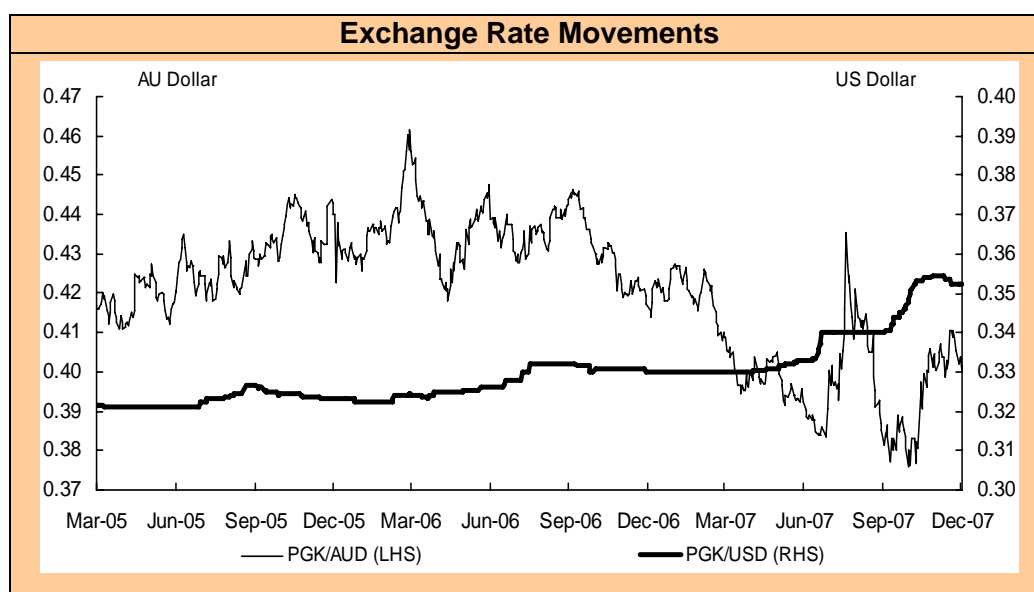




TREASURY ECONOMIC MONITOR (TEM)

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1. THE INTERNATIONAL ECONOMIC OUTLOOK

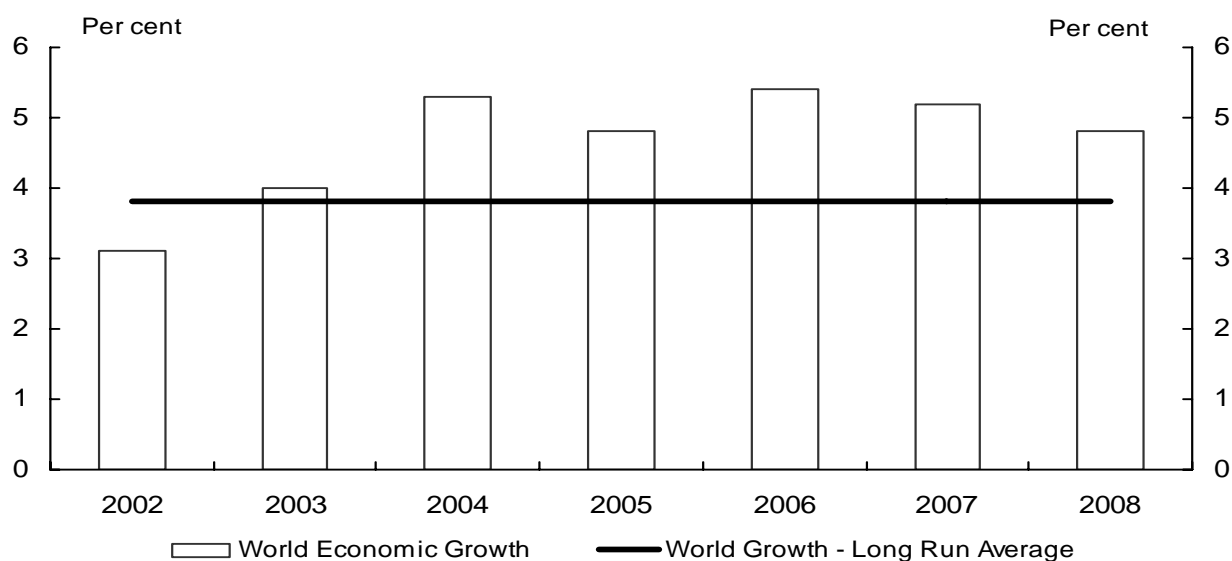
According to the October World Economic Outlook (WEO), global economy expanded vigorously in the first half of 2007 with growth running above 5 per cent. Emerging market economy like China gained further momentum growing by 11.5 per cent, while India continued to grow strongly. Robust expansion also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

