



# **MID YEAR ECONOMIC AND FISCAL OUTLOOK REPORT**

**2012**

## INTRODUCTION

The Mid Year Economic and Fiscal Outlook (MYEFO) Report is released in accordance with the requirements of sections 9 and 15 of the *Papua New Guinea Fiscal Responsibility Act 2006*.

The purpose of the MYEFO Report is to provide updated fiscal information, especially for the current financial year, to allow the Parliament and the public to assess developments against those set out in the 2012 Budget.

The MYEFO contains the following:

- Part 1: The Mid Year Economic and Fiscal Outlook
  - 1.1 The Economic Outlook
  - 1.2 The Fiscal Outlook
  - 1.3 Revenue
  - 1.4 Expenditure and Net Lending
  - 1.5 Status of Supplementary Budgets
  - 1.6 Status of Trust Accounts
  - 1.7 Financing
  - 1.8 Public Debt
  - 1.9 Risks to the Mid Year Economic and Fiscal Outlook
  - 1.10 2012 and Beyond
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- Part 2: Mid Year Expenditure Estimates by Agency
  - 2.1 Funded Expenditure Decisions since the 2012 Budget
  - 2.2 2012 Budget Execution

The MYEFO essentially covers central government fiscal operations in the Government sector. Consistent with the 1986 Government Finance Statistics (GFS) cash reporting framework, the Government sector is defined as covering all units performing government functions, that is, the implementation of public policy through the provision of primarily non-commercial services and the transfer of income, supported mainly by compulsory levies on other institutional sectors.

Government owned or controlled units, which sell industrial or commercial goods and services to the public on a large scale, are excluded from the government sector and are classified separately as non-financial public enterprises. Government owned and/or controlled financial institutions are also classified separately from the Government sector as public financial institutions.

The financial information presented in this report is based on the same reporting standards as the 2012 Budget. Generally, this follows the cash reporting standards originally laid down in the 1986 Manual of Government Finance Statistics published by the International Monetary Fund (IMF).

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# PART 1

## THE MID YEAR ECONOMIC AND FISCAL OUTLOOK

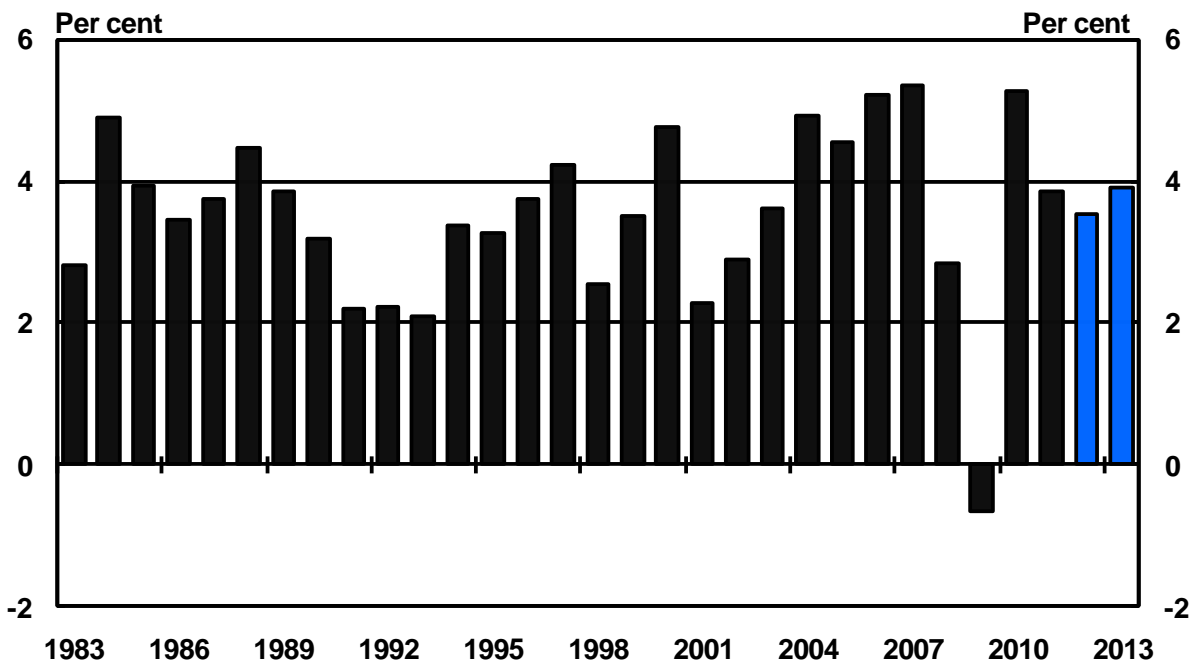
### 1.1 THE ECONOMIC OUTLOOK

#### Overview

#### International Economic Outlook

The world economic outlook remains fragile. According to the International Monetary Fund (IMF) 2012 July update to the World Economic Outlook (WEO), the world economy is anticipated to grow by 3.5 per cent in 2012 but with considerable downside risks (Chart 1). Financial markets and sovereign stress in the Euro area have ratcheted up, close to 2011 levels whilst growth in a number of major emerging market economies has been lower than forecast in the second quarter of 2012. World economic developments for 2012 have been revised down slightly by 0.1 of a percentage point from the 2012 April WEO. These recent developments have also resulted in a minor setback to the global outlook in 2013 with world economic growth projected at 3.9 per cent, down by 0.2 of a percentage point from the 2012 April WEO.

Chart 1: World Economic Growth



Source: International Monetary Fund, World Economic Outlook (July 2012)

The IMF projects growth in the advanced economies to be 1.4 per cent in 2012 and 1.9 per cent in 2013, a downward revision of 0.2 of a percentage point for 2013 relative to the 2012 April WEO. The downward revision mostly reflects weaker activity in the Euro area, especially in the periphery economies, where dampening effects from uncertainty and tighter financial conditions will be strongest. Owing mainly to negative spillovers including from uncertainty, growth in most of the other advanced economies will also be slightly weaker, though lower oil prices have dampened these adverse negative spillovers. There was also weakening of the growth in the United States due to negative spillovers from the Euro area.

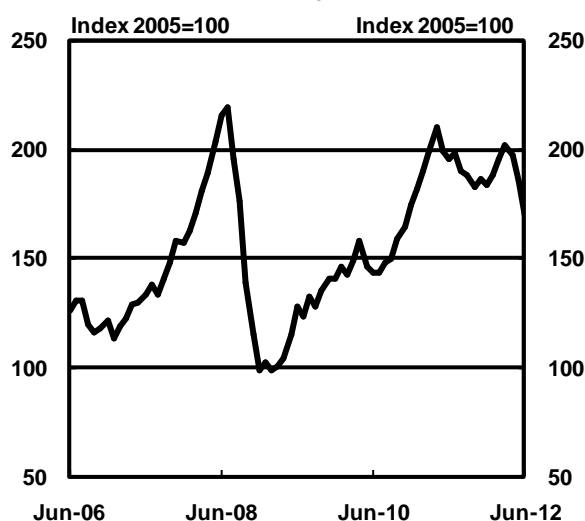
Growth in emerging and developing economies is expected to moderate to 5.6 per cent in 2012 before picking up to 5.9 per cent in 2013, a downward revision of 0.1 and 0.2 of a percentage point, respectively, relative to the 2012 April WEO. Notably growth momentum slowed in Brazil, China and India. This partly reflects a weaker external environment, but domestic demand has also decelerated sharply in response to capacity constraints and policy tightening over the past year. Conversely, growth in the Middle East and North Africa will be stronger in 2012 to 2013 relative to last year, as key oil exporters continue to boost oil production and domestic demand while activity in Libya is rebounding rapidly after the unrest in 2011. Similarly, growth in sub-Saharan Africa is expected to remain robust in 2012 and 2013, largely attributed by the region's relative insulation from external financial shocks and revisions to the growth outlook since the 2012 April WEO.

Global consumer price inflation is projected to ease as demand softens and commodity prices recede. Global inflation is projected to range between 3 per cent to 3.5 per cent in 2012 and 2013.

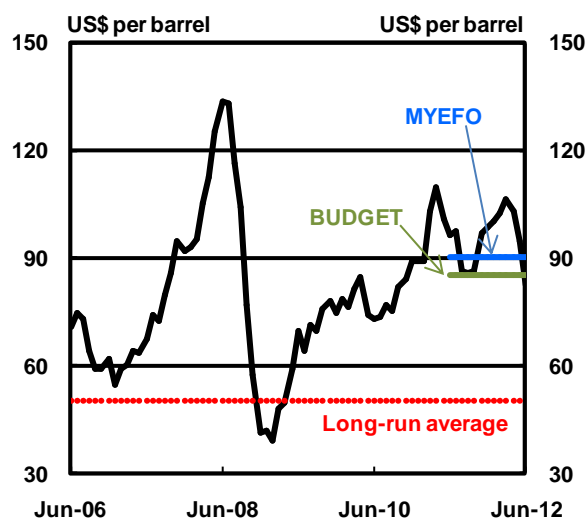
### **Commodity Prices**

Commodity prices in the global economy have remained volatile over the first half of 2012. In the first quarter of 2012, commodity prices remained high due to factors including, better than expected US growth, the easing of financial conditions and recovering confidence in Europe due to policy actions taken by the European Central banks and the rebound in global trade and industrial production. However, because of lower-than- expected world growth in the second quarter of 2012 with intensifying downside risks, commodity prices have dropped recently (Chart 2).

**Chart 2: IMF Commodity Price Index**



**Chart 3: Oil Price**



Source: Eco Reuters, PNG Treasury

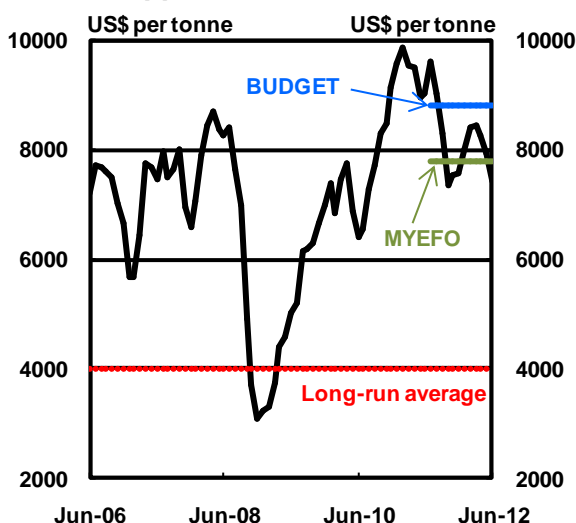
The oil price, which averaged US\$102 per barrel in the first quarter of 2012, has dropped by 9 per cent to an average price of US\$93 per barrel in the second quarter of 2012, with the current oil spot price less than US\$90 per barrel. This downward movement in oil prices reflects slowing global demand especially from the largest oil consumer, the United States, due to seasonal effects of a mild winter and weaker growth in the United States due to negative spillovers from the Euro area (Chart 3).

The copper price, which averaged US\$8,300 per tonne in the first quarter of 2012, has dropped by 5 per cent to an average of US\$7,870 per tonne in the second quarter of 2012 with the current copper spot price less than US\$7,800 per tonne. Its slump was triggered by weak Chinese manufacturing data and heightened fears surrounding the Euro zone, which curtailed the risk appetite and dampened prospects for industrial production (Chart 4).

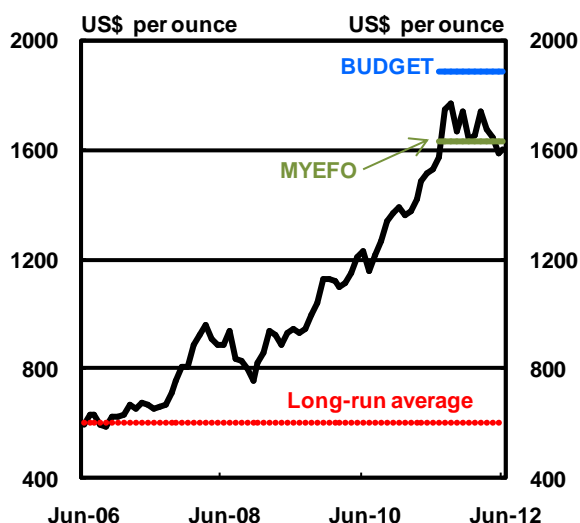
The gold price, which averaged US\$1,689 per ounce in the first quarter of 2012, has dropped by 4.6 per cent to an average of US\$1,612 per ounce in the second quarter of 2012 with the current gold price slightly under US\$1,600 per ounce. The dip in gold prices reflects weaker jewellery demand from India and strengthening of the US dollar (Chart 5).

In comparison to PNG's 2012 Budget commodity price assumptions, copper and gold prices have traded below Budget assumptions, while the oil price has traded above the Budget assumption. On average the copper price has traded around US\$8,085 per tonne, below the Budget assumption of US\$8,819 per tonne and the gold price has traded around US\$1,650 per ounce, below the Budget assumption of US\$1,884 per ounce. In contrast, the oil price has traded around US\$98 per barrel, above the Budget assumption of US\$85 per barrel.

**Chart 4: Copper Price**



**Chart 5: Gold Price**



Source: IMF and Eco Reuters

To reflect the recent movements in commodity prices, the 2012 Budget assumptions have been revised. The Budget copper price assumption of US\$8,819 per tonne has been revised down to US\$7,790 per tonne. The Budget gold price assumption of US\$1,884 per ounce has been revised down to US\$1,630 per ounce whilst the Budget oil price assumption of US\$85 per barrel has been revised up to US\$90 per barrel<sup>1</sup>.

### Exchange Rate Developments

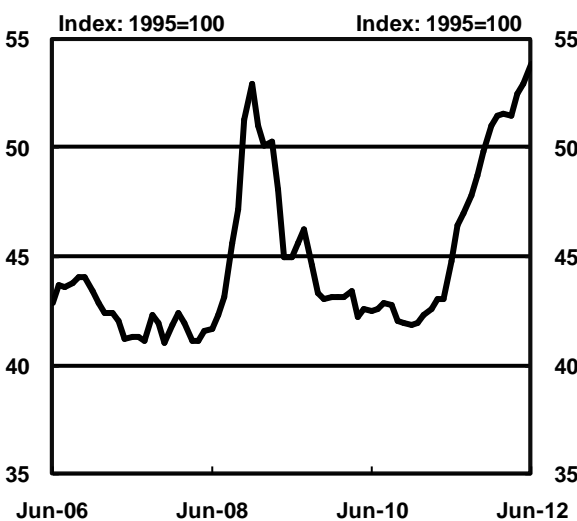
PNG's import Trade Weighted Index (TWI) appreciated by 9.4 per cent in 2011 and continued to perform strongly in the first six months of 2012. As shown in Chart 6, PNG's TWI in the first six months of 2012 appreciated by 13.9 per cent, largely reflecting strong Kina performance against its major trading currencies. Against the United States (US) dollar and the Australian dollar, the PNG Kina appreciated significantly by 13.3 per cent and 13.2 per cent respectively (Chart 7).

The PNG Kina also appreciated against other key trading currencies including: the Euro (21.4 per cent), United Kingdom Pound (15 per cent), Malaysian Ringgit (14.6 per cent), Singapore Dollar (13.8 per cent), Japanese Yen (13.3 per cent), New Zealand dollar (11.5 per cent) and Chinese Yuan (10.8 per cent). The strong performance of the PNG Kina against its major trading currencies, especially the US dollar, is due largely to the increased inflow of foreign direct investment related to the construction of the PNG LNG project.

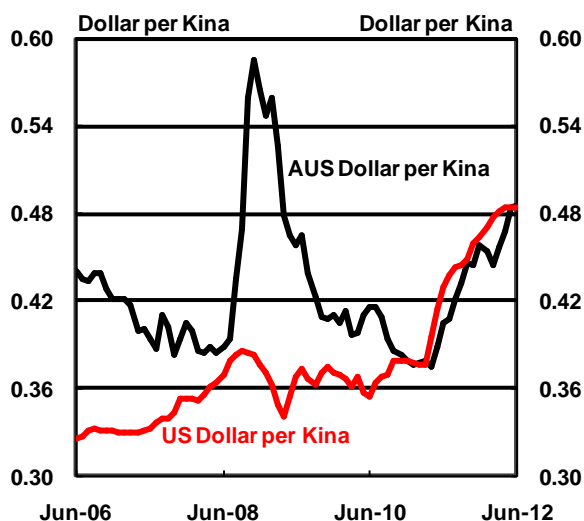
The appreciation of the PNG Kina is expected to reduce the cost of imports and the Government is committed to making sure that producers pass onto consumers the full benefit of the PNG Kina's strong performance through lower prices. However, the appreciation of the PNG Kina is expected to negatively affect Government revenue and PNG's trade sector in 2012.

<sup>1</sup> The price forecast methodology used simply uses the actual year to date average price plus makes an assumption that for the remainder of the year, the latest month's average price holds up until the end of 2012.

**Charts 6: Import Trade Weighted Index**



**Charts 7: Exchange Rate Developments**



Source: Bank of PNG and Department of Treasury

### **The Outlook for the Domestic Economy**

Having to accommodate the construction phase of the PNG LNG project, the PNG economy has experienced increased optimism, rising opportunities and businesses have proceeded with confidence in pursuing plans that were on hold in the past. This quickly translated into very strong domestic economic activity especially in the non-mining sectors of the economy through 2011 and into 2012<sup>2</sup>.

The estimated growth in the PNG economy in 2011 has been revised up to 11 per cent. Growth in the agriculture sector reached a record high in 2011 driven by a combination of higher prices and record production. Coffee production reached a historic high in the year due to high prices and a record production level. Similar trends were also observed in copra, palm oil and logs whilst other cash crops experienced offsetting price and production movements. The oil and petroleum sector and the mining and quarrying sector continued to decline in 2011 with the maturing oil fields and disruptions at major mines due to technical difficulties, weather related disruptions and infrastructure issues.

In 2012, the PNG economy is expected to grow by 9.9 per cent, an upward revision from the 7.8 per cent projected at 2012 Budget. This upward revision is due largely to the increased levels of activity especially in the non-mining sectors led by construction, wholesale and retail trade, and transport, storage and communication. The overwhelming demand generated by the PNG LNG project continues to provide the stimulus for growth in these sectors.

