large amount of potential spending in trust accounts and the private sector is expanding rapidly.

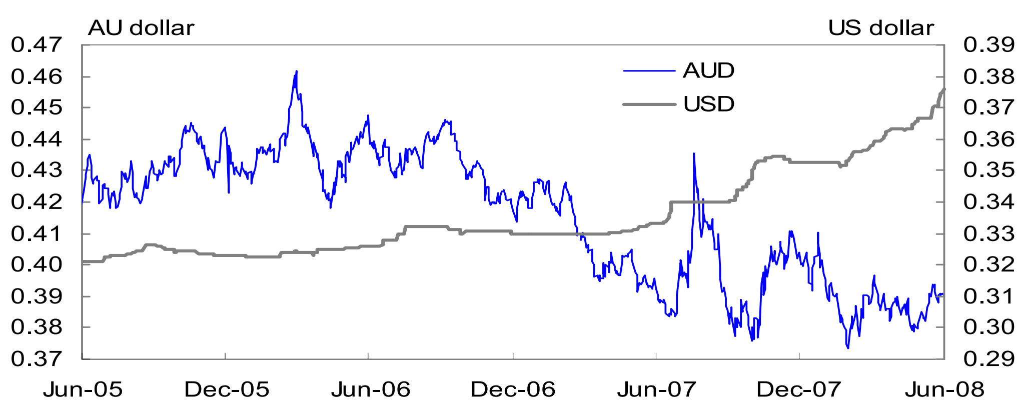
It is important that the Government and Bank of PNG do not allow this to happen, as it will threaten macroeconomic stability, create uncertainty and put the benefits of the good economic outcomes recorded over recent years at risk.

3. MONETARY DEVELOPMENTS

3.1 Exchange Rate Developments

The Kina appreciated in value by 5 per cent against weakening US dollar, however depreciated against the Australian dollar by 3 per cent in the June quarter of 2008. The Australian dollar strengthened a little against most currencies during the quarter.

Chart 9: Exchange Rate Movements



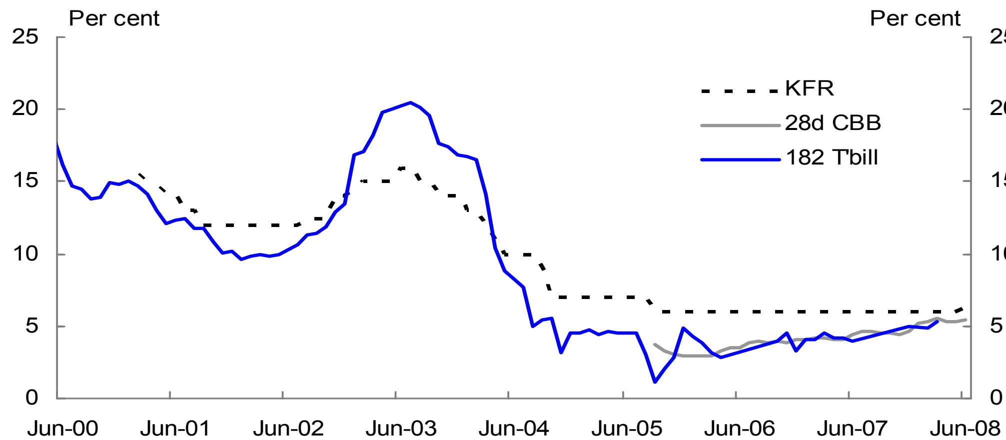
Source: Bank of Papua New Guinea, *2008 June Quarterly Economic Bulletin*

3.2 Interest Rate Developments

Despite very strong economic growth and rising inflationary pressures, interest rates continue to remain at historically low levels. The Kina Facility Rate (KFR) – which is the benchmark interest rate targeted by the BPNG, has been adjusted upwards by 25 percentage points to 6.25 per cent in the June quarter from 6 per cent in the first quarter of 2008. Central Banking bills have slightly eased to 5.45 in the June quarter, down from 5.49 per cent in the March quarter of 2008. In 2008 the interest rates still remain below the KFR benchmark.

Treasury Bills rate was raised to 5.28 per cent from 4.49 in through the year terms to March quarter 2008. The 182 day Treasury Bill rate increased by 0.28 basis point in the first quarter, however this were retired in the June quarter of 2008.