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

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

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

Chart 1: World Economic Growth



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

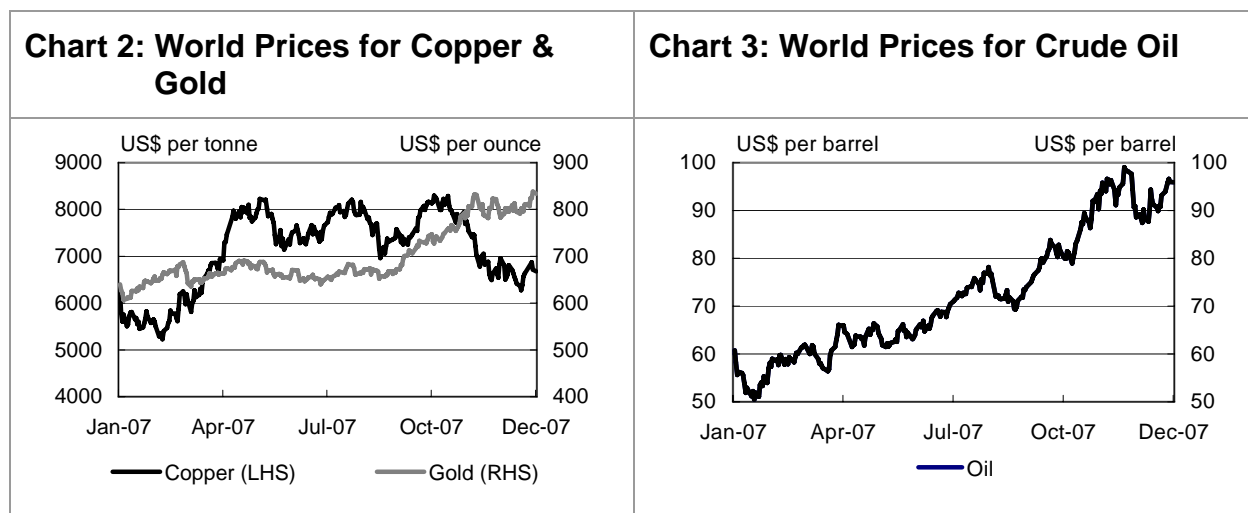
1.1 Commodity Markets

The World prices for copper traded lower while gold and oil traded higher in the December quarter 2007.

The World price for copper eased in the December quarter after trading higher in the previous quarter (chart 2). On average, copper price fell by 6.2 per cent in the December quarter to US\$7238.7 per tonne. Weaker demand in the US exacerbated by the housing debacle in the second half of the year, and also weaker demand from Japan and Europe were the main cause of the retreating copper price.

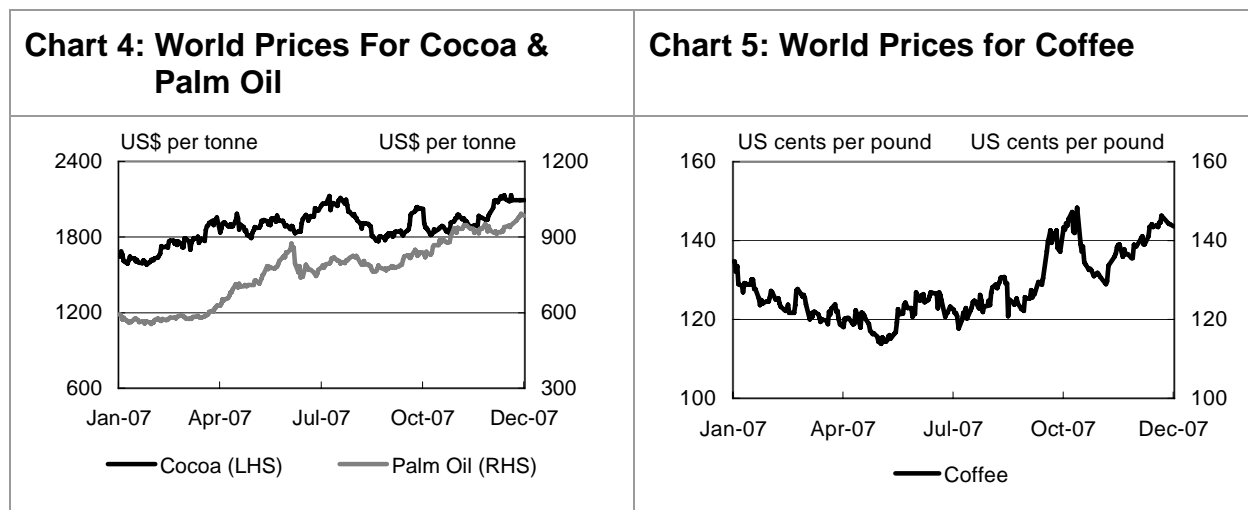
The World gold price trekked higher in the December quarter (chart 2). On average, gold price increased by 16 per cent in the December quarter to US\$788.9 per tonne. Uncertainty in the US economy fuelled by the credit crunch, and a weaker US dollar returned gold's safe haven status thus pushed prices higher as more investors turned to gold for relative safety.

