

CHAPTER 2 2008 BUDGET

2.1 OVERVIEW

The economy is growing at the fastest rate in over a decade and growth is expected to increase further in 2008, underpinned by strong global conditions, increased domestic business and consumer confidence and political stability. Inflation is low, although inflationary pressures are rising. Interest rates remain low and the exchange rate is expected to remain stable over the course of the year. The economy is expected to grow significantly by 6.2 per cent in 2007 and with robust domestic and external economic conditions expected to continue plus fiscal discipline being maintained, economic growth should continue to be strong in 2008.

Table 13: Key Economic Assumptions 2006 – 2008

	2006	2007	2008
	Actual	Revised	Projection
Real GDP Growth	2.6	6.2	6.6
Real Non-Mining GDP Growth	3.7	6.5	6.5
Inflation (year average)	2.3	1.8	5.2
Oil Price (USD/Barrel)	64.3	67.3	61.9
Copper Price (USD/Pound)	3.05	3.28	2.45
Interest Rates (Treasury Bills)	5.0	5.0	6.0

Source: Department of Treasury and NSO

The 2008 Budget is built on the strong foundation of the Government's prudent fiscal management and economic growth strategy, and is designed to enhance and promote a dynamic and competitive private sector. It will again use the additional revenue associated with high commodity prices to improve PNG's long-term welfare, while keeping ongoing expenditure at a level sustainable in the medium term.

The Medium Term Development Strategy 2005-2010 (MTDS) sets out the Government's medium-term development priorities, and it is reflected in the priorities for expenditure in the 2008 Budget.

Table 14: Budget Balance 2006 - 2008 (Kina Millions)

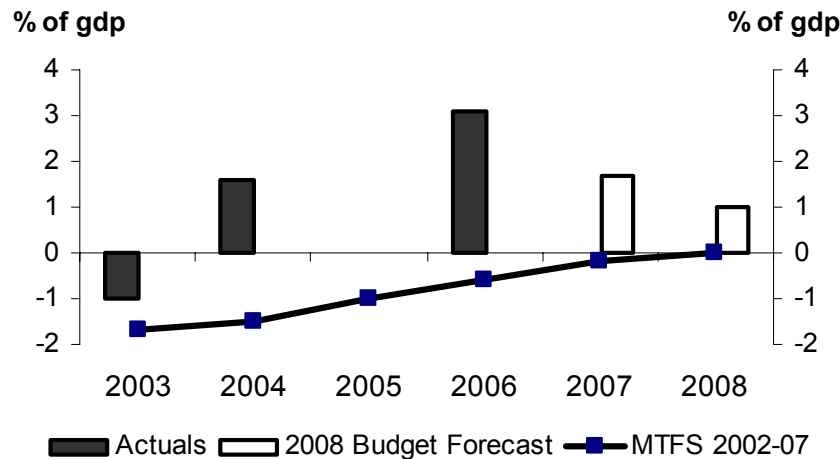
	2006	2007	2008	Change
	Actual	Revised	Projection	
Total Revenue and Grants	6311.6	7199.6	7201.7	+2.1
Total Expenditure and Net Lending	5775.8	6878.6	6999.4	+120.8
Budget Balance	535.8	321.0	202.3	-118.7
Per cent of GDP	3.1	1.7	1.0	-0.7

Source: Department of Treasury

2.2 FISCAL STRATEGY

The 2008 Budget is the new Government's first annual budget following the 2007 General Elections. It is framed in an environment of political and economic stability which allows policies to be set confidently within medium-term frameworks.

The current Medium Term Fiscal Strategy (MTFS) is for 2002–2007 and expires at the end of 2007. Fiscal outcomes over the life of the MTFS have been significantly better than the targets that were set in the MTFS (see Figure 16).

Figure 16: Actual Budget Balances and MTFS Targets

Source: Department of Treasury

The changed situation of high commodity prices and unusual levels of mineral revenue calls for a different fiscal strategy. Department of Treasury has prepared a proposed new MTFS for 2008-2012, and the 2008 Budget is set within it. A summary of the proposed new MTFS is provided in Chapter 9. Its major principles are:

- ongoing spending will not exceed the amount of revenue that can be relied upon in the absence of a commodity price boom, which includes a component of mineral revenue equal to 4.0 per cent of GDP;
- additional revenue will be allocated flexibly between public investment and debt/liability repayment, depending on implementation capacity and the requirements of demand management;
- as an upper bound, the Government will not increase the overall level of public debt during its term, applying the principle in the *Fiscal Responsibility Act, 2006*; and
- because it is desirable to end the period with the State's finances stronger than they are now, the MTFS includes a guideline of using additional mineral revenue in the proportions of 60 per cent public investment and 40 per cent debt/liability repayment.

The 2008 Budget has a strategy which is based on this in two main ways.

- First, it relies on expected mineral revenue only up to an amount equal to 4 per cent of GDP for funding ongoing spending.
- Secondly, it forecasts an overall budget surplus of K202.3 million or 1.0 per cent of GDP, which is the result of an allocation of additional mineral revenue between a range of public investments and two kinds of debt/liability repayment.

More broadly, the strategic purposes of the 2008 Budget reflect the guiding principles for the formulation and implementation of the Budget in the Fiscal Responsibility Act 2006, which are reproduced in Box 3.

Box 3: Budget Guiding Principles

The Budget preparation is underpinned by a number of medium-term guiding principles:

Framework:

- Government will live within its means by producing a budget that is affordable and sustainable.
- Government will maintain the integrity of the tax system.
- Government will not raise the overall level of debt during its term.
- The budget will be in balance over the term of the Government.
- Budgetary expenditures will be consistent with agreed national and sectoral priorities.
- Government will limit its participation to core areas where there is a clear rationale for public intervention.
- Government will provide a regulatory framework that encourages and supports the private sector.

Implementation:

- Government will exercise tight fiscal controls by closely monitoring all expenditures and by enhancing revenue collection.
- Budget plans will be adhered to and departments will be held responsible and accountable for managing their expenditures.
- Government will ensure that any mid-year proposals outside the budgetary process will be required to identify funding options and compensating savings with the department or agency.
- Government will work towards increasing the transparency of public finances by releasing timely budgetary information.

The fiscal year 2008, is expected to be the fourth consecutive year of unusually large mineral revenues as a result of continued high commodity prices. The Government has grasped the opportunity which this presents in formulating the 2008 Budget. It has chosen ways of adding to ongoing expenditure, and ways of allocating additional mineral revenue, which should help to improve the future delivery of goods and services, and thereby ***“empower the people of Papua New Guinea”***.

At the same time, the Government is maintaining its commitment to prudent fiscal management.

- It is limiting the increase in ongoing spending to what can be sustained for the rest of the five years ahead.
- It is taking care to ensure that the allocation of additional mineral revenue does not result in unsustainable additions to future years' recurrent and development spending.

- It is including a further large reduction in the State's liability for public servants' superannuation, and a substantial safety margin of planned debt repayment.