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

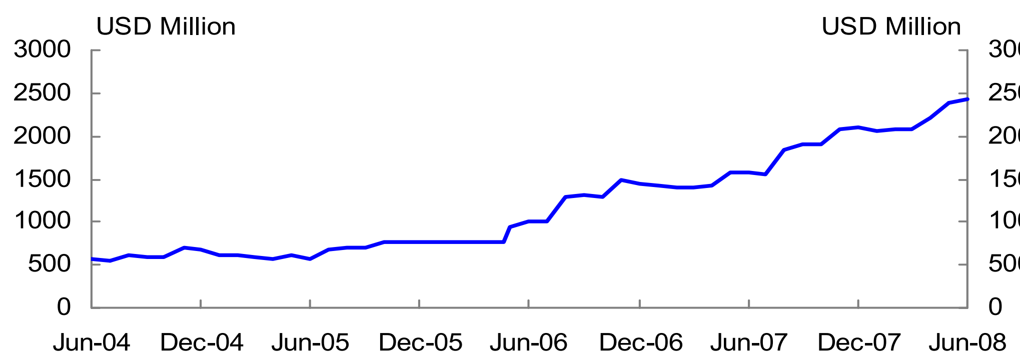


Source: Bank of Papua New Guinea, *2008 June Quarterly Economic Bulletin*

3.3 Foreign Reserves

The level of Gross Foreign Reserves in the June quarter of 2008 was K6,567.9 million (US$2,434.5 million) compared to K4,725.4 million (US$1,579.6 million) in the corresponding period of 2007. According to BPNG, this very high level of reserves is sufficient for 9.3 months of total import cover and 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, *2008 June Quarterly Economic Bulletin*

4. COMMODITIES

Table 3: Total Export Values for Commodities

TOTAL EXPORTS	Jun-07			Jun-08			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)	11.4	1908.2	65.9	11.9	2440.4	83.5	4.4	27.9	26.7
Coffee (000 tonnes)	10.8	2371.8	77.6	17.6	2851.6	144.3	63.0	20.2	86.0
Copra Oil(a) (000 tonnes)	18.1	656.6	36.0	21.1	1048.3	63.6	16.6	59.7	76.7
Copra Oil	*14.2*	764.8	*32.9*	*15*	1305.4	*56.3*	*5.6*	*70.7*	*71.1*
Copra	*3.9*	262.4	*3.1*	*4.8*	528.9	*7.3*	*23.1*	*101.6*	*135.5*
Palm Oil (000 tonnes)	101.2	598.9	183.6	112.3	936.9	302.5	11.0	56.4	64.8
Other Agriculture(b)	n.a.	n.a.	69.1	n.a	n.a	74.0	n.a	n.a	7.1
Tea	1.7	101.0	5.2	1.6	102.2	4.7	-5.9	1.2	-9.6
Rubber	1.0	194.8	5.9	1.3	230.1	8.6	30.0	18.1	45.8
Other(c)	n.a.	n.a.	58.0	n.a	n.a	60.7	n.a	n.a	4.7
Forest Products (including logs)	n.a.	n.a.	167.1	n.a	n.a	146.4	n.a	n.a	-12.4
Logs	n.a.	n.a.	160.1	n.a	n.a	128.1	n.a	n.a	-20.0
Marine Products	n.a.	n.a.	17.3	n.a	n.a	12.1	n.a	n.a	-30.1
Agriculture,Forestry and Fishing Exports			**616.6**			**826.4**			**34.0**
MINERALS									
Gold (000 oz)	509.6	604.2	932.8	563.9	766.8	1243.2	10.6	26.9	33.3
Copper (000 tonnes)	71	7033.9	1512.9	46.2	8052.1	1069.6	-34.9	14.5	-29.3
Oil (million barrels)	4008.5	72.7	882.3	3343.4	110.7	1064.6	-16.6	52.4	20.7
Refined Petroleum Products	n.a	n.a	83.6	n.a	n.a	105.1	n.a	n.a	25.7
Mineral Exports(d)			**3,411.6**			**3,482.5**			**2.1**
TOTAL EXPORTS			**4,028.2**			**4,308.9**			**7.0**

(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	2007 (Jun)	2008 (Jun)
USD/PGK	0.3301	0.3478

Source: Bank of Papua New Guinea*, 2008 June Quarterly Economic Bulletin*

Total export values increased by 7.0 per cent through the year to June 2008. This reflects continued high export values driven mainly by the agriculture, forestry, fisheries sector and supported by the continued high commodity prices.