Crude oil price soared in the December quarter to reach record levels for the year (chart 3). On average, crude oil price increased by 20.4 per cent touching US\$90.5 per barrel in the December quarter. Strong demand from China and India, continued supply disruptions due to geopolitical tensions in the Middle East and West Africa, and the weaker dollar triggered prices to reach record levels during the quarter.



Source: Department of Treasury

The world prices for Papua New Guinea's Agricultural commodities such as oil palm, cocoa and coffee continued to trade higher in the December quarter.



Source: Department of Treasury

Palm oil price increased by 14 per cent in the December quarter to US\$914 per tonne (chart 4). This increase was due largely to the increase in demand for use in manufactured food and other products, and for the bio-diesel sector which was aided by the soaring crude oil prices.

Cocoa price increased by 1.6 per cent in the December quarter to US\$1,967 per tonne (chart 4) while coffee prices also increased by a mere 1.2 per cent to US\$127 cents per pound (chart 5). These steady increases reflect the continued growth of the world economy.

2. DOMESTIC ECONOMY

2.1 Gross Domestic Product

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

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

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

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

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

2.2 Labour Market

In the year to December quarter 2007, total private non-mineral sector employment rose by 9.6 per cent driven by employment growth in the retail sector and supported by growth in agriculture, forestry and fisheries and the manufacturing sectors. Employment in the mineral sector increased by 2.9 per cent during the quarter to be 19.9 per cent higher through the year.

With a solid employment performance maintained in the December quarter 2007 employment in the non mineral sector was up 34 per cent compared to March quarter 2002. Mineral sector employment also continued to grow up by 40 per cent in the same period.

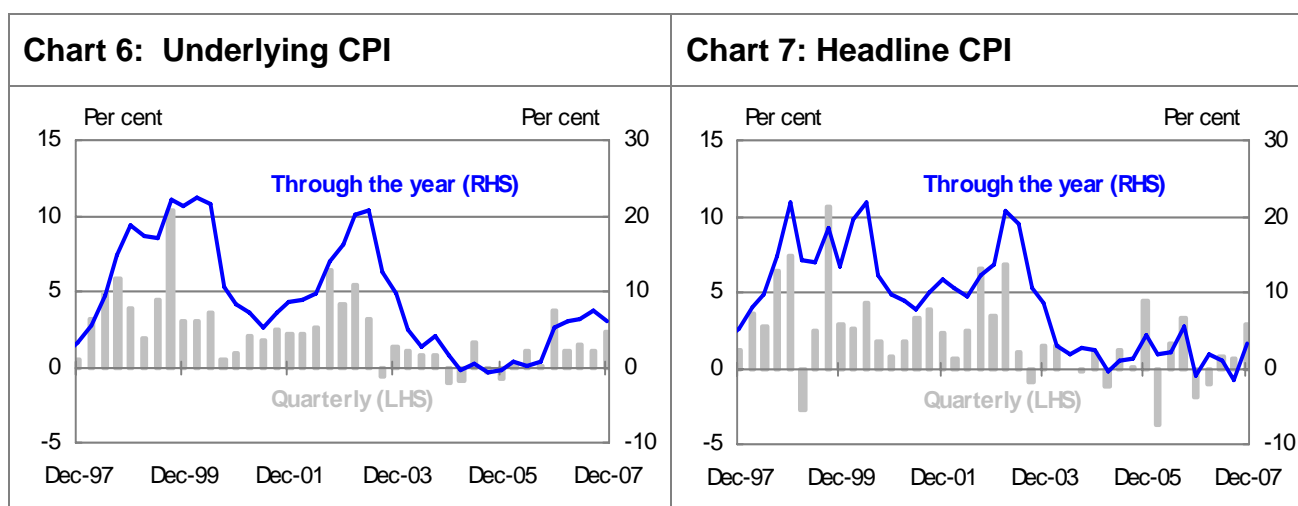
Employment pace continues to vary by region, importantly all regions have shown growth over the year to December 2007.