As in 2007, the key focus of expenditure in 2008 is to increase the proportion of the Budget allocated to the seven priority areas identified in the *Medium Term Development Strategy* (MTDS). The 2008 Budget Strategy Paper set a target of achieving at least 53 per cent of total (GoPNG) Budget expenditure being allocated to MTDS priority areas, with at least 88.5 per cent of (GoPNG) Development Budget expenditure being allocated to MTDS priorities.

Rather than leave some key development tasks solely to donors, the 2008 Budget continues to ensure a reasonable allocation of the Government's own resources to these development priorities. This allows clear signals to be sent to donors and civil society that PNG's development should be driven according to the Government's policy framework and development strategy – in line with the Government's goal of working towards economic independence.

The 2008 Budget is based on the existing tax structure and does not propose any new taxes or tax increases. This follows the scheduled tax reforms in personal income tax, the phasing out of the mining levy and the tariff reduction program that have been completed. To complement efforts on the expenditure side of the Budget to improve the state of public infrastructure and service delivery, the Government is removing minor taxes which are considered as impediments to business and investment, and providing some tax relief to all personal income tax payers.

2.3 REVENUE AND GRANTS

The 2008 Budget honors the Government's existing commitments to continue improving the tax system by removing taxes that are considered as impediments to business.

Further, the Government will also continue to focus on improving the level of compliance with the taxation laws, thereby ensuring that everyone pays their fair share of tax.

Table 15: Revenue and Grants 2006 – 2008 (Kina Millions)

	2006 Actual	2007 Estimate	2008 Projection	Change
Tax Revenue	4944.8	5693.4	5516.8	-176.6
Non-tax Revenue	428.8	459.8	487.5	27.7
Infrastructure Tax Credits	23.3	33.0	73.7	40.7
Project Support Grants	914.6	1013.4	1123.7	110.3
Total Revenue and Grants	6311.6	7199.6	7201.7	2.1

Source: Department of Treasury

Total Revenue and Grants are projected to be K7,201.7 million in 2008, a decline of K2.1 million (or around 1.3 per cent) from the estimated level for 2007. This mainly reflects expected reductions in tax revenues from the mineral sector.

2.3.1 Tax Revenue

Tax revenue is projected to decrease by K176.6 million (or 3.1 per cent) to K5,516.8 million in 2008, compared with the K5,693.4 million estimated in 2007.

Table 16: Tax Revenue 2006 – 2008 (Kina Millions)

	2006 Actual	2007 Estimate	2008 Projection	Change
Taxes on income and Profits	3823.5	4386.9	4142.0	-244.9
Dom. Taxes on Goods & Services	784.3	940.3	987.3	47.0
Taxes on International Trade	337.0	366.3	387.4	21.1
Tax Revenue	4944.8	5693.4	5516.8	-176.6

Source: Department of Treasury

This reflects an expected K244.9 million (or 5.6 per cent) decline in Taxes on Income and Profits along with a K21.1 million (or 5.8 per cent) increase in Taxes on International Trade and K47 million (or 5.0 per cent) increase in Domestic Taxes on Goods and Services.

Table 17: Taxes on Income and Profits 2006 – 2008 (Kina Millions)

	2006 Actual	2007 Estimate	2008 Projection	Change
Personal Income Tax	907.0	994.1	1053.7	59.6
Company Tax	550.6	633.2	699.7	66.5
Dividend Withholding Tax	200.9	183.3	195.5	12.2
Mining and Petroleum Tax	1946.5	2362.0	2011.8	-350.2
Interest Withholding Taxes	22.1	19.4	21.4	2.0
Other Direct Tax	92.4	95.2	73.4	-21.8
Gaming Tax	104.0	99.6	86.5	-13.1
Taxes on Income and Profits	3823.5	4386.9	4142.0	-244.9

Source: Department of Treasury

Taxes on Income and Profits are expected to be K4,142 million in 2008, which is K244.8 million lower than the revised estimate of K4,386.9 million for 2007. The primary reason for this is an expected decline in tax revenues from the minerals sector in 2008.

Personal Income Tax receipts are expected to increase by K59.6 million (or 6.0 per cent) to K1,053.7 million in 2008 compared with the estimate of K994.1 million in 2007. This increase reflects the combined growth in employment and salaries, which offsets the cost of reducing the lowest marginal tax rate, and increasing the lowest threshold.

Corporate Income Tax receipts are estimated to increase by K66.5 million (or 10.5 per cent) to K699.7 million in 2008, compared with K633.2 million estimated in 2007. The increase in corporate income tax reflects expected solid economic conditions resulting in continued improvements in corporate profitability.

Dividend Withholding Tax collections are expected to increase by K12.2 million (or 6.7 per cent) to K195.5 million from the 2007 estimate of K183.3 million. The projected increase largely reflects the higher dividend receipts from Ok Tedi assumed in 2008, reflecting high international copper prices.

Mining and Petroleum Tax revenues are projected to fall by K350.2 million (or 14.8 per cent) to K2,011.8 million in 2008 against the 2007 estimate of K2,362.0 million. Major contributing factors to this projection include an assumed reduction in commodity prices and a moderate reduction in oil production.

Interest Withholding Tax receipts are projected to increase by K2.0 million (or 10.3 per cent) to K21.4 million in 2008 compared with K19.4 million estimated in 2007. The increase reflects the projected moderate rise in interest rates in 2008.

Other Direct Tax receipts are expected to decline by K21.8 million (or 23.0 per cent) to K73.4 million from K95.2 million estimated in 2007. This decline is due to the receipt in mid 2007 of stamp duty from an asset transfer as well as the abolition of a number of stamp duties, as described in Chapter 4.

Gaming Tax is projected to decline by K13.1 million (or 13.2 per cent) to K86.5 million in 2008 compared with K99.6 million estimated in 2007. This decline is a result of a decision to reduce the Government's share of revenue and to increase the return to site owners.

Table 18: Domestic Taxes on Goods & Services 2006 – 2008 (Kina Millions)

	2006 Actual	2007 Estimate	2008 Projection	Change
Excise	324.1	335.8	368.3	32.5
GST	401.1	554.3	600.8	46.5
Mining Levy	56.1	48.0	15.0	-33.0
Other Indirect	3.0	2.2	3.2	1.0
Domestic Taxes on Goods & Services	784.3	940.3	987.3	47.0

Source: Department of Treasury

Domestic Taxes on Goods and Services are expected to increase by K47 million (or 5.0 per cent) in 2008 to K987.3 million compared with K940.3 million estimated in 2007.

Domestic excise collections are expected to increase by K32.5 million (or 9.7 per cent) to K368.3 million in 2008 compared with the estimate of K335.8 million in 2007. This reflects continued strong domestic demand.

The National Government's share of Goods and Services Tax (GST) is expected to increase by K46.5 million (or 8.4 per cent) to K600.8 million in 2008 compared with the estimate of K554.3 million in 2007.

Mining Levy collections are expected to decline by K33 million to K15 million in 2008 compared with the 2007 estimate of K48 million. The mining levy will be completely phased out in 2008, however a number of arrears payments are expected, resulting in the collection of K15 million.