The construction sector is expected to continue to perform strongly in 2012, growing by an exceptional rate of 24 per cent largely due to the construction of the PNG LNG project. This

<sup>2</sup> Non-mining sector excludes the Mining & Quarrying sector and Petroleum & Gas sector

sector's growth is also being supported by an increasing private sector which is accommodating growing domestic demand.

The wholesale and retail sector is expected to grow at an exceptional rate of 20 per cent in 2012, driven by the increased government spending (election related), including increased spending by households. Increasing profits and rising disposable incomes is expected to translate into increased spending in the domestic economy.

The transport, storage and communication sector is expected to grow at 16 per cent in 2012 driven by strong domestic economic activity. Once more the PNG LNG project is expected to generate much of the demand for transport services especially for the distribution of goods and services in the economy. The communication industry is also expected to continue to expand as the operators continue to press ahead with their mobile phone coverage expansion programs.

Other non-mining sectors such as electricity, gas and water, manufacturing, finance, real estate and business services and community, social and personal services are expected to grow in line with the stronger domestic economy.

The agriculture and the mining and quarrying sector are expected to grow moderately. However, the oil and gas sector is expected to continue to decline in 2012. Falling commodity prices, weather related disruptions in the first half of the year and the natural decline at the major oil fields is expected to place a drag on real growth in 2012.

The agriculture sector is expected to grow by only 0.8 per cent in 2012. This is a marked slowdown compared to the record growth of 2011 and is a combination of falling agricultural prices, institutional changes, damage to production facilities in certain parts of the economy and an expected poor growing season for coffee. With the global demand shrinking due to troubles in Europe, prices of PNG's key cash crops have fallen since the second quarter. Supply is expected to decrease in the face of these lower prices, the higher value of the Kina and increasing costs faced by farmers. In addition, coconut oil production has been hit hard with the closure of two coconut oil processing facilities in Madang. With only one processing facility (mill) operating in East New Britain, the loss in production has had a negative impact on growth in the agriculture sector. In addition, expectations for a poor growing season for coffee following a favourable season last year is also expected to significantly impact on production and real growth in 2012.

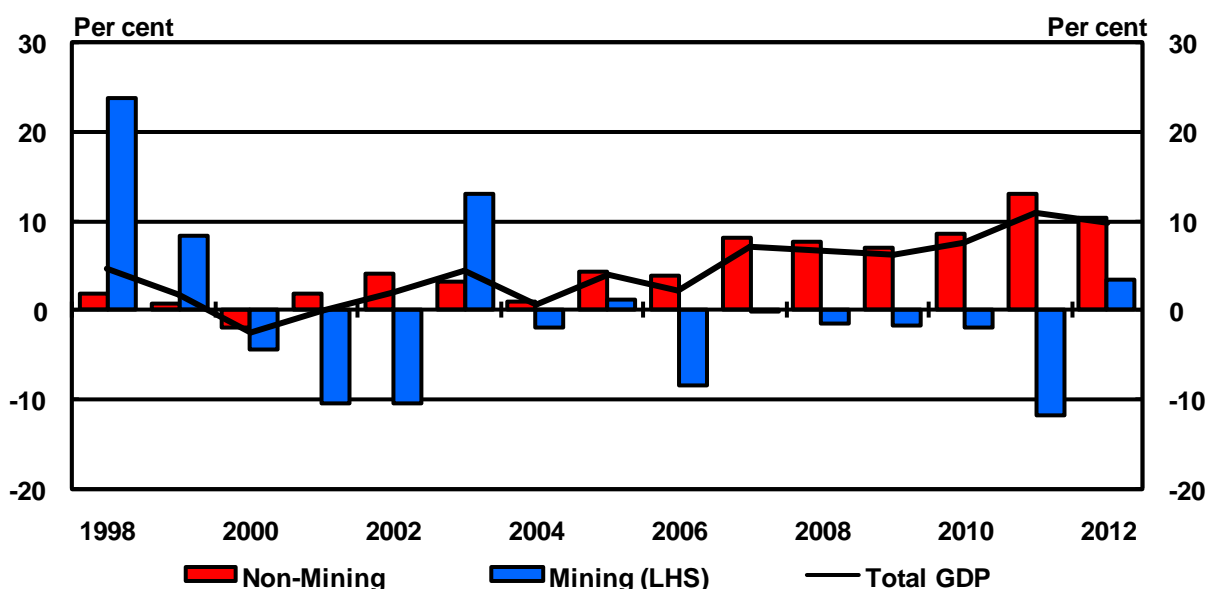
Furthermore, the mining and quarrying sector is expected to grow at 8.8 per cent in 2012. This is slower than the Budget forecast of 20.2 per cent and is due to lower production from major mines. Bad weather and infrastructure problems at the respective mines have impeded effective mine operations resulting in major losses in production in the first half of the year. This is expected to lower overall production and real growth in 2012.

The oil and gas sector is expected to continue to decline in 2012 due to natural declines in maturing oil fields. The continued contraction of this sector combined with the slowdown in the



agriculture and mining and quarrying sectors is expected to offset some of the higher forecasts for growth in other sectors in 2012.

**Chart 8: Economic Growth: 1998– 2012**



Source: Department of Treasury

**Table 1: Economic Forecasts and Assumptions**

	2011 ACTUAL	2012 BUDGET	2012 MYEFO
<b>Economic Growth (%)</b>			
Total GDP (est)	11.0	7.8	9.9
Non-Mining GDP (est)	13.1	7.4	10.4
<b>Inflation (%)</b>			
Year average	8.5	7.6	8.0
<b>Interest Rate (%)</b>			
Kina Facility Rate (KFR)	7.5	7.5	7.75
3 year Inscribed Stock (IS)	9.0	9.0	5.0
<b>Mineral Prices</b>			
Gold (US\$/oz)	1,569	1,884	1,630
Copper (US\$/lb)	8,823	8,819	7,790
Oil (Kutubu: US\$/barrel)	104	85	90

Source: Department of Treasury

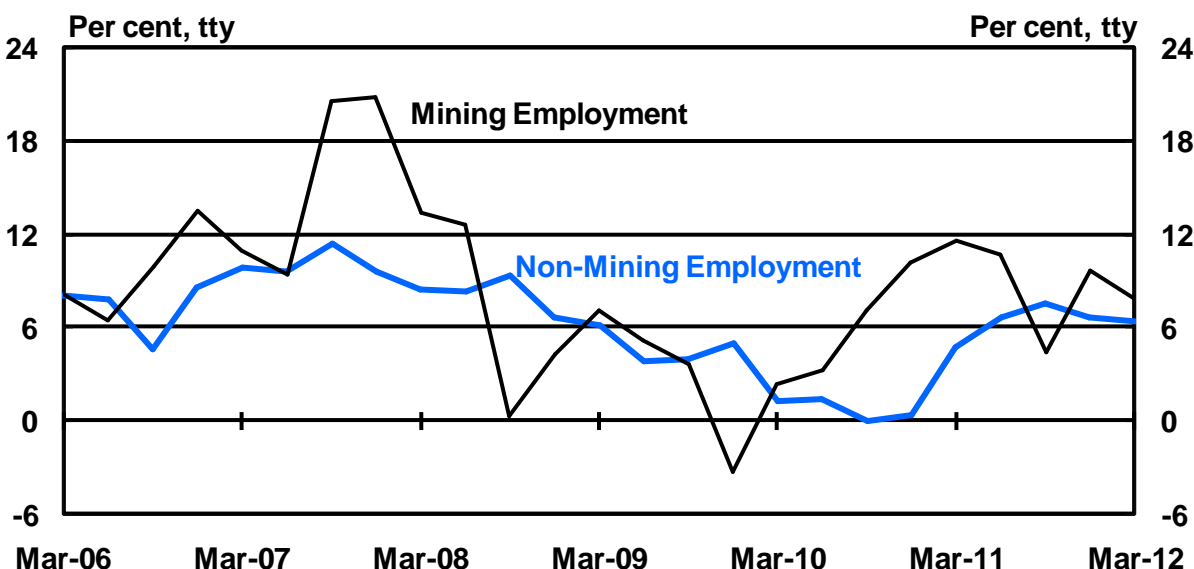
## Employment

Total employment growth reflects strong employment in the non-mining sectors and moderating employment in the mining sector in the first quarter of 2012.

Through-the-year growth indicated that non-mining employment increased by 6.4 per cent in the 2012 March quarter compared to 4.7 per cent recorded in the 2011 March quarter. The strong non-mining employment is driven primarily by strong growth in wholesale, transportation, retail and financial and business services.

Mining employment grew by 7.9 per cent in the 2012 March quarter compared to 11.6 per cent recorded in the corresponding period of 2011. This showed a decline of 3.7 percentage points. Going forward, it is expected that direct employment in the PNG LNG project will decrease significantly through to 2014. However, strong economic growth is expected to support other employment opportunities in the domestic economy.

**Chart 9: Employment Growth**



Source: Bank of PNG and Department of Treasury

### **Inflation Outlook**

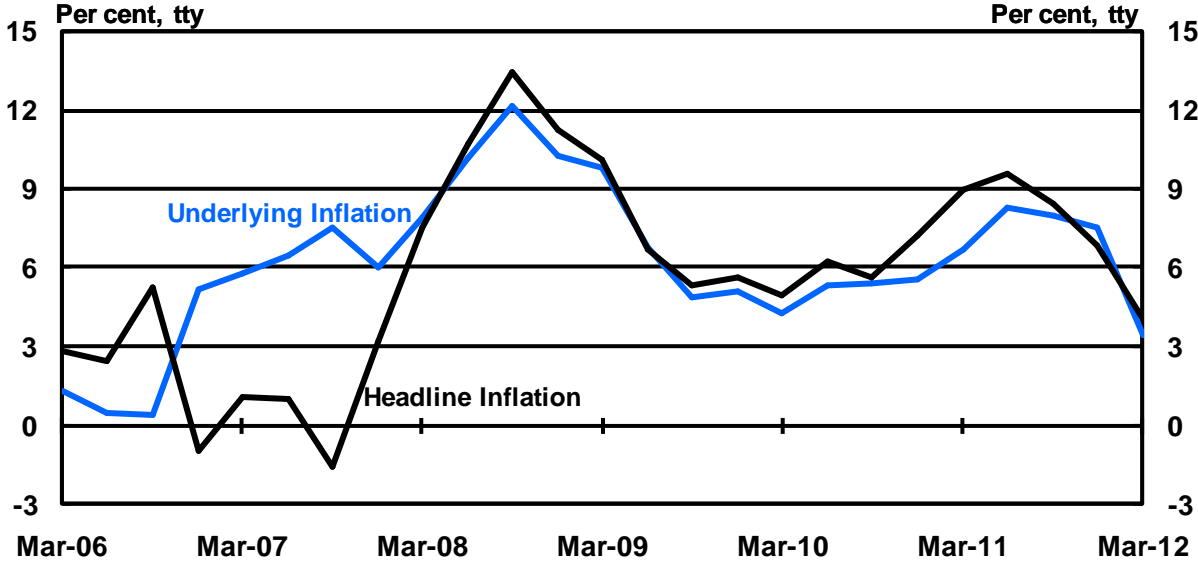
In 2012, inflation is estimated to be around 8 per cent, an upward revision from the 2012 Budget estimate of 7.6 per cent and lower than the 2011 inflation outcome of 8.5 per cent. The upward revision from the Budget largely reflects domestic inflationary pressures which are expected to continue in 2012 as government, business and consumer spending continues to increase. Further, the shortage of skilled labour and lack of available land for development continues to drive wages and rental prices higher and are expected to put upward pressure on prices. As such, inflationary pressures are expected to be strong in the domestic economy unless businesses pass on the benefit of lower import costs, due to the high PNG Kina, to consumers in the coming quarters.

Inflation grew at a moderate rate of 4 per cent in the first quarter of 2012. This was the lowest through-the-year price growth since 2011 June quarter when inflation was 9.6 per cent. The moderation in the headline inflation mainly reflects the Government's Tuition Fee Free Education Policy implemented in early 2012 and lower imported inflation driven by the appreciation of the PNG Kina against its major trading partners and lower world prices for food and oil.

Inflation for 2013 is expected to moderate to 6.5 per cent. The projected easing in inflation rate largely reflects, slowing economic growth in line with the winding down of LNG construction

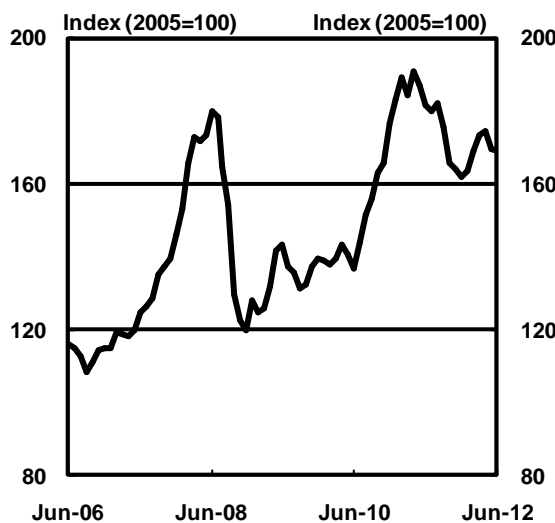
activities as it prepares for production in 2014. Over the medium term, inflation is projected to ease to around 5 per cent from 2014 to 2017 on the assumptions of commodity prices easing back towards long-run averages and continuation of effective and coordinated monetary and fiscal policies.

**Chart 10: Headline and Underlying Inflation**

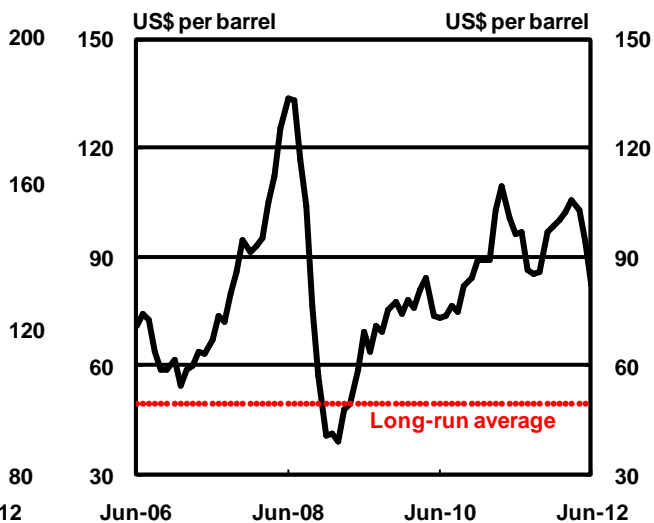


Source: National Statistical Office and Department of Treasury

**Chart 11: World Food Price Index**



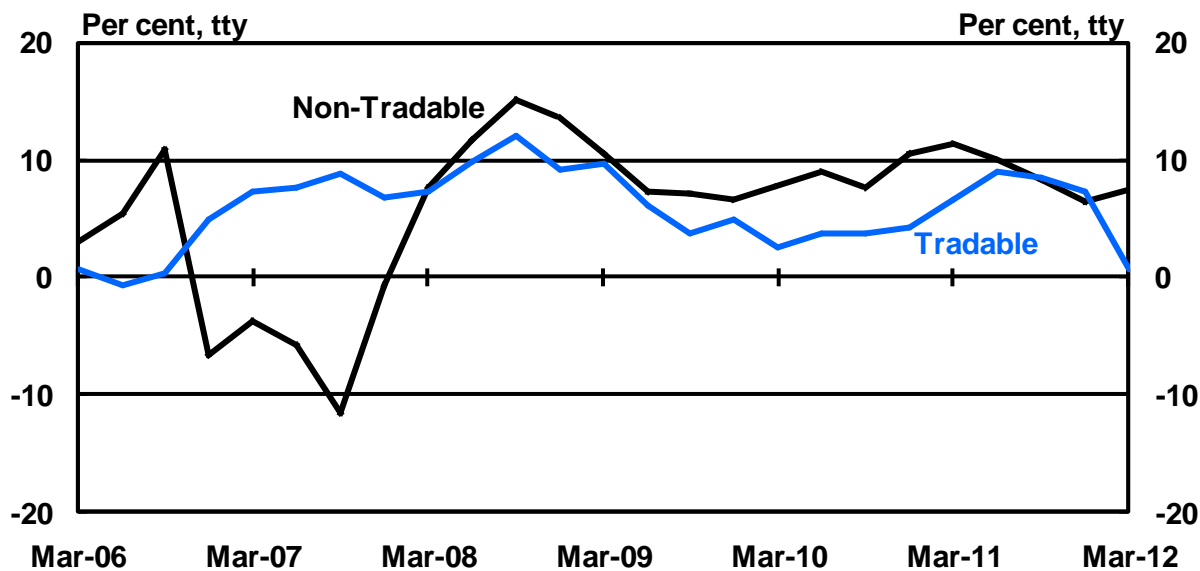
**Chart 12: Oil Price**



Source: International Monetary Fund (IMF)

Prices of imported (or tradable) goods continued to decline, decreasing significantly from 6.7 per cent through-the-year to the March quarter 2011 to 0.8 per cent through-the-year to the March quarter 2012. The strong PNG Kina coupled with rising global supply of food and oil, have caused the drop in imported inflation. Charts 11 and 12 show that prices have fallen in June 2012, however, they still remain well above historic averages.

**Chart 13: Tradable and Non-Tradable inflation**



Source: Bank of PNG, National Statistical Office and Department of Treasury

Non-tradable, or domestically generated inflation, continued to accelerate, implying domestically generated inflationary pressures are persistent and growing in the domestic economy. In the March quarter 2012, non-tradable inflation grew by 4 per cent to be 7.4 per cent through-the-year, compared to 6.5 per cent through-the-year growth to the December quarter 2011. Looking

at Chart 13, non-tradable inflation has been on the high side, well above tradable inflation since March 2008. This trend is expected to strengthen in the coming quarters as strong economic activity, continues to drive spending in the domestic economy, while capacity constraints and high liquidity remain in the domestic economy.

### **Monetary Developments**

Despite the Bank of PNG maintaining a tight monetary policy stance, domestic interest rates continued to fall reflective of the build-up of high liquidity levels in the banking system. In 2011, total liquidity in the banking system increased by 37.2 per cent and continued to increase in 2012 with broad money supply and the monetary base increasing in the March quarter of 2012 by 3.2 per cent and 16 per cent respectively (Chart 14).