Exports from the agriculture, forestry and fishing sector increased very strongly by 34.0 per cent to K826.4 million in June 2008 compared to K616.6 million in the corresponding period of 2007. This reflects the high export prices of copra, copra oil, coffee and palm oil. The boost in the export volumes reflects the increased number of copra mills and copra oil exporters, rebound in coffee production and expansion of palm oil industry. Smallholder producers have also increased in these sectors over the course of the year.

Mineral sector has been growing slightly lower then expected in through the year to June 2008 with a 2.1 per cent rise in export value to be K3,482.5 million compared to K3,411.6 million in the corresponding period of 2007. This is driven by the high prices for PNG's key mineral exports of gold, and copper.

5. BALANCE OF PAYMENTS

The current account balance recorded a surplus of K544 million at the end of June quarter 2008, which is much lower than the surplus of K820 million recorded in the corresponding period of 2007. This is due to higher trade account surplus and lower net services payments, which more than offset higher net income payments and lower net income receipts.

Table 4: Balance of Payments June 2007 – June 2008 (Kina Millions)

	June – 2007	June – 2008	Change
Current Account Balance	820	544	-276
Balance of Trade in Goods & Services	1,174	1,313	139
Exports of Goods and Services	*4,450*	*4,525*	*75*
Imports of Goods and Services	*-3,276*	*-3,212*	*64*
Balance of Income	-637	-676	-39
Balance of Transfer	283	-93	-376
Capital and Financial Account*	-846	-580	266
Net Errors and Omissions	26	36	10

Source: Bank of Papua New Guinea*, 2008 June Quarterly Economic Bulletin*
*Includes changes in official reserves

The surplus in the Balance of Trade in Goods and Services at the end of the June quarter 2008, was K1,313 million, which is K139 million higher than the corresponding period of 2007. The slightly higher trade surplus is due to higher value of merchandise exports which more than offset the value of merchandise imports. This was attributed to higher export values of agriculture exports which more than offset declines in mining and petroleum products.

The balance of income was a deficit of K676 million in the June quarter of 2008 compared with a deficit of K637 million from the corresponding period of 2007. The outcome was due to increase interest and dividends payments by resident companies combined with lower interest receipts.

The balance of transfer was a deficit of K93 million in the June quarter of 2008 compared to a surplus of K283 million in the corresponding period of 2007. The deficit was due to lower receipts from gifts and grants combined with higher transfer payments relating to family maintenance.

The capital and financial accounts recorded a deficit of K580 million in the June quarter of 2008 compared with a slightly higher deficit of K846 million recorded in the corresponding period of 2007. This was mainly reflective of low net capital inflow and high portfolio investment in particular financial transactions abroad which also reflected a slow down in foreign direct investment and higher loan repayments in the first half of 2008.

The level of gross foreign exchange reserves for the first half of 2008 was K6,567.9 million (US$2,434.5 million), sufficient to smooth any short term exchange rate volatility.

6. CENTRAL GOVERNMENT FISCAL OPERATIONS FOR JUNE 2008

Technical Note:

This report outlines the fiscal performance for the June Outturn 2008.

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 2008 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 2008 Budget were to be achieved.

Summary of Fiscal Performance

The table below summarises the fiscal outturn (in millions of kina) for the June 2008 Fiscal Outturn.

Table 5: Summary of Fiscal Outturn – June 2008 (Kina Million)