Table 19: Taxes on International Trade 2006 – 2008 (Kina Millions)

	2006 Actual	2007 Estimate	2008 Projection	Change
Import Duty	90.4	124.2	132.7	8.5
Export Duty	162.6	152.6	155.2	2.6
Excise Duty on Imports	84.0	89.4	99.5	10.1
Taxes on International Trade	337.0	366.3	387.4	21.1

Source: Department of Treasury

Collections from Taxes on International Trade are expected to increase by K21.1 million (or 5.8 per cent) in 2008 to K387.4 million compared with the 2007 estimate of K366.3 million.

Import Duty receipts are expected to increase by K8.5 million (or 6.8 per cent) to K132.7 million in 2008 compared to the 2007 estimate of K124.2 million, in line with increased economic activity.

Export Duty on logs is projected to increase by K2.6 million (or 1.7 per cent) to K155.2 million in 2008 compared with the 2007 estimate of K152.6 million, reflecting a slight increase in price projection offsetting the impact of the proposed reforms to forestry revenue sharing arrangements.

Excise Duty on Imports is projected to increase by K10.1 million (or 11.3 per cent) to K99.5 million in 2008 compared with an estimated K89.4 million in 2007, consistent with continued improved economic conditions.

2.3.2 Non-Tax Revenue

Table 20: Non Tax Revenue 2006 – 2008 (Kina Millions)

	2006 Actual	2007 Estimate	2008 Projection	Change
Property Income	339.3	375.2	388.3	13.1
<i>Non-Mining Dividends</i>	68.1	73.5	128.5	55.0
<i>Mining & Petroleum</i>	271.2	301.7	259.8	-41.9
Interest & Fees from Lending	0.6	2.6	5.0	2.4
Other Non Tax Revenue	88.9	82.0	94.2	12.2
Non Tax Revenue	428.8	459.8	487.5	27.7

Source: Department of Treasury

Non-Tax Revenue receipts are projected to increase by K27.7 million (or 6.0 per cent) in 2008 to K487.5 million compared with an estimated K459.8 million in 2007.

Property Income is projected to decline by K13.1 million (or 3.5 per cent) to K388.3 million in 2008 compared with the 2007 estimate of K375.2 million. The decline in property income is due largely to a projected reduced dividend from the State's 15 per cent interest in the Ok Tedi mine, reflecting an assumed reduction in the world price of copper.

The projection for non-mining dividends assumes the receipt of dividends in 2008 from the Bank of Papua New Guinea (K80 million), National Fisheries Authority (K23.5 million) and the Independent Public Business Corporation (K25 million). Mining and Petroleum dividends include an estimated dividend from the Mineral Resources Development Company (MRDC) in respect of the State's interest in the Moran joint venture.

Other Non-Tax Revenue, reflecting revenue from departments, is projected to increase by K12.2 million to K94.2 million in 2008 from the K82 million estimated for 2007. The increase in Other Non-Tax Revenue partly reflects the fact that the Government will continue to enhance effective monitoring and compliance to ensure improved collection in 2008.

2.3.3 Infrastructure Tax Credits

Infrastructure tax credits are expected to rise from K33 million in 2007 to K73.7 million in 2008. The projected increase reflects an assumed greater utilization of the tax credit system by mining and petroleum companies in 2008.

2.3.4 Grants

Project Support Grants for 2008 are expected to increase by K110.3 million to K1,123.7 million from the estimated level of K1,013.4 million in 2007. This is mainly because of an increase in grants from Australia and the European Union.

Table 21: Grants by Source 2007 – 2008 (Kina Millions)

	2007 Estimate	2008 Projection	Change
AusAid	736.0	791.0	55.0
JICA	43.8	31.7	-12.1
European Union (EU)	120.6	212.8	92.3
New Zealand	35.7	49.6	14.0
United Nations (UN)	25.9	0.0	-25.9
Others	54.1	38.5	-12.9
Total Project Grants	1013.4	1123.7	110.3

Source: Department of National Planning and Monitoring

2.4 EXPENDITURE

2.4.1 Additions to recurrent expenditure

In forming the 2008 Budget, the Government considered that:

- given Department of Treasury's revenue forecasts and the framework in the proposed new Medium Term Fiscal Strategy, it would be prudent to add a maximum of K300 million to ongoing spending in 2008, above the ceilings determined at the time of the Budget Strategy Paper in May 2007;
- on the basis of advice from the Budget Screening Committee and the Central Agencies Coordinating Committee, a range of additions to individual agencies' allocations was justified, compared with their ceilings;
- other additions to recurrent expenditure would be made so as to honour pre-election commitments of the Government, and to begin improvements in education and health services which the Government intends to continue through the next five years; and
- there would be scope also to provide ongoing tax relief both for businesses and for personal income tax payers, as an alternative to spending under the ceiling of K300 million.

On this basis, the Government has decided to allocate the K300 million in the following manner, for additional recurrent funding and for tax relief:

- | | |
|--|--------------|
| • Increases in agencies' allocations | K105 million |
| • Top-up funds for National Agriculture Development Plan | K 28 million |
| • Education subsidy | K100 million |
| • Expansion of education services | K 10 million |
| • Improving hospital services | K 10 million |
| • Reducing tax impediments for business | K 14 million |
| • Personal income tax relief | K 33 million |

2.4.1.1 Increases in Government agencies' allocations

As was recommended by the Budget Screening Committee and the Central Agencies Coordinating Committee, recurrent and development expenditures are to be increased by K105 million compared with the ceilings determined at the time of the Budget Strategy Paper in May 2007. This additional funding will assist public sector agencies — national departments, provinces and Budget-funded statutory authorities — to fulfill their roles and improve their delivery of services.

2.4.1.2 National Agriculture Development Plan

The Government plans to spend K100 million each year to implement the National Agriculture Development Plan. Because there are unspent funds in the relevant trust account, a top-up of K28 million is being provided in the 2008 Budget so that K100 million will be available in 2008.

2.4.1.3 Education

The Government early in 2007 announced a K100 million subsidy of school fees in this year, and undertook to continue this subsidy if possible. The 2008 Budget provides K100 million for the subsidy of school fees in 2008, and an additional K10 million intended to be the first of a series of annual increases which will provide for the expansion of education services.

2.4.1.4 Hospital services

An additional K10 million is being provided for improving hospital services. This is expected to assist with training of medical staff, supplies for hospitals and aid posts, and medical equipment – areas where there is a great need. This amount, like that for education, is intended to be the first of a series of annual increases.

2.4.1.5 Tax relief for business

In order to reduce impediments to doing business, the Government is abolishing stamp duties on borrowings, bills of lading, incorporations of companies, and insurance policies. In addition, the Government will abolish the debits tax, which is currently collected from banks as a small charge on every debit they process – this will benefit businesses and other bank customers as well.

These measures will have a cost to revenue of about K14 million in 2008, and about K20 million in 2009 when they have their full-year effect.