2.3 Prices

The underlying Consumer Price Index CPI rose by 2.4 per cent in the December quarter to be 6.0 per cent higher through-the-year driven mainly by increases in the price of food and rents, council charges and fuel and power.

- This represents the highest quarterly growth for the year and marks the fifth consecutive quarter where underlying CPI continues to accelerate at over 1 per cent compared to 0.3 per cent over the previous three years (Chart 6).

Headline CPI increased by 2.9 per cent in the December quarter to be 3.2 per cent higher in through-the-year terms (Chart 7). This is due to a large increase in price of seasonal produce, particularly betel nut due to less benign weather conditions. The volatility of Headline CPI is not restricted to seasonal swings alone, in December there were new increases in price control items including fuel and PMV and Bus fare which had a partial impact – the full effect of this price regulation from Inter Oil and ICCC will be fully realised in the coming quarter.



Source: National Statistics Office and Treasury

CPI by Expenditure Group

In quarterly terms, increases in CPI by expenditure group came mostly from *drinks, tobacco and betelnut, rent, council charges, fuel and power* and *food* with minor increases from *household equipment and operation, transport and communication, miscellaneous items* and *clothing and footwear*. (Table 1)

Over the last year, increases in CPI have been driven by large increases in clothing and footwear, miscellaneous items and rents, council charges and fuel and power. A minor offset to this increase came from the decline in the price of household equipment and operation (Chart 8).

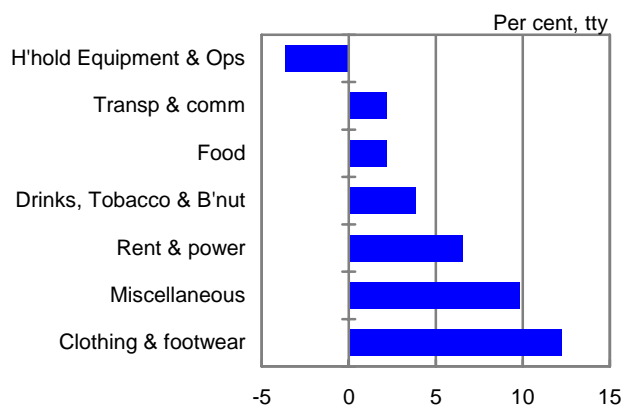
Table 1: December 2007 CPI Growth by Expenditure Groups

	Quarterly	Through the year
Miscellaneous	0.5	9.8
Clothing & Footwear	0.9	12.2
Transport & Communication	1.2	2.2
Rent, Council Charges, Fuel & Power	5.4	6.5
Food	2.5	2.2
Household Equipment & Operation	1.3	-3.7
Drinks, Tobacco & Betelnut	6.0	3.9
Average All groups CPI	2.9	3.2
Average Underlying CPI	2.4	6.0

Source: National Statistical Office

CPI by Region

All regions recorded price increase in the December quarter. Over the last year Port Moresby, Goroka and Madang recorded significant price increases while only a modest increase was recorded in Lae and Rabaul (Table 2).

Chart 8: Through the year CPI by group

Source: National Statistics Office and Treasury

Table 2: CPI by region

	Quarterly	Through the year
Port Moresby	3.5	4.2
Goroka	2.2	3.9
Lae	2.6	1.9
Madang	3.2	3.6
Rabaul	1.5	0.7
Total	2.9	3.2

Contributing Factors

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

- Commodity price boom has provided K3.8 billion in additional spending to the government and this has increased the opportunity to spend – which it has taken through the supplementary budgets. The spending already made represents a substantial injection of funds into the economy which has increased pressure for prices to rise while the spending that is in the pipeline (trust accounts) represent potential for more spending.
- Growth in money supply remains elevated at 28 per cent in through-the year terms. Sustained growth of money supply will only lead to inflationary pressures.
- The Kina has appreciated slightly against the US\$ over the last year however the lagged effect of previous depreciations especially on an import weighted Trade Weighted Index, against our major trading currencies, Australian dollar, euro and Singapore dollar is keeping the price of imported goods elevated.