In response to this, the Bank utilized its Open Market Operation (OMO) by issuing a net Bank of PNG Bills of K126.9 million. The Government also made a net Treasury Bill (TBill) issuance of K523.9 million and Inscribed Stock issuance of K160 million, which helped diffuse some of the excess liquidity.

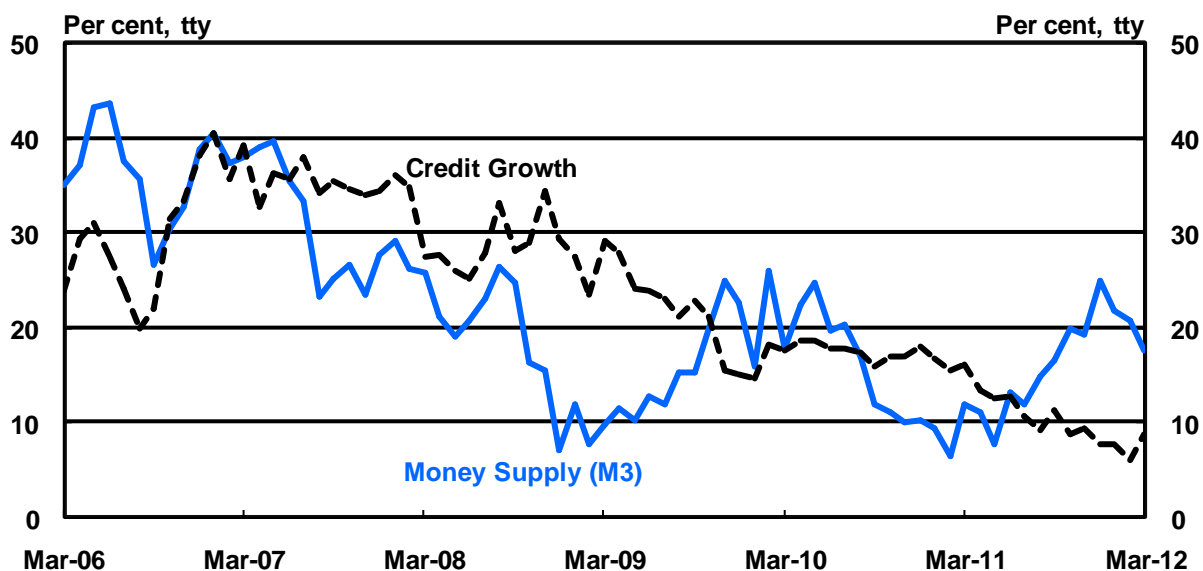
Lending to the private sector grew moderately in 2011 by 6.9 per cent compared to a strong 17.9 per cent in 2010 and continued to moderate in 2012 growing by 2.2 per cent in the March quarter 2012. This mainly reflects firms utilizing their own funds instead of borrowing from the banks.

In 2012, broad money supply is expected to continue to grow, up by 14.8 per cent mainly driven by the increase in Net Foreign Assets (NFA) of the banking system. The monetary base is projected to increase by 33.2 per cent whilst private sector credit is projected to increase by 7 per cent. The projected increase in monetary aggregates is appropriate to support economic growth, however, it poses an upside risk to inflation if the credit to private sector picks up.<sup>3</sup>

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<sup>3</sup> Source: Bank of PNG's 2012 March Monetary Policy Statement (MPS)

**Chart 14: Money Supply and Credit Growth**



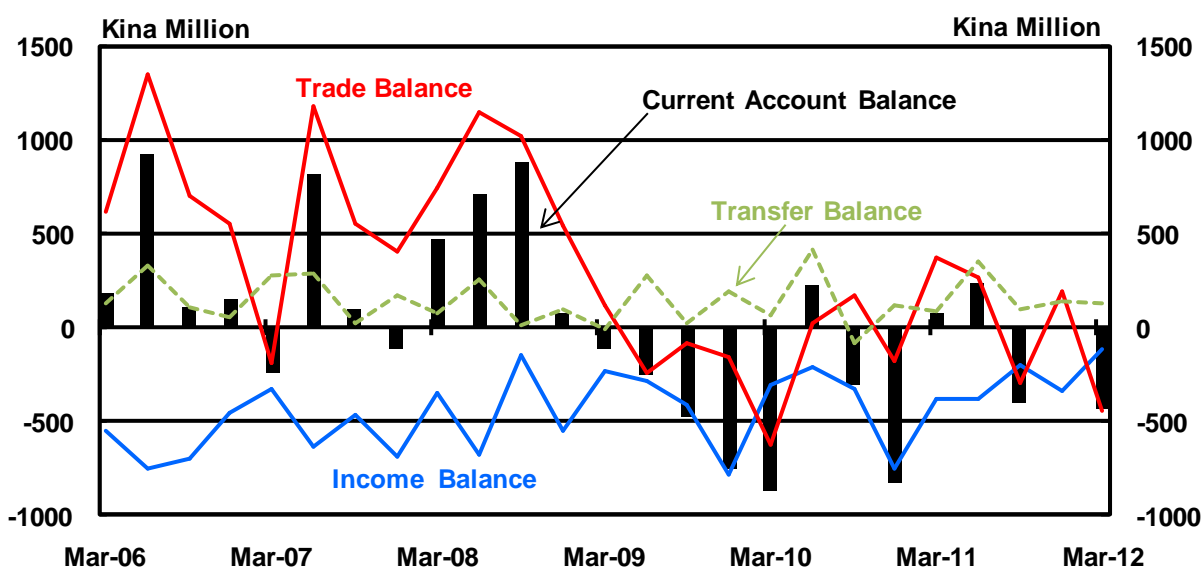
Source: Bank of PNG and Department of Treasury

### **Balance of Payments**

At the time of the 2012 Budget, a large current account deficit was expected for 2012. Spending on the PNG LNG project was expected to widen the trade and income deficits and offset an expected surplus in the transfer balance. Strong economic growth and higher incomes were also expected to translate into higher general import spending in the economy in 2012.

In the 2012 March quarter, the current account showed a deficit of K439 million, with the widening of trade and income deficits to K450 million and K116 million respectively, which offset a surplus of K127 million in the transfer balance. The main drivers were higher payments of services associated with the PNG LNG project transactions and large dividend payments to foreign shareholders. Compared to the 2011 December quarter current account deficit of K14 million, the 2012 March quarter current account deficit has widened to K439 million (Chart 15).

**Chart 15: Balance of Payment**



Source: Bank of BPNG and Department of Treasury

The trade balance deficit was K450 million in the 2012 March quarter, compared to a surplus of K192 million in the previous quarter. This reflects the significant widening of the services deficit with the narrowing of surpluses of the goods balance because of the appreciation of the Kina against the United States dollar and the lower international prices for PNG's major exports which meant lower export receipts in Kina terms.

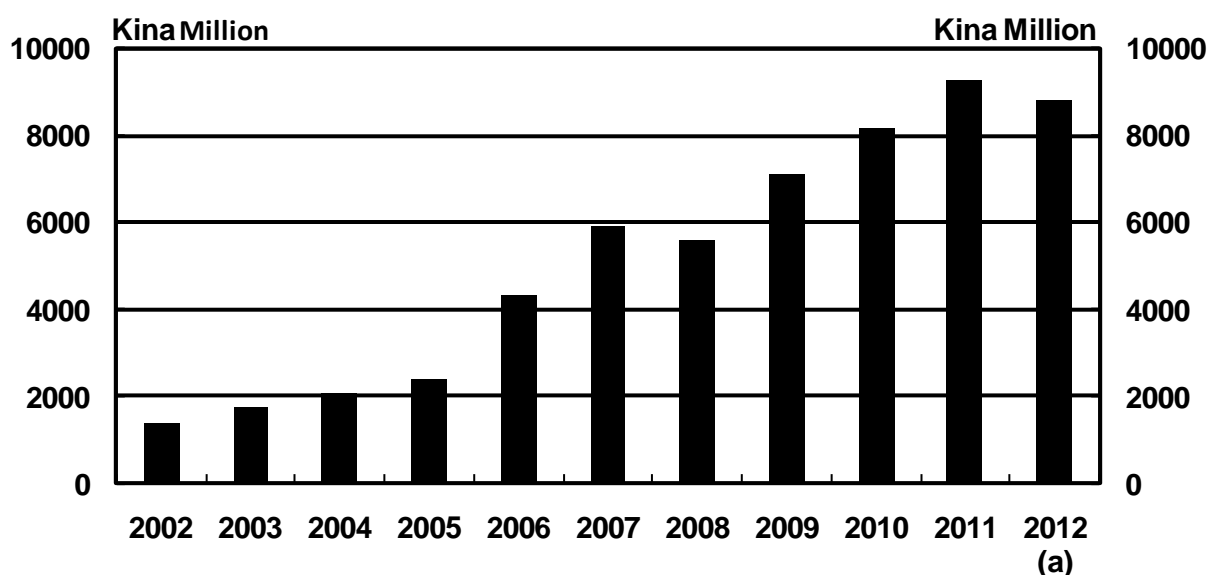
The income deficit was K116 million in the 2012 March quarter. This is significantly lower than the deficit of K341 million recorded in the previous quarter, as the latter included a large dividend payment to foreign shareholders. The transfer balance recorded a surplus of K127 million in the 2012 March quarter, compared to a surplus of K135 million in the previous quarter.

It is expected that in the coming quarters, the current account will remain in a substantial deficit as imports are expected to remain high due to PNG LNG construction activity.<sup>4</sup> Over the medium-term, the current account deficit is expected to decline as PNG LNG construction spending winds down. It is anticipated that beyond 2015 the current account will move into a large surplus position following the commencement of PNG LNG exports in late 2014.

International reserves were K9,266.4 million at end of December 2011 and have decreased by 5 per cent to K8814.8 million at the end of March quarter 2012 reflecting in part the significant appreciation of the Kina, which means the value of foreign currencies decline (Chart 16).

<sup>4</sup> This assumes the Bank of PNG improves coverage to include PNG LNG transactions over the course of the year.

Chart 16: International Reserves



Source: Bank of PNG  
(a) Includes reserve levels up to March 2012

## 1.2 THE FISCAL OUTLOOK

The fiscal outlook has deteriorated in the first half of 2012. Total revenue and grants is expected to be lower than earlier anticipated at the time of the 2012 Budget. This revenue shortfall is estimated at K392.5 million. In spite of this expected revenue shortfall, total expenditure and net lending continues to be maintained as per the 2012 Budget. However, actual expenditures recorded in the first half of 2012 indicate a potential overspending of K120.7 million by the end of the year. The combination of these expected revenue shortfalls and overspending indicates a projected budget deficit of K513.1 million, a significant deterioration from the 2012 Budget forecast of a balanced Budget.

Consequently, public domestic debt is expected to increase by this figure of K513.1 million. This is in addition to the increase in public domestic debts estimated at the time of the 2012 Budget to finance fully the Government's equity share in the PNG LNG Budget – another K700 million. It is also observed that Government Trust Accounts held within the banking system are being depleted at a rapid rate.

The immediate challenge for the Government is to make tough decisions to address the potential budget deficit of K513.1 million, as well as to maintain fiscal discipline throughout the second half of 2012. There will be a need for finding offsetting savings in 2012 to wind back this deficit – with the most logical approach being the deferral of some proposed projects through the Development Budget.

Given the deteriorating fiscal outlook, there will be no additional revenue for any supplementary budget to increase expenditures later in 2012. Increased funding for key areas such as any



remaining election costs will need to be met from reductions in other areas. Overall, there is a need for a net reduction in expenditure from the 2012 Budget. This will require a supplementary budget to re-appropriate resources by moving funds away from lower priority activities or those that can easily be delayed for implementation until 2013. Election commitments should be considered in the context of the 2013 Budget. This will provide an opportunity to reflect on how best to meet the new Government's election commitments within the framework of available Budget resources.

The updated fiscal estimates for 2012 are set out in the Table 2 below. These estimates are made on the basis of no policy change.

**Table 2: Budget Balance 2011-2012 (Kina, million)**

	2011 Actual	2012 Budget	2012 MYEFO
<b>Total Revenue and Grants</b>	9,304.9	10,560.3	10,167.8
<b>Total Expenditure and Net Lending</b>	9,370.6	10,560.3	10,681.0
<b>Deficit (-) /Surplus (+)</b>	<b>-65.7</b>	<b>0</b>	<b>-513.1</b>
<i>% of GDP</i>	<i>-0.2</i>	<i>0</i>	<i>-1.5</i>

Source: Department of Treasury

a) Numbers may not sum to total due to rounding errors.

## 1.3 REVENUE

Total Revenue and Grants for 2012 are estimated at K10,167.8 million, which is K392.5 million lower than the 2012 Budget estimate of K10,560.3 million. This primarily reflects a downward revision to tax revenue of K341.5 million and a downward revision to non-tax revenue by K51 million.

**Table 3: Tax Revenue 2011-2012 (Kina, million)**

	2011 Actual	2012 Budget	2012 MYEFO
Tax on Income & Profits	6,144.1	6,543.0	6,054.1
Domestic Taxes on Goods & Services	1,040.8	1,256.4	1,370.0
Taxes on International Trade	719.3	720.3	754.2
<b>Tax Revenue</b>	<b>7,904.2</b>	<b>8,519.7</b>	<b>8,178.2</b>

Source: Department of Treasury

Tax revenues in 2012 have been revised down by K341.5 million since the 2012 Budget to K8,178.2 million. This reflects lower expected Tax on Income and Profits partly offset by higher expected Domestic Taxes on Goods and Services and Taxes on International Trade (Table 3).

The downward revision to Tax on Income and Profits reflects lower receipts from Mining and Petroleum Tax and Dividend Withholding Tax totaling K629.2 million. This is partly offset by higher expected collections of Personal Income Tax, Company Tax, Interest Withholding Tax, Gaming Tax and Other Direct Taxes totaling K140.3 million.

- Personal Income Tax is expected to be K54 million or 2.2 per cent higher than the 2012 Budget projection mainly reflecting strong collections to date. In the first half of 2012, Personal Income Tax collections totalled K1,288.3 million supported by higher than anticipated employment and wages growth coming from the PNG LNG sub-contractors (Section 1.11- Table 1).
- Company Tax is estimated to be K70 million, or 4.1 per cent higher than the 2012 Budget projection, reflecting strong economic activity driven by the PNG LNG project. In the first half of 2012, Company Tax collections totalled K647.2 million.
- Mining and Petroleum Tax is estimated to be K545.8 million lower than the 2012 Budget projection reflecting lower commodity prices and the strong exchange rate. Similarly, Dividend Withholding Tax is estimated to be K83.4 million lower.
- Interest Withholding Tax, Gaming Tax and Other Direct Taxes have all increased over the first half of 2012. These taxes are expected to be K16.3 million higher than estimated at 2012 Budget reflecting the strong domestic economy.

The upward revision to Domestic Taxes on Goods and Services reflects strong collections of GST due to the strong economy and the election related spending. The upward revision to GST of K217.6 million more than offsets lower than expected excise collections in the first half of 2012.

The upward revision to International Trade collections reflect higher than expected collections of Import Duty and Excise Duty on Imports which more than offset a lower than expected collections of Export Duty. In the first half of the year, collections of Taxes on International Trade were around K360.6 million, or 4.6 per cent, above the 2012 Budget estimate.

**Table 4: Non-Tax Revenue 2011-2012 (Kina, million)**

	<b>2011 Actual</b>	<b>2012 Budget</b>	<b>2012 MYEFO</b>
Property Income	239.7	258.0	217.1
<i>Non-mining Dividends</i>	49.0	70.0	77.0
<i>Mining &amp; Petroleum Dividends</i>	190.7	188.0	140.1
Interest & Fees from Lending	12.8	4.0	4.0
Other Non-Tax Revenue	97.8	130.1	120.0
Injections from Trust Accounts	0.0	128.0	128.0
<b>Total</b>	<b>350.3</b>	<b>520.1</b>	<b>469.1</b>

Source: Department of Treasury

Non-Tax revenue collections are projected to be lower than the 2012 Budget estimate by K51 million, due largely to lower expected Mining and Petroleum Dividends.

## **1.4 EXPENDITURE AND NET LENDING**

Total Expenditure and Net Lending is estimated to be K10,681 million in 2012. This is higher than the 2012 Budget and the revised Budget of K10,560.3 million. The increase is reflective of

a potential overspending in the Recurrent Budget whilst Development Budget is expected to remain unchanged at K4,443.0 million as per the revised Budget. In the first half of 2012, Total Expenditure and Net Lending amounted to K4,172.8 million which is 39.5 per cent of the revised Budget (Table 5).

**Table 5: Total Expenditure and Net Lending 2011-2012 (Kina, million)**

	2011 Outcome	2012 Budget	2012 Revised	June Outturn	2012 MYEFO
Total Recurrent Expenditure*	5,412.6	6,123.2	6,117.3	2,741.5	6,238.0
Total Development Expenditure	3,194.2	4,437.1	4,443.0	1,431.3	4,443.0
Supplementary Budget	781.8	0.0	0.0	0.0	0.0
<b>Total Expenditure &amp; Net Lending</b>	<b>9,388.6</b>	<b>10,560.3</b>	<b>10,560.3</b>	<b>4,172.8</b>	<b>10,681.0</b>

Recurrent Expenditures was set at K6,123.2 million at the time of the Budget. This was revised down to K6,117.3 million, with K5.9 million transferred to development expenditures. In the first half of 2012, recurrent spending totaled K2,741.5 million which is 44.8 per cent of the revised Budget. Considering, the recurrent spending in the first half of 2012, recurrent expenditure is now estimated to increase to K6,238.0 million at the end of the year (Section 1.11- Table 2). The increase in the recurrent expenditures reflects a potential overspending in Personnel Emoluments by both the National and Provincial Departments (Table 13 & 14).

Expenditure on goods and services, although temporarily slow in the first half of 2012 is expected to be fully spent by the year's end. This is largely a consequence of underspending the 2012 Budget Appropriation of K302 million Tuition Fee Free Education subsidy. While all the warrants were released to the Department of Education in the first quarter 2012, the expenditure of these funds will be settled in the second half of 2012, informed by a Census Report on the number of students and schools and review of school bank accounts. Expenditure on other goods and services were also temporarily delayed due to the elections (Table 15 & 16).

