



MID YEAR ECONOMIC AND FISCAL OUTLOOK REPORT

2007

INTRODUCTION

The Mid Year Economic and Fiscal Outlook Report (MYEFO) 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 that set out in the 2007 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 Financing
- 1.6 Risks to the MYEFO Outlook
- 1.7 2008 and Beyond

Fiscal Outturn Tables

Part 2: 2006 Supplementary Budget and 2007 Additional Priority
Expenditure-Status of Trust Accounts

Part 3: Mid Year Expenditure Estimates by Agency

The MYEFO essentially covers central government fiscal operations in what is known as 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.

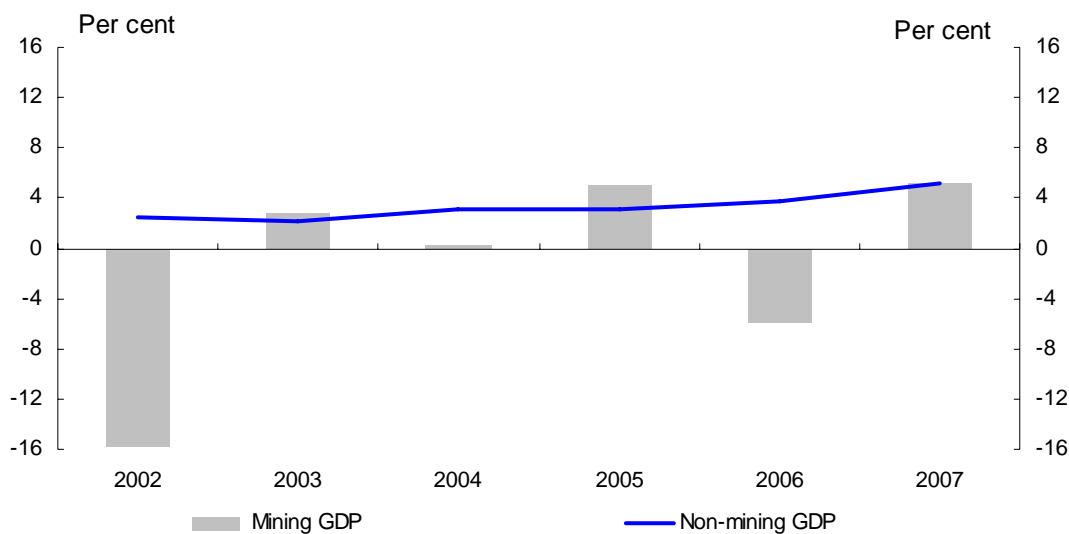
The financial information presented in this report is based on the same reporting standards as the 2007 Budget. Generally, this follows the cash reporting standards originally laid down in the 1986 'Manual of Government Finance Statistics' published by the International Monetary Fund (IMF).

1.1 THE ECONOMIC OUTLOOK

The PNG economy is expected to grow by 5¼ per cent in 2007, significantly stronger than the Budget forecast of 4½ per cent. This upward revision is largely due to a return to normal levels of production in the mining and quarrying and agriculture sectors after a weaker than expected performance in 2006.

Non-mining GDP is also expected to grow strongly, at 5¼ per cent in 2007, revised up from 4¼ per cent at Budget. This reflects very strong domestic growth, particularly in the building and construction sector, stemming from a combination of the terms of trade (the price of exports relative to the price of imports) boom, low interest rates and increased Government expenditure. This has also been supported by a return to normal levels of production in the agricultural sector, following a weaker year in 2006.

Chart 1: Mining and Non-mining GDP Growth



Despite substantial volatility of commodity prices through the first half of 2007 when prices first fell below, and then rose above the 2007 Budget forecasts, commodity prices are expected to remain at elevated levels through the remainder of 2007. This is expected to continue to be a major source of stimulus to the economy, through increased fiscal resources and increased spillovers to the non-mineral sector. With the continued resilience of commodity prices, the value of PNG's exports is expected to remain at exceptionally high levels, resulting in a large trade surplus.

The minerals and agriculture sectors are expected to drive real GDP growth in 2007. Increased gold and copper production from Ok Tedi should result in strong growth in the mining and quarrying sector. With oil prices expected to be maintained at a relatively high level, increased production is expected from the oil and gas extraction sector.

The agriculture sector is expected to contribute strongly to growth in 2007, with the return to normal levels of production in copra and copra oil supported by the higher than expected prices for cocoa and palm oil. Growth will also be supported by the expected expansion in palm oil which should more than offset the disruptions to coffee production expected in an election year. Agricultural commodity prices have also increased significantly over the past year, with cocoa and palm oil prices up 9.2 per cent and 65 per cent respectively.

The commodity price boom is expected to continue to provide the stimulus for increased domestic activity, particularly in the construction and business service sectors which are expected to boost growth in 2007. This is also anticipated to continue to support domestic growth in the out years as the work on maintenance and rehabilitation of public infrastructure is carried out through the Additional Priority Expenditure as announced in the 2007 Budget. Other non-mineral sectors, such as wholesale and retail trade appear to be growing strongly, supported by low interest rates, increased business confidence and election related expenditures.

Annual inflation is expected to be 4.8 per cent in 2007. This is significantly higher than the Budget forecast of 1.5 per cent, reflecting growing inflationary pressures. According to official estimates, underlying inflation accelerated through the latter part of 2006 and early 2007, although there are some concerns about the accuracy of this data. Nonetheless, there are a number of signs pointing towards increased inflationary pressures (Box 1).

Box 1: Inflationary Pressures

There are substantial inflationary pressures building in the PNG economy, which need to be contained. The economy has experienced a major terms of trade shock, with export prices increasing by 72 per cent since 2005. This is providing a great deal of stimulus to the economy.

As government revenue arising from minerals is drawn externally and not from domestic business and household income like other revenue, its spending by government will have a particularly large impact on stimulating domestic demand.

While the increase in export prices provides PNG with greater purchasing power (i.e. PNG can purchase more imports, with the same amount of exports), it has not increased the productive capacity of the economy. Hence, when some of the proceeds from the commodity price boom are used to purchase goods and services (as against increased imports), it will tend to create inflationary pressures.

The main channels through which the terms of trade boom feeds into the domestic economy is through increased Government revenues and expenditures and the impact on the financial sector. While the Government ran a budget surplus of 2½ per cent of GDP in 2006, the two 2006 supplementary Budgets added around K1.3 billion of fiscal stimulus into the economy.

While a large portion of these funds are yet to be spent, a significant amount has been released. With large amounts of mineral revenues expected in 2007, further increases in expenditure could be expected to further add to inflationary pressures.

Asset prices have also experienced strong growth, with PNG equities rising by over 90 per cent since 2004, and anecdotes pointing to strong increases in housing and commercial property markets.

At the same time, interest rates are at all time lows, spurring increased levels of lending, building and construction activity and consumption expenditure. One of the major factors behind this is the excess liquidity present in the economy, with money supply growth of 40 per cent, credit growth of 35 per cent and currency in circulation growing at 25 per cent through the year to May 2007.

In addition, while the Kina has remained stable against the US\$ over the past year, it has depreciated markedly against a number of other major currencies, such as the Australian dollar, Euro and Singapore dollar. These currencies represent PNG's major sources of imports, resulting in a 7.2 per cent depreciation of the import weighted Trade Weighted Index (TWI). This depreciation is likely to increase the price of imported goods.

The Bank of PNG has the responsibility through the operation of monetary policy to ensure price stability. The monetary policy stance will need to be closely monitored to ensure that it remains appropriate for the circumstances faced in PNG.

In line with higher inflation, higher agricultural commodity prices and increased non-mining activity, nominal non-mining GDP growth has been revised up substantially, to 10½ per cent in 2007 from 6½ per cent at Budget.

Table 1: Economic Forecasts

	2006	2007 BUDGET	2007 MYEFO
Economic Growth (%)			
GDP	2.6	4.5	5.2
Non-mining GDP	3.8	4.2	5.2
Inflation (%)			
Year average	2.6	1.5	4.8
Interest rate(%)			
T/Bills	5.0	6.0	6.0
3 year I/S	6.0	6.0	6.0
Mineral Prices			
Gold (US\$/oz)	604	600	655
Copper (US\$/lb)	3.05	2.49	3.08
Oil (Kutubu: US\$/bbl)	64.3	65.0	63.8

1.2 THE FISCAL OUTLOOK

With projected commodity prices for 2007 at similar levels to where they were in 2006, continued strong growth in the non-mineral economy and higher expected inflation, revenues for 2007 are now projected to come in slightly higher than they were in 2006. This is a marked improvement on what was expected in the 2007 Budget which, given the large amount of uncertainty regarding commodity prices, took an appropriately conservative view regarding revenue collections. However, the 2007 Budget highlighted that it was possible for commodity prices to be higher in 2007 than projected at Budget time.