According to NSO this is the fifth consecutive quarter of elevated inflation with quarterly underlying CPI growing at its highest rate for the year. The gap between underlying and headline inflation has narrowed due to the large increases in the price of food and betelnut in the December quarter compared to the previous quarter. Over the last year, increases in CPI have been driven by large increases in clothing and footwear, miscellaneous items and rents, council charges, fuel and power.

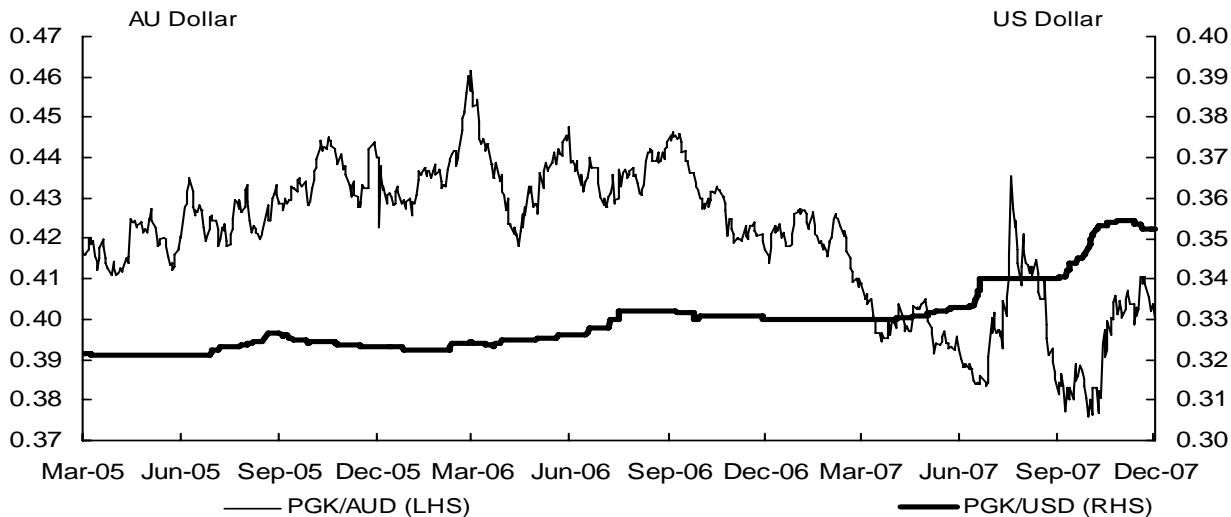
The acceleration in inflation continues to be a concern since a number of factors point towards further inflation ahead. The economy is in the midst of a terms of trade boom, which has increased the growth in money supply, and allowed the Government increased opportunity for spending – which it has taken through the supplementary budgets and with potential for greater spending ahead as the unspent monies held in trust funds and the 2008 budget will need to be spent. In addition, the lagged effect of continuous depreciation of the Kina in the past against most other major trading partner currencies is making imports remain expensive. If not headed off, these factors are likely to increase existing inflationary pressures.

3. MONETARY DEVELOPMENTS

3.1 Exchange Rate Developments

The Kina gained against the US dollar however continued to trade volatile against the Australian dollar in 2007. The Kina appreciated by 6.8 per cent against the US dollar but depreciated by 4.1 per cent against the Australian dollar due to the continued strengthening of the Australian dollar against most other currencies in particular the US dollar.