In the first half of 2012, total warrants released for the Recurrent Budget amounted to K3,698.3 million or 60 per cent of the revised Recurrent Budget appropriation of K6,117.3 million. Of the K3,698.3 million warrants released, K2,741.5 million or 74 per cent have been spent by agencies, whilst the other 26 per cent warrants released in the first half of 2012 are yet to be spent. In the second half of 2012, the remaining total warrant of K2,419.0 million (40 per cent of Recurrent Budget) are expected to be released by Treasury.

Total Development Expenditures was set at K4,437.1 million at the time of the Budget. This was revised up to K4,443.0 million with K5.9 million transferred from recurrent expenditures to fund Small to Medium Enterprises, the Office of Cooperative Society PNG and to pay outstanding contracts under the District Development Projects. For the end of year, development expenditures is expected to remain the same as the revised Budget (Section 1.11-Table 2)

**Table 6: Development Expenditure 2011-2012 (Kina, million)**

	2011 Actual	2012 Budget	2012 Revised	June Outturn	2012 MYEFO
<b>Domestic Funding</b>	<b>1,985.8</b>	<b>2,437.2</b>	<b>2,443.0</b>	<b>1,123.0</b>	<b>2,443.0</b>
<b>Donor Project Grants</b>	<b>1,025.0</b>	<b>1,390.5</b>	<b>1,390.5</b>	<b>162.9</b>	<b>1,390.5</b>
<b>Infrastructure Tax Credits</b>	<b>25.4</b>	<b>130.0</b>	<b>130.0</b>	<b>0.0</b>	<b>130.0</b>
<b>Loans</b>	<b>213.0</b>	<b>479.4</b>	<b>479.4</b>	<b>145.4</b>	<b>479.4</b>
Concessional	213.0	479.4	479.4	145.4	479.4
Commercial	0.0	0.0	0.0	0.0	0.0
<b>Total Development Expenditure</b>	<b>3,249.2</b>	<b>4,437.1</b>	<b>4,443.0</b>	<b>1,431.3</b>	<b>4,443.0</b>

Source: Department of Treasury

In the first six months of 2012, total development expenditure was K1,431.3 million or 32 per cent of the revised development expenditure. Of this, expenditure of Domestic Funds was K1,123.0 million whilst Concessional Loan draw downs totaled K145.4 million.

Infrastructure Tax Credit (ITC) was set at K130 million and remained unchanged in the revised Budget. In the first half of the year, there has been no reported ITC expenditure. Project Grants remained at K1,390.5 million unchanged from the Budget. In the first half of the year, K162.9 million of Donor Project Grants was spent.

## **1.5 STATUS OF SUPPLEMENTARY BUDGETS**

The 2011 Supplementary Budget appropriated an additional K781.8 million to fund priority expenditures.

As of 30 June 2012, of the K781.8 million allocated, K648.5 million (86.3 per cent of appropriation) has been transferred to the Department of Finance for immediate payment into Trust Accounts. A further K133.3 million consisted of expenditures commitments that were to be undertaken before 31 December 2012.

## **1.6 STATUS OF TRUST ACCOUNTS**

A total of K7,776.1 million, up to and including the 2012 Budget, has been appropriated to Budget Funded trust accounts since 2005 for implementation of priority budget expenditure programs. These trust accounts have largely been funded from additional mineral revenue in Supplementary Budgets and annual Budgets.

The purpose of holding funds in trust is to spread spending over time to help manage inflationary pressures in the economy and to give time to agencies to properly plan and implement projects.

Table 7 shows the movement of funds for these trust accounts for the period 1 January to 30 June 2012.

**Table 7: Movements of Funds in Trust Accounts from 1 Jan-30 June 2012 (Kina, million)**

Description	Balance as at 1-Jan-2012	Debit (Receipt)	Credit (Payment)	Balance as at 30-June-2012
Education Sector Infrastructure Rehabilitation	70.7	0	60	10.7
Higher Education Sector Infrastructure Rehabilitation	4.2	0	2.6	1.5
National Parliament Infrastructure Rehabilitation	5	0	5	0
Transport Sector Infrastructure Rehabilitation	115.2	0	102.9	12.3
Resettlement of Rabaul Volcano Victims	4	0	0	4
Hospital and Healthcare Centre Rehabilitation	1.5	0	1.3	0.2
Rehabilitation of Housing for Nurses	11.3	0	3.2	8.1
Rehabilitation of Housing for Police	19.5	0	2.2	17.3
District Services Improvement Program	334.5	0	71.1	263.4
Institutional Housing Pilot	7.6	0	0	7.6
Urbanisation Pilot	11.8	0	3.9	7.9
Housing Development Pilot	0.6	0	0	0.6
Rural Electrification	0.6	0	0	0.6
Konebada Petroleum Park	19.4	0	19.4	0
National Infrastructure Development	1.5	0	0	1.5
Regional, Provincial Treasury and District Admin. Offices	0.4	0	0	0.4
LNG Project Development Cost	5.4	0	5.3	0.1
Infrastructure Development Grants	111	0	104.6	6.4
Coastal Vessels	5.6	0	0	5.6
Outstanding MOA Liabilities	9.1	0	9	0
Highlands Highway Rehabilitation	31.8	0	13.6	18.2
Lae City Roads Rehabilitation	18.4	0	18.4	0
Rural District Roads Support	2.1	0	0	2.1
PNG LNG High Impact Infrastructure	115.7	0	84	31.7
Variarata National Park Rehabilitation	0.3	0	0.3	0
District Offices Rehabilitation	8.4	0	5.7	2.7
Mining Legal Costs	0.7	0	0.3	0.3
2010 National Census	10	0	10	0
Provincial Government Members entitlement	0	30	30	0
National High School Renovation and Upgrading	40	0	40	0
Port Moresby Roads	38.5	0	20.3	18.2
Tuition Fee Free Education	300	0	241.3	58.7
Port Moresby General Hospital Infrastructure and Improvement	6.5	0	3.3	3.3
Defence Barracks Maintenance and Improvement	5	0	5	0
Restoration and Development	0	100	0	100

Grant (ABG)				
<b>TOTAL</b>	<b>1,316.30</b>	<b>130</b>	<b>862.9</b>	<b>583.4</b>

Source: Department of Finance

As at June 30 2012 the balance in the Trust Accounts was K583.4 million down from K1,316.3 million at 1 January 2012. This net reduction in the Trust Accounts of K732.9 million consists of additional deposits of K130 million and expenditure of K862.9 million. The additional K130 million was transferred to the Trust Accounts for the Restoration and Development Grant and Provincial Government members entitlement. The K862.9 million of expenditure included K264.1 million on Tuition Fee Free Education, K104.6 million on Infrastructure Development Grants and K201.9 million on Transport Sector Infrastructure Rehabilitation.

## 1.7 FINANCING

The 2012 Budget financing task comprised a balanced budget and the raising of the State's equity contribution for PNG LNG of K900 million (K200 million of this amount was raised in 2011). Of the remaining K700 million to be raised in 2012, K420 million has been raised so far through a mix of Treasury Bills and Inscribed Stock (Section 1.11-Table 3).

The updated estimated budget deficit is expected to be K513.1 million in 2012 requiring additional issuance to fund the State's cash needs.

## 1.8 PUBLIC DEBT

Total public debt outstanding is projected to increase by 13.5 per cent to K8,625 million or 25.6 per cent of GDP at the end of 2012 compared to the original budget estimate of K7,884.9 million or 23.2 per cent of GDP. This increase in debt reflects:

- Additional issuance in 2011 of primary Treasury Bills to meet the State's cash financing needs. This borrowing was utilized to finance a number of below-the-line activities. These include, the Trust Account Cheque floats from 2010 to 2011, the partial financing of the 2011 Supplementary Budget and the balance was used for liquidity and cash management purposes; and
- Additional issuance of Treasury Bills to finance the expected deficit in 2012.

The additional financing task from 2011 and 2012 has resulted in a buildup of Treasury Bills (short-term debt) in the portfolio. Over the forward years the Government will seek to restructure its debt portfolio to reduce interest rate risk and refinancing risk (the risk of not being able to roll over this debt) by increasing Inscribed Stock issuance whilst decreasing Treasury Bill stock on hand.

The appreciation of the Kina together with normal amortization and the slow drawdown of disbursing loans, resulted in foreign currency debt falling by 19.4 per cent from the original budget estimate of K3,244.1 million to K2,615.5 million.

The Medium Term Debt Strategy contains a target mix of foreign currency debt of 40 per cent of total debt to limit exchange rate risk on public debt. The 2012 Budget estimated external debt to be above the target mix at 41.1 per cent. Due to the appreciation of the Kina (that mainly occurred in 2011) and growth in domestic debt, the MYEFO estimates external debt to be 29.2 per cent of the total public debt portfolio.

**Table 9: Public Debt (Kina, million)**

	2011 Actual	2012 Budget	2012 MYEFO
<b>Domestic</b>	<b>5,121.1</b>	<b>4,640.8</b>	<b>6,009.5</b>
Treasury Bills	2,254.5	1,273.8	2,642.5
Inscribed Stock	2,866.6	3,367.0	3,367.0
<i>Domestic debt as % GDP</i>	16.7	13.7	17.8
<b>External</b>	<b>2,290.8</b>	<b>3,244.1</b>	<b>2,615.5</b>
International Agencies	2,240.0	3,201.4	2,572.8
Commercial Loans	50.8	42.7	42.8
<i>External debt as % GDP</i>	7.5	9.5	7.8
<b>Total Public Debt Outstanding</b>	<b>7,411.9</b>	<b>7,884.9</b>	<b>8,625.0</b>
<i>As % GDP</i>	24.2	23.2	25.6

Source: Department of Treasury and BPNG

## 1.9 RISKS TO THE MID YEAR ECONOMIC AND FISCAL OUTLOOK

On balance the risks to the PNG economy are modest as the internal drivers for growth continue to dominate the external factors. However, the risks to the Government's fiscal position have intensified over the first half of 2012. These risks include:-

- Uncertainty in global economic recovery and commodity price volatility;
- Strong Appreciation in the Kina against other countries currencies throughout 2012;
- Loss of fiscal discipline due to low revenues, expenditures maintained at 2012 Budget with increased additional expenditure pressures; and
- Disruptions to the PNG LNG project construction progress and other major mines.

At present, the PNG economy continues to grow due to domestic factors in spite of the uncertainty in the World Economy. However, due to external factors and the high exchange rate, the Government's Fiscal position has weakened with lower Government revenues. Despite this, its expenditures have been maintained as per the 2012 Budget and over expenditure is expected in Personnel Emoluments. This is expected to result in a budget deficit of about K513.1 million. At the same time, Government Trust Accounts held within the banking system are being depleted.

At a time of booming economic growth, strong underlying Government expenditures and strong underlying domestic inflationary pressures, the usual approach for fiscal policy in such times would be for a fiscal surplus. The 2012 represents the type of year when savings should be made so that more can be spent in 2013 and 2014 (when current forecasts indicate that revenues will be weak).

The immediate challenge for the Government is to maintain fiscal discipline throughout the second half of 2012, as well as making tough decisions addressing the projected budget deficit. There will be a need for finding offsetting savings in 2012 to wind back this deficit – with the most logical approach being the deferral of some proposed projects through the Development Budget.

The forward estimates of revenue and expenditure in this report incorporate assumptions and judgments based on information available at the time of the publication. Due to the unpredictable nature of economic events, some degree of uncertainty is attached to the estimates of both revenue and expenditure for 2012.

## **1.10 2012 AND BEYOND**

The revised economic and fiscal forecasts for 2012 and the commodity price assumptions that underlie them will impact on 2012 and beyond. Economic and fiscal projections for the period 2012 to 2017 will be updated at 2013 Budget. These projections will incorporate updated forecasts and decisions taken by the Government concerning the 2013 Budget Strategy Paper (BSP).



## 1.11 FISCAL OUTTURN TABLES

TABLE 1: CENTRAL GOVERNMENT REVENUE (KINA MILLION)

	2011 Actual	2012 Budget	2012 Revised	2012 MYEFO	Increase/ Decrease	June Outturn	% of Budget
<b>A. TAX REVENUE</b>	<b>7,904.2</b>	<b>8,519.7</b>	<b>8,519.7</b>	<b>8,178.2</b>	<b>-341.5</b>	<b>3,635.6</b>	<b>42.7</b>
<b>A1. TAX ON INCOME AND PROFITS</b>	<b>6,144.1</b>	<b>6,543.0</b>	<b>6,543.0</b>	<b>6,054.1</b>	<b>-489.0</b>	<b>2,518.4</b>	<b>38.5</b>
Personal Income Tax	2,158.8	2,417.4	2,417.4	2,471.4	54.0	1,288.3	53.3
Company Tax	1,543.4	1,692.1	1,692.1	1,762.1	70.0	647.2	38.3
Dividend Withholding Tax	290.7	282.1	282.1	198.7	-83.4	57.7	20.4
Interest Withholding Tax	40.4	45.5	45.5	49.2	3.7	26.6	58.5
Mining and Petroleum Taxes	1,903.2	1,872.1	1,872.1	1,326.3	-545.8	389.3	20.8
Gaming Tax	111.3	122.1	122.1	129.3	7.1	60.9	49.9
Other: Direct	96.3	111.7	111.7	117.1	5.4	48.4	43.3
<b>A2. DOM. TAXES ON GOODS AND SERVICES</b>	<b>1,040.8</b>	<b>1,256.4</b>	<b>1,256.4</b>	<b>1,370.0</b>	<b>113.6</b>	<b>756.6</b>	<b>60.2</b>
Excise	509.6	704.3	704.3	600.4	-103.9	204.9	29.1
GST	525.5	545.3	545.3	762.9	217.6	550.0	100.9
Other: Indirect	5.7	6.8	6.8	6.6	-0.2	1.7	25.5
<b>A3. TAXES ON INTERNATIONAL TRADE</b>	<b>719.3</b>	<b>720.3</b>	<b>720.3</b>	<b>754.2</b>	<b>33.8</b>	<b>360.6</b>	<b>50.1</b>
Import Duty	281.3	223.3	223.3	234.9	11.5	109.1	48.9
Export Duty	210.6	215.6	215.6	206.1	-9.5	97.4	45.2
Excise duties on Imports	227.4	281.4	281.4	313.2	31.8	154.1	54.8
<b>B. NON-TAX REVENUE</b>	<b>350.3</b>	<b>520.1</b>	<b>520.1</b>	<b>469.1</b>	<b>-51.0</b>	<b>218.0</b>	<b>41.9</b>
<b>B1. PROPERTY INCOME</b>	<b>239.7</b>	<b>258.0</b>	<b>258.0</b>	<b>217.1</b>	<b>-40.9</b>	<b>180.1</b>	<b>69.8</b>
Dividends	49.0	70.0	70.0	77.0	7.0	50.0	71.4
Mining and Petroleum Dividends	190.7	188.0	188.0	140.1	-47.9	130.1	69.2
<b>B2. INTEREST AND FEES FROM LENDING</b>	<b>12.8</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.7</b>
<b>B3. OTHER NON TAX REVENUE</b>	<b>97.8</b>	<b>130.1</b>	<b>130.1</b>	<b>120.0</b>	<b>-10.1</b>	<b>37.9</b>	<b>29.1</b>
<b>B4. ASSETS SALES</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>B5. Injections from Trust</b>	<b>0.0</b>	<b>128.0</b>	<b>128.0</b>	<b>128.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>C. TOTAL REVENUE</b>	<b>8,254.5</b>	<b>9,039.8</b>	<b>9,039.8</b>	<b>8,647.3</b>	<b>-392.5</b>	<b>3,853.6</b>	
% of GDP	27.0	26.8	26.8	25.6	-1.2	11.4	
<b>D. INFRASTRUCTURE TAX CREDIT</b>	<b>25.4</b>	<b>130.0</b>	<b>130.0</b>	<b>130.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>E. GRANTS</b>	<b>1,025.0</b>	<b>1,390.5</b>	<b>1,390.5</b>	<b>1,390.5</b>	<b>0.0</b>	<b>162.9</b>	<b>11.7</b>
Budgetary Support	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project Grants	1,025.0	1,390.5	1,390.5	1,390.5	0.0	162.9	11.7
<b>F. TOTAL REVENUE AND GRANTS</b>	<b>9,304.9</b>	<b>10,560.3</b>	<b>10,560.3</b>	<b>10,167.8</b>	<b>-392.5</b>	<b>4,016.5</b>	<b>38.0</b>
As % of GDP	30.4	31.3	31.3	30.2	-1.2	11.9	
<b>G. PRINCIPAL RECEIPTS FROM LENDING</b>	<b>7.1</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>0.0</b>	<b>1.4</b>	<b>35.3</b>
<b>H. GROSS BORROWING</b>	<b>3,913.1</b>	<b>2,360.3</b>	<b>2,360.3</b>	<b>4,354.0</b>	<b>1,993.7</b>	<b>2,492.6</b>	<b>105.6</b>
<b>I. ASSET SALES</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>J. TOTAL RECEIPTS</b>	<b>13,225.1</b>	<b>12,924.6</b>	<b>12,924.6</b>	<b>14,525.8</b>	<b>1,601.2</b>	<b>5,256.1</b>	<b>40.7</b>
As % of GDP	43.2	38.3	38.3	43.1	4.7	15.6	