The updated fiscal estimates for 2007 compared to the 2007 Budget is set out in the following table. These projections are made on the basis of no policy changes.

Table 2: Budget Balance 2006 - 2007 (Kina Million)

	2006 Actual	2007 Budget	2007 MYEFO
Total Revenue and Grants	6,311.4	5,421.6	6,628.5
Total Expenditure and Net Lending	5,881.2	5,456.6	5,421.9
Deficit (-)/Surplus (+)	430.2	-35.0	1,206.6
% of GDP	+2.5 %	-0.2%	6.5%

Source: Department of Treasury.

The expected budget position for 2007 is a cash surplus of K1,206.6 million or 6.5% of GDP. This compares with an estimated deficit of K35 million at the time of the 2007 Budget.

The anticipated surplus is largely due to higher than estimated revenue collections which are expected to continue throughout 2007 and an expectation of continued discipline on expenditure control. The increase in revenue is largely due to the commodity price and economic factors discussed above and increased taxation compliance and back assessment of tax arrears by the IRC.

Table 3 provides a reconciliation of the MYEFO budget balance estimates with those at the 2007 Budget, showing the separate effects of policy decisions and economic forecast changes and other variations. This is a useful distinction to make as it shows what changes to the Budget balance are due to the effect of Government decisions and what changes are due to forecast revisions and other variables that are largely independent of Government decisions.

Table 3: Reconciliation of Budget Balance 2007 (Kina Million)

	2007 K million
2007 Budget Balance	-35.0
% of GDP	-0.2
 <i>Changes between 2007 Budget and MYEFO</i>	
<i>Effect of policy decisions^(a)</i>	
Revenue	-26.2
Expenditure	--
<i>Total policy decisions</i>	-26.2
 <i>Effect of forecast and other variations</i>	
Revenue	1,233.1
Expenditure	34.7
<i>Total forecast and other variations</i>	1,267.8
 2007 MYEFO Budget Balance	 1,206.6
% of GDP	6.5

(a) Excluding the public debt net interest effect of policy measures.

It should be noted that policy decisions to undertake new expenditure are limited by the total amount of available appropriation authorized by Parliament. Any new expenditure must therefore be funded by identifying savings or underspends. Nevertheless, it is still a policy choice by Government to apply savings or underspends to new expenditure rather than improve the Budget balance.

The net effect of Government policy decisions since the 2007 Budget has been to reduce the budget balance by K26.2 million. However, this has been more than offset by the effect of changes to forecasts and other variations which has resulted in an estimated surplus of K1,206.6 million in 2007.

The policy decision taken since the Budget that has impacted on revenue is:

- Lower gaming tax by K26.2 million due to tax cuts from 76 per cent to 49 per cent, coming into effect in June 2007.

The policy expenditure decision made since the Budget that is incorporated into the MYEFO and is fully funded by savings found elsewhere in the Budget is:

- Funding of K100 million for the education subsidy.

The main changes to the forecasts and other variations since the Budget that have impacted on revenue are:

- Higher copper and gold prices, together with lower than expected costs, which combine to result in significantly higher than previously anticipated profits in the minerals sector.
- Increased economic activity and inflation, with nominal non-mining GDP growth revised up from 6½ per cent to 10½ per cent in 2007, resulting in higher GST, company and income tax revenues.
- Increased back assessment of arrears by the IRC, particularly in the minerals sector, where an additional K450 million of tax receipts accrued in previous years are expected to be collected in 2007.
- Increased log export volumes and higher prices resulting in higher tax on international trade revenues.

The main variations since the Budget that have impacted on expenditure that do not result from policy decisions are:

- Interest payments lower by K88 million due to lower debt levels.
- Goods and services lower by K29 million as funds transferred over to the education subsidy.
- Infrastructure tax credit lower by K49.8 million due to low drawdowns by companies.
- A higher estimation of K32 million for personnel emoluments expenditure in relation to performance based increment advances to salary and the expectation of a salary increase resulting from negotiations currently underway with the Public Employees Association.

1.3 REVENUE

Commodity price volatility and unpredictability represents a key swing factor and risk to the revenue forecasts. Total Revenue and Grants for 2007 are now estimated at K6,628.5 million. This is K1,206.9 million higher than the estimate published in the 2007 Budget – a substantial upward revision.

The increase relative to the Budget estimate reflects an additional K1,110.8 million in tax revenue and K145.9 million in non-tax revenue. The bulk of the increase is due to higher than anticipated mining and petroleum receipts (including taxation arrears), as well as higher collections of non-mineral taxes – particularly income, company and GST. The increase in non-tax revenues is mainly due to higher expected dividend payments from the Government's 15 per cent share in Ok Tedi.

Table 4: Tax Revenue 2006 - 2007 (Kina Million)

	2006 Actual	2007 Budget	2007 MYEFO
Tax on Income and Profits	3,823.5	3,071.6	4,004.7
Dom. Taxes on Goods and Services	784.3	758.0	850.4
Taxes on International Trade	337.0	300.3	385.6
Tax Revenue	4,944.8	4,129.9	5,240.7

Source: Department of Treasury.

Tax on income and profits is expected to increase by K933 million, due mainly to a large upward revision in mining and petroleum tax relative to Budget. This upward revision reflects higher commodity price projections for copper and gold, although the oil price has been revised down slightly (Box 2: Commodity Prices) and the collection of taxation arrears. Commodity prices present a key risk to revenues, with the upward revision to prices following a downward revision in the 2008 Budget Strategy Paper (BSP), which reflected a sharp decline in prices in the first quarter of 2007.

Mining and petroleum tax collections in 2007 are also expected to be boosted by a significant amount of extra payments coming from reassessments of 2006 mineral project profits. Finally, better information regarding lower project costs has resulted in an upward revision to projected profits.

As foreshadowed in the BSP, non-mineral tax revenue collections have been revised up. About a third of this upward revision was due to a stronger base year effect due to higher revenue collections in 2006 – particularly for company tax and GST – which have been largely assumed to continue into the future. However, collections so far in 2007 have continued to exceed expectations, resulting in even higher non-mineral tax revenues.

- A significant proportion of these collections reflect increased taxation arrears assessment activity by the IRC – particularly for income and excise tax – which has gone far better than expected.
 - This is responsible for around a third of the increase in projected non-mineral tax receipts.
 - Given that the payments of taxation arrears are likely to be one-off events, these collections cannot be built into future revenue expectations.
- The remainder of the upward revision to non-mineral tax revenue reflects stronger than anticipated nominal GDP growth, which has increased expectations of profitability (resulting in higher company tax), inflation and economic activity (GST).
 - These factors result in a K92 million upward revision of domestic taxes on goods and services, due to higher expected collections for domestic excise and GST, in line with stronger economic activity and a large arrears payment of excise tax.

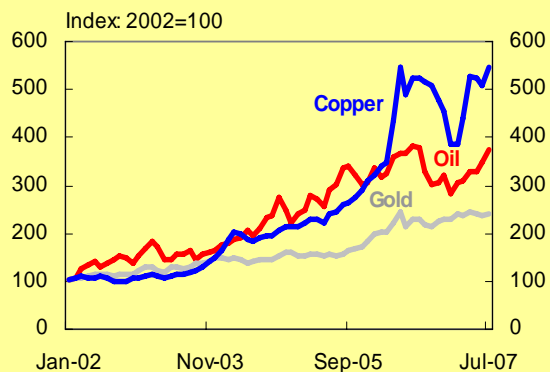
Taxes on international trade are expected to increase by K85.3 million, with export duty estimated to be higher due to high log export volumes and prices as well as higher import duty and excise duty on imports with the increase in economic activity.

Box 2: Commodity Prices

Since the release of the 2007 Budget last November, commodity prices have been volatile. Following the unexpected and exceptionally strong price increases throughout 2006, particularly for copper, prices fell back sharply in the first quarter of 2007, well below Budget projections. Since April 2007, prices have surged again, to near record highs. This volatility presents a significant risk to the revenue projections.

The updated revenue projections are based on the latest IMF forecasts, which have been revised up. The copper price is now expected to average US\$6800 per tonne in 2007, compared with US\$5800 at Budget and US\$6000 in the BSP. This upward revision is due to markedly higher prices in the June quarter of 2007, driven by stronger demand from Chinese copper imports (which increased by 40 per cent in the first 4 months of 2007) and stock rebuilding following large drawdowns earlier in the year.