Chart 9: Exchange Rate Movements

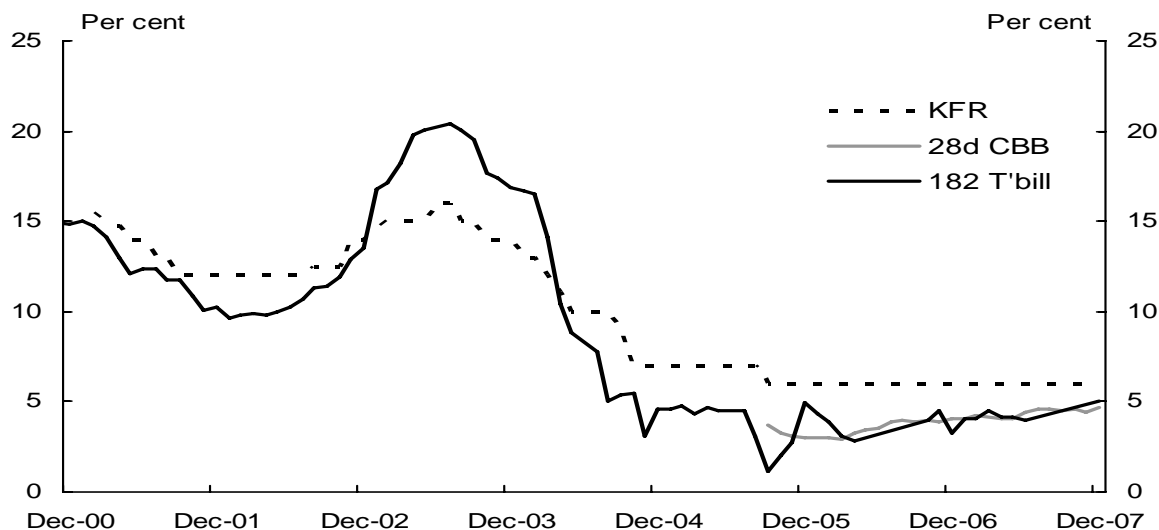


Source: Bank of Papua New Guinea, *Quarterly Economic Bulletin*.

3.2 Interest Rate Developments

Interest rates have remained at historically low levels. The Kina Facility Rate (KFR) – which is the benchmark interest rate targeted by the BPNG – continued to remain unchanged at 6 per cent through out the year 2007. Central Banking bills have remained unchanged in the September quarter, and still remain below the KFR benchmark. For Treasury bills, through the year to 2007, it was raised to 5 per cent from 3.3 per cent in the corresponding period of 2006.

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

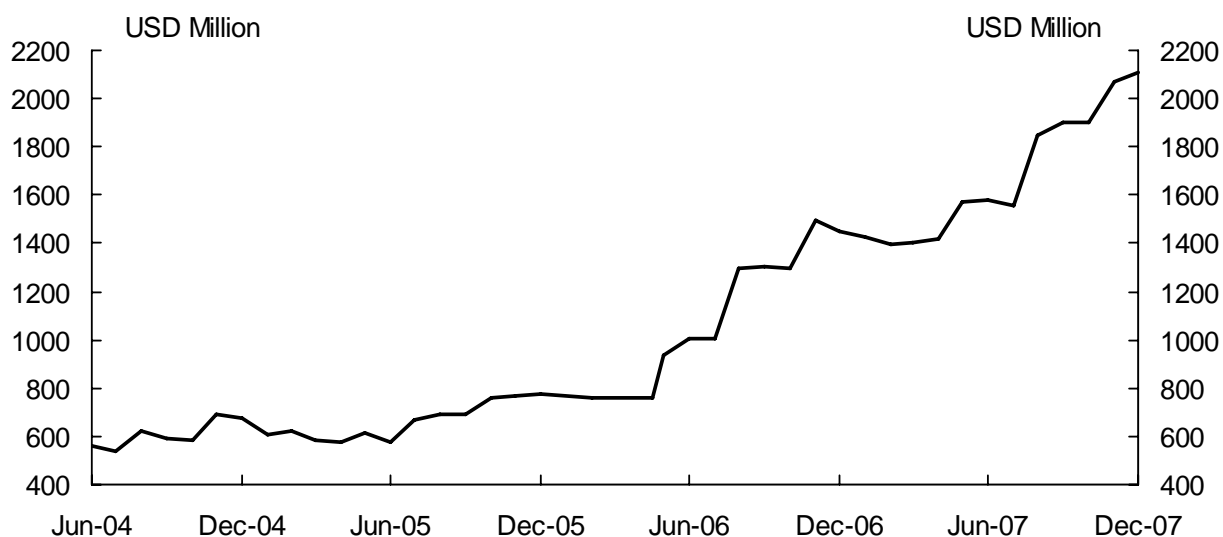


Source: Bank of Papua New Guinea, *Quarterly Economic Bulletin*

3.3 Foreign Reserves

The level of gross Foreign Reserves at the end of December 2007 totalled K5,919.4 million (US\$2,106.1 million) compared to K4,310 million (US\$1,450.8 million) at end of December 2006. According to BPNG, this very high level of reserves is sufficient for 9.3 months of total import cover and is more than sufficient to perform the role of appropriately managing short term exchange rate volatility.