Source: Department of Treasury

**TABLE 2: CENTRAL GOVERNMENT EXPENDITURE AND NET LENDING (KINA MILLION)**

	2011 Actual	2012 Budget	2012 Revised	2012 MYEFO	Increase/ Decrease	June Outturn	% of Budget
<b>1 RECURRENT BUDGET</b>							
<b>A. NATIONAL DEPARTMENTS</b>	<b>3,338.9</b>	<b>3,998.3</b>	<b>3,964.7</b>	<b>3,988.1</b>	<b>-10.2</b>	<b>1,617.6</b>	<b>40.8</b>
Personnel Emoluments	1,309.0	1,463.4	1,354.3	1,377.7	-85.7	570.1	42.1
<b>Total Goods &amp; Services</b>	<b>2,029.9</b>	<b>2,534.9</b>	<b>2,610.4</b>	<b>2,610.4</b>	<b>75.5</b>	<b>1,047.5</b>	<b>40.1</b>
General Goods & Services	1,791.5	2,146.1	2,221.7	2,221.7	75.5	955.2	43.0
Education Subsidies	171.8	302.0	302.0	302.0	0.0	0.0	0.0
SAP Payments	5.8	26.8	26.8	26.8	0.0	26.8	100.0
Court Orders	60.8	60.0	60.0	60.0	0.0	65.5	109.2
<b>B. PROVINCIAL GOVERNMENTS</b>	<b>1,228.1</b>	<b>1,225.9</b>	<b>1,225.0</b>	<b>1,323.8</b>	<b>97.8</b>	<b>653.4</b>	<b>53.3</b>
<b>Personnel Emoluments</b>	<b>977.0</b>	<b>914.3</b>	<b>913.3</b>	<b>1,012.1</b>	<b>97.8</b>	<b>505.9</b>	<b>55.4</b>
Staffing Grants	297.2	307.9	306.1	340.0	32.2	155.5	50.8
Teachers Salaries	679.8	606.5	607.2	672.1	65.6	350.4	57.7
<b>Goods &amp; Other Services</b>	<b>251.1</b>	<b>311.6</b>	<b>311.6</b>	<b>311.6</b>	<b>0.0</b>	<b>147.5</b>	<b>47.3</b>
Administration Grants	26.7	33.9	10.7	10.7	-23.2	5.1	47.8
Health Function Grant	51.3	64.4	64.4	64.4	0.0	30.8	47.9
Education Subsidies	46.0	59.5	59.5	59.5	0.0	29.1	48.9
Primary production Function grant	16.7	20.6	20.6	20.6	0.0	10.1	49.1
Trans/Infra/Maint. Grants	61.1	79.4	79.4	79.4	0.0	38.1	48.0
Local & Village Services Grants	43.5	37.0	46.7	46.7	9.7	21.3	45.6
Town & Urban Services Grants	3.5	13.2	3.7	3.7	-9.5	0.0	0.0
Village Courts	2.3	3.6	3.6	3.6	0.0	1.7	47.7
Other Service Delivery Function Grant	0.0	0.0	23.2	23.2	23.2	11.3	48.7
<b>C. AUTONOMOUS BOUGAINVILLE GOVT</b>	<b>62.5</b>	<b>78.4</b>	<b>78.5</b>	<b>78.5</b>	<b>0.1</b>	<b>42.0</b>	<b>53.6</b>
<b>Personnel Emoluments</b>	<b>52.9</b>	<b>56.1</b>	<b>56.2</b>	<b>56.2</b>	<b>0.1</b>	<b>28.1</b>	<b>50.0</b>
Staffing Grants	13.9	17.8	17.8	17.8	0.0	8.2	46.1
Teachers Salaries	39.0	38.4	38.4	38.4	0.0	19.9	51.8
<b>Goods &amp; Services</b>	<b>9.6</b>	<b>22.3</b>	<b>22.3</b>	<b>22.3</b>	<b>0.0</b>	<b>13.9</b>	<b>62.5</b>
Police Grant	2.6	2.8	2.8	2.8	0.0	1.8	62.4
Recurrent	4.7	19.1	19.1	19.1	0.0	12.0	62.5
Conditional Grant	2.3	0.3	0.3	0.3	0.0	0.2	66.9
<b>D. TRANSFERS &amp; LOANS TO C.S.A</b>	<b>300.9</b>	<b>360.7</b>	<b>387.9</b>	<b>387.9</b>	<b>27.2</b>	<b>203.4</b>	<b>52.4</b>
<b>E. INTEREST PAYMENT &amp; FEES</b>	<b>416.3</b>	<b>459.9</b>	<b>461.3</b>	<b>459.8</b>	<b>-0.1</b>	<b>225.1</b>	<b>48.8</b>
Domestic	352.5	409.1	410.1	409.1	0.0	207.6	50.6
External	63.8	50.7	51.2	50.7	0.0	17.5	34.2
<b>NET LENDING TO C.S.A</b>	<b>-7.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Gross Lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Less : Loan Repayments	-7.1	0.0	0.0	0.0	0.0	0.0	0.0
<b>F. RECURRENT EXPENDITURE</b>	<b>5,339.6</b>	<b>6,123.2</b>	<b>6,117.3</b>	<b>6,238.0</b>	<b>114.8</b>	<b>2,741.5</b>	<b>44.8</b>
As % of GDP	17.4	18.2	18.1	18.5	0.3	8.1	
<b>2 DEVELOPMENT BUDGET</b>							
Domestic Funds	1,985.8	2,437.2	2,443.1	2,443.1	5.9	1,123.0	46.0
Project Grants	1,025.0	1,390.5	1,390.5	1,390.5	0.0	162.9	11.7
Infrastructure Tax Credits	25.4	130.0	130.0	130.0	0.0	0.0	0.0
Concessional loans	213.0	479.4	479.4	479.4	0.0	145.4	30.3
Commercial loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>G. TOTAL DEVELOPMENT BUDGET (PIP)</b>	<b>3,249.2</b>	<b>4,437.1</b>	<b>4,443.0</b>	<b>4,443.0</b>	<b>5.9</b>	<b>1,431.3</b>	<b>32.2</b>
As % of GDP	10.6	13.2	13.2	13.2	0.0	4.2	32.2
<b>H. Additional Priority Expenditure</b>	<b>781.8</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>I. TOTAL EXPENDITURE &amp; NET LENDING</b>	<b>9,370.6</b>	<b>10,560.3</b>	<b>10,560.3</b>	<b>10,681.0</b>	<b>120.7</b>	<b>4,172.8</b>	<b>39.5</b>
As % of GDP	30.6	31.3	31.3	31.7	0.4	12.4	
<b>J. AMORTISATION</b>	<b>2,911.5</b>	<b>1,660.3</b>	<b>1,660.3</b>	<b>3,140.9</b>	<b>1,480.6</b>	<b>1,424.0</b>	<b>85.8</b>
Domestic	2,724.2	1,472.0	1,472.0	2,986.2	1,514.2	1,363.0	92.6
External	187.3	188.3	188.3	154.7	-33.6	61.0	32.4
<b>K. LOAN REPAYMENTS</b>	<b>7.1</b>	<b>4.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-4.0</b>	<b>0.0</b>	<b>0.0</b>
<b>L. EQUITY PURCHASE</b>		<b>900.0</b>	<b>900.0</b>	<b>900.0</b>	<b>0.0</b>	<b>620.0</b>	<b>68.9</b>
<b>M. TOTAL PAYMENTS</b>	<b>12,289.1</b>	<b>13,124.6</b>	<b>13,120.6</b>	<b>14,721.9</b>	<b>1,597.3</b>	<b>6,216.8</b>	<b>47.4</b>
As % of GDP	40.2	38.9	38.9	43.7	4.7	18.4	

Source: Department of Treasury

**TABLE 3: CENTRAL GOVERNMENT FINANCING (KINA MILLION)**

	2011 Actual	2012 Budget	2012 Revised	2012 MYEFO	Increase/ Decrease	June Outturn	% of Budget
<b>A. TOTAL REVENUE AND GRANTS</b>	<b>9,304.9</b>	<b>10,560.3</b>	<b>10,560</b>	<b>10,167.8</b>	<b>-392.5</b>	<b>4,016.5</b>	<b>38.0</b>
<b>B. TOTAL EXPENDITURE AND NET LENDING</b>	<b>9,370.6</b>	<b>10,560.3</b>	<b>10,560</b>	<b>10,681.0</b>	<b>120.7</b>	<b>4,172.8</b>	<b>39.5</b>
<b>C. DEFICIT (-) / SURPLUS (+)</b>	<b>-65.7</b>	<b>0.0</b>	<b>0.0</b>	<b>-513.1</b>	<b>-513.1</b>	<b>-156.3</b>	<b>0.0</b>
% of GDP	-0.2	0.0	0.0	-1.5	-1.5	-0.5	
<b>D. FISCAL FINANCING</b>							
<b>D1. NET EXTERNAL FINANCING</b>	<b>25.7</b>	<b>291.2</b>	<b>291.2</b>	<b>324.7</b>	<b>33.6</b>	<b>84.4</b>	<b>29.0</b>
<b>D2. CONCESSIONAL FINANCING</b>	<b>88.9</b>	<b>351.1</b>	<b>351.1</b>	<b>369.1</b>	<b>18.0</b>	<b>92.4</b>	<b>26.3</b>
New Borrowing	213.0	479.4	479.4	479.4	0.0	145.4	30.3
Less Amortisation	-124.1	-128.3	-128.3	-110.3	18.0	-53.0	41.3
<b>D3. COMMERCIAL FINANCING</b>	<b>-19.4</b>	<b>-18.3</b>	<b>-18.3</b>	<b>-8.0</b>	<b>10.3</b>	<b>0.0</b>	<b>0.0</b>
New Borrowing	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Less Amortisation	-19.4	-18.3	-18.3	-8.0	10.3	0.0	0.0
<b>D4. EXTERNAL EXTRAORDINARY FINANCING</b>	<b>-43.8</b>	<b>-41.7</b>	<b>-41.7</b>	<b>-36.4</b>	<b>5.3</b>	<b>-8.0</b>	<b>19.2</b>
New Borrowing	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Less Amortisation	-43.8	-41.7	-41.7	-36.4	5.3	-8.0	19.2
<b>E. NET DOMESTIC FINANCING</b>	<b>40.0</b>	<b>-291.2</b>	<b>-291.2</b>	<b>188.4</b>	<b>479.6</b>	<b>71.9</b>	<b>-24.7</b>
<b>E1. DOMESTIC MARKET BORROWING</b>	<b>775.9</b>	<b>-291.2</b>	<b>-291.2</b>	<b>188.4</b>	<b>479.6</b>	<b>564.2</b>	<b>-193.8</b>
New Borrowing	3,500.1	1,180.8	1,180.8	3,174.5	1,993.7	1,927.2	163.2
Less Amortisation	-2,724.2	-1,472.0	-1,472.0	-2,986.2	-1,514.2	-1,363.0	92.6
<b>E2. OTHER DOMESTIC FINANCING</b>	<b>-735.9</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-492.3</b>	<b>0.0</b>
<b>E3. ASSET SALES FINANCING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>F. NET FISCAL FINANCING</b>	<b>65.7</b>	<b>0.0</b>	<b>0.0</b>	<b>513.1</b>	<b>513.1</b>	<b>156.3</b>	<b>0.0</b>
<b>G. INVESTMENT FINANCING</b>	<b>0.0</b>	<b>900.0</b>	<b>900.0</b>	<b>900.0</b>	<b>0.0</b>	<b>620.0</b>	<b>68.9</b>
DOMESTIC MARKET BORROWING	200.0	700.0	700.0	700.0	0.0	420.0	60.0
Change in cash balances	-200.0	200.0	200.0	200.0	0.0	200.0	100.0
<b>H. TOTAL FINANCING</b>	<b>65.7</b>	<b>900.0</b>	<b>900.0</b>	<b>1,413.1</b>	<b>513.1</b>	<b>776.3</b>	<b>86.3</b>
% of GDP	0.2	2.7	2.7	4.2	1.5	2.3	
<b>I. GROSS BORROWING</b>	<b>3,913.1</b>	<b>2,360.3</b>	<b>2,360.3</b>	<b>4,354.0</b>	<b>1,993.7</b>	<b>2,492.6</b>	<b>105.6</b>
Domestic	3,700.1	1,880.8	1,880.8	3,874.5	1,993.7	2,347.2	124.8
External	213.0	479.4	479.4	479.4	0.0	145.4	30.3
Concessional	213.0	479.4	479.4	479.4	0.0	145.4	30.3
Commercial	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Extraordinary	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>J. GROSS AMORTIZATION</b>	<b>2,911.5</b>	<b>1,660.3</b>	<b>1,660.3</b>	<b>3,140.9</b>	<b>1,480.6</b>	<b>1,424.0</b>	<b>85.8</b>
Domestic	2,724.2	1,472.0	1,472.0	2,986.2	1,514.2	1,363.0	92.6
External	187.3	188.3	188.3	154.7	-33.6	61.0	32.4
Concessional	124.1	128.3	128.3	110.3	-18.0	53.0	41.3
Commercial	19.4	18.3	18.3	8.0	-10.3	0.0	0.0
Extraordinary	43.8	41.7	41.7	36.4	-5.3	8.0	19.2

Source: Department of Treasury

# PART 2

## MID YEAR EXPENDITURE ESTIMATES BY AGENCY

### 2.1 FUNDED EXPENDITURE SINCE THE 2012 BUDGET

Following the commencement of the 2012 Budget, the Government has approved a number of new spending proposals. This expenditure has been funded through Section 3 of the Appropriations Acts which provides K30 million for such proposals through the Secretary's Advance. By 31 May 2012, proposals totaling K29.9 million had been approved (Table 9).

Since the majority of the Secretary's Advance has been committed, the budget is vulnerable to unforeseen pressures throughout the remainder of the year. This will lead to pressures compounding in successive budgets. For the remainder of 2012 new spending proposals will need to be met by reductions in other appropriations, which may result in reductions in funding for service delivery.

Section 4 of the 2012 Budget Appropriation Acts also provide for the reallocation of appropriations between activities. In July 2012, K17 million was reallocated to activities in support of the 2012 National Elections.

**Table 9: Funded Recurrent Expenditure Decisions since the 2012 Budget (Kina, million)**

Department Name	Amount Transferred	Explanation
Prime Minister and NEC	2,000,000	To assist the Commission of Inquiry to complete its investigation into the Special Agriculture Business lease (SABL) in 5 provinces (NEC approved K3 million overall, K1 million was released in November, 2011. The remaining balance of K2 million is now released).
Prime Minister and NEC	2,200,000	Transfer to the Office of the Prime Minister due to shortfall in item 144 and 222 as requested by the Prime Minister
Planning and Monitoring	1,000,000	To cover K1 million oversight. The CIMC Project was not catered for under the 2012 Budget.
Treasury	74,300	Funding transferred for the wages for the Ministerial Sectoral Committee. Funding was erroneously omitted during the budget process.
Trade and Industry	3,000,000	Transfer of funds to Office of Cooperative Societies PNG for the Development Budget which was missed out in the 2012 National Budget.
Finance and Treasury Misc	5,000,000	To settle Mainini Landslip Compensation - Ministerial Commitments as approved by Secretary-Treasury
Office of Rural Development	300,000	Additional funding to Department of Implementation and Rural Development for Minister's Office, due to late submission of the "determination" for the Ministry of Implementation and Rural Development no budget estimates were forwarded for the Division.
UPNG	5,000,000	Funds allocated in the 2011 Supplementary Budget for the UPNG Student Representative Council Computer Project
Treasury	26,700	Transfer of the funds to cater for the overtime for the Police officers who provided security for Hon. Don Polye, MP
Attorney General	3,000,000	Funds appropriated to ensure the Task Force Sweep properly performs its duties.

Prime Minister and NEC	60,000	Transfer to cater for expense incurred by the Department for hire cars and accommodation during the LNG Landowner issues.
Police	4,000,000	Funds to cater for Police and Defence Special Law and Order operation in East Sepik Province.
Foreign Affairs	1,000,000	To cater for PNG/Australia/New Zealand Bilateral obligations and NEC Directives of the PNG Government for seasonal workers.
Office of Rural Development	1,267,300	Additional funds to cater for outstanding contract payments under the District Development Projects.
Prime Minister and NEC	1,000,000	To cater for final circuit in Madang and Morobe Provinces for Special Agricultural Business Lease (SABL).
Finance and Treasury Misc	194,600	To cater for payment to Deloitte for services, as Fund Manager for the HIES Project in 2011.
Personnel Management	21,900	Funds to cater for farewell dinner for 2012 Pacific Human Resource Managers Network Conference - Port Moresby.
National Intelligence Organisation	489,400	Funds to assist the National Intelligence Organisation for the 2012 National Elections.
Treasury	60,000	Transfer to cater for expense incurred by the Department for hire cars and accommodation during the LNG Landowner issues.
Governor-General	176,000	To cater for Governor General's security personnel overtime.
Foreign Affairs	50,000	To purchase a gift for Samoa's 50th Independence Anniversary.
<b>Total</b>	<b>29,920,200</b>	

Source: Department of Treasury

## 2.2 2012 BUDGET EXECUTION

The 2012 Budget provided increased funding for the implementation of key Government priorities such as Tuition Fee Free Education, establishing national road transport corridors, improving law and order, improved health outcomes and other MTDP enablers. To support the successful implementation of these policies the Government has sought to release funding in a responsible and efficient manner to give agencies the best opportunity to deliver services.

By 30 June 2012, K3,698.3 million had been released for the ordinary operations of Government. This represents 60.3 per cent of the total Recurrent Budget. Total expenditure to 30 June 2012 was K2,741.5 million (74.1 per cent of total warrants released). The variance between warrants and expenditure largely represents delays in spending related to the Tuition Fee Free program, which is currently funded through a trust established in the 2011 Supplementary Budget. These funds will be expended in the remaining months of 2012.

**Table 10: Total Recurrent Expenditure by Agency (Kina, million)**

	2012 Budget	2012 Revised	June Outturn	Pro Rata Expenses	Variance
<i>National Dept</i>	3,998.3	3,964.7	1,617.6	1,982.4	729.4
<i>Provinces</i>	1,304.3	1,303.4	695.3	651.7	-87.2
<i>Statutory Auth</i>	360.7	387.9	203.4	193.9	-18.9
<i>Debt Interest and Charges</i>	459.9	461.3	225.1	230.7	11.1
<b>Total</b>	<b>6,123.2</b>	<b>6,117.3</b>	<b>2,741.5</b>	<b>3,058.7</b>	<b>634.4</b>

Note 1: Debt Interest & Charge in the IFMS System totals K461.3 million inclusive of penalty fees whilst appropriation excludes penalty fees and charges

Note 2: Positive number represent represents an underspend

## Medium Term Development Plan (MTDP) Enablers

The 2012 Recurrent Budget increased funding for Medium Term Development Plan enablers. The MTDP enablers most relevant to the Recurrent Budget are primarily focused on improving law and order, improving health, education and transport. Additionally, the Recurrent Budget also provides funding for other activities which do not fit easily within the Medium Term Development Plan key enablers.

Table 11 identifies expenditure by MTDP enablers to 30 June 2012 against revised appropriation.