2.4.1.6 Tax relief for personal income tax payers

The 2008 Budget also provides significant tax cuts for all those who pay personal income tax. Relief will be provided from 1 January 2008, through a rise in the tax-free threshold from K6,600 to K7,000 and through lowering the initial tax rate (applying to taxable income between K7,000 and K18,000) from 25 per cent to 22 per cent.

These tax cuts will provide the greatest proportionate tax relief to low income earners. The cuts will mean an extra K430 per year after tax for people who earn K18,000 or more each year. The personal income tax cuts have an estimated cost to revenue of K33 million in 2008.

2.4.2 Recurrent Expenditure

Total Expenditure and Net Lending is projected to be K6,999.4 million in 2008, which is K120.8 million (or 1.8 per cent) higher than the expected 2007 Budget outcome. This is consistent with the Government's 2008 Budget surplus of K202.3 million, which is 1 per cent of GDP.

Table 22: Total Expenditure and Net Lending 2006 – 2008 (Kina Millions)

	2006	2007	2008	Change
	Actual	Estimate	Projection	
Recurrent Expenditure	3014.7	3370.2	3636.3	+266.1
Development Expenditure	1554.1	1718.4	1887.1	+168.7
Additional Priority Expenditure	1207.0	1790.0	1476.0	-314.0
Total Expenditure and Net Lending	5775.8	6878.6	6999.4	+120.8

Source: Department of Treasury

2.4.2.1 Recurrent Expenditure

Total Recurrent Expenditure in 2008 is estimated to be K3,636.3 million, which is K266.1 million (or 7.9 per cent) higher than the revised estimate for 2007. Total Recurrent Expenditure in 2008 is 51.9 per cent of Total Expenditure and Net Lending and 18.4 per cent of GDP.

Table 23: Recurrent Expenditure: By Item: 2006 – 2008 (Kina Millions)

	2006	2007	2008	Change
	Actual	Estimate	Projection	
Personal Emoluments	1360.5	1424.2	1528.9	+104.7
Goods and Services	1070.5	1304.5	1457.1	+152.6
ABG	46.5	50.9	54.0	+3.1
Transfers to Statutory Institutions	234.3	221.6	226.8	+5.2
Interest Payments and Fees	307.0	372.9	373.5	+0.6
Net Lending to CSAs	-4.2	-4.0	-4.0	0.0
Total Recurrent Expenditure	3014.7	3370.2	3636.3	+266.1

Source: Department of Treasury

2.4.2.2 Personal Emoluments

Personal emoluments is comprised of salary and allowances, wages, overtime, leave fares, superannuation contributions, superannuation payouts, and contract gratuities. Personal Emoluments for the National Departments and Provincial Governments, including teachers, are estimated to increase by K107.5 million (or by 7.4 per cent) to K1,565.4 million in 2008.

There are several factors behind the significant expected increase in personal emolument expenditure in 2008:

- Increase in school teacher numbers in line with population growth;
- Increase in staffing and industrial awards for health officers for the Hospital Management Services;
- Increase in staffing for the Department of Health;
- Increase in staffing and outstanding leave fares and entitlements for the Department of Works and Implementation;
- Increase in police personnel and PBSS payments for the Department of Police;
- Higher Government superannuation contributions in line with higher salaries;
- Increase in staffing for various agencies; and
- Provisional allocation for the pay agreement with the PEA.

These factors more than offset savings from the retrenchment of unattached officers in various agencies such as Departments of Corrective Institutional Services, Defence and Provincial Government Departments.

The Government has deferred consideration of the recommendations of the report of the Rightsizing Committee. Accordingly, the recommendations of the report have not been factored into the 2008 Budget estimates for personal emoluments.

Table 24: Personal Emoluments 2006 – 2008 (Kina Millions)

	2006	2007	2008	Change
	Actual	Estimate	Projection	
National Departments*	698.0	848.2	932.1	+83.9
Provincial Government	191.3	156.4	166.3	+9.9
Teachers	471.2	419.6	430.5	+10.9
Bougainville Government	28.9	33.7	36.0	+2.3
Total Personal Emoluments	1389.4	1457.9	1565.4	+107.5

Source: Department of Treasury

*Includes provisions for superannuation contributions and retirement payments.

A summary of the components of personal emoluments is provided in Table 25.

The superannuation contribution rate in 2008 remains the same at 6.3 per cent of salary in 2007 as the Government progresses towards full funding of superannuation contribution of 8.4 per cent of salary for Government employees in 2009.

The rapid growth in contract gratuity payments, which is estimated to increase by K38.4 million to K106.1 million in 2008, is due to increased employment contracts.

Table 25: Personal Emoluments By Item 2006 – 2008 (Kina Millions)

	2006	2007	2008	Change
	Actual	Estimate	Projection	
Salaries and Wages	1166.9	1180.6	1238.8	+58.2
<i>Salaries & Allowances</i>	<i>1073.1</i>	<i>1113.3</i>	<i>1164.4</i>	<i>+51.1</i>
<i>Wages</i>	<i>93.8</i>	<i>67.3</i>	<i>74.4</i>	<i>+7.1</i>
Superannuation	108.0	130.9	136.0	+5.1
Leave Fares	74.9	56.1	61.9	+5.8
Contract Gratuity	35.4	67.7	106.1	+38.4
Other*	4.2	22.6	22.6	0.0
Total Personal Emoluments	1389.4	1457.9	1565.4	+107.5

Source: Department of Treasury

*Includes overtime and contract officer education benefits.

2.4.2.3 Goods and Services

Total Goods and Services expenditure in 2008 is estimated to be K1,475 million. This is K153.5 million (or 11.6 per cent) higher than the revised estimate for 2007. The National Departments, Provincial Governments and Bougainville Government's goods and services expenditures are expected to increase by K146.3 million (or 12.4 per cent), K6.2 million (or 5.1 per cent) and K1 million (or 6.5 per cent) respectively.

Table 26: Goods and Services 2006 – 2008 (Kina Millions)

	2006	2007	2008	Change
	Actual	Estimate	Projection	
National Departments	967.9	1183.9	1330.2	+146.3
Provincial Governments	102.6	120.6	126.8	+6.2
Bougainville Government	13.5	17.0	18.0	+1.0
Total Goods and Services	1084.0	1321.5	1475.0	+153.5

Source: Department of Treasury

2.4.2.4 Goods and Services: National Departments

Total National Departments' Goods and Services provision is estimated to be K1,330.2 million in 2008, which is K146.3 million (or 12.4 per cent) higher than the revised estimate for 2007.