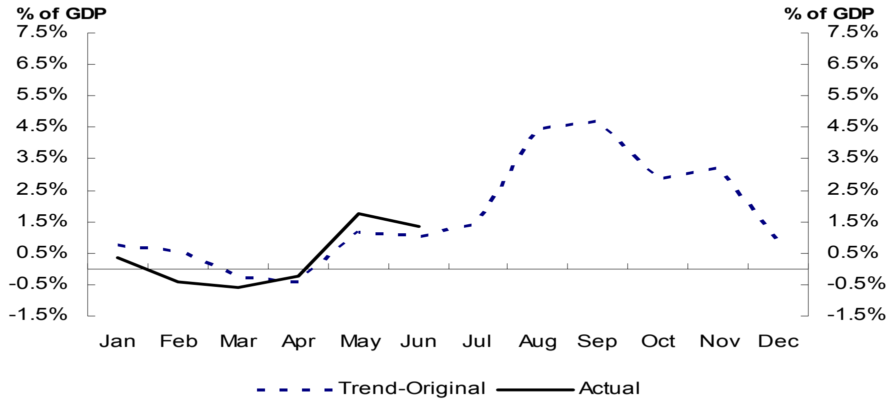
	Budget	Apr	May	June	June Trend	% of Trend	% of Budget
Total Revenue (GoPNG)	6004.2	1156.7	2119.3	2485.9	2260.9	110%	41%
Total Expenditure (GoPNG)	5801.8	1205.2	1775.4	2181.5	1928.2	113%	38%
Budget Balance	202.4	-48.5	344.0	304.4	332.8		
% of GDP	1.0%	-0.2%	1.7%	1.4%	1.5%		

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

Total GoPNG revenue was slightly higher to June 2008, with collections 10 per cent above the trend required to meet 2008 Budget estimates. Total GoPNG expenditure for the June 2008 outturn turned out to be above trend by 13 per cent.

Overall, the Government's Budget position was a surplus of K304.4 million or 1.4 per cent of GDP compared to the expected (trend) surplus of K332.8 million or 1.5 per cent of GDP. 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 2008 Original Budget. The trend also reflects the impact of the high mining and petroleum prices.

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



2. Revenue and Grants

Total Revenue (GoPNG)

Total GoPNG revenue was slightly above trend in the June Fiscal Outturn of 2008.

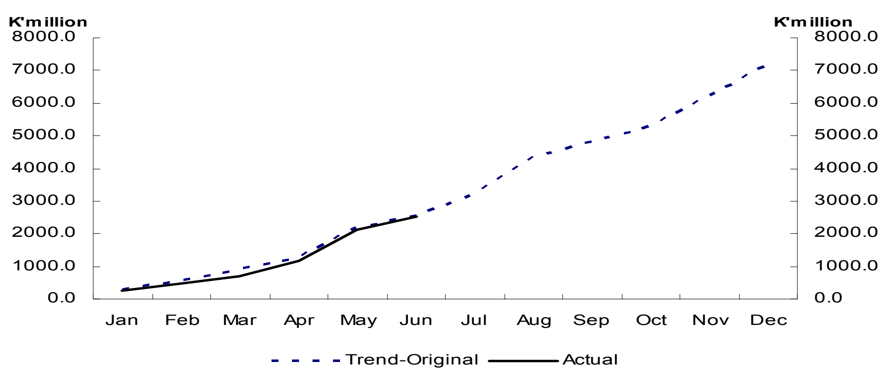
Tax receipts in the June 2008 Outturn were K2,381.4 million, which is 9 per cent higher than the trend. Taxes on income and profits were higher than trend by 16 per cent, primarily attributable to the higher recording of all direct tax heads with the exception to gaming taxes; domestic taxes on goods and services were lower than trend by 13 per cent due to the lower GST collection and domestic excise; and taxes on international trade performed better than trend by 19 per cent.

Non-tax revenue receipts for the June Outturn were K104.4 million, which is 20 per cent above trend. This is due mainly to the higher than anticipated receipt of the mining dividends and departmental revenues. Non mining dividends have yet to be recorded as dividend proceeds from these companies are managed by the IPBC who then decides on transferring these proceeds to the government accounts.

Tax Credits and Grants

While not technically PNG Government revenue, project support grants from donors and infrastructure tax credits (ITC) 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



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 K16.6 million are recorded as being utilized in the June Outturn, which is 21 per cent below trend. Project support grants from donors have yet to be recorded. Treasury is yet to receive expenditure reports from donors and therefore.

Total revenue and grants were K2,502.4 million at the end of June 2008. This is more or less on the trend expected at K2,512.5 million.

3. Expenditure and Net Lending

Total Expenditure (GoPNG)

National Departments' recurrent expenditure totalled K1,113.4 million as at June 2008. This is 20 per cent above trend, and represents 49 per cent of the 2008 Budget appropriation.

National Departments' personnel emoluments expenditure were K413.5 million in June Outturn, compared to the K416.3 million anticipated in trend expenditure, which is 1 per cent below trend and represents 44 per cent of the 2008 Budget.