The oil price is now assumed to average US\$63.8 per barrel for 2007 – down slightly from US\$65 at Budget, but up from US\$54 in the BSP. Oil prices fell sharply in the beginning of the year, to US\$51 per barrel, but have since recovered strongly. The fall was reportedly due to stronger than expected production and lower than expected demand due to unseasonably good weather in the US and Europe. The recent increase in prices has been due to a combination of factors including supply disruptions in Nigeria and increased refinery demand and production cuts in OPEC, following the reduction in quotas in late 2006/early 2007.



While there has been some movement in demand and supply fundamentals for these commodities which can explain part of the swings in prices, it seems likely that the sharp falls earlier in the year were primarily due to changes in market sentiment. With speculation present in these markets, any shift in sentiment could result in sudden and large changes in price.

The price of gold is now expected to average US\$655 per ounce in 2007 – up from US\$600 at Budget and BSP. Gold prices have not experienced the same volatility as oil and base metal prices.

Over the projection period (2008 to 2012), copper prices are projected to decline gradually, as additional world production is expected to exceed continued growth in world consumption, leading to a build-up in stocks and lower prices.

On the other hand, oil and gold prices are projected to remain elevated throughout the projection period, due to the weaker supply response to high prices.

Commodity price volatility and unpredictability represents a key risk to the forecasts.

Non-tax revenue collections are expected to exceed the 2007 Budget estimate by K145.9 million.

Mining and Petroleum Dividends are expected to be higher by K134.5 million, due mainly to the higher expected profits from Ok Tedi, arising from higher commodity prices, and lower costs. Non-mining dividend receipts are expected to be around the same levels as at Budget.

Table 5: Non-tax Revenue 2006 (Kina Million)

	2006 Actual	2007 Budget	2007 MYEFO
Property Income	339.3	242.8	377.3
Non Mining Dividends	68.1	73.5	73.5
Mining and Pet. Dividends	271.2	169.3	303.8
Interest and Fees from Lending	0.6	2.6	2.6
Other Non Tax Revenue	88.9	81.8	93.2
Total	428.8	327.2	473.1

Source: Department of Treasury

1.4 EXPENDITURE AND NET LENDING

Total expenditure and net lending in 2007 is estimated to be K5,421.9 million. This is K34.7 million lower than the original budget estimate largely due to development expenditure expected to be K49.8 million below the Budget estimate.

Table 6: Total Expenditure and Net Lending 2006 - 2007 (Kina Million)

	2006 Actual	2007 Budget	2007 MYEFO
Recurrent Expenditure	3,696.6	3,370.0	3,385.1
Development Expenditure	1,559.5	1,636.6	1,586.8
Additional Priority Expenditure	625.0	450.0	450.0
Total Expenditure & Net Lending	5,881.2	5,456.6	5,421.9

Source: Department of Treasury.

Total recurrent expenditure is estimated to be K3,385.1 million in 2007. This is K15.1million more than estimated at Budget. A significant downward revision to interest expenses of K88 million has been more than offset by an expected increase in personnel emolument and other recurrent expenditure.

Within this amount, total expenditure by national departments is expected to be K2,032.1 million, an increase of K102.9 million on the Budget. The main reason for the increase from Budget is the NEC decision on education subsidy. This has been funded by a reallocation of underspends from expenditure items outside national departments.

Total expenditure by Provincial Governments is expected to be K696.6 million, the same as estimated at Budget.

Total expenditure by the Autonomous Bougainville Government is expected to be K50.9 million, an increase of K 0.2 million on the Budget.

Transfers to Statutory Authorities are expected to be K221.6 million in 2007, the same as at Budget.

Total interest expense for 2007 is estimated to be K387.9 million, compared to the Budget estimate of K475.9 million. The lower than estimated interest expense is mainly due to the reduction in the stock of public debt arising from the K430.2 million Budget surplus in 2006.

Net lending to Commercial Statutory Authorities (CSA) is expected to be K4.0 million in 2007, the same as at Budget.

Development expenditure in 2007 is expected to be K1,586.8 million, K49.8 million below the Budget estimate of K1,636.6 million. This reflects lower expected draw downs on infrastructure tax credits by companies.

Table 7: Development Expenditure 2006 - 2007 (Kina Million)

	2006 Actual	2007 Budget	2007 MYEFO
Domestic Funding	471.2	509.1	509.1
Donor Project Grants	914.6	879.1	879.1
Infrastructure Tax Credit	23.3	85.4	35.6
Loans	150.4	163.0	163.0
<i>Concessional</i>	<i>150.4</i>	<i>163.0</i>	<i>163.0</i>
<i>Commercial</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
Total Development Expenditure	1,559.5	1,636.6	1,586.8

Source: Department of Treasury

1.5 FINANCING

Assuming no policy change, the expected budget surplus of K1,206.6 million in 2007, compared with the original budget deficit estimate of K35.0 million, means that the total financing requirement for 2007 will be eliminated and replaced with a net repayment of debt.

Net external financing for 2007 is expected to remain unchanged from Budget, an outflow of K83.7 million. However, net domestic financing is expected to show an outflow of K1,122.9 million compared with the projected inflow of K118.7 million estimated in the 2007 Budget. This change reflects the expected Budget surplus in 2007, which will eliminate the financing requirement.

1.6 RISKS TO THE MYEFO OUTLOOK

The forecasts of revenues and expenditures in this Report incorporate assumptions and judgments based on information available at the time of publication. A range of factors may influence the final budget outcome for 2007. For example, revenue could be significantly affected by changes in commodity prices, other economic conditions and production levels due to supply disruptions. In particular, volatile commodity prices represent the key risk to the revenue forecasts which could be in either direction. Expenditure forecasts could vary due to underspends, new appropriations, changes under standing appropriations and the realization of certain contingent liabilities.

Contingent liabilities differ from fiscal risks in that they are generally more readily quantifiable and clearly defined. Contingent liabilities are defined as costs the Government will have to face if a particular event occurs. They include loan guarantees, non-loan guarantees, warranties, indemnities, uncalled capital and letters of comfort.

Given the stimulus provided by the commodity boom, combined with increased levels of government expenditure and excess liquidity in the financial system, inflation could be higher than currently expected if policies are not adopted to contain inflationary pressure.

For all the above reasons some degree of uncertainty is attached to estimates of both revenues and expenses. While MYEFO estimates are prepared with the benefit of knowing some revenue outcomes for the early months of the Budget year, which in general tend to reduce forecast errors, substantial uncertainties nevertheless remain.

1.7 2008 AND BEYOND

The upgraded economic and fiscal forecasts for 2007 and the commodity assumptions that underlie them will impact on 2008 and beyond. Economic and fiscal projections for the period 2008 to 2012 will be updated in the 2008 Budget. These projections will incorporate updated forecasts and decisions taken by the incoming Government concerning the 2008 Budget.

FISCAL OUTTURN TABLES

Treasury publishes fiscal outturn reports on a monthly basis. The last report was issued for May 2007. The following tables provide the MYEFO estimated outturn for 2007 consistent with the presentation in the monthly reports. This presentation is consistent with the 1986 GFS cash reporting classification for the Government sector. The variance is relative to the estimates published in the 2007 Budget.