Table 27: National Dept. Goods & Services 2006 – 2008 (Kina Millions)

	2006	2007	2008	Change
	Actual	Estimate	Projection	
General Goods and Services	786.6	919.3	1079.3	+160.0
Education Subsidies	42.4	143.0	143.0	0
Other Goods and Services	138.9	121.6	107.9	-13.7
<i>Pre-March 2003 Arrears</i>	33.9	0.0	0.0	0.0
<i>Structural Adjustment Program</i>	30.3	69.6	55.9	-13.7
<i>Court Orders</i>	74.7	52.0	52.0	0.0
Total Goods and Services	967.9	1183.9	1330.2	+146.3

Source: Department of Treasury

General Goods and Services expenditure by National Departments is estimated to be K1079.3 million in 2008, an increase of K160 million (or 17.4 per cent) compared with the revised estimate for 2007. The net increase is mainly due to the increased allocation to various departments, particularly Departments of Health, Foreign Affairs and Trade, Hospital Management Services, Attorney General, Police, Corrective Institutional Services, Defence, Judiciary, Prime Minister and NEC and Information Technology Division.

Other goods and services expenditure in 2008 is estimated at K107.9 million, K13.7 million lower than the revised estimate for 2007.

The Budget continues to face pressure from the awarding of significant damages against the State. The 2008 Budget allocates K52 million for payment of court orders, with payments continuing to be made in line with the established 'aged basis' process and the interest cost incurred for late payment.

In the Structural Adjustment Program funding is allocated for retrenchment programs and programs supporting the Government's expenditure control measures and structural reform agenda.

The allocation of resources by item (that is, within programs and activities) in the 2008 Budget has been guided by where they can be used most effectively.

Table 28: General Goods & Services: By Item 2006 – 2008 (Kina Millions)

	2006	2007	2008	Change
	Actual	Estimate	Projection	
Operational Materials & Supplies*	360.0	377.8	437.9	+60.1
Utilities	111.9	102.4	114.5	+12.1
Rental of Property	108.2	97.5	112.2	+14.7
Grants to Individuals & NPOs	73.9	159.1	73.0	-86.1
Transport and Fuel	33.9	42.6	40.4	-2.2
Travel and Subsistence	35.0	40.9	38.7	-2.2
Routine Maintenance	24.2	25.6	42.3	+16.7
Purchase of Vehicles	17.0	15.7	13.7	-2.0
Membership Fees/Contributions	11.8	9.7	9.5	-0.2
Other**	10.7	48.1	197.1	+149.0
Total	786.6	919.4	1079.3	+159.9

Source: Department of Treasury

* Includes Other Operational Expenses.

** Other includes Office Furniture and Equipment, Training, Administrative Consultancy Fees.

The net increase (K159.9 million) in general goods and services in 2008 reflects increased funding to various expenditure programs.

The allocation for operational materials and supplies in 2008 has risen by K60.1 million or by 15.9 per cent to K437.9 million. This allocation reflects increased funding provided to various Government agencies such as: the Electoral Commission (K45.3 million) to update the common roll and conduct the Local Level Government election; and to the Department of Health (K15 million) to purchase medical supplies and equipment.

An additional K12.1 million has been allocated to utilities in 2008, to ensure that funding needs are better provided for, thus reducing the further accumulation of arrears, with attendant risks to the supply of essential services. This increased funding includes K4.2 million for Hospital Management Services utilities.

It has been recognized that various Government agencies have incurred utility arrears due to higher cost factors as well as administrative weakness in controlling consumption of the utility services. In terms of control, it is appropriate that all Government departments and agencies should ensure that appropriate corrective measures are adopted to ensure that spending is consistent with budgetary allocations.

The allocation for rental of property in 2008 has risen by K14.7 million or by 15.1 per cent to K112.2 million in order to cater for increased office space required for the new government agencies and for the vice ministries.

The routine maintenance allocation has been increased by K16.7 million in 2008 to ensure that adequate maintenance is carried out on state-owned properties used for operational purposes.

The other expenditure category has risen by a very large K149 million in 2008. The larger item is additional funding of K21.4 million to conduct the ACP-EU meeting, re-open the Kundu Sydney Consulate office and support the new Trade functions by the Department of Foreign Affairs and Trade. Furthermore, additional funding is provided for various programs such as the Tokyo Office purchased by the Department of Foreign Affairs and Trade (K15 million), K10 million for security and logistics for the conduct of LLG elections, K6 million for new gaming monitoring system for the National Gaming Control Board, and K5 million for the Commission of Inquiry into the Department of Finance.

2.4.2.5 Goods and Services: Provincial Governments

The Total Goods and Services allocation for Provincial Governments (excluding Bougainville) is K126.8 million in 2008, which is K6.1 million (or 5.1 per cent) higher than the amount provided in the 2007 Budget.

The higher allocation to Provincial Governments is to support the important role they play in the delivery of essential services at the rural sector and takes into consideration the population growth rate and the projected rate of inflation. It also reflects a rebalancing of Provincial grants from personal emoluments to goods and services.

Unconditional Grants to Provincial Governments are expected to be K15.5 million in 2008, an increase of K1.3 million from the amount provided in 2007.

Conditional Grants to Provincial Governments are expected to be K69.2 million in 2008, an increase of K2.5 million from the amount provided in 2007. The Village Court function grant which was introduced in 2007 has continued to be funded in 2008 to recognize the important services provided by the Village Courts.

In addition, Grants for Local Level Government have risen from K39.7 million in 2007 to K42 million in 2008, an increase of K2.3 million. This will assist the capacity of Local Level Governments to implement the National Government's policy of providing essential services to people throughout the nation.

Allocations to individual provinces are based on the recommendations of the National Economic and Fiscal Commission (NEFC) and are aimed at, over time, allocating goods and services funding to Provinces on the basis of the cost of services in a given Province. While still consistent with the Organic Law, this process aims to shift allocation decisions away from the unsustainable formula-based approach of earlier years to a process where, over time, grants are provided to meet actual costs (taking into account the total fiscal resources available to the Province).

Table 29: Provincial Goods & Services Grants 2006–2008 (Kina Millions)

	2006 Actual	2007 Estimate	2008 Projection	Change
Unconditional Grants	21.3	14.2	15.5	+1.3
<i>Administration/Block</i>	21.3	14.2	15.5	+1.3
Conditional Grants	58.2	66.7	69.2	+2.5
<i>Health Function</i>	11.5	13.4	14.5	+1.1
<i>Education Function</i>	20.6	21.6	21.7	+0.1
<i>Transport Maintenance</i>	14.4	15.3	16.7	+1.4
<i>Village Court Fctn Grant</i>	0.0	2.2	2.2	0.0
<i>Derivation</i>	11.7	14.2	14.1	-0.1
Other Grants for LLGs	23.1	39.7	42.0	+2.3
<i>Town & Urban Services</i>	6.6	3.0	11.1	+8.1
<i>Rural LLG</i>	16.5	36.7	30.9	-5.8
Total	102.6	120.6	126.7	+6.1

Source: Department of Treasury, NEFC.

The Provinces are provided with additional funding of K13.8 million in 2008, which is allocated in the Department of Finance and Treasury – Miscellaneous, for PBSS increments for provincial officers.

2.4.2.6 Transfers to Autonomous Bougainville Government

In June 2005, the Autonomous Bougainville Government (ABG) was formed. Among other things, the relevant Organic law provides for new financial arrangements to be provided to Bougainville.

A total of K54 million in direct grants are being provided to the ABG in the 2008 Recurrent Budget.