National Departments' general goods and services expenditure was K699.9 million in the June Outturn. This is 37 per cent above trend and represents 53 per cent of the 2008 Budget appropriation.

Grants to Provincial Governments totalled K388.0 million in June compared to K314.6 million in trend expenditure. This is 23 per cent above trend and represents 54 per cent of the 2008 Budget appropriation.

Provincial Government personnel emoluments expenditure (including teachers) was K283.0 million in the June Outturn compared to K247.5 million anticipated in trend. This is 14 per cent above trend and represents 47 per cent of the 2008 Budget appropriation.

Provincial Government goods and services grant expenditure totalled K59.1 million in the June Outturn compared to K40.1 million in trend expenditure. This reflects a quite higher recording during the first half of the year. It is 47 per cent above trend and represents 90 per cent of the 2008 Budget appropriation. The higher recording reflects transfers from the national government accounts into the provincial governments' operating accounts and not necessarily expenditure incurred by the provincial governments.

Autonomous Bougainville Government incurred total expenditure of K34.3 million compared to trend expected at K19.0 million. This is 80 per cent above trend and 63 per cent of the total 2008 Budget appropriation.

Transfers to Statutory Authorities totalled K133.0 million in the June 2008 Outturn. This is 26 per cent above trend and is 59 per cent of the 2008 Budget appropriation

Interest payments and fees totalled K99.0 million in the June Outturn and is 47 per cent below trend. This represents 27 per cent of the 2008 Budget appropriation.

Domestic development expenditure in the June Outturn turned out to be K378.3 million, which is 22 per cent above trend and represents 72 per cent of the 2008 Budget appropriation.

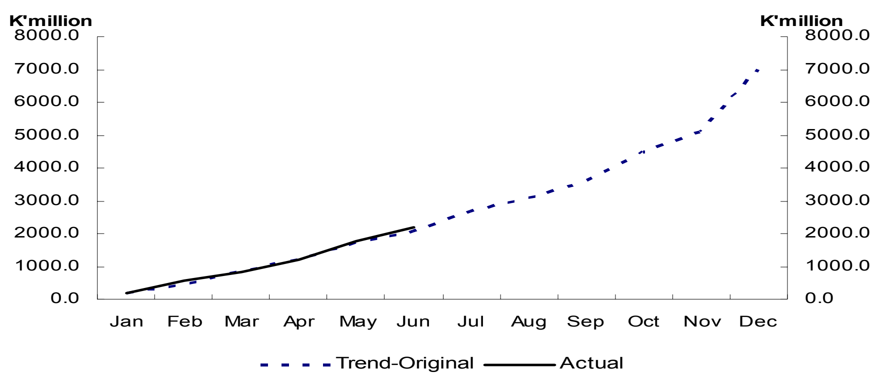
Draw downs on concessional project loans turned out to be K0.7 million which is 1 per cent of trend.

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 14: Actual Expenditure and Net Lending against the Trend



Infrastructure tax credits of K16.6 million are recorded as being utilized in the June Outturn. This is 21 per cent above trend. Project support grants from donors have yet to be recorded.

Funds appropriated under the Additional Priority Expenditure, are parked under Department 207 which is managed by the Department of Finance and Treasury. Total payments from this by June 2008 were K37.0 million of which K27.0 million was ear-marked for the public servants housing project, and K10.0 million for the border development project.

Overall total expenditure and net lending for the June Outturn were K2198.1 million compared to the trend estimate of K2,179.7 million. This is 1 per cent above trend, however represents only 31 per cent of the 2008 Budget appropriation.

4. Financing

A Budget surplus of K304.4 million (or 1.4 per cent of GDP) was recorded in the June 2008 Outturn, compared to the trend surplus of K355.0 million (or 1.5 per cent of GDP).

Net external outflows totalled K108.0 million and net domestic outflow turned out to be K196.4 million. Both outflows were financed through the surplus generated.