MYEFO 2007

TABLE 8: CENTRAL GOVERNMENT REVENUE & GRANTS (K million)

	2006 Outcome	2007 Budget	2007 MYEFO	Variance
A. TAX REVENUE	4,944.8	4,129.9	5,240.7	1,110.8
A1. TAX ON INCOME AND PROFITS	3,823.5	3,071.6	4,004.7	933.1
Personal Income Tax	907.0	890.3	975.1	84.8
Company Tax	550.6	511.7	616.5	104.8
Dividend Withholding Tax	200.9	168.1	178.3	10.2
Interest Withholding Tax	22.1	21.9	21.4	-0.5
Mining and Petroleum Taxes	1,946.5	1,292.8	2,050.0	757.2
Gaming Tax	104.0	106.0	79.8	-26.2
Other: Direct	92.4	80.8	83.7	2.9
A2. DOM. TAXES ON GOODS AND SERVICES	784.3	758.0	850.4	92.4
Excise	324.1	309.8	331.9	22.1
GST	401.1	420.0	482.4	62.4
Mining Levy	56.1	25.6	33.9	8.3
Other: Indirect	3.0	2.6	2.2	-0.4
A3. TAXES ON INTERNATIONAL TRADE	337.0	300.3	385.6	85.3
Import Duty	90.4	96.9	112.6	15.7
Export Duty	162.6	118.0	173.0	55.0
Excise duties on Imports	84.0	85.4	100.0	14.6
B. NON-TAX REVENUE	428.8	327.2	473.1	145.9
B1. PROPERTY INCOME	339.3	242.8	377.3	134.5
Dividends	68.1	73.5	73.5	0.0
Mining and Petroleum Dividends	271.2	169.3	303.8	134.5
B2. INTEREST AND FEES FROM LENDING	0.6	2.6	2.6	0.0
B3. OTHER NON TAX REVENUE	88.9	81.8	93.2	11.4
B4. ASSETS SALES	0.0	0.0	0.0	0.0
C. TOTAL REVENUE	5,373.5	4,457.1	5,713.8	1,256.7
% of GDP	31.1%	24.9%	31.0%	6.1%
D. INFRASTRUCTURE TAX CREDIT	23.3	85.4	35.6	-49.8
E. GRANTS	914.6	879.1	879.1	0.0
Budgetary Support	0.0	0.0	0.0	0.0
Project Grants	914.6	879.1	879.1	0.0
F. TOTAL REVENUE AND GRANTS	6,311.4	5,421.6	6,628.5	1,206.9
As % of GDP	36.5%	30.3%	35.9%	5.6%
G. PRINCIPAL RECEIPTS FROM LENDING	4.2	6.0	6.0	0.0
H. GROSS BORROWING	1,183.3	2,277.7	1,036.1	-1,241.6
I. ASSET SALES	0.0	0.0	0.0	0.0
J. TOTAL RECEIPTS	7,498.9	7,705.3	7,670.6	-34.7
As % of GDP	43.4%	43.1%	41.6%	-1.5%

Source: Treasury

TABLE 9: CENTRAL GOVERNMENT EXPENDITURE (K million)

	2006 Outcome	2007 Budget	2007 MYEFO	Variance
1. RECURRENT BUDGET				
A. NATIONAL DEPARTMENTS	2,347.8	1,929.2	2,032.1	102.9
Personal Emoluments	698.0	816.2	848.2	32.0
Total Goods & Services	967.9	1,112.9	1,183.9	71.0
General Goods & Services	786.6	948.4	919.3	-29.1
Education Subsidies	42.4	43.0	143.0	100.0
Arrears Payments	33.9	0.0	0.0	0.0
SAP Payments	30.3	69.6	69.6	0.0
Court Orders	74.7	52.0	52.0	0.0
Gas Project Acquisition		0.0	0.0	0.0
Supplementary Budget	682.0	0.0	0.0	0.0
B. PROVINCIAL GOVERNMENTS	765.2	696.6	696.6	0.0
Personal Emoluments	662.5	576.0	576.0	0.0
Staffing Grants	191.3	156.4	156.4	0.0
Teachers Salaries	471.2	419.6	419.6	0.0
Goods & Other Services	65.1	63.4	63.4	0.0
Administration Grants	21.3	14.2	14.2	0.0
Health Function Grant	11.5	13.4	13.4	0.0
Education Subsidies	20.6	21.6	21.6	0.0
Derivation Grants	11.7	14.2	14.2	0.0
Conditional Grants	37.5	57.2	57.2	0.0
Trans/Infra/Maint. Grants	14.4	15.3	15.3	0.0
Local & Village Services Grants	16.5	32.5	36.7	4.2
Town & Urban Services Grants	6.6	7.2	3.0	-4.2
Village Courts		2.2	2.2	0.0
Autonomous Bougainville Govt	46.5	50.7	50.9	0.2
Police Grant	2.0	2.5	2.1	-0.4
Recurrent Grant	44.5	48.0	48.6	0.6
Conditional Grants		0.2	0.2	0.0
C. TRANSFERS TO STATUTORY INSTITUTIONS	234.3	221.6	221.6	0.0
D. INTEREST PAYMENT & FEES	307.0	475.9	387.9	-88.0
Domestic	187.1	358.8	275.0	-83.8
External	119.9	117.1	112.9	-4.2
E. NET LENDING TO COMMERCIAL STATUTORY AUTHORITIES	-4.2	-4.0	-4.0	0.0
Gross Lending	0.0	0.0	0.0	0.0
Less : Loan Repayments	4.2	4.0	4.0	0.0
F. RECURRENT EXPENDITURE & NET LENDING	3,696.6	3,370.0	3,385.1	15.1
As % of GDP	21.4%	18.8%	18.3%	-0.5%

TABLE 9: CENTRAL GOVERNMENT EXPENDITURE (K million)

	2006 Outcome	2007 Budget	2007 MYEFO	Variance
2. DEVELOPMENT BUDGET				
Domestic Funds	471.2	509.1	509.1	0.0
Project Grants	914.6	879.1	879.1	0.0
Infrastructure Tax Credits	23.3	85.4	35.6	-49.8
Concessional loans	150.4	163.0	163.0	0.0
Commercial loans	0.0	0.0	0.0	0.0
G. TOTAL DEVELOPMENT BUDGET (PIP)	1,559.5	1,636.6	1,586.8	-49.8
As % of GDP	9.0%	9.2%	8.6%	-0.6%
ADDITIONAL PRIORITY EXPENDITURE	625.0	450.0	450.0	0.0
H. TOTAL EXPENDITURE & NET LENDING	5,881.2	5,456.6	5,421.9	-34.7
As % of GDP	34.1%	30.5%	29.4%	-1.1%
I. AMORTISATION	1,625.5	2,242.7	2,242.7	0.0
Domestic	1,255.0	1,996.0	1,996.0	0.0
External	370.5	246.7	246.7	0.0
J. LOAN REPAYMENTS	4.2	4.0	4.2	0.2
K. TOTAL PAYMENTS	7,510.9	7,703.3	7,668.8	-34.5
As % of GDP	43.5%	43.1%	41.6%	-1.5%

Source: Treasury

TABLE 10: CENTRAL GOVERNMENT FINANCING (K million)

	2006 Outcome	2007 Budget	2007 MYEFO	Variance
A. TOTAL REVENUE AND GRANTS	6,311.4	5,421.6	6,628.5	1,206.9
B. TOTAL EXPENDITURE AND NET LENDING	5,881.2	5,456.6	5,421.9	-34.7
C. DEFICIT (-) / SURPLUS (+)	430.2	-35.0	1,206.6	1,241.6
% of GDP	2.5%	-0.2%	6.5%	6.7%
D. EXTERNAL FINANCING	-220.1	-83.7	-83.7	0.0
D1. CONCESSIONAL FINANCING	52.8	-4.3	-4.3	0.0
New Borrowing	150.4	163.0	163.0	0.0
Less Amortisation	-97.6	-167.3	-167.3	0.0
D2. COMMERCIAL FINANCING	-16.6	-18.2	-18.2	0.0
New Borrowing	0.0	0.0	0.0	0.0
Less Amortisation	-16.6	-18.2	-18.2	0.0
D3. EXCEPTIONAL FINANCING	-256.3	-61.2	-61.2	0.0
New Borrowing	0.0	0.0	0.0	0.0
Less Amortisation	-256.3	-61.2	-61.2	0.0
E. DOMESTIC FINANCING	-310.2	118.7	-1,122.9	-1,241.6
E1. DOMESTIC MARKET BORROWING (NET)	-326.5	118.7	-1,122.9	-1,241.6
New Domestic Borrowing	928.4	2,114.7	873.1	-1,241.6
Less Amortisation	-1,255.0	-1,996.0	-1,996.0	0.0
E2. OTHER DOMESTIC FINANCING	16.4	0.0	0.0	0.0
E3. ASSETS SALES FINANCING	0.0	0.0	0.0	0.0
E4. NET FINANCING	-530.2	0.0	-1,206.6	-1,206.6
F. TOTAL FINANCING		35.0	-1,206.6	-1,241.6
G. GROSS BORROWING	1,095.3	2,277.5	1,036.1	-1,241.6
Concessional	150.4	163.0	163.0	0.0
Commercial	0.0	0.0	0.0	0.0
Exceptional	0.0	0.0	0.0	0.0
Domestic	944.8	2,114.7	873.1	-1,241.6
Financing Gap	0.0	0.0	0.0	0.0

Source: Treasury

PART 2

2006 SUPPLEMENTARY BUDGET AND 2007 BUDGET ADDITIONAL PRIORITY EXPENDITURE STATUS OF TRUST ACCOUNTS

The 2006 supplementary budget and the 2007 Budget additional priority expenditures provided for an additional K1,782.5 million of expenditure over the two years. However, it was evident at the time that these funds would not be able to be appropriately and effectively spent in such a short time. For this reason, trust accounts were established in order to spread the actual expenditure of the funds over a longer time period.