The Organic law requires the National Government to pay a recurrent grant to Bougainville, covering the cost of the functions it has assumed. This grant is to cover both personal emoluments and goods and services. The Recurrent Grant to Bougainville in 2008 is K51.5 million, up K2.9 million over the amount provided in 2007. This increase reflects additional funding of K2 million to cater for increase in teachers' salaries.

The allocation for goods and services was determined with reference to the NEFC's nationwide study on the costs of providing essential services in each Province, taking into account the ABG's estimated internal revenue.

The Organic Law also provides for a separate grant for the policing function in Bougainville. The Police Grant to Bougainville for goods and services is K2.2 million in 2008, reflecting a continued commitment to assist the ABG in the process of managing and administering the policing function in Bougainville.

Table 30: Transfers to Bougainville 2006 – 2008 (Kina Millions)

	2006 Actual	2007 Estimate	2008 Projection	Change
Police Grant ¹	2.0	2.1	2.2	0.1
Recurrent Grant ²	44.5	48.6	51.5	2.9
Conditional Grants	0.0	0.2	0.3	0.1
Total Recurrent Grant	46.5	50.9	54.0	+3.1

Source: Department of Treasury

2.4.2.7 Transfers to Statutory Authorities

The Statutory Authorities' funding will be increased in 2008 by K5.2 million to K226.8 million compared with the 2007 Budget. The increase in funding reflects a moderate adjustment for higher costs.

The Government is also committed to providing funding to the tertiary institutions to provide quality education and so increased funding has been provided to the University of Papua New Guinea (K1.7 million) for Port Moresby Nursing School and higher allowances for medical lecturers, University of Technology (K0.9 million), and University of Vudal (K1.1 million) for extra staff.

The National Broadcasting Commission is provided additional funding of K1.1 million in 2008 to cover utilities and fuel costs.

Table 31: Transfers to Statutory Authorities 2006 – 2008 (Kina Millions)

	2006 Actual	2007 Estimate	2008 Projection	Change
Tertiary Institutions	81.4	79.8	84.4	+4.6
UPNG	30.9	30.4	32.1	+1.7
University of Technology	29.9	29.0	29.9	+0.9
University of Goroka	10.4	11.1	11.6	+0.5
University of Vudal	6.9	5.8	6.8	+1.0
Legal Training Institute	0.8	1.0	1.3	+0.3
PNG Maritime College	2.5	2.5	2.7	+0.2
PNG Forestry Authority	23.9	24.2	24.5	+0.3
Civil Aviation Authority	17.3	15.2	12.2	-3.0
National Broadcasting Commission	12.5	12.7	13.8	+1.1
Ombudsman Commission	9.4	11.0	11.5	+0.5
Office of Auditor-General	8.9	11.0	11.2	+0.2
Tourism Promotion Authority	8.3	8.1	9.0	+0.9
National AIDS Council	4.1	5.4	5.5	+0.1
National Training Council	0.9	2.2	2.2	0.0
PNG Sports Commission	2.6	4.1	2.8	-1.3
Other *	65.0	47.9	49.7	+1.8
Total Transfers to S.A.s	234.3	221.6	226.8	+5.2

Source: Department of Treasury

Comprises NRI, NEFC, National Narcotics Bureau, Institute of Medical Research, National Youth Commission, IPA, SBDC, NISIT, ICDC, National Museum Authority, National Housing Commission, National Cultural Commission, CCI, FPDA, NARI, NAQIA, NRA, ICCG, CLRC

The Government's policy is for Statutory Authorities to become self-funding over time, allowing the Government to focus resources on core functions and MTDS priorities. However, progress in implementing the reforms in this area proposed by the *Public Expenditure Rationalization and Review* (PERR) program has been slow.

¹ Includes both personnel emoluments (staffing grants, teachers salaries) and goods and services.

However, the National Gaming Control Board has been the first institution to be self-funding and thus, will not be provided any budgetary funding but retain 5 per cent of the total gaming tax revenues to fund its operations. This arrangement has been approved through the new *Gaming Control Act 2007*.

2.4.2.8 Interest and Other Fees

Total interest and other fees payments are projected to be K373.5 million in 2008, an increase of K0.6 million from the revised estimate for 2007. The total payment is comprised of K275.3 million in domestic interest and fees outlays and K98.2 million in external interest and fees outlays.

Table 32: Interest and Other Fees 2006 – 2008 (Kina Millions)

	2006 Actual	2007 Estimate	2008 Projection	Change
Domestic Interest Outlays	187.1	252.9	275.3	+22.4
<i>Treasury Bills</i>	42.5	38.1	52.8	+14.7
<i>Inscribed Stock*</i>	142.1	210.5	218.6	+8.1
<i>Other Domestic Debts</i>	2.5	4.3	3.9	-0.4
<i>Agency Fees</i>	0.0	0.0	0.0	0.0
External Interest Outlays	119.9	119.9	98.2	-21.7
<i>Interest</i>	115.9	107.9	86.2	-21.7
<i>Other Fees</i>	4.0	12.0	12.0	0.0
Total Interest and Other Fees	307.0	372.9	373.5	+0.6

Source: Department of Treasury

* Premiums on Inscribed Stock are treated as a negative interest outlay.

Domestic interest payments are forecast to rise by K22.4 million in 2008 to K275.3 million. The increased payments reflect a moderate increase in Treasury Bill yields, increased interest expenses on Inscribed Stocks and the net replacement of external debt with domestic debt.

External interest payments and other fees are projected to be K98.2 million in 2008, K21.7 million lower than the revised estimate for 2007, reflecting a moderate rise in the value of the Kina against major debt currencies.

2.4.3 Development Expenditure

The Development Budget for 2008 is K1,887.1 million, which is K168.7 million (or 9.8 per cent) higher than the revised estimate for 2007. This reflects increased funding from the Government and donor agencies, especially AusAID. The Government funding allocation in 2008 has risen by K58.3 million to K763.4 million, while the donor funding is estimated to rise by K110.3 million to K1,123.7 million.