FISCAL OUTTURN - JUNE 2008

Table 6: Central Government Revenue & Grants (K million)

		2008 Budget	May Outturn	June Actual	June Outturn	June Trend	% of Trend	% of Budget
A.	**TAX REVENUE**	**5,516.7**	**2,047.3**	**334.1**	**2,381.4**	**2,173.7**	110%	43%
A1.	**TAX ON INCOME AND PROFITS**	**4,142.0**	**1,510.6**	**227.6**	**1,738.2**	**1,502.3**	116%	42%
	Personal Income Tax	1,053.7	456.6	88.4	545.0	529.9	103%	52%
	Company Tax	699.7	244.8	26.8	271.6	250.3	109%	39%
	Dividend Withholding Tax	195.5	62.0	94.7	156.7	78.3	200%	80%
	Interest Withholding Tax	21.4	7.6	3.5	11.1	9.4	119%	52%
	Mining and Petroleum Taxes	2,011.8	667.0	1.4	668.4	554.9	120%	33%
	Gaming Tax	86.5	34.3	7.3	41.6	44.8	93%	48%
	Other: Direct	73.4	38.2	5.6	43.8	34.8	126%	60%
A2.	**DOM. TAXES ON GOODS AND SERV**	**987.3**	**348.3**	**75.0**	**423.3**	**486.0**	87%	43%
	Excise	368.3	145.2	25.8	171.0	184.0	93%	46%
	GST	600.8	190.0	49.0	239.0	291.9	82%	40%
	Mining Levy	15.0	11.4	0.0	11.4	8.5	133%	76%
	Other: Indirect	3.2	1.7	0.3	2.0	1.6	123%	62%
A3.	**TAXES ON INTERNATIONAL TRADE**	**387.4**	**188.5**	**31.4**	**219.9**	**185.4**	119%	57%
	Import Duty	132.7	64.8	12.5	77.3	61.9	125%	58%
	Export Duty	155.2	66.9	10.8	77.7	77.8	100%	50%
	Excise duties on Imports	99.5	56.8	8.1	64.9	45.6	142%	65%
B.	**NON-TAX REVENUE**	**487.5**	**72.0**	**32.4**	**104.4**	**87.3**	120%	21%
B1.	**PROPERTY INCOME**	**388.3**	**40.7**	**25.0**	**65.7**	**63.2**	104%	17%
	Dividends	128.5	0.0	0.0	0.0	7.0	0%	0%
	Mining and Petroleum Dividends	259.8	40.7	25.0	65.7	56.2	117%	25%
B2.	**INTEREST AND FEES FROM LENDING**	**5.0**	0.1	0.0	0.1	1.3	9%	2%
B3.	**OTHER NON TAX REVENUE**	**94.2**	31.2	7.4	38.6	22.7	170%	41%
B4.	**ASSETS SALES**	**0.0**	0.0	0.0	0.0	0.0		
C.	**TOTAL REVENUE**	**6,004.2**	**2,119.3**	**366.5**	**2,485.9**	**2,260.9**	110%	41%
	% of GDP	30.4%	10.7%	1.6%	11.2%	10.1%	110%	37%
D.	**INFRASTRUCTURE TAX CREDIT**	**73.7**	**12.4**	**4.1**	16.6	21.0	79%	22%
E.	**GRANTS**	**1123.7**	**0.0**	**0.0**	**0.0**	**230.5**	0%	0%
	Budgetary Support	0.0	0.0	0.0	0.0	0.0		
	Project Grants	1123.7	0.0	0.0	0.0	230.5	0%	0%
F.	**TOTAL REVENUE AND GRANTS**	**7,201.6**	**2,131.8**	**370.7**	**2,502.4**	**2,512.3**	100%	35%
	As % of GDP	36.5%	10.8%	1.7%	11.2%	11.3%	100%	31%
G.	**PRINCIPAL RECEIPTS FROM LENDING**	**4.0**	**2.0**	**0.2**	2.2	**1.9**	112%	54%
H.	**GROSS BORROWING**	**1793.9**	**-135.1**	**47.0**	**-88.1**	**231.3**	-38%	-5%
I.	**ASSET SALES**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**		
J.	**TOTAL RECEIPTS**	**8,999.5**	**1,998.6**	**417.8**	**2,416.5**	**2,745.6**	88%	27%
	As % of GDP	45.6%	10.1%	1.9%	10.8%	12.3%	88%	24%

Source: Treasury

Table 7: Central Government Expenditure (K million)