There are sound economic and cost effectiveness reasons for this approach. Unless this large amount of infrastructure spending continues to be properly planned, costed and staged there remains a substantial risk that the funds will be wasted through rising costs and poor implementation.

As of 31 May 2007, of the K1,782.5 million allocated, K788.7 million of supplementary budget and priority expenditures appropriations has been spent, K0.5 million lapsed and K572.2 million (including the additional K100m provided for the Gas Pipeline project) remains in trust accounts for expenditure on approved projects while K421.1 million has yet to be spent or transferred. As at 31 May 2007, K29.1million had been expended from the trust accounts by the responsible agencies on approved projects.

Of the K788.7million* already spent from the supplementary budget and priority expenditures the main areas of expenditure are as follows:

- Prepayment of expensive loans – K100 million.
- Equity injections for State Owned Enterprises - K130 million.
- District services and infrastructure improvements – K275 million (see Table 11).
- Outstanding and ongoing Memorandum Of Agreement commitments – K65 million (see Table 12).
- The remaining K213 million has been spent on a variety of public sector needs (see Table 13).

* There is an unreconciled difference of K5 million between the K788.7 million spent and the detailed breakdown.

It should be noted that while the transfer of funds from the Consolidated Revenue Fund (CRF) to the Trust Fund is for accounting purposes recorded as an expenditure from the CRF, the real impact on the economy occurs when goods and services are purchased to implement the approved projects. In this respect it is important to monitor spending on projects to assess whether supply constraints and inflationary pressures are emerging.

Table 11: District Services and Infrastructure Improvements

	K,000
ADB Navigational Aids	7,400
Gazelle Restoration	9,600
Road and Bridge Maintenance	22,000
Napanapa Road link	5,000
Economic Program Water Upgrade (EPWU)	3,000
Provincial Education Improvement Program (PEIP)	7,000
District Education Improvement Program (DEIP)	8,900
Commodity Roads Improvement Program (CRIP)	20,000
District Transport Improvement Program (DTIP)	44,500
District Health Improvement Program (DHIP)	8,900
Economic Project Power Upgrade (EPPU)	8,000
Rural electrification	4,000
District Treasury Roll out	42,000
District Vessel Program	5,000
Prov and Nat Schools	7,000
Manam Resettlement Program	4,000
Buka Ring road	10,000
Bana High School	3,000
District water supply	9,000
Gurney airport	2,000
Airport Rehabilitation	10,000
Outstanding District Development Program	13,900
Outstanding District Support Grant	4,000
Special District Development Grant	4,900
Integrated Government Information System	1,500
Court House Upgrade	9,000
Border Facilities Upgrade	1,000
Moitaka Wildlife Study	500
Public Accounts Committee	300
Total	275,400

Table 12: Outstanding and Ongoing Memorandum of Agreement

	K,000
Gobe MOA-Gulf SH Road	12,700
Moran Liason Project	5,000
Outstanding MOA(Gas proj)	26,300
Additional Ongoing Special Support Grants	21,000
Total	65,000

Table: 13 Other Supplementary Budget & Priority Expenditure

	K,000
Highlands Highway	70,000
Improved Conditions Solicitor Gen Staff	3,000
Juvenile Detention Centre	2,000
Land Tribunal	2,500
Cocoa Pod	10,000
Security operation Southern Highlands Province	8,000
Increase Secretarys Advance Vote	20,000
Commission of Inquiry-Department of Finance	3,700
Leadership Tribunal	2,800
Court orders	5,000
Prime Minister & National Executive Council	3,330
Police payrise	8,000
Members retirement benefit	3,700
National Parliament Allowance	6,000
Performance Based Salary System Payments (Teachers)	14,885
Church Health Workers	9,700
Urbanisation Policy	2,450
Disabled Rehabilitation	1,100
Close of Accounts Transfers	27,000
Outstanding Payments to Bouganville Resistance Fighters	10,000
Total	213,165

The following table shows the balance in each Trust Account and the amount of funds expended from the Trust Accounts on approved projects by responsible agencies up to 31 May 2007.

Table 14: Allocation of Funds to Trust Accounts for Approved Projects 2006 - 2007 (Kina Million)(a)

AGENCY	Trust Account Balance As at 31 May 2007	Expenditure on Approved Projects to 31 May 2007
National Parliament		
<i>National Parliament Infrastructure Rehabilitation Project</i>	0	0
Department of Finance		
<i>Resettlement of Volcano Victims Project</i>	20.0	0
Department of Justice and Attorney General		
<i>Law and Justice Sector Infrastructure Rehabilitation Project</i>	0	0
Department of Police		
<i>Outstanding Personal Benefits Police</i>	3.0	17.0
<i>Police Housing Rehabilitation Project</i>	48.5	1.5
Department of National Planning & Monitoring		
<i>Strategic District Markets Infrastructure Project</i>	0	0
<i>PNG Gas Project Business Development</i>	15.0	0
Department of Education		
<i>Education Sector Infrastructure Rehabilitation</i>	0	0
<i>Kubalia High School Infrastructure Rehabilitation Project</i>	2.0	0
<i>Outstanding Personal Benefits Teachers</i>	45.1	0
Office of Higher Education		
<i>Higher Education Sector Infrastructure Rehabilitation</i>	0	0
Department of Health		
<i>Hospital and Health Care Centre Rehabilitation Projects</i>	167.5	2.5
<i>Nurses Housing Rehabilitation Project</i>	15.0	0
Department of Agriculture		
<i>Agricultural Sector Development Projects</i>	26.9	8.1
Department of Transport		
<i>Transport Sector Infra Maintenance and Rehabilitation</i>	41.0	0
<i>Highlands Highway Rehabilitation</i>	35.0	0
National Broadcasting Commission		
<i>National Broadcasting Commission Rehabilitation of Infrastructure Project</i>	8.9	0
Civil Aviation Authority		
<i>Airport Repairs and Upgrades Project</i>	20.0	0
Total	447.9	29.1

Source: Department of Treasury

The table does not include the Gas Pipeline Project Equity which is held in a Trust Account as most of the allocation was made in an additional appropriation for 2005 which accompanied the 2006 Budget with an additional K100 million being allocated as additional priority expenditure in 2006.

PART 3

MID YEAR EXPENDITURE ESTIMATES BY AGENCY

Since the Budget, the Government has made decisions that have revenue and expenditure implications for agencies in 2007.

The following revenue decision has been taken by the Government since the 2007 Budget:

- Lowering gaming tax from 76 per cent to 49 per cent with effect from June 2007.

Table 15: Revenue Decision since the 2007 Budget (Kina Million)

	2007 MYEFO
Internal Revenue Commission	-26.2
Total	-26.2

As the current appropriation acts are the only available source of funds, within year expenditure decisions must be funded from the existing appropriations. That is, offsetting savings must be identified from existing appropriations.

The following funded expenditure decision has been taken by the Government since the 2007 Budget:

- A one off K100 million for education subsidies in 2007.

The following table identifies the impact of this decision by agency:

Table 16: Funded Expenditure Decisions since the 2007 Budget (Kina Million)

AGENCY	2007 MYEFO
Funded New Expenditure	
Department of Education	100
Total	100
Offsetting Savings	
Department of Treasury (Division 207)	-25.0
Department of Treasury (Division 299)	-65.0
National Roads Authority	-10.0

2007 Budget Execution

The issue of warrants by Treasury governs the rate and timing of expenditure by agencies. In managing the issue of warrants Treasury must balance the management of the Government's overall cash requirement with the requirement of agencies for cash to deliver their authorized programs.

As of the 31 May 2007, a total of K4,377 million of warrants had been issued. This represents 65 per cent of the total appropriation of K6,739 million for 2007.

Some K2,654 million of the warrants issued are for debt servicing. Excluding this, up to 31 May 2007, a total of K1,724 million warrants had been issued, representing 43 per cent of the total non-debt servicing appropriation for 2007.

To 31 May 2007, warrants issued from the recurrent budget totaled K3,965 million, representing 65 per cent of the full-year recurrent appropriation of K6,067 million in 2007. Excluding debt servicing, K1,311 million had been issued, representing 38 per cent of the total.

To 31 May 2007, warrants issued from the domestically funded Development Budget were K412 million, representing 61 per cent of the full-year appropriation of K672.1 million for 2007. The large proportion of warrants issued so far reflects the frontloading policy undertaken by the Treasury Department, which aims at releasing warrants early in the year, in order to facilitate early project implementation and prevent significant under spending.