Chart 11: Foreign Reserves (US\$ Millions)



Source: Bank of Papua New Guinea

4. COMMODITIES

Table 3: Total Export Values for Commodities

TOTAL EXPORTS	Dec-06			Dec-07			Year-on-Year % Change		
	Quantity	Price(USD)(d)	Value (K,million)	Quantity	Price(USD)(d)	Value (K,million)	Quantity	Price(USD)	Value (K,million)
AGRICULTURE, FORESTRY, FISHERIES									
Cocoa (000 tonnes)	44	1520.0	204.4	46.9	1876.2	260.8	6.6	23.4	27.6
Coffee (000 tonnes)	52.3	2108.3	337	54.6	2523.7	408.4	4.4	19.7	21.2
Copra Oil(a) (000 tonnes)	54.2	414.7	68.7	61.7	700.5	128.1	13.8	68.9	86.5
Copra Oil	41.5	476.2	60.4	49.9	796.5	117.8	20.2	67.3	95.0
Copra	12.7	213.8	8.3	11.8	294.5	10.3	-7.1	37.7	24.1
Palm Oil (000 tonnes)	362.3	388.4	430.1	368.3	615.8	672.2	1.7	58.5	56.3
Other Agriculture(b)	n.a.	n.a.	349.2	n.a.	n.a.	302.3	n.a.	n.a.	-13.4
Tea	6.6	105.1	21.2	6.4	105.4	20	-3.0	0.3	-5.7
Rubber	4.4	177.0	23.8	4.1	188.5	22.9	-6.8	6.5	-3.8
Other(c)	n.a.	n.a.	304.2	n.a.	n.a.	259.4	n.a.	n.a.	-14.7
Forest Products (including logs)	n.a.	n.a.	526.7	n.a.	n.a.	630.7	n.a.	n.a.	19.7
Logs	n.a.	n.a.	491	n.a.	n.a.	567.6	n.a.	n.a.	15.6
Marine Products	n.a.	n.a.	92.2	n.a.	n.a.	32.1	n.a.	n.a.	-65.2
Agriculture, Forestry and Fishing Exports			2,008.3			2,434.6			21.2
MINERALS									
Gold (000 oz)	2027.8	498.7	3090.9	2056.4	602.5	3672.4	1.4	20.8	18.8
Copper (000 tonnes)	216.7	6537.2	4329.5	199.4	7060.5	4172.7	-8.0	8.0	-3.6
Oil (million barrels)	14.5	67437.0	2988.5	13.8	72946.9	2983.6	-4.8	8.2	-0.2
Refined Petroleum Products	n.a.	n.a.	263.9	n.a.	n.a.	503.5	n.a.	n.a.	90.8
Mineral Exports(d)			10,672.8			11,332.2			6.2
TOTAL EXPORTS			12,681.1			13,766.8			8.6

(a) Includes copra.

(b) Includes rubber, tea, vanilla & a small proportion of manufactured goods.

(c) Includes vanilla and small proportion of manufactured goods

(d) Includes silver.

(e) Price of commodities in US dollars is derived by dividing export value in kina by the exchange rate and the reported level of export volume.

Year average	2006 (Dec)	2007 (Dec)
USD/PGK	0.3272	0.3374

Source: Bank of Papua New Guinea and Department of Treasury

Total export values increased by 8.6 per cent by end of 2007 as compared to 2006. This increase mainly reflects the continued high export values from the agriculture, forestry, fisheries combined with the increases in the mineral sector.

Exports from the agriculture, forestry and fishing sector increased by as high as 21.2 per cent to K2,434.6 million in December 2007 compared to K2,008.3 million in the corresponding period of 2006. This reflects the high export values from palm oil, copra oil (copra), and coffee. The boost in the exports mainly reflects the expansions of palm oil and logs supported by continued high prices.

Mineral sector continued to support the increase at the end of 2007 with a 6.2 per cent rise in export value to K11,332.2 million from K10,672.8 million in 2006. This was driven by the continued high commodity prices for PNG's key mineral exports of gold, copper and crude oil.

5. BALANCE OF PAYMENTS

The current account balance recorded a surplus of K555 million at the end of 2007, which is lower than the surplus of K1,255 million recorded in the corresponding period of 2006. This is due to higher values of imports during the year by all sectors reflecting increased domestic demand and economic growth.