		2008 Budget	May Outturn	June Actual	June Outturn	June Trend	% of Trend	% of Budget
1	**RECURRENT BUDGET**							
A.	**NATIONAL DEPARTMENTS**	**2,262.3**	**868.6**	**244.8**	**1,113.4**	**925.5**	120%	49%
	Personnel Emoluments	932.1	362.6	50.9	413.5	416.3	99%	44%
	Total Goods & Services	1,330.2	506.0	193.9	699.9	509.3	137%	53%
	General Goods & Services	1,079.3	401.3	122.0	523.3	444.8	118%	48%
	Education Subsidies	143.0	74.0	58.8	132.8	39.6	336%	93%
	Arrears Payments	0.0	0.0	0.0	0.0	0.0	0%	0%
	SAP Payments	55.9	3.3	0.8	4.1	8.8	47%	7%
	Court Orders	52.0	27.3	12.3	39.6	16.1	246%	76%
B1.	**PROVINCIAL GOVERNMENTS**	**723.5**	**324.8**	**63.2**	**388.0**	**314.6**	123%	54%
	Personnel Emoluments	**596.8**	**230.8**	**52.2**	**283.0**	**247.5**	114%	47%
	Staffing Grants	166.3	83.6	17.2	100.8	78.0	129%	61%
	Teachers Salaries	430.5	147.3	35.0	182.2	169.5	108%	42%
	Goods & Other Services	**65.8**	**53.4**	**5.6**	**59.1**	**40.1**	147%	90%
	Administration Grants	15.5	12.5	1.4	13.9	9.2	150%	90%
	Health Function Grant	14.5	11.9	1.4	13.2	7.9	167%	91%
	Education Subsidies	21.7	17.7	1.7	19.4	13.8	140%	89%
	Derivation Grants	14.1	11.4	1.2	12.6	9.1	137%	89%
	Conditional Grants	**60.9**	**40.6**	**5.4**	**46.0**	**27.0**	171%	76%
	Trans/Infra/Maint. Grants	16.7	13.0	1.8	14.9	9.7	153%	89%
	Local & Village Services Grants	30.9	22.9	3.4	26.4	9.8	270%	85%
	Town & Urban Services Grants	11.1	2.9	0.0	2.9	6.4	46%	26%
	Village Courts	2.2	1.7	0.2	1.9	1.1	169%	85%
B2.	**AUTONOMOUS BOUGAINVILLE GOVT**	**54.0**	**28.1**	**6.1**	**34.3**	**18.9**	182%	63%
	Police Grant	2.2	2.2	0.0	2.2	0.9	257%	100%
	Recurrent Grant	51.5	25.9	6.1	32.1	18.0	178%	62%
	Conditional Grant	0.3	0.0	0.0	0.0	0.0	0%	0%
C.	**TRANSFERS & LOANS TO C.S.A**	**226.8**	**111.9**	**21.1**	**133.0**	106.0	126%	59%
D.	**INTEREST PAYMENT & FEES**	**373.5**	**96.4**	**2.6**	**99.0**	**186.8**	53%	27%
	Domestic	275.3	55.7	1.2	56.9	136.4	42%	21%
	External	98.2	40.7	1.4	42.2	50.4	84%	43%
E.	**NET LENDING TO C.S.A**	**-4.0**	**-2.0**	**-0.2**	**-2.2**	**-1.9**	112%	54%
	Gross Lending	0.0	0.0	0.0	0.0	0.0	0%	0%
	Less : Loan Repayments	4.0	2.0	0.2	2.2	1.9	112%	54%
F.	**RECURRENT EXPENDITURE & NET LEND**	**3,636.1**	**1,427.9**	**337.6**	**1,765.6**	**1,549.8**	114%	49%
	As % of GDP	18.4%	7.2%	1.5%	7.9%	7.0%	114%	43%
2	**DEVELOPMENT BUDGET**							
	Domestic Funds	526.7	320.3	58.0	378.3	309.6	122%	72%
	Project Grants	1,123.7	0.0	0.0	0.0	230.5	0%	0%
	Infrastructure Tax Credits	73.7	12.4	4.1	16.6	21.0	79%	22%
	Concessional loans	163.0	0.2	0.5	0.7	49.9	1%	0%
	Commercial loans	0.0	0.0	0.0	0.0	0.0		
G.	**TOTAL DEVELOPMENT BUDGET (PIP)**	**1,887.1**	**332.9**	**62.6**	**395.5**	**611.0**	65%	21%
	As % of GDP	9.6%	1.7%	0.3%	1.8%	2.7%	65%	19%
	ADDITIONAL PRIORITY EXPENDITURE	**1476.0**	**27.0**	**10.0**	**37.0**	18.8	197%	3%
H.	**TOTAL EXPENDITURE & NET LENDING**	**6,999.2**	**1,787.8**	**410.3**	**2,198.1**	**2,179.6**	101%	31%
	As % of GDP	35.5%	9.1%	1.8%	9.9%	9.8%	101%	28%
I.	**AMORTISATION**	**1996.3**	**208.9**	**7.4**	**216.3**	**564.1**	38%	11%
	Domestic	1553.0	106.6	1.0	107.6	357.0	30%	7%
	External	443.3	102.3	6.4	108.7	207.1	52%	25%
J.	**LOAN REPAYMENTS**	**4.0**	**2.0**	**0.2**	**2.2**	**1.9**	112%	54%
K.	**TOTAL PAYMENTS**	**8,999.5**	**1,998.7**	**417.8**	**2,416.5**	**2,745.6**	88%	27%
	As % of GDP	45.6%	10.1%	1.9%	10.8%	12.3%	88%	24%