Early release has also been implemented with District Grant warrants. The complete appropriation for 2007 of K108.5 million of District Grant warrants was issued before the end of April 2007. This included K27.25 million of District Support Grants, K35.6 million of District Transport and Infrastructure Program grants, K35.6 million of District Service Improvement Program Grants and K10 million of Less Developed District Grants.

The tables below provide the amounts of warrant issued to agencies up to 31 May 2007.

REALLOCATIONS OF APPROPRIATED FUNDS

The annual appropriation Act for recurrent expenditure provides in Sections 3 and 4 that in certain circumstances there may be a reallocation of funds appropriated to agencies at the discretion of the Secretary of the Treasury.

In practice, this discretion allows unexpended appropriation to be reallocated through the Secretary's Advance to meet the cost of new services or insufficiently funded services up to the limit of the Secretary's Advance (Section 3 transfers), or reallocated between services subject to an overall limit of ten per cent of the total appropriated for recurrent expenditure (Section 4 transfers).

To 31 May 2007, some K776.2 million has been reallocated through these mechanisms. K455.6 million has related to transfers between items within the total appropriation for an agency. Some K301.0 million has related to transfers between agencies. A further K19.6 million has been allocated through the Secretary's advance.

The MYEFO estimate in the tables below will reflect the reallocations made through these mechanisms up to 31 May 2007. Details are also provided of payments made from the Secretary's Advance up to 31 May 2007.

TABLE 17: NATIONAL DEPARTMENTS RECURRENT EXPENDITURE MYEFO 2007

Division	Agency	2006	2007	Warrant	Expenditure	2007	Variance(a)
		Outcome	Budget	Issued to 31 May 2007	to 31 May 2007	MYEFO	
201	National Parliament	77,299,200	65,346,200	37,383,700	35,883,700	70,346,200	5,000,000
202	Office of the Governor-General	3,835,449	2,314,800	1,046,400	1,155,876	2,429,800	115,000
203	Department of the Prime Minister & NEC	62,314,939	48,945,300	27,597,900	21,319,784	55,122,800	6,177,500
204	National Statistical Office	3,242,785	3,438,600	1,857,800	1,712,152	3,438,600	0
205	Bougainville Peace and Restoration Office	2,100,567	1,233,100	596,650	472,853	1,253,100	20,000
206	Department of Finance	17,434,765	17,388,100	6,004,600	5,396,330	18,087,200	699,100
207	Department of Finance & Treasury – Miscellaneous	1,094,279,047	977,274,000	148,596,000	107,276,729	843,924,600	--133,349,400
208	Department of Treasury	8,352,747	9,192,800	3,915,400	2,775,341	9,803,800	611,000
209	Office of the Registrar for Political Parties	3,596,022	4,380,300	2,979,900	1,139,527	4,380,300	0
212	Information Technology Division	9,987,023	11,827,900	5,095,300	2,321,033	11,827,900	0
213	PNG Fire Services	11,534,502	11,072,300	4,696,900	3,711,464	11,702,300	630,000
216	Internal Revenue Commission	37,779,738	40,797,600	20,425,900	12,975,299	44,397,600	3,600,000
217	Department of Foreign Affairs & Immigration	44,488,965	51,956,400	22,621,200	21,845,666	52,019,200	62,800
219	PNG Institute of Public Administration	3,963,591	4,423,600	1,927,500	1,571,792	4,423,600	0
220	Department of Personal Management	14,884,643	8,430,200	3,499,550	1,904,506	12,635,100	4,204,900
221	Public Service Commission	2,448,974	2,429,900	1,171,300	932,847	2,469,400	39,500
223	Judiciary Services	36,912,000	38,812,000	16,500,000	16,500,000	38,812,000	0
224	Magisterial Services	20,082,000	21,228,300	8,800,000	8,800,000	21,228,300	0
225	Department of Attorney General	28,285,446	22,675,400	10,684,500	7,131,954	23,675,400	1,000,000
226	Department of Correctional Services	51,565,696	53,350,000	25,809,600	17,615,785	55,650,000	2,300,000
227	Provincial Treasuries	24,450,743	24,075,500	11,765,400	8,479,810	24,075,500	0
228	Department of Police	161,721,047	167,691,400	105,551,400	74,078,491	217,691,400	50,000,000
229	Department of National Planning & Monitoring	12,717,627	7,573,300	2,981,475	3,022,915	7,573,300	0
230	Electoral Commission	39,634,695	86,558,600	46,745,000	26,922,756	86,558,600	0
231	National Intelligence Organisation	2,059,875	2,901,500	1,598,700	942,623	3,001,500	100,000
232	Department of Provincial & Local Government Affairs	8,564,310	8,870,000	3,948,200	2,589,868	8,870,000	0
234	Department of Defence	93,698,885	91,238,700	43,667,600	36,270,799	97,860,300	6,621,600
235	Department of Education	127,019,104	126,351,300	109,259,000	56,629,258	226,351,300	100,000,000
236	Office of Higher Education	33,810,200	32,732,200	14,176,700	13,964,344	34,217,000	1,484,800
240	Department of Health	112,194,602	129,941,000	68,573,200	43,513,185	128,289,200	-1,651,800
241	Hospital Management Services	185,660,189	171,399,500	92,199,700	90,177,701	171,566,500	167,000
242	Department of Community Development	7,593,291	8,159,000	3,547,000	3,433,404	8,159,000	0
245	Department of Environment & Conservation	5,808,699	7,968,700	3,681,400	2,530,437	7,968,700	0
247	Department of Agriculture & Livestock	12,931,731	11,965,700	4,120,900	6,544,761	11,965,700	0
252	Department of Lands & Physical Planning	12,762,029	11,561,100	6,352,700	5,755,719	12,735,100	1,174,000
254	Department of Mining	5,875,779	6,606,200	2,912,000	2,066,536	6,606,200	0
255	Department of Petroleum &	10,033,906	9,810,900	4,066,800	3,439,083	9,810,900	0

Energy							
258	Department of State Enterprises & Information	3,516,717	1,962,200	1,395,700	864,818	2,462,200	500,000
259	Department of Transport	15,755,640	16,210,900	7,512,200	4,821,733	17,010,900	800,000
261	Department of Trade & Industry	7,799,880	7,412,500	3,469,600	2,788,288	7,572,500	160,000
262	Department of Industrial Relations	5,914,839	6,414,100	2,854,900	2,543,503	6,414,100	0
263	National Tripartite Consultative Council	453,931	506,600	249,400	179,958	506,600	0
264	Department of Works & Implementation	43,306,722	41,087,600	16,234,300	15,339,651	41,087,600	0
267	Office of Rural Development	1,274,960	2,559,900	1,258,900	1,352,574	3,809,900	1,250,000
268	Central Supply & Tenders Board	827,196	1,060,700	444,000	328,900	1,060,700	0

Source: Department of Treasury

(a) Variance is the MYEFO estimate relative to the 2007 Budget estimate.