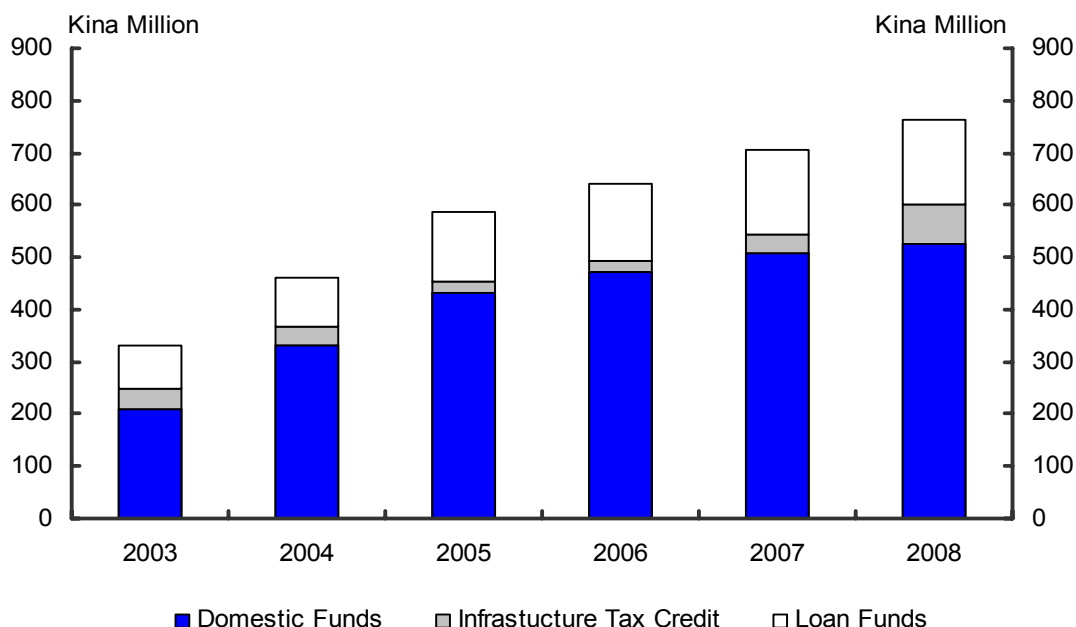
Table 33: Development Expenditure: By Source 2006–2008 (Kina Millions)

	2006 Actual	2007 Estimate	2008 Projection	Change
Government	639.5	705.1	763.4	+58.3
<i>Domestic Funding</i>	471.2	509.1	526.7	+17.6
<i>Infrastructure Tax Credit</i>	23.3	33.0	73.7	+40.7
Loans	145.0	163.0	163.0	0.0
<i>Concessional</i>	145.0	163.0	163.0	0.0
<i>Commercial</i>	0.0	0.0	0.0	0.0
Donor	914.6	1,013.4	1,123.7	+110.3
<i>Project Grants</i>	914.6	1,013.4	1,123.7	+110.3
Total Development Expenditure	1554.1	1718.4	1887.1	+168.7

Source: Department of Treasury

The Government's total commitment – domestic funding, loans drawn down and infrastructure tax credit – to the Development Budget is K763.4 million in 2008, up K58.3 million from the revised K705.1 million in 2007.

The significant increase in Government funding of the ongoing Development Budget in 2008 reflects the Government's commitment to increasing expenditure on MTDS priorities and meeting fixed commitments.

Figure 17: Government Contribution to Development Budget (Kina Millions)

Source: Department of Treasury

2.4.4 Allocation of additional mineral revenue

2.4.4.1 Approach taken in 2008 Budget

The Budget Strategy Paper (BSP) for the 2008 Budget outlined an approach approved by NEC for the special circumstances of 2008, with:

- mineral revenue being received at an unusually high level;

- funds already set aside in previous years for rehabilitating public infrastructure;
- capacity shortages constraining the rate at which those funds could be spent; and
- major projects taking shape for commercialization of PNG's gas resources.

Since then, a proposed new Medium Term Fiscal Strategy has been prepared by the Department of Treasury. It adds to the BSP approach:

- a suggested rule for dividing mineral revenue into a normal component used for funding ongoing spending, and an additional component for special uses;
- suggested principles for allocating additional mineral revenue among alternative uses, preferably public investment and debt repayment; and
- a suggested guideline that 60 per cent of additional mineral revenue should be used for public investment and 40 per cent for debt repayment.

In formulating the 2008 Budget, the Government took this into account, and also gave weight to:

- the many pressing needs for improvement of infrastructure and services at district level;
- a number of infrastructure projects already identified, and the rest of the program of National Infrastructure Development described in the Prime Minister's State of the Nation Address to Parliament on 18 September 2007;
- a continuing commitment to commercialization of PNG's gas resources;
- a range of proposals for Additional Priority Expenditures, some to take place in 2008 and some over longer time-frames;
- an intention to keep reducing the Government's superannuation liability for public servants, as was done in the 2007 Supplementary Budget; and
- the need for a safety margin of debt repayment, in case mineral revenue falls short of the high level forecast.

2.4.4.2 Allocation in 2008 Budget

The 2008 Budget allocates K1,676 million of additional mineral revenue in the following manner :

- | | | |
|---|------|---------|
| • District Service Improvement Programs | K534 | million |
| • State equity in gas project/s | K100 | million |
| • Konebada Petroleum Park infrastructure | K 50 | million |
| • National Infrastructure Development Program | K196 | million |
| • Reduction of superannuation liability | K150 | million |
| • Safety margin/debt repayment | K200 | million |
| • Additional priority expenditures | K446 | million |

2.4.4.3 District Service Improvement Programs

In order to ensure that the benefits of the commodity boom are spread throughout the country, every district will be provided with a share of funds for improving service and infrastructure. This will be done by supplementing the existing District Service Improvement Programs (DSIPs) for health, water supply, law and justice, and education, and creating new ones for transport and agriculture.

The 2008 Budget provides each district with K1 million for each of the six DSIPs, at a cost of K534 million. This is additional to the funding of K4 million for each district provided in 2007 Supplementary Budget.

This program will absorb the existing District Transport Infrastructure Program, and will replace the existing Least Developed District Grants and District Support Grants.

The Government recognizes the challenges involved in using greatly increased DSIP funds effectively, and intends that district administrators will be held accountable for how these funds are used.

The Government also recognizes the need to spread the use of these funds through time, for two reasons — so that wise spending plans can be developed and capacity developed for service improvements or projects to be well implemented, and also to avoid adding to the inflationary pressures already present in the economy.

- In order to allow for multi-year expenditure plans, the funds will be placed in the District Services Improvement Program trust account, which was created for the funds provided in the 2007 Supplementary Budget.
- The DSIP funds for each district will be spent strictly in accordance with Finance Instructions.

Because the amount being provided for DSIPs is so large, the Government intends to monitor and review the program on an on-going basis.

2.4.4.4 State equity in gas commercialisation

The Government is yet to determine, in respect of LNG projects or other projects for commercialization of PNG gas resources, what amounts should be committed to State equity and how these commitments will be financed.

However, because the occasion for considering those matters is drawing close, and because the Government remains committed to supporting the commercialization of PNG gas resources, the 2008 Budget provides another K100 million for the financing of State equity in gas commercialisation projects. This will bring the total of funds set aside for this purpose to K600 million.

In addition, the Budget is providing K50 million for establishing the infrastructure of the Konebada Petroleum Park.

2.4.4.5 Reducing State debt and liabilities

The surge in mineral revenue associated with the commodity price boom provides a unique opportunity to reduce the State's debts and liabilities to more affordable and sustainable levels.

In the 2007 Supplementary Budget, the Government allocated K250 million to reduce the State's liability for the superannuation payouts of public servants, which then stood at about K1,600 million. The 2008 Budget allocates a further K150 million to reduce this liability, which will bring it down to about K1,200 million.