Source Treasury

Table 8: Central Government Financing (K million)

		2008 Budget	May Outturn	June Actual	June Outturn	June Trend	% of Trend	% of Budget
A.	**TOTAL REVENUE AND GRANTS**	**7,201.6**	**2,131.8**	**370.7**	**2,502.4**	**2,512.3**	100%	35%
B.	**TOTAL EXPENDITURE AND NET LEND**	**6,999.2**	**1,787.8**	**410.3**	**2,198.1**	**2,179.6**	101%	31%
C.	**DEFICIT (-) / SURPLUS (+)**	**202.4**	**344.0**	**-39.6**	**304.4**	**332.8**	91%	150%
	% of GDP	1.0%	1.7%	-0.2%	1.4%	1.5%	91%	133%
D.	**EXTERNAL FINANCING**	**-279.3**	**-102.1**	**-5.9**	**-108.0**	**-115.3**	94%	39%
D1.	**CONCESSIONAL FINANCING**	**-210.3**	**-57.6**	**-3.4**	**-61.0**	**-89.3**	68%	29%
	New Borrowing	163.0	0.2	0.5	0.7	91.1	1%	0%
	Less Amortisation	-373.3	-57.8	-3.9	-61.7	-180.4	34%	17%
D2.	**COMMERCIAL FINANCING**	**-15.0**	**-8.3**	**0.0**	**-8.3**	**-7.6**	108%	55%
	New Borrowing	1.0	0.0	0.0	0.0	0.7	0%	0%
	Less Amortisation	-16.0	-8.3	0.0	-8.3	-8.4	99%	52%
D3.	**EXCEPTIONAL FINANCING**	**-54.0**	**-36.2**	**-2.4**	**-38.7**	**-18.4**	211%	72%
	New Borrowing	0.0	0.0	0.0	0.0	0.0		
	Less Amortisation	-54.0	-36.2	-2.4	-38.7	-18.4	211%	72%
E.	**DOMESTIC FINANCING**	**76.9**	**-241.9**	**45.5**	**-196.4**	**-217.5**	90%	-255%
E1.	**DOMESTIC MARKET BORROWING (NET)**	**77.0**	**275.4**	**-1.0**	**274.4**	**35.4**	774%	356%
	New Domestic Borrowing	1630.0	382.0	0.0	382.0	392.4	97%	23%
	Less Amortisation	-1553.0	-106.6	-1.0	-107.6	-357.0	30%	7%
E2.	**OTHER DOMESTIC FINANCING (b)**	**-0.1**	**-517.2**	**46.5**	**-470.8**	**-252.9**	186%	0%
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**	**-202.4**	**-344.0**	**39.6**	**-304.4**	**-332.8**	91%	150%
G.	**GROSS BORROWING**	**1793.9**	**-135.1**	**47.0**	**-88.1**	**231.3**	-38%	-5%
	Concessional	163.0	0.2	0.5	0.7	91.1	1%	0%
	Commercial	1.0	0.0	0.0	0.0	0.7	0%	0%
	Exceptional	0.0	0.0	0.0	0.0	0.0		
	Domestic	1629.9	-135.3	46.5	-88.8	139.5	-64%	-5%
	Financing Gap	0.0	0.0	0.0	0.0	0.0		

Source: Treasury