**Table 11: Recurrent Expenditure by MTDP Enablers (Kina, million)**

	2012 Budget	2012 Revised	Total Expenses to 30 June 2012	Pro Rata Expenses	Overspend/ Underspend
<b>MTDP Enablers</b>					
Education	1,347.6	1,361.1	539.9	680.6	281.3
Health	712.4	710.5	299.9	355.3	110.7
Law and Order	689.6	874.1	449.7	437.1	-25.3
Transport	281.4	281.4	124.9	140.7	31.5
<b>Subtotal</b>	<b>3,031.1</b>	<b>3,227.1</b>	<b>1,414.4</b>	<b>1,613.5</b>	<b>398.3</b>
<b>Non MTDP spending</b>					
Provinces	442.4	442.4	220.3	221.2	4.8
Agriculture and Small Business	88.0	102.0	66.3	51.0	-30.6
Division 207	1,271.5	778.8	358.0	389.4	62.8
Debt	459.8	459.8	225.1	230.7	9.6
Other	830.5	1,106.7	457.5	553.6	192.2
<b>Subtotal</b>	<b>3,093.6</b>	<b>2,891.3</b>	<b>1,254.6</b>	<b>1,445.6</b>	<b>238.8</b>
<b>Total</b>	<b>6,123.2</b>	<b>6,117.3</b>	<b>2,669.0</b>	<b>3,059.2</b>	<b>780.3</b>

Note:

Pro rata represents 50 per cent of the Revised Appropriation.

Expenditure against the Education enabler is driven by Personnel Emoluments expenses for teachers in the Provinces and funding for Tuition Fee Free Education. To date, the Department of Education has decided to use funding provided in the 2011 Supplementary Budget to meet expenses associated with the Tuition Fee Free Education, consequently expenses for this activity in 2012 are lower than anticipated. It is expected that the appropriation will be fully expended in 2012.

Expenditure for the Health Enabler is largely driven by Personnel Emoluments expenses, primarily for the staff of the Hospital Management Service (Division 241). Expenditure to 30 June 2012 is slightly more than 50 per cent of available appropriations which might indicate a potential for an overspend by the end of 2012.

In 2012 expenditure for the **Law and Order** enabler is influenced by the National Elections. Defence, Police and Correctional Services all received additional funding to support the elections. This additional funding was held in Division 207 at the Budget and released in the first quarter of the year to allow the agencies to purchase new equipment and to pay allowances. Consequently, expenditure on this enabler is in excess of a 50 per cent pro rata but will not be repeated in the remainder of the year.

Expenditure for the **Transport** enabler is strongly influenced by the performance of the Department of Works. To 30 June 2012, the Department of Works has spent less than 33.8 per cent of its Recurrent Budget appropriations. This reflects known capacity constraints such as the number of contractors available to the Department which has delayed activities and consequently slowed expenditure.

### Personnel Emoluments Expenditure

Personnel Emoluments is comprised of salaries and allowances, wages, overtime, leave fares, superannuation contributions, superannuation pay outs, and contract gratuities. The 2012 Budget Personnel Emoluments was set at K2,326.5 million compared to previous years. This reflects costs associated with new wages agreements for public servants (Table 12).

In previous years inadequate controls on the payroll system have been identified as a cause of overspending by agencies and the government has agreed to remedial action. However, sufficient corrective action has not been taken by the responsible agencies. If current expenditure trends continue, expenditure on Personnel Emoluments will again exceed appropriation.

**Table 12: Personnel Emoluments Expenditure to 30 June 2012 by Account Type (Kina, million)**

Account Type	2012 Budget	2012 Revised	Total Expenses to 30 June 2012	Pro Rata Expenses	Overspend/ Underspend
<b>Personnel Emoluments</b>					
<i>111 - Salaries and Allowances</i>	1,809.8	1,805.7	950.3	902.8	-94.9
<i>112 - Wages</i>	107.9	113.0	46.1	56.5	20.9
<i>113 - Overtime</i>	8.9	11.2	8.7	5.6	-6.2
<i>114 - Leave Fares</i>	98.3	99.9	38.0	50.0	24.0
<i>116 - Contract officers Education Benefits</i>	6.5	6.1	2.6	3.0	0.9
<i>141 - Retirement Benefits, Pensions, Gratuities and Retrenchment (See Note 2)</i>	295.1	288.9	58.4	144.4	172.1
<b>Total</b>	<b>2,326.5</b>	<b>2,324.8</b>	<b>1,104.0</b>	<b>1,162.4</b>	<b>116.8</b>

Note: Prorata represents 50 per cent of the Revised Appropriation. Over/Under spend is the difference between Revised Appropriation and Potential full year Expenses. A positive number represents an under spend. (2) Underspending on Item 141 is unlikely as payments for superannuation and retrenchments etc will be made in the second half of 2012, significantly increasing full year expenses. This primarily affects Division 207

As a group, National Department expenditure is slightly below a 50 per cent pro rata of the revised annual appropriation. Estimating National Department Personnel Emolument expenditure for 2012 is complicated due to the timing and release of related Division 207 funds, which include retirement benefits, retrenchment and pension payments. Considering actual expenditure reported in the 2011 Final Budget Outcome (released March 2012), and correcting for Division 207 impacts, it is estimated that National Departments will have a net overspend of around K23.4 million by year's end. Combined with Provincial PE estimated overspend of K97.3 million, a year end total recurrent PE expenditure overspend of K120.7 million is anticipated (Table 13). Historically the rate or expenditure on PE tends to rise over the course of the year. Significant changes in behaviour or the introduction of robust expenditure controls will be required to stop agencies spending in excess of their PE appropriation.

**Table 13: Personnel Emoluments Expenditure to 30 June 2012 by Agency (Kina, million)**

	2012 Original Appropriation	2012 Revised Appropriation	Total Expenses to 30 June 2012	Pro Rata Expenses	Overspend/ Underspend
<i>National Dept</i>	1,356.0	1,354.3	570.1	677.2	-23.4
<i>Provinces</i>	970.5	970.5	533.9	485.2	-97.3
<b>Total</b>	<b>2,326.5</b>	<b>2,324.8</b>	<b>1,104.0</b>	<b>1,162.4</b>	<b>-120.7</b>

Note: Pro rata represents 50 per cent of the Revised Appropriation.

Table 14 identifies Provinces which might potentially overspend.

**Table 14: Provinces Potentially to Overspend (Kina, million)**

Div	Provincial Governments	2012 Budget	2012 Revised	Total Expenses to 30 June 2012	Warrants Issued	Pro Rata Expenses	Overspend/ Overspend
571	Western Prov Gov't	38.7	38.7	19.9	23.6	19.3	-1.2
572	Gulf Prov Gov't	23.5	23.5	11.3	14.4	11.7	0.8
573	Central Prov Gov't	48.6	48.6	25	11.9	24.3	-1.5
574	NCDC	0.2	0.2	-	0.1	0.1	0.2
575	Milne Bay Prov Gov't	44.5	44.5	23.2	12.4	22.3	-2
576	Oro Prov Gov't	26.7	26.7	14.4	16.3	13.4	-2
577	SHP	73.3	73.3	52.2	40.9	36.6	-31
578	Enga Prov Gov't	45.5	45.5	30.4	25.4	22.7	-15.3
579	WHP Gov't	71.9	71.9	42.3	40.1	36	-12.6
580	SimbuProv Gov't	57	57	29	31.7	28.5	-1
581	EHP Gov't	63.3	63.3	34.4	35.3	31.6	-5.4
582	Morobe Prov Gov't	85.9	85.9	48.7	52.5	42.9	-11.4
583	Madang Prov Gov't	57.2	57.2	34.4	13.3	28.6	-11.6



584	East Sepik Prov Gov't	59.7	59.7	33.5	13.9	29.8	-7.4
585	Sandaun Prov Gov't	46.9	46.9	19.6	10.9	23.4	7.6
586	Manus Prov Gov't	25.7	25.7	11.2	14.3	12.8	3.2
587	NIP Gov't	36.8	36.8	18.2	20.5	18.4	0.5
588	ENB Prov Gov't	63.5	63.5	32.8	35.4	31.7	-2.2
589	WNB Prov Gov't	45.6	45.6	25.4	25.7	22.8	-5.2
590	ABG	56.1	56.1	28	31.3	28.1	0.1
<b>Total</b>		<b>970.5</b>	<b>970.5</b>	<b>533.9</b>	<b>470.1</b>	<b>485.2</b>	<b>-97.3</b>

Note: Potential Full Year Expenses assumes spending continues unchanged. Potential Overspend represents the Potential Full Year Expenses less the revise 2012 Appropriation.

### Goods and Services Expenditure

The 2012 Goods and Services budget was increased by K646.2 million from 2011 funding levels in which it represented an increase of 27.2 per cent. In the first half of the year, total recurrent expenditure on goods and services amounted to K1,629.3 million of which National Departments recorded K1,047.5 million, Provinces K161.4 million and Statutory Authorities K203.4 million. Expenditure on Goods and Services is largely consistent with a 50 per cent pro rata of the revised annual appropriation.

**Table 15: Goods and Services Expenditure by Agency (Kina, million)**

	2012 Budget	2012 Revised	Total Expenses to 30 June 2012	Pro Rata Expenses	Overspend/ Underspend
<i>National Dept</i>	2,642.2	2,610.4	1,047.5	1,305.2	515.4
<i>Provinces</i>	333.9	333.9	161.4	166.9	11.0
<i>Statutory Auth</i>	360.7	387.9	203.4	193.9	-18.9
<b>Total</b>	<b>3,336.8</b>	<b>3,332.2</b>	<b>1,629.3</b>	<b>1,666.1</b>	<b>507.4</b>

Note: Pro rata represents 50 per cent of the Revised Appropriation. Over/Under spend is the difference between Revised Appropriation and Potential full year Expenses. A positive number represents an under spend.

Expenditure by account type is detailed in Table 16. The table indicates that expenditure for most Goods and Services item is close to pro rata. However, due to the 2012 National Elections, spending on Fuel and Transport, and Other Operational Expenses are in excess of pro rata. It is anticipated that all appropriations will be spent by the end of 2012.

**Table 16: Goods and Service Expenditure by Account Type (Kina, million)**

Div	Account Type	2012 Budget	2012 Revised	Total Expenses to 30 June 2012	Pro Rata Expenses	Overspend/ Underspend
121	Travel & Subsistence	63.1	75.2	29.6	37.6	16.0
122	Utilities	169.1	168.5	73.5	84.2	21.4
123	Office Mat & Supplies	16.2	16.7	5.6	8.3	5.5
124	Ops Mat & Supplies	215.2	227.6	67.1	113.8	93.3
125	Transport and Fuel	52.8	71.4	36.6	35.7	-1.8
126	Admin Consult Fees	16.5	19.3	5.2	9.7	9.0
127	Rentals of Property	215.1	218.2	108.9	109.1	0.5
128	Routine Maintenance	135.6	135.8	51.1	67.9	33.6

135	Other Ops Expenses	848.5	698.2	322.4	349.1	53.4
136	Training	25.9	28.4	10.7	14.2	6.9
142	Membership Fees & Contribution	10.0	9.8	3.5	4.9	2.8
143	Grants & Transf to Pub Auth	1457.7	1469.8	635.8	734.9	198.1
144	Grants to Individuals & Non-Profit Org	0.2	41.0	15.5	20.5	10.0
211	Acquisition of Lands, Buildings & Intangible Assets	13.2	26.2	9.7	13.1	6.8
221	Office Furniture & Equipment	18.5	26.3	7.4	13.1	11.5
222	Purchase of Vehicles	14.0	31.0	18.8	15.5	-6.6
225	Construction Renovation & Improvement	3.9	7.8	5.2	3.9	-2.6
226	Substantial & Specific Maintenance	10.4	12.3	3.8	6.2	4.7
242	Capital Transf to Govt Agencies	0.8	0.8	-	0.4	0.8
	<b>Total</b>	<b>3,336.8</b>	<b>3,332.2</b>	<b>1,412.4</b>	<b>1,666.1</b>	<b>507.4</b>

Note: Pro rata represents 50 per cent of the Revised Appropriation. Over/Under spend is the difference between Revised Appropriation and Potential full year Expenses. A positive number represents an under spend.

### Development Budget

The revised Development Budget was revised up to K4,443.0 million from the 2012 Budget. As at June 30<sup>th</sup> 2012, Development spending warrants released totaled K1,954 million. This was intended to front load funds to ensure fast tracking of the implementation of the Medium Term Development Plan (MTDP) 2011 to 2015. Of these warrants released, actual Domestic Development spending totaled K1,123.9 million or 25 per cent of the revised Budget. Out of the warrants released, K1,303 million was allocated to National Departments, K258 million to Provincial Governments and K392 million to Statutory Authorities.

- Actual Development Budget spending by the National Departments was K524.8 million, which was 40 per cent of the warrants released for the National Departments or 17 per cent of the National Department's Appropriation of K1,455.1 million. Certain Departments have yet to provide their actual expenditure reports, and due to the nature of certain programs taking considerable time to implement, expenditure of these warrants seems to be fairly low.
- The actual spending by the Provinces amounted to K211 million, or 81 per cent of the warrants released for the Provinces or 58 per cent of Provinces 2012 Budget appropriation of K290.8 million.

- The actual spending of the warrants released to Statutory Authorities was K388 million, which was 99 per cent of the warrants released to Statutory Authorities or 39 per cent of the Statutory Authorities' 2012 Budget appropriation of K691.4 million.

The warrants released to date in comparison to the first half of 2011 are higher as a result of the implementation of the second year of the Medium Term Development Plan (MTDP) 2011-2015. Prudent public investment through the Development Budget will ensure the progress of PNG on the development path as outlined by the PNG Development Strategic Plan (PNGDSP) 2010-2030. This is guided by the MTDPs, of which the first MTDP 2011-2015 focuses on investment in the key enablers: higher education, primary and secondary education, law and order, land administration, transport infrastructure, utilities and health. This year's improvement in the allocation and management of the 2012 Development Budget is attributed to the prioritization guidance provided by the MTDP. Once rolled out through alignment of Provincial and Statutory Authorities' corporate and development plans, it makes it possible for effective and equitable allocation of financial resources and implementation.

The implementation of the MTDP drives the 2012 Development Budget such that K2,321 million of the total Development Budget is being allocated to the implementation of the key enablers. The total warrants issued to the implementation of the key enablers is K1,125 million, of which K526 million has been spent.

In terms of implementing the MTDP, particularly with regards to one of the largest MTDP enablers – transport infrastructure, to date K646 million has been released in warrants for its implementation and expansion, of which K268 million has actually been spent. Due to lengthy procedures relating to design, scoping, tendering, and procurement processes involved in implementing the transport rehabilitation and infrastructural projects, only 42 per cent of the warrants released have been spent. However, the warrants released for the improvement of transport infrastructure and maintenance has been 60 per cent of the 2012 Budget appropriation of K1,079 million, which will continue throughout the rest of 2012.

The Energy Infrastructure sector has experienced successful implementation of the warrants released to date with K23 million being spent, or 100 per cent of the warrants released. The Energy Infrastructure sector spending in the first half of 2012 totaled K23 million which is 64 per cent of the Appropriation of K35.7 million.

The Law and Order key enabler has also experienced a high level of actual spend to date, at K58 million, or 84 per cent of the warrants released to date for that enabler. The Law and Order spending in the first half of 2012 totaled K57.6 million which is 28 per cent of the Appropriation of K205.4 million.

Unlocking land will provide an important driver for development and the general improvement of the livelihoods of Papua New Guineans by expanding their income earning capabilities and substantive freedoms to use this important resource for all its multidimensional potential. As part of the 2012 Development Budget implementation to date, K7 million has been invested in this

enabler, or 86 per cent of the warrants released to date. Unlocking land spending in the first half of 2012 totaled K6.9 million which is 38 per cent of the Appropriation of K18.5 million.

**Table 17: Development Expenditures by MTDP Enablers (Kina, thousand)**

Key Enablers	Revised 2012 Development Budget	Warrants issued to 30 <sup>th</sup> June	Actual Expenditure of Warrants released to 30 <sup>th</sup> June
Land	18,500	8,100	6,998
Law, Order and Justice	205,482	116,700	57,603
Transport Rehabilitation and Construction	1,079,181	645,700	268,119
Higher and Technical Education	267,018	107,850	90,710
Primary and Secondary Education	298,009	59,950	5,576
Water	62,072	39,000	38,000
Sanitation	49,370	3,500	3,500
Information & Communication Technology	40,701	24,500	21,000
Energy Infrastructure	35,792	23,000	23,000
Primary Health	265,345	96,200	11,700
<b>TOTAL</b>	<b>2,321,470</b>	<b>1,124,500</b>	<b>526,206</b>

Source: Department of National Planning and Monitoring

## ATTACHMENTS

<b>ATTACHMENT A</b>	<b>SUMMARY OF NATIONAL BUDGET EXPENDITURE</b>
<b>ATTACHMENT B</b>	<b>NATIONAL DEPARTMENTS RECURRENT EXPENDITURE</b>
<b>ATTACHMENT C</b>	<b>PROVINCIAL GOVERNMENTS RECURRENT EXPENDITURE</b>
<b>ATTACHMENT D</b>	<b>STATUTORY AUTHORITIES RECURRENT EXPENDITURE</b>
<b>ATTACHMENT E</b>	<b>NATIONAL DEPARTMENTS PERSONNEL EMOLUMENTS</b>
<b>ATTACHMENT F</b>	<b>PROVINCIAL GOVERNMENTS PERSONNEL EMOLUMENTS</b>
<b>ATTACHMENT G</b>	<b>NATIONAL DEPARTMENTS GOODS AND SERVICES</b>
<b>ATTACHMENT H</b>	<b>PROVINCIAL GOVERNMENTS GOODS AND SERVICES</b>
<b>ATTACHMENT I</b>	<b>STATUTORY AUTHORITIES GOODS AND SERVICES</b>
<b>ATTACHMENT J</b>	<b>NATIONAL DEPARTMENTS DEVELOPMENT BUDGET EXPENDITURE</b>
<b>ATTACHMENT K</b>	<b>PROVINCIAL GOVERNMENTS DEVELOPMENT BUDGET EXPENDITURE</b>
<b>ATTACHMENT L</b>	<b>STATUTORY AUTHORITIES DEVELOPMENT BUDGET EXPENDITURE</b>

Note: In regard to Attachments A-L the following conventions apply:

- (1) Pro rata represents 50 per cent of the Revised Appropriation.
- (2) Over/Under spend is the difference between Revised Appropriation and Potential full year Expenses. A positive number represents an under spend.