- As well as reducing the cost through time of the State's liability, the Government's payment of K150 million is likely to be used by Nambawan Super for increasing its investments on behalf of members, especially in private businesses in PNG.
- From the perspective of developing PNG's economy, this represents an excellent use by the Government of additional mineral revenue.

The 2008 Budget also includes providing for a "safety margin" of K200 million, intended to be reflected in repayment of public debt.

- The need for a safety margin arises from the unusual volatility of commodity prices, which makes it quite possible that there could be sudden large reductions of prices and resulting shortfalls in mineral revenue compared with the forecast for 2008. The amount of K200 million is about 8 per cent of that forecast revenue.
- The intended repayment of that amount of public debt (if mineral revenue comes in as forecast) will bring about substantial benefits. It will free additional resources from interest expenses, which can be used for the expansion of basic services, for example in health and education in every year thereafter.
- Repayment in 2008 of another K200 million of public debt would bring down the ratio of debt to GDP from about 34 per cent at the end of 2007 to about 32 per cent — helping to bring PNG closer to having what the rating agencies recognize as a sustainable level of debt.

2.4.4.6 National Infrastructure Development Program

In the Prime Minister's State of the Nation Address on 18 September 2007, he outlined the Government's program for national infrastructure development during the next four years. This program covers all sectors, with the transport sector containing the largest needs for which funding has not yet been provided.

The 2008 Budget allocates K196 million to the National Infrastructure Development Program. This sum will be held in trust until a five-year program for funding National Infrastructure Development is formulated and approved by the Government, and will then be used for its next stage.

With large amounts allocated in the last two years' Supplementary Budgets for infrastructure (see Chapter 3), and the allocations in this Budget for the National Infrastructure Development Program and the Additional Priority Expenditures (see Section 2.4.4.7), already most of the Government's infrastructure priorities for the next five years have had large amounts of funding allocated for them. This includes the Highlands Highway, the Lae Port, Central City, airports, schools, technical colleges, universities and hospitals.

2.4.4.7 Additional Priority Expenditures

The 2008 Budget provides K446.1 million for Additional Priority Expenditures. This package has been designed so that the spending will be widely distributed through the country, be helpful to economic growth and empowerment of the people, and a source of direct benefits to many people from the current surge in mineral revenue.

The Additional Investment/ Priority Expenditure package is as follows:

Outstanding Memoranda of Agreement (MOAs)	K55	million
National roads maintenance (Additional to Development Budget)	K50	million
New Government aircraft	K40	million
Rural electrification	K30	million
Tertiary institutions infrastructure	K30	million
Land reform program	K28	million
Public servant housing	K27	million
Lae roads	K25	million
ICT policy	K20	million
Central City	K20	million
Technical schools maintenance	K20	million
Misima mine closure	K20	million
Border development	K20	million
Madang Marine Park	K15	million
Cooperative societies	K10	million
South Bougainville feeder roads	K 4.1	million
Lutheran University	K 3	million
Buka – Arawa road	K 3	million
Bougainville Regional Office	K 1	million

These are one-off expenditures, and not additions to ongoing spending. If any of them continue in future years, they will be absorbed in the Development Budget under its Budget Strategy ceiling.

2.4.5 Focus on Medium Term Development Strategy (MTDS)

Consistent with its medium-term policy focus, the Government is committed to increasing the proportion of available resources being allocated to the seven priority areas identified in the Medium Term Development Strategy.

The 2007 Budget allocated 52 per cent of Budget allocations to the MTDS priority areas, with the remainder allocated to non-discretionary fixed commitments (such as interest outlays and court orders), general government administration and non-MTDS government services.

The effective implementation of the MTDS requires that the proportion of the Budget allocated to MTDS priority areas increase from 48 per cent in 2005 to 55 per cent in 2010.

A key objective of the 2008 Budget is to lift the proportion of the Budget allocated to MTDS priority areas.

- The target for 2008 is for **53 per cent** of total PNG expenditure to be allocated to MTDS priority areas.
- The target for 2008 is for **88.5 per cent** of total PNG development expenditure to be allocated to MTDS priority areas.

The 2008 Budget exceeds the total expenditure target with 55.5 per cent allocated to MTDS priorities. However, the 2008 Budget does not achieve the development expenditure target with 82.7 per cent allocated to MTDS priorities.

2.4.5.1 MTDS priority spending

The Government's commitment to MTDS priority areas is reflected in the distribution of both recurrent and development expenditure.

Table 34: Composition of MTDS priority spending: 2006-2008 (Kina Millions)

	2007 Budget	2008 Recurrent	2008 Development	2008 Total
Primary & Preventative Health	427.5	635.7	44.0	679.7
HIV/AIDS	18.1	5.7	17.0	22.7
Law and Justice	385.3	472.7	31.0	503.7
Transport Infr. Maint. & Rehab.	165.8	285.9	338.1	623.9
Income Earning Opportunities	184.8	400.8	55.5	456.3
Basic Education	518.5	703.2	10.5	713.7
Dev. Oriented adult education	24.9	15.8	3.7	19.5
Other	456.9	154.6	131.2	285.8
Total MTDS Expenditure	2181.8	2674.5	631.0	3305.3

Source: Department of Treasury

2.4.6 Monitoring of additional spending

The additions which this Budget makes to ongoing spending, funding of district services, pre-funding of infrastructure spending and additional priority expenditures will all have stimulatory effects on the economy.

Therefore, the Government intends that spending of these funds will be governed by a prudent overall strategy for demand management. It will monitor the rates of spending from the District Service Improvement Trust, from the trust account for National Infrastructure Development, and from the trust accounts for infrastructure rehabilitation and maintenance, as well as the Additional Priority Expenditures. This monitoring will have the aims of :

- accelerating implementation of the highest priority services and infrastructure work;
- applying high quality standards to all the work; and
- ensuring that the overall rate of spending does not become excessive and cause wastage through profiteering and price inflation.

The Government will aim to ensure that the stimulatory effect of this Budget is not sudden and excessive, but sustained through the medium term. This will mean the best prospect of expanding employment in a sustainable way. In particular, continued funding of infrastructure projects will also encourage construction companies to build up their presence here, increasing employment and training opportunities for Papua New Guineans.

2.5 FINANCING

2.5.1 Overview

In 2008, the Budget is expected to be in surplus of K202.3 million, which is 1 per cent of GDP. This is consistent with the proposed new MTFs and means that the Government will reduce the total debt by K202.3 million.

The net external financing is expected to be an outflow of K297.3 million which is to be offset by an expected net domestic inflow of K77 million and the Budget surplus of K202.3 million.

2.5.2 External Financing

Total new external borrowing of K164 million is expected to be undertaken in 2008, reflecting additional drawdowns on existing concessional loans.

Repayments (amortization) of existing loans of K443.3 million will more than offset new borrowing resulting in a net external outflow of K279.3 million in 2008.

2.5.3 Domestic Financing

The net domestic funding required in 2008 to fund the outflows in external financing will be K77 million. This consists of K1,630 million in new borrowing and amortization of K1,553 million. No receipts from asset sales have been factored into financing of the 2008 Budget.