TABLE 18: STATUTORY AUTHORITIES RECURRENT EXPENDITURE MYEFO 2007

Division	Agency	2006	2007	Warrant	Expenditure	2007	Variance(a)
		Outcome	Budget	Issued to 31 May 2007	to 31 May 2007	MYEFO	
502	Auditor General's Office	8,932,300	11,000,000	4,260,500	4,260,500	11,000,000	0
503	Ombudsman Commission	9,400,000	11,000,000	4,260,500	4,260,500	11,000,000	0
505	National Research Institute	2,464,500	2,489,100	1,029,600	1,029,600	2,489,100	0
506	National Training Council	890,361	2,227,200	947,600	947,600	2,227,200	0
507	National Economic & Fiscal Commission	856,939	1,145,600	485,700	181,652	1,145,600	0
508	National Gaming Control Board	3,686,400	3,699,200	1,568,100	1,568,100	3,699,200	0
510	Legal Training Institute	757,300	975,200	473,800	473,800	975,200	0
512	University of Papua New Guinea	30,849,851	30,382,300	12,773,800	12,773,800	30,382,300	0
513	University of Technology	29,878,800	29,000,000	11,358,200	11,358,200	29,000,000	0
514	University of Goroka	10,352,620	11,088,600	4,563,600	4,563,600	11,088,600	0
515	University of Vudal	6,931,800	5,791,100	2,766,600	2,766,600	5,791,100	0
516	PNG Sports Commission	2,550,000	4,075,500	2,418,700	2,468,700	4,375,500	300,000
517	National Narcotics Bureau	81,934	1,625,400	241,000	240,980	1,625,400	0
518	PNG Maritime College	2,462,000	2,521,000	1,067,600	1,067,600	2,521,000	0
519	National Aids Council Secretariat	4,125,400	5,436,300	1,934,900	1,934,900	5,436,300	0
520	Institute of Medical Research	2,888,200	3,036,600	1,233,900	1,233,900	3,036,600	0
521	National Youth Commission	1,717,700	1,347,800	571,200	571,200	1,347,800	0
522	Constitutional & Law Reform Commission	1,736,810	1,717,000	983,900	1,151,491	1,717,000	0
525	National Broadcasting Commission	12,464,600	12,654,200	5,552,100	5,552,100	12,654,200	0
526	National Maritime Safety Authority	1,300,100	1,313,000	544,100	544,100	1,313,000	0
530	Investment Promotion Authority	1,886,700	1,464,200	726,600	726,600	1,464,200	0
531	Small Business Development Corporation	2,384,900	2,135,900	886,400	886,400	2,135,900	0
532	National Institute of Standards & Industrial Technology	1,356,800	1,382,300	687,900	687,900	1,382,300	0
533	Industrial Centres Development Corporation	1,397,400	1,411,400	659,400	659,400	1,411,400	0
539	National Museum & Art Gallery	3,351,800	3,099,700	1,951,000	1,738,300	3,099,700	0
541	National Housing Commission	206,000	208,100	103,800	103,800	208,100	0
542	National Cultural Commission	4,367,400	3,008,100	1,192,000	1,152,000	3,008,100	0
550	Cocoa Coconut Institute	17,728,600	4,775,900	2,148,000	2,148,000	4,775,900	0
553	Fresh Produce Development Company (Ltd)	2,818,000	2,846,200	1,085,900	1,085,900	2,846,200	0
557	National Forest Authority	29,059,000	24,207,900	17,075,300	16,755,300	30,207,900	6,000,000
558	Tourism Promotion Authority	8,268,900	8,149,600	3,640,200	3,640,200	8,149,600	0
562	National Agriculture Research Institute	6,219,500	6,281,700	2,538,300	2,538,300	6,281,700	0
563	Nat. Agriculture Quarantine & Inspection Authority	2,267,300	2,742,000	2,140,000	2,140,000	5,492,000	2,750,000
565	Civil Aviation Authority	17,291,100	15,174,000	7,081,400	7,081,400	15,174,000	0
567	National Road Authority	0	829,400	184,000	184,000	829,400	0
569	Independent Consumer and Competition Commission	1,400,518	1,377,500	593,600	593,600	1,377,500	0

Source: Department of Treasury

(a) Variance is the MYEFO estimate relative to the 2007 Budget estimate.

TABLE 19: PROVINCIAL GOVERNMENTS RECURRENT EXPENDITURE MYEFO 2007

Division	Agency	2006 Outcome	2007 Budget	Warrant Issued to 31 May 2007	Expenditure to 31 May 2007	2007 MYEFO	Variance(a)
571	Western Provincial Government	32,720,298	35,104,100	12,181,900	11,921,208	35,104,100	0
572	Gulf Provincial Government	18,721,920	20,182,600	9,271,700	7,528,785	20,182,600	0
573	Central Provincial Government	41,239,709	37,808,100	14,499,593	14,499,593	37,808,100	0
574	National Capital District	2,803,200	2,955,300	1,436,800	1,436,800	2,955,300	0
575	Milne Bay Provincial Government	40,051,318	37,629,700	14,363,118	14,363,118	37,629,700	0
576	Oro Provincial Government	24,114,143	22,677,400	9,148,500	8,233,806	22,677,400	0
577	Southern Highlands Provincial Government	68,040,663	58,280,300	22,242,379	22,242,379	58,280,300	0
578	Enga Provincial Government	42,425,417	39,970,600	15,073,221	15,073,221	39,970,600	0
579	Western Highlands Provincial Government	60,037,314	48,979,000	19,804,425	19,804,425	49,179,000	200,000
580	Simbu Provincial Government	45,125,548	37,814,400	13,659,877	13,659,877	37,814,400	0
581	Eastern Highlands Provincial Government	59,990,786	47,775,300	20,987,660	20,987,660	47,775,300	0
582	Morobe Provincial Government	68,039,076	70,457,700	23,678,260	23,678,260	70,457,700	0
583	Madang Provincial Government	45,261,859	40,087,700	17,258,492	17,258,492	40,087,700	0
584	East Sepik Provincial Government	50,471,097	40,971,000	17,294,891	17,294,891	40,971,000	0
585	Sandaun Provincial Government	31,623,344	32,069,600	13,239,900	10,865,134	32,069,600	0
586	Manus Provincial Government	15,465,353	14,748,700	7,082,300	6,331,998	14,748,700	0
587	New Ireland Provincial Government	28,449,392	25,247,800	8,850,123	8,850,123	25,247,800	0
588	East New Britain Provincial Government	44,350,777	48,214,900	16,666,920	16,666,920	48,214,900	0
589	West New Britain Provincial Government	38,243,039	35,631,800	14,966,600	14,453,582	35,631,800	0
590	Autonomous Bougainville Government	46,961,282	50,709,500	27,865,500	25,514,300	50,709,500	0

Source: Department of Treasury

(a) Variance is the MYEFO estimate relative to the 2007 Budget estimate.

TABLE 20: NATIONAL DEPARTMENTS DEVELOPMENT EXPENDITURE MYEFO 2007

Division	Agency	2006 Outcome	2007 Budget	Warrant	Expenditure	2007 MYEFO	Variance(a)
				Issued to 31 May 2007	to 31 May 2007		
201	National Parliament	3,700,000	2,810,100	0	0	2,810,100	0
203	Department Of Prime Minister & NEC	2,140,000	5,777,000	0	0	5,777,000	0
204	National Statistical Office	1,700,000	3,852,600	1,800,000	1,600,000	3,852,600	0
206	Department Of Finance	1,877,311	17,213,500	5,500,000	8,599,619	19,713,500	2,500,000
207	Treasury And Finance - Miscellaneous	15,000,000	0	2,800,000	2,800,000	2,800,000	2,800,000
216	Internal Revenue Commission	0	0	0	0	0	0
217	Department Of Foreign Affairs	0	0	0	0	0	0
220	Department Of Personal Management	1,996,414	2,000,000	900,000	182,296	2,000,000	0
221	Public Service Commission	0	0	0	0	0	0
223	Judiciary Services	0	0	0	0	0	0
226	Department Of Corrective Institutional Services	0	0	0	0	0	0
228	Department Of Police	0	0	0	0	0	0
229	Department Of National Planning And Monitoring	250,552,405	557,017,000	40,844,000	22,378,827	478,571,000	-78,446,000
230	Electoral Commission	0	6,687,100	0	0	6,687,100	0
232	Provincial And Local Government Affairs	1,000,000	14,715,600	250,000	115,216	14,715,600	0
234	Department Of Defence	1,999,229	3,000,000	3,000,000	620,409	3,000,000	0
235	Department Of Education	2,977,481	88,099,800	4,240,000	1,821,698	88,099,800	0
236	Office of Higher Education	0	500,000	0	0	500,000	0
240	Department Of Health	2,500,000	115,671,800	2,800,000	1,000,000	115,671,800	0
242	Department Of Community Development	3,931,934	13,939,400	2,780,000	2,791,727	13,939,400	0
245	Department Of Environment And Conservation	1,910,000	1,900,000	380,000	0	1,900,000	0
247	Department Of Agriculture And Livestock	2,703,288	8,428,300	2,074,000	2,049,219	8,428,300	0
252	Department Of Lands And Physical Planning	499,560	2,300,000	500,000	73,282	2,300,000	0
254	Department Of Mining	5,826,497	34,481,600	5,075,000	1,324,007	34,481,600	0
255	Department Of Petroleum And Energy	64,999,344	31,300,000	33,700,000	22,051,995	41,200,000	9,900,000
258	State Enterprises, Information And Comm.	1,307,458	0	0	0	0	0
259	Department Of Transport	14,899,760	12,039,000	6,200,000	4,813,269	12,039,000	0
261	Department Of Trade And Industry	957,958	2,800,000	1,789,000	1,009,408	2,775,000	-25,000
263	National Tripartite Consultative Council	0	0	0	0	0	0
264	Department Of Works And Implementation	233,229,347	313,797,100	82,700,000	66,007,149	313,797,100	0
267	Office Of Rural Development	53,890,282	27,250,000	108,450,000	108,450,000	108,450,000	81,200,000

Source: Department of Treasury

(a) Variance is the MYEFO estimate relative to the 2007 Budget estimate.