## SUMMARY OF NATIONAL BUDGET EXPENDITURE MYEFO 2012 (KINA, MILLION)

	2012 Budget	2012 Revised	Total Expenses to 30 June 2012	Overspend/ Underspend <sup>1</sup>
<b>National Budget</b>	<b>10,560.3</b>	<b>10,560.7</b>	<b>4,172.8</b>	<b>2215.1</b>
<b>Recurrent Budget</b>	<b>6,123.2</b>	<b>6,117.3</b>	<b>2,741.5</b>	<b>634.3</b>
<b>National Departments</b>	<b>3,998.2</b>	<b>3,964.7</b>	<b>1,617.6</b>	<b>729.5</b>
Personnel Emoluments	1,356.0	1,354.3	570.1	214.2
Goods and Services	2,642.2	2,610.4	1,047.5	515.3
<b>Provincial Administrations</b>	<b>1,304.4</b>	<b>1,303.4</b>	<b>695.4</b>	<b>-87.3</b>
Personnel Emoluments	970.5	969.5	533.9	-98.3
Goods and Services	333.9	333.9	161.4	11.0
	-	-	-	
<b>Statutory Authorities</b>	<b>360.7</b>	<b>387.9</b>	<b>203.4</b>	<b>-18.9</b>
<b>Debt Services - Interest Fees and Charges</b>	<b>459.9</b>	<b>461.3</b>	<b>225.1</b>	<b>11.0</b>
<b>Development Budget</b>	<b>4,437.2</b>	<b>4,443.4</b>	<b>1,431.3</b>	<b>1578.9</b>
<b>National Dept</b>	<b>3,030.9</b>	<b>3,072.2</b>	<b>525.6</b>	<b>-</b>
Cash	1,455.1	1,496.4	525.5	-
Non Cash	1,575.8	1,575.8	0.1	-
<b>Provinces</b>	<b>349.0</b>	<b>363.0</b>	<b>210.6</b>	<b>-</b>
Cash	290.8	304.8	210.6	-
Non Cash	58.3	58.3	-	-
<b>Statutory Auth</b>	<b>1,057.3</b>	<b>1,008.2</b>	<b>387.8</b>	<b>-</b>
Cash	691.4	642.3	387.8	-
Non Cash	365.9	365.9	-	-
<b>Project Grants<sup>2</sup></b>	<b>-</b>	<b>-</b>	<b>162.9</b>	<b>-</b>
<b>Concessional Loans</b>	<b>-</b>	<b>-</b>	<b>145.4</b>	<b>-</b>

Note:

<sup>1</sup>Over/Under spend is the difference between Revised Appropriation and Potential full year Expenses. A positive number represents an under spend.

<sup>2</sup>Project Grants and Concessional Loans are incorporated into the 2012 Budget 2012 Revised figures but the total expenses to 30<sup>th</sup> June 2012 are shown separately. This is done as the expenditure is not currently captured in Attachments J, K and L.

## NATIONAL DEPARTMENTS RECURRENT EXPENDITURE MYEFO 2012 (KINA, MILLION)

Div	National Departments	2012 Budget	2012 Revised	Total Expenses to 30 June 2012	Warrants Issued	Overspend/ Underspend
201	National Parliament	114.5	114.5	63	63	-11.4
202	Office of Governor-General	4.7	4.9	3.3	3.2	-1.7
203	Prime Minister & NEC	70.1	110.4	49.5	66.9	11.3
204	National Statistical Office	5.8	5.9	1.8	3	2.3
205	Off. of Bougainville Affairs	2.4	2.4	1.1	1.2	0.2
206	Finance	24.2	24.2	8.1	12.2	8.1
207	Treasury & Finance Misc.	1,271.5	778.8	358	431.3	62.8
208	Treasury	16.2	16.4	6.7	7.7	2.9
209	Reg. For Political Parties	6.8	6.8	3.2	3.3	0.4
211	Customs	32.6	32.6	11.4	17.8	9.8
212	ICTD	19.1	19.1	4.6	9.5	9.8
213	Fire Services	19.9	19.9	7.9	9.9	4.1
215	Immigration	8.7	8.7	5.2	4.4	-1.7
216	IRC	44.3	44.3	12.8	21.8	18.7
217	Foreign Affairs	60	61.5	35	37.5	-8.6
218	Office of the Pub Prosecutor	6.2	6.2	3.2	3.4	-0.3
219	PNG IPA	6.6	6.6	2.9	3.3	0.7
220	Personnel Management	16.3	29.5	6.4	20.1	16.7
221	Public Service Commission	4.8	4.8	2.4	2.5	-0.1
222	Office of Public Solicitor	9.9	9.9	3.6	5	2.6
223	Judiciary Services	73.8	73.8	42.5	37.3	-11.2
224	Magisterial Services	34.8	34.8	21.2	17.6	-7.6
225	Attorney General	40.3	45.3	21.8	25.7	1.7
226	Correctional Institutions	97.3	107	46	59.1	15
227	Provincial Treasuries	36.5	36.5	11.5	19.1	13.5
228	Police	248.4	378.1	202.4	227.1	-26.7
229	Nat. Planning & Monitoring	16.2	17.2	9.4	9	-1.7
230	Electoral Commission	26.2	216.2	61.8	193.1	92.5
231	Nat. Intelligence Org	3.9	4.4	2.9	2.5	-1.3
232	Provincial & Local Govt	14.6	21.6	6.2	13.9	9.1
234	Defence	161.8	201.6	98	115.9	5.5
235	Education	482.2	482.2	54.7	415.5	372.9
236	Higher Education Comm	41.2	49.2	20.5	35.5	8.1
237	Office of UNESCO	2	2	0.6	1	0.8
240	Health	272.1	271.3	87.4	104.6	96.5
241	Hospital Mgt Services	360.8	359.7	174.1	187.2	11.4
242	Community Development	14.6	14.6	6.4	7.5	1.8
243	National Volunteer Service	1.3	1.3	0.8	0.8	-0.3
245	Env& Conservation	10.8	10.8	5.8	5.7	-0.9
247	Agriculture and Livestock	14.6	14.6	17.8	3.5	-21
252	Lands and Physical Planning	36.2	49.2	19.2	34.8	10.7
254	Mineral Policy & Geohazard Mgt	8	8	3.4	4	1.2
255	Petroleum and Energy	24.6	26.6	13	14.2	0.6
257	Department of Public Enterprises	3.6	3.6	0.1	-	3.4
258	Dept of Information & Communication	3.9	3.9	1.9	2.2	0.2
259	Transport	21.9	21.9	7.2	10.8	7.5
261	Trade and Industry	12.7	12.7	7.5	7.6	-2.4
262	Industrial Relations	11.9	11.9	6.1	6	-0.3
263	National Tripartite Consultative Council	0.9	0.9	0.5	0.5	0
264	Works and Implementation	165.1	165.1	71.9	84.4	21.3
267	Office of Rural Development	6.5	6.8	2.7	3.6	1.4
268	Central Supply & Tenders Board	3	3	0.8	1.7	1.4
269	Office of Tourism Arts & Culture	1.9	1.9	1	1	0
299	Debt Servicing (without Amortisation)	461.3	461.3	152.7	461.3	155.9
<b>Total</b>		<b>4,462.60</b>	<b>4,429.10</b>	<b>1,773.20</b>	<b>2,843.40</b>	<b>888.8</b>

**PROVINCIAL GOVERNMENTS RECURRENT EXPENDITURE MYEFO 2012 (KINA, MILLION)**

<b>Div</b>	<b>Provincial Governments</b>	<b>2012 Budget</b>	<b>2012 Revised</b>	<b>Total Expenses to 30 June 2012</b>	<b>Warrants Issued</b>	<b>Overspend/ Underspend</b>
575	Milne Bay Provincial Government	66.2	66.2	32.7	21.9	0.8
576	Oro Provincial Government	39.7	39.7	22.5	24.5	-5.4
577	Southern Highland Province	90.9	90.9	62.7	53.0	-34.6
578	Enga Provincial Government	58.7	58.7	35.6	35.1	-12.4
579	West Highland Provincial Government	93.3	93.3	52.9	54.4	-12.6
580	Simbu Provincial Government	75.6	75.6	38.3	44.2	-1.0
581	Eastern Highland Provincial Government	88.0	88.0	46.7	52.1	-5.4
582	Morobe Provincial Government	99.8	99.8	57.4	61.3	-14.9
583	Madang Provincial Government	83.1	83.1	42.8	21.7	-2.4
584	East Sepik Provincial Government	92.9	92.9	44.3	24.7	4.2
585	Sandaun Provincial Government	68.3	68.3	26.6	17.8	15.1
586	Manus Provincial Government	36.2	36.2	17.8	21.0	0.6
587	New Ireland Provincial Government	40.4	40.4	20.4	22.8	-0.4
588	East New Britain Provincial Government	79.5	79.5	42.8	45.4	-6.2
589	West New Britain Provincial Government	60.4	60.4	34.6	34.9	-8.9
590	Autonomous Bougainville Government	78.4	78.4	41.9	45.2	-5.4
	<b>Total</b>	<b>1151.5</b>	<b>1151.5</b>	<b>620.2</b>	<b>579.8</b>	<b>-88.8</b>



**STATUTORY AUTHORITIES RECURRENT EXPENDITURE MYEFO 2012 (KINA, MILLION)**

Div	Statutory Authorities	2012 Budget	2012 Revised	Total Expenses to 30 June 2012	Warrants Issued	Overspend/ Underspend
502	Auditor-General	17.8	17.8	8.9	8.9	0.0
503	Ombudsman Commission	17.5	17.5	8.8	8.8	0.0
505	NRI	4.9	4.9	2.4	2.4	0.0
506	National Training Council	2.7	2.7	1.4	1.4	-0.0
507	NEFC	3.0	3.0	1.8	1.8	-0.7
509	Border Dev Authority	4.4	4.4	2.2	2.2	-0.0
510	Legal Training Institute	2.4	2.4	1.2	1.2	0.0
511	Office of Climate Change & Dev*	7.7	7.7	3.5	3.8	0.8
512	UPNG	40.7	45.7	26.1	26.1	-6.5
513	UNITECH	41.8	42.3	20.9	20.9	0.5
514	University of Goroka	16.5	16.5	8.3	8.3	0.0
515	UNI of Nat Resources & Env	14.2	14.2	7.1	7.1	-0.0
516	PNG Sports Commission	9.8	9.8	4.9	4.9	0.0
517	National Narcotics Bureau	4.3	4.3	2.2	2.2	-0.1
518	PNG Maritime	3.2	3.2	1.6	1.6	-0.0
519	AIDS Council	7.9	7.9	3.9	3.9	0.0
520	Institute of Medical Research	7.2	7.2	3.6	3.6	0.0
521	National Youth Commission	4.2	7.2	2.1	2.1	3.0
522	Constitutional Law and Order Reform Commission	2.9	2.9	1.4	1.4	0.0
523	Accident Investigation Commission	3.3	3.3	1.6	1.6	0.0
525	National Broadcasting Commission	27.6	31.1	15.5	15.5	0.1
526	National Maritime Safety Authority	1.7	1.7	0.9	0.9	-0.0
530	Investment Promotion Authority	2.8	2.8	1.3	1.3	0.1
531	Small Business Development Corporation	2.7	2.7	1.4	1.4	-0.1
532	National Institute of Standards and Industrial Technology	3.2	3.2	1.6	1.6	-0.0
533	Industrial Centres Development Corporation	2.2	2.2	1.2	1.2	-0.1
536	Kokonas Industry Corporation	1.0	1.0	0.6	0.6	-0.1
539	National Museum and Art Gallery	9.3	9.3	4.5	4.5	0.4
541	National Housing Corporation	0.2	0.2	0.1	0.1	-0.0
542	National Cultural Commission	4.4	5.3	2.9	3.1	-0.6
549	Coastal Fisheries Development Authority	2.5	2.5	1.3	1.3	-0.0
550	Cocoa Coconut Institute	6.3	6.3	3.2	3.2	0.0
553	Fresh Produce Development Company	5.6	5.6	2.8	2.8	0.0
554	Coffee Industry Corporation	2.2	2.2	1.3	1.3	-0.3
557	PNG National Forest Authority	28.9	42.6	28.1	28.1	-13.7
558	Tourism Promotion Auth	10.7	10.7	6.3	6.3	-1.9
562	NARI	9.1	9.1	4.5	4.5	-0.0
563	NAQIA	4.2	4.2	2.1	2.1	-0.0
565	Civil Aviation Authority	10.5	10.5	5.2	5.2	0.0
569	ICCC	9.3	9.9	4.7	4.7	0.6
<b>Total</b>		<b>360.7</b>	<b>387.9</b>	<b>203.4</b>	<b>204.0</b>	<b>- 18.9</b>



## Attachment E

## NATIONAL DEPARTMENTS PERSONNEL EMOLUMENTS MYEO 2012 (KINA, MILLION)

Div	National Departments	2012 Budget	2012 Revised	Total Expenses to 30 June 2012	Warrants Issued	Overspend/ Underspend
202	Office of Governor-General	1.6	1.8	1.3	1.1	-0.8
203	Prime Minister & NEC	39.2	39.2	18.6	16.2	2.0
204	National Statistical Office	4.3	4.3	1.8	2.1	0.6
205	Off. of Bougainville Affairs	0.9	0.9	0.8	0.4	-0.7
206	Finance	11.1	11.1	3.6	5.6	3.8
207	Treasury & Finance Misc.	238.7	222	32.4	73.8	157.2
208	Treasury	11	11.1	4.4	4.7	2.2
209	Reg. For Political Parties	3.9	3.9	1.5	1.9	0.9
212	ICTD	5.1	5.1	1.2	2.7	2.8
213	Fire Services	9.9	9.9	5.4	4.9	-0.8
215	Immigration	-	-	0.8	-	-1.6
216	IRC	20.8	20.8	6.8	9.4	7.2
217	Foreign Affairs	28.5	28.9	15.4	14.7	-2
218	Office of the Pub Prosecutor	4.1	4	2	2.1	0.0
219	PNG IPA	4.5	4.5	1.9	2.3	0.7
220	Personnel Management	10.6	23.5	4.2	17.1	15.2
221	Public Service Commission	3.4	3.2	1.7	1.7	-0.2
222	Office of Public Solicitor	6	5.9	2.1	3	1.7
223	Judiciary Services	-	-	5.2	-	-10.5
224	Magisterial Services	-	-	3.6	-	-7.2
225	Attorney General	19	19.4	10.4	9.4	-1.4
226	Correctional Institutions	56.4	59.5	24.5	31.3	10.6
227	Provincial Treasuries	27.3	27.3	11.5	14.3	4.3
228	Police	157.9	155.6	74.7	78.8	6.1
229	Nat Planning & Monitoring	9.7	9.7	5.8	4.9	-1.8
230	Electoral Commission	3.5	4.1	1.4	2.4	1.3
231	Nat Intelligence Organ	1.8	1.8	1.4	0.9	-1.1
232	Provincial & LLG Affairs	7.5	7.5	3.3	3.6	0.9
234	Defence	83	83	45.2	36.3	-7.4
235	Education	105	105	42.6	52.4	19.7
236	Higher Educ Commission	1.8	1.8	0.9	0.9	-0.1
237	Office of UNESCO	1.4	1.4	0.5	0.7	0.4
240	Health	66	66	27.1	22.5	11.8
241	Hospital Mgt Services	262.5	262.5	130.5	135.2	1.5
242	Community Development	10.5	10.4	4	5	2.4
245	Environment & Conservation	5.5	5.5	3.6	2.5	-1.6
247	Agriculture and Livestock	10.8	10.8	14.5	2.7	-18.3
252	Lands & Physical Planning	14	14	6.3	4.3	1.4
254	Mineral Policy & Geohazard Mgt	4.7	4.7	2.4	2.3	-0.2
255	Petroleum and Energy	8.2	8.3	3.5	3.8	1.2
257	Dept of Public Enterprises	2	2	0.1	-	1.7
258	Dept of Information & Com	1.3	1.3	0.7	0.6	-0.1
259	Transport	10.4	10.4	4	5.2	2.5
261	Trade and Industry	6.1	6.1	3.4	3.4	-0.8
262	Industrial Relations	7.4	7.4	4.7	3.7	-2
263	National Tripartite Consultative Council	0.4	0.4	0.2	0.1	0
264	Works and Implementation	47.5	47.5	21.2	21.5	5.1
267	Office of Rural Development	3.9	3.9	1.3	2	1.3
<b>Total</b>		<b>1,354.7</b>	<b>1,353</b>	<b>569.8</b>	<b>621.9</b>	<b>213.4</b>

Note: (1) A positive Number represents an underspend.

(2) Underspending on Item 141 is unlikely as payments for superannuation and retrenchments etc will be made in the second half of 2012, significantly increasing full year expenses. This primarily affects Division 207

**PROVINCIAL GOVERNMENTS PERSONNEL EMOLUMENTS MYEFO2012 (KINA, MILLION)**

<b>Div</b>	<b>Provincial Governments</b>	<b>2012 Budget</b>	<b>2012 Revised</b>	<b>Warrants Issued</b>	<b>Total Expenses to 30 June 2012</b>	<b>Overspend/ Underspend</b>
571	Western Provincial Govt	38.7	38.7	23.6	19.9	-1.2
572	Gulf Provincial Govt	23.5	23.5	14.4	11.3	0.8
573	Central Provincial Govt	48.6	48.6	11.9	25.0	-1.5
574	NCDC	0.2	0.2	0.1	-	0.2
575	Milne Bay Provincial Govt	44.5	44.5	12.4	23.2	-2
576	Oro Provincial Govt	26.7	26.7	16.3	14.4	-2.0
577	Southern Highland Prov	73.3	73.3	40.9	52.2	-31
578	Enga Provincial Govt	45.5	45.5	25.4	30.4	-15.3
579	West Highland Prov Govt	71.9	71.9	40.1	42.3	-12.6
580	Simbu Provincial Govt	57.0	57.0	31.7	29.0	-1.0
581	Eastern High. Prov Govt	63.3	63.3	35.3	34.4	-5.4
582	Morobe Provincial Govt	85.9	85.9	52.5	48.7	-11.4
583	Madang Provincial Govt	57.2	57.2	13.3	34.4	-11.6
584	East Sepik Provincial Govt	59.7	59.7	13.9	33.5	-7.4
585	Sandaun Provincial Govt	46.9	46.9	10.9	19.6	7.6
586	Manus Provincial Govt	25.7	25.7	14.3	11.2	3.2
587	New Ireland Provincial Gov	36.8	36.8	20.5	18.2	0.5
588	East New Britain Prov Govt	63.5	63.5	35.4	32.8	-2.2
589	West New Britain Prov Govt	45.6	45.6	25.7	25.4	-5.2
590	Auto. Bougainville Govt	56.1	56.1	31.3	28.0	0.1
<b>Total</b>		<b>970.5</b>	<b>970.5</b>	<b>470.1</b>	<b>533.9</b>	<b>-97.3</b>

## NATIONAL DEPARTMENTS GOODS AND SERVICES MYEFO 2012 (KINA, MILLION)

Div	National Departments	2012 Budget	2012 Revised	Warrants Issued	Total Expenses to 30 June 2012	Overspend/ Underspend
201	National Parliament	114.5	114.5	63	63	-11.4
202	Office of Governor-General	3.1	3.1	2.1	2	-0.9
203	Prime Minister & NEC	30.8	71.1	50.8	31	9.2
204	National Statistical Office	1.5	1.7	0.9	-	1.7
205	Off. of Bougainville Affairs	1.6	1.6	0.8	0.4	0.8
206	Finance	13.1	13.1	6.6	4.4	4.2
207	Treasury & Finance Misc.	1,032.80	556.8	366.5	325.6	-94.4
208	Treasury	5.2	5.3	3	2.3	0.7
209	Reg. For Political Parties	2.9	2.9	1.4	1.7	-0.4
211	Customs	16.8	16.9	10.2	6.3	4.3
212	ICTD	14	14	6.8	3.5	7.1
213	Fire Services	10	10	5	2.5	5
215	Immigration	8.7	8.7	4.4	4.4	-0.1
216	IRC	23.5	23.5	12.4	6	11.4
217	Foreign Affairs	31.5	32.6	22.8	19.6	-6.6
218	Office of the Pub Prosecutor	2	2.1	1.3	1.2	-0.3
219	PNG IPA	2.1	2.1	1	1	0
220	Personnel Management	5.7	5.9	2.9	2.2	1.5
221	Public Service Commission	1.4	1.6	0.9	0.7	0.1
222	Office of Public Solicitor	3.9	4	2	1.6	0.9
223	Judiciary Services	73.8	73.8	37.3	37.3	-0.7
224	Magisterial Services	34.8	34.8	17.6	17.6	-0.4
225	Attorney General	21.2	25.9	16.3	11.4	3.1
227	Provincial Treasuries	9.2	9.2	4.8	-	9.2
228	Police	90.5	222.5	148.3	127.7	-32.8
229	Nat Planning & Monitoring	6.5	7.5	4.1	3.7	0.1
230	Electoral Commission	22.7	212.1	190.7	60.4	91.3
231	Nat Intelligence Org	2.1	2.6	1.6	1.4	-0.2
232	Provincial & LLG Affairs	7.1	14.1	10.3	2.9	8.2
234	Defence	78.9	118.6	79.6	52.8	12.9
235	Education	377.2	377.2	363.1	12	353.2
236	Higher Educ Commission	39.4	47.4	34.6	19.6	8.2
237	Office of UNESCO	0.6	0.6	0.3	0.1	0.4
240	Health	206.2	205.3	82.1	60.3	84.7
241	Hospital Mgt Services	98.3	97.2	52	43.6	9.9
242	Community Development	4	4.2	2.5	2.4	-0.6
243	National Volunteer Service	1.3	1.3	0.8	0.8	-0.3
245	Environment & Conservation	5.3	5.3	3.2	2.3	0.8
247	Agriculture and Livestock	3.8	3.8	0.8	3.3	-2.8
252	Lands & Physical Planning	22.2	35.2	30.5	12.9	9.4
254	Mineral Pol&Geohazard Mgt	3.3	3.3	1.6	0.9	1.4
255	Petroleum and Energy	16.3	18.3	10.5	9.4	-0.6
257	Dept of Public Enterprises	1.6	1.6	-	-	1.6
258	Dept of Information & Com	2.7	2.7	1.5	1.2	0.4
259	Transport	11.4	11.4	5.6	3.2	5
261	Trade and Industry	6.6	6.6	4.3	4.1	-1.6
262	Industrial Relations	4.5	4.5	2.3	1.4	1.7
263	Nat Tripartite Consul Council	0.5	0.5	0.3	0.3	-0.1
264	Works and Implementation	117.6	117.6	62.9	50.7	16.2
267	Office of Rural Development	2.6	2.9	1.6	1.4	0.1
268	Central Supply& Tenders Bd	1.7	1.7	1.1	0.6	0.6
269	Off of Tourism Arts & Culture	1.9	1.9	1	1	0
<b>Total</b>		<b>2,645.20</b>	<b>2,613.40</b>	<b>1,768.40</b>	<b>1,050.40</b>	<b>515.7</b>

## Notes:

(1). To date spending on Fee Free Education by Div 235 Education has been funded from money appropriated to trust in the 2011 Supplementary Budget. The 2012 Appropriation will be spent in the second half of 2012 meaning estimates based on pro rata are unreliable.

(2) The Government can choose to limit spending on Goods and Services by not allowing warrants to exceed appropriation. This acts as a cap on spending making a significant on overspend on Goods and Services unlikely.

**PROVINCIAL GOVERNMENTS GOODS AND SERVICES MYEFO 2012 (KINA, MILLION)**

<b>Div</b>	<b>Provincial Government</b>	<b>2012 Budget</b>	<b>2012 Revised</b>	<b>Warrants Issued</b>	<b>Total Expenses to 30 June 2012</b>	<b>Overspend/ Underspend</b>
571	Western Provincial Govt	6.2	6.2	4.7	3.2	-0.2
572	Gulf Provincial Govt	13.8	13.8	4	6.5	0.7
573	Central Provincial Govt	15.3	15.3	8.4	7.7	0
574	NCDC	3.7	3.7	9.6	-	3.7
575	Milne Bay Provincial Govt	21.7	21.7	2.3	9.5	2.8
576	Oro Provincial Government	13	13	9.5	8.2	-3.3
577	SHP Government	17.6	17.6	8.2	10.6	-3.6
578	Enga Provincial Govt	13.3	13.3	12.9	5.2	2.9
579	WHP Government	21.4	21.4	9.7	10.7	-
580	Simbu Provincial Govt	18.6	18.6	15.6	9.3	-
581	EHP Government	24.8	24.8	12.4	12.4	-
582	Morobe Provincial Govt	13.9	13.9	16.8	8.7	-3.5
583	Madang Provincial Govt	25.9	25.9	8.7	8.3	9.2
584	East Sepik Prov Govt	33.2	33.2	8.3	10.8	11.6
585	Sandaun Provincial Govt	21.4	21.4	10.8	6.9	7.5
586	Manus Provincial Gov	10.6	10.6	6.9	6.6	-2.6
587	New Ireland Prov. Govt	3.6	3.6	6.6	2.2	-0.9
588	ENB Provincial Govt	16	16	2.2	10	-4
589	WNB Provincial Govt	14.8	14.8	10	9.2	-3.7
590	ABG	22.3	22.3	9.2	13.9	-5.6
<b>Total</b>		<b>333.9</b>	<b>333.9</b>	<b>179.8</b>	<b>163.0</b>	<b>11.0</b>

Source: Department of Treasury

NCD = National Capital District Commission; ABG = Autonomous Bougainville Government

(1) The Government can choose to limit spending on Goods and Services by not allowing warrants to exceed appropriation. This acts as a cap on spending making a significant on overspend on Goods and Services unlikely

**STATUTORY AUTHORITIES GOODS AND SERVICES MYEFO 2012 (KINA, MILLION)**

Div	Statutory Authorities	2012 Budget	2012 Revised	Warrants Issued	Total Expenses to 30 June 2012	Overspend/ Underspend
502	Auditor-General	17.8	17.8	-	8.9	0
503	Ombudsman Commission	17.5	17.5	8.9	8.8	0
505	NRI	4.9	4.9	8.8	2.4	0
506	National Training Council	2.7	2.7	2.4	1.4	0
507	NEFC	3	3	1.4	1.8	-0.7
509	Border Dev Authority	4.4	4.4	1.8	2.2	0
510	Legal Training Institute	2.4	2.4	2.2	1.2	0
511	Off of Climate Change & Dev	7.7	7.7	1.2	3.5	0.8
512	UPNG	40.7	45.7	3.8	26.1	-6.5
513	UNITECH	41.8	42.3	26.1	20.9	0.5
514	University of Goroka	16.5	16.5	20.9	8.3	0
515	University of Nat Resources & Environment	14.2	14.2	8.3	7.1	0
516	PNG Sports Commission	9.8	9.8	7.1	4.9	0
517	National Narcotics Bureau	4.3	4.3	4.9	2.2	-0.1
518	PNG Maritime	3.2	3.2	2.2	1.6	0
519	AIDS Council	7.9	7.9	1.6	3.9	-
520	Inst of Medical Research	7.2	7.2	3.9	3.6	0
521	Nat Youth Commission	4.2	7.2	3.6	2.1	3
522	Constitutional Law & Order Reform Commission	2.9	2.9	2.1	1.4	0
523	Accident Investigation Commission	3.3	3.3	1.4	1.6	0
525	NBC	27.6	31.1	1.6	15.5	0.1
526	Nat Maritime Safety Auth	1.7	1.7	15.5	0.9	0
530	Invest Promotion Auth	2.8	2.8	0.9	1.3	0.1
531	Small Business Development Corporation	2.7	2.7	1.3	1.4	-0.1
532	Nat Inst of Standards &Industrial Technology	3.2	3.2	1.4	1.6	0
533	Industrial Centres Development Corporation	2.2	2.2	1.6	1.2	-0.1
536	Kokonas Industry Corp	1	1	1.2	0.6	-0.1
539	National Museum and Art Gallery	9.3	9.3	0.6	4.5	0.4
541	National Housing Corporation	0.2	0.2	4.5	0.1	0
542	National Cultural Commission	4.4	5.3	0.1	2.9	-0.6
549	Coastal Fisheries Dev Authority	2.5	2.5	3.1	1.3	0
550	Cocoa Coconut Institute	6.3	6.3	1.3	3.2	0
553	Fresh Produce Dev Comp	5.6	5.6	3.2	2.8	-
554	Coffee Industry Corp	2.2	2.2	2.8	1.3	-0.3
557	PNG National Forest Auth	28.9	42.6	1.3	28.1	-13.7
558	Tourism Promotion Auth	10.7	10.7	28.1	6.3	-1.9
562	National Agriculture Research Institute	9.1	9.1	6.3	4.5	0
563	National Agriculture Quarantine & Inspec Auth	4.2	4.2	4.5	2.1	0
565	Civil Aviation Authority	10.5	10.5	2.1	5.2	-
569	ICCC	9.3	9.9	5.2	4.7	0.6
<b>TOTAL</b>		<b>363.7</b>	<b>390.9</b>	<b>202.3</b>	<b>206.4</b>	<b>-18.9</b>

Source: Department of Treasury

## NATIONAL DEVELOPMENT BUDGET EXPENDITURE MYEFO 2012 (KINA, MILLION)

Div	National Department	2012 Budget	2012 Revised	Warrants issued to 30th June 2012	Actual Expenses to 30th June
201	National Parliament	35.0	35.0	28.7	28.0
204	NSO	11.8	11.8	10.3	8.4
206	Finance	14.0	64.0	62.0	58.7
208	Treasury	171.0	171.0	171.0	-
211	Customs	17.8	17.8	17.8	2.6
213	Fire Services	3.0	3.0	3.0	-
216	IRC	5.2	5.2	2.2	-
217	Foreign Affairs	10.3	10.3	6.6	0.0
219	PNG Institute of PA	2.2	2.2	2.2	1.0
220	Personnel Mgt	14.0	14.0	4.0	0.7
221	Public Service Com	0.8	0.8	0.8	-
222	Office of Pub Sol	6.0	6.0	5.0	0.4
225	Attorney General	-	2.2	-	-
226	Correctional Inst	19.0	17.0	17.0	3.3
228	Police	44.0	44.0	38.0	0.0
229	NatPlanning & Mont	49.5	49.5	49.5	15.4
230	Electoral Comm	73.1	80.1	73.1	48.1
231	Nat Intelligence Org	2.0	2.0	2.0	0.5
232	Prov & LLG Affairs	4.2	4.2	3.1	0.4
234	Defence	27.0	27.0	27.0	-
235	Education	82.5	82.5	66.8	5.1
236	Higher Education Commission	34.0	34.0	17.0	10.7
240	Health	89.2	89.2	84.2	-
242	Community Dev	11.8	15.5	9.3	5.7
245	Env& Conservation	3.0	3.0	0.8	0.2
247	DAL	3.3	3.3	1.8	0.8
252	Lands & Physical Planning	20.0	10.2	4.5	3.4
255	Petroleum & Energy	10.0	10.0	-	-
258	Dept of Infor & Com	6.0	6.0	4.5	1.0
259	Transport	10.0	25.0	17.0	1.0
261	Trade and Industry	14.0	17.0	17.0	15.9
262	Industrial Relations	2.0	2.0	2.0	0.6
264	Works and Implementation	451.1	422.1	345.6	107.1
267	Off of Rural Dev	206.3	207.5	207.5	205.6
268	Central Supply and Tenders Board	2.0	2.0	2.0	0.1
<b>Total:</b>		<b>1,455.1</b>	<b>1,496.4</b>	<b>1,303.3</b>	<b>524.8</b>

Source: Department of Treasury



**PROVINCIAL GOVERNMENT DEVELOPMENT EXPENDITURE MYEFO 2012 (KINA, MILLION)**

Div	Provincial Government	2012 Budget	2012 Revised	Warrants issued to 30 June 2012	Actual Expenses to 30 June
571	Western Provincial Gov	20.4	20.4	20.4	19.0
572	Gulf Provincial Government	9.6	9.6	5.8	5.3
573	Central Provincial Govt	13.0	13.0	9.3	8.0
574	NCDC	3.0	3.0	3.0	2.0
575	Milne Bay Provincial Govt	6.3	6.3	-	-
576	Oro Provincial Government	0.8	0.8	0.8	-
577	Southern Highland Province	21.7	21.7	21.7	15.5
578	Enga Provincial Government	15.0	15.0	15.0	13.5
579	West Highland Prov Govt	14.0	14.0	14.0	12.3
580	Simbu Provincial Govt	12.8	22.8	22.8	11.5
581	Eastern Highland Prov Govt	2.3	2.3	2.3	0.5
582	Morobe Provincial Govt	27.4	27.4	20.1	10.3
583	Madang Provincial Govt	3.8	7.8	7.8	6.0
584	East Sepik Provincial Go	1.8	1.8	1.8	-
585	Sandaun Provincial Govt	5.3	5.3	5.8	4.0
586	Manus Provincial Govt	5.0	5.0	4.5	2.5
587	New Ireland Provincial Govt	26.1	26.1	0.8	0.3
588	ENB Provincial Govt	1.3	1.3	1.3	-
589	WNB Provincial Govt	0.8	0.8	0.8	-
590	ABG	101.0	101.0	101.0	100.0
<b>Total:</b>		<b>290.8</b>	<b>304.8</b>	<b>258.4</b>	<b>210.6</b>

Source: Department of Treasury

## STATUTORY AUTHORITIES DEVELOPMENT EXPENDITURE MYEFO 2012 (KINA, MILLION)

Div	National Department	2012 Budget	2012 Revised	Warrants issued to 30 June 2012	Actual Expenses to 30 June
502	Auditor-General	5.0	-	-	-
505	NRI	-	2.6	1.8	1.8
506	National Training Council	0.5	0.5	0.5	0.5
509	Border DevAuth	1.5	1.5	1.0	1.0
510	Legal Training Inst	5.0	5.0	5.0	5.0
511	Off of Climate Change & Dev	0.5	0.5	0.5	0.5
512	UPNG	43.5	43.5	30.3	30.3
513	UNITECH	8.0	8.0	5.5	5.5
514	UOG	15.8	15.8	15.8	15.8
515	UNI of Nat Resource & Env	18.0	18.0	12.9	12.9
516	PNG Sports Comm	185.0	185.0	3.5	3.5
517	National Narcotics Bureau	2.2	2.2	2.2	2.2
519	AIDS Council	8.0	8.0	5.5	5.5
520	Institute of Medical Research	11.0	11.0	8.0	8.0
521	Nat Youth Comm	4.0	4.0	3.0	3.0
522	Const Law & Order Reform Comm	-	1.3	1.3	1.3
523	Accident Invest Comm	17.5	17.5	13.0	13.0
525	NBC	5.0	5.0	5.0	5.0
526	Nat Maritime Safety Authority	6.0	6.0	6.0	6.0
530	IPA	2.2	2.2	2.0	2.0
531	Small Business Dev Corporation	4.3	6.3	6.3	6.3
532	National Institute of Standards and Industrial Technology	2.0	2.0	2.0	2.0
535	Industrial Centres Development Corporation	25.9	25.9	17.7	17.7
537	National Airports Corporation	20.0	20.0	18.5	13.5
539	National Museum and Art Gallery	34.3	34.3	33.3	33.3
542	National Cultural Commission	205.4	155.4	135.4	135.4
550	Cocoa Coconut Institute	14.0	14.0	13.0	13.0
553	Fresh Produce Dev Company	4.0	4.0	2.6	2.6
554	Coffee Indus Corp	7.0	7.0	7.0	7.0
557	PNG NFA	6.5	6.5	6.5	6.5
559	Tourism Prom Auth	4.0	4.0	4.0	4.0
562	NARI	2.3	2.3	2.3	2.3
563	NAQIA	1.0	1.0	1.0	1.0
566	Civil Aviation Auth	1.0	1.0	1.0	1.0
567	Nat Road Authority	21.0	21.0	19.5	19.5
<b>TOTAL:</b>		<b>691.4</b>	<b>642.3</b>	<b>392.8</b>	<b>387.8</b>

Source: Department of Treasury