TABLE 21: STATUTORY AUTHORITIES DEVELOPMENT EXPENDITURE MYEFO 2007

Division	Agency	2006	2007	Warrant	Expenditure	2007	Variance(a)
		Outcome	Budget	Issued to 31 May 2007	to 31 May 2007	MYEFO	
505	National Research Institute	0	2,718,600	0	0	2,718,600	0
506	National Training Council	300,000	42,830,900	200,000	0	42,830,900	0
512	University Of Papua New Guinea	1,000,000	1,817,000	0	0	1,817,000	0
513	University Of Technology	1,000,000	0	0	0	0	0
514	University Of Goroka	1,000,000	5,000,000	2,500,000	2,500,000	5,000,000	0
515	University Of Vudal	1,000,000	3,176,200	1,350,000	1,350,000	3,176,200	0
519	National Aids Council Secretariat	2,800,000	88,027,500	3,270,000	3,270,000	88,027,500	0
520	Institute Of Medical Research	0	5,157,800	400,000	400,000	5,157,800	0
527	Eda Ranu	1,000,000	0	0	0	0	0
528	National Roads Safety Council	300,000	0	0	0	0	0
529	National Media Council	0	8,258,600	0	0	8,258,600	0
530	Investment Promotion Authority	1,000,000	450,000	350,000	200,000	450,000	0
531	Small Business Development Corporation	1,000,000	890,100	289,000	158,000	890,100	0
532	National Institute Of Standards & Industry	1,000,000	800,000	600,000	400,000	800,000	0
533	Industrial Centers Development Corporation	1,000,000	500,000	500,000	250,000	500,000	0
540	National Water and Sewerage Board	5,500,000	11,773,700	7,000,000	7,673,492	11,773,700	0
541	National Housing Corporation	2,000,000	1,000,000	1,000,000	350,000	1,000,000	0
542	National Cultural Commission	1,200,000	0	0	0	0	0
543	Rural Development Bank	6,000,000	6,000,000	3,000,000	2,000,000	6,000,000	0
546	PNG Power	6,300,000	1,000,000	300,000	200,000	1,000,000	0
548	PNG Harbours Board	17,000,000	6,000,000	6,000,000	3,300,000	6,000,000	0
550	Cocoa Coconut Institute	1,000,000	1,954,700	900,000	500,000	1,954,700	0
551	PNG National Fisheries Authority	2,000,000	4,854,700	0	0	4,854,700	0
552	PNG Oil Palm Research Association	0	295,600	0	0	295,600	0
553	Fresh Produce Development Company	1,100,000	2,282,100	490,000	290,000	2,282,100	0
554	PNG Coffee Industry Corporation	1,800,000	3,110,200	590,000	330,000	3,110,200	0
557	PNG National Forest Authority	500,000	1,500,000	1,500,000	1,000,000	1,500,000	0
558	Tourism Promotion Authority	500,000	4,175,000	1,475,000	950,000	4,175,000	0
562	National Agriculture Research Institute	900,000	6,903,500	800,000	600,000	6,903,500	0
563	National Agriculture Quarantine & Inspection Authority	0	500,000	250,000	150,000	500,000	0
565	Civil Aviation Authority	15,500,000	0	0	0	0	0
566	PNG Cocoa Board	0	35,500	0	0	35,500	0
568	Livestock Development Corporation	0	2,500,000	1,050,000	500,000	2,500,000	0

Source: Department of Treasury.

(a) Variance is the MYEFO estimate relative to the 2007 Budget estimate.

TABLE 22: PROVINCIAL GOVERNMENT DEVELOPMENT EXPENDITURE MYEFO 2007

Division	Agency	2006	2007	Warrant	Expenditure	2007	Variance(a)
		Outcome	Budget	Issued to 31 May 2007	to 31 May 2007	MYEFO	
571	Fly River Provincial Government	19,100,000	14,420,000	6,000,000	5,250,000	14,420,000	0
572	Gulf Provincial Government	8,950,000	5,550,000	5,550,000	5,050,000	5,550,000	0
573	Central Provincial Government	4,250,000	1,950,000	1,950,000	750,000	1,950,000	0
574	National Capital District	1,000,000	1,000,000	1,000,000	750,000	1,000,000	0
575	Milne Bay Provincial Government	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000	0
576	Oro Provincial Government	750,000	750,000	750,000	250,000	750,000	0
577	Southern Highlands Provincial Government	27,950,000	13,950,000	13,950,000	5,610,000	13,950,000	0
578	Enga Provincial Government	7,500,000	7,244,600	4,000,000	3,750,000	7,244,600	0
579	Western Highlands Provincial Government	2,000,000	2,148,900	2,000,000	1,750,000	2,148,900	0
580	Simbu Provincial Government	1,750,000	1,750,000	1,750,000	1,000,000	1,750,000	0
581	Eastern Highlands Provincial Government	2,250,000	3,250,000	2,250,000	2,250,000	3,250,000	0
582	Morobe Provincial Government	2,500,000	8,361,500	2,750,000	500,000	8,361,500	0
583	Madang Provincial Government	1,750,000	1,750,000	1,750,000	1,250,000	1,750,000	0
584	East Sepik Provincial Government	2,850,000	13,982,300	4,250,000	3,500,000	13,982,300	0
585	Sandaun Provincial Government	2,250,000	2,750,000	2,750,000	2,500,000	2,750,000	0
586	Manus Provincial Government	500,000	500,000	500,000	250,000	500,000	0
587	New Ireland Provincial Government	10,750,000	7,450,000	3,850,000	3,600,000	7,450,000	0
588	East New Britain Provincial Government	14,850,000	21,206,000	6,250,000	13,280,196	21,206,000	0
589	West New Britain Provincial Government	750,000	750,000	750,000	500,000	750,000	0
590	Bougainville Provincial Government	24,000,000	47,479,500	9,660,000	9,410,000	47,479,500	0

Source: Department of Treasury

(a) Variance is the MYEFO estimate relative to the 2007 Budget estimate.

DETAILS OF EXPENDITURE FROM AND REALLOCATIONS THROUGH SECRETARY'S ADVANCE

An amount of K20.0 million was appropriated to Secretary's Advance in the 2007 Budget. In addition, some K115.4 million have been reallocated through Secretary's Advance, sourced from anticipated underspends in certain appropriations. The following table sets out the allocations made from Secretary's Advance up to 31 May 2007.

TABLE 23: ALLOCATION OF FUNDS FROM SECRETARY'S ADVANCE IN 2007

Division	2007 Budget
207 Original Appropriation	20,000,000
Savings :	0
Natural Disaster	3,464,000
National Road Authority Maintenance	10,000,000
Retrenchment	36,944,400
Interest Payments - Treasury Bills Inscribed Stocks	25,000,000 40,000,000
 Total Funds Available From Secretary's Advance	 135,408,400
 Additional Expenditure	
Comprising:	
 Urgent Unanticipated Items	 123,474,100
<i>Security for National Election (Defence & CS allowances)</i>	7,800,000
Newcastle Disease	2,750,000
<i>Deputy Prime Minister's Office</i>	300,000
<i>Consultancy payments</i>	834,100
<i>Manam Resettlement Authority</i>	2,000,000
Manam Humanitarian Implementation Committee	2,954,000
<i>National Housing Policy Task Force</i>	500,000
<i>Lawsuit in New York</i>	1,000,000
<i>Education Subsidies</i>	100,000,000
Retrenchment payments	4,144,400
<i>Fire Emergency Services</i>	630,000
<i>FIFA Presidential visit</i>	300,000
<i>Others</i>	261,600
 Items Overlooked in the 2006 Budget	 2,500,000
<i>Financial Management Implementation Program</i>	2,500,000
 Outstanding Obligations (including Compensation Payments)	 2,486,000
<i>Peace Negotiation</i>	200,000

<i>Land Rental Payment (Jackson)</i>	470,000
<i>Customary Land purchase (Governor General House)</i>	704,000
<i>Power Bill payments</i>	312,000
<i>ICT Policy Task Force</i>	500,000
<i>Social Economic Implementation</i>	300,000
Investigations	5,882,500
<i>Finance Investigation</i>	4,270,900
<i>Pacific Balance Fund Investigation</i>	1,000,000
<i>Defence Force Investigation</i>	611,600
Additional Vehicles	160,000
<i>Replacement of Trade & Commerce Secretary's official vehicle</i>	160,000
Donations	510,000
<i>Disaster Relief for Solomon Islands</i>	510,000