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

	Year end 2006	Year end 2007	Change
Current Account Balance	1255	555	-700
Balance of Trade in Goods & Services	3,144	1,920	-1,194
<i>Exports of Goods and Services</i>	13,717	14,932	1,215
<i>Imports of Goods and Services</i>	-10,603	-13,012	-2,409
Balance of Income	-2,462	-2,114	348
Balance of Transfer	603	749	146
Capital and Financial Account*	719	1,037	318
Net Errors and Omissions	-536	-482	-1018

Source: Bank Papua New Guinea

*Includes changes in official reserves

The surplus in the Balance of Trade in Goods and Services at the end of 2007 was K1,920 million, which is K1,194 million lower than the corresponding period of 2006.

The slightly lower trade surplus is due to increased merchandise imports and increased payments of transport and insurance cost associated with higher imports, which more than offset the value of merchandise exports. The higher import values were from the equipment and materials for new mining projects, such as Ramu NiCo, and high capital expenditures by Lihir and Ok Tedi mines.

The balance of income was a deficit of K2,114 million at the end of 2007 compared with a deficit of K2,462 million in the corresponding period of 2006. The slightly lower deficit was due to fall in interest and dividends payments by resident companies, compared with slightly higher income receipts.

The balance of transfer was a surplus of K749 million in the year ending 2007 compared to a surplus of K603 million in the corresponding period of 2006. This resulted from higher receipts of grants and donor funds which more than offset transfer payments.

The capital and financial accounts recorded a surplus of K1,037 million at the end of 2007 compared with a surplus of K719 million in the same period of 2006. This reflects higher net capital inflow which outweighed the net capital outflow, reflecting a boost in foreign direct investment and project financing and a slow down in equity withdrawals and loan repayments in 2007 than in 2006.

The level of gross foreign exchange reserves for the year ending 2007 was K5,919.4 million (US\$2,106.1), more than sufficient to perform the role of appropriately smoothing any short term exchange rate volatility.

6. 2007 FINAL BUDGET OUTCOME

This is an excerpt from the 2007 Final Budget Outcome which is available in full on the Treasury website.

The budget outcome for 2007 was a cash surplus of K454.4 million or 2.4 per cent of GDP. This compares with a surplus of K430.2 million (or 2.5 % of GDP) for the 2006 fiscal year. The budget surplus indicates that over the course of the 2007 fiscal year, the total net liabilities of the Government have been reduced by this amount.

The fiscal outcome for 2007 compared to the original 2007 Budget estimates and the revised 2007 Budget estimates published with the 2008 Budget is set out in the following table.¹

Table 5: Budget Balance 2006–2007 (Kina Millions)

	2006 Actuals	2007 Budget	2007 Revised	2007 Outcome
Total Revenue and Grants	6311.4	5421.6	7199.6	7006.6
Total Expenditure and Net Lending	5881.2	5456.6	6878.6	6552.1
Budget Balance	430.2	-35.0	321.0	454.4
% of GDP	2.5%	-0.2%	1.7%	2.4%

Source: Department of Treasury

The budget outcome for 2007 compares with the original budget estimate of a deficit of K35.0 million and the revised estimate published with the 2008 Budget of a surplus of K321.0 million. The higher than expected revenue collections due to exceptionally high commodity prices continued in 2007, resulting in higher expenditure delivered through the supplementary budget in October 2007.

The difference to the revised estimate of K321.0 million is due to higher than expected revenue collections, combined with a slight underspend in Government of PNG (GoPNG) expenditure. A lower than expected utilization of project grants and infrastructure tax credits reduced the revenue and expenditure sides equally, with no net impact on the budget outcome.

2. Revenue and Grants

Total Revenue (GoPNG)

Total Revenue and Grants for 2007 was K7,006.6 million. This was K1,585.0 million higher than the original budget estimate and K193.0 million lower than the revised estimate published in the 2008 Budget.

The increase relative to the original Budget estimate reflects an additional K1,724.0 million in tax revenue (largely mining and petroleum tax) and K83.8 million in non-tax revenue, offset by infrastructure tax credits and grants being K64.8 million and K158.1 million lower than expected.

Table 6: Tax Revenue 2006 – 2007 (Kina Millions)

	2006 Actuals	2007 Budget	2007 Revised	2007 Outcome
Taxes on Income and Profits	3,823.5	3,071.6	4,386.9	4,491.3
Dom. Taxes on Goods and Services	784.3	758.0	940.3	958.5
Taxes on International Trade	337	300.3	366.3	404.1
Total Tax Revenue	4,944.8	4,129.9	5,693.5	5,853.8

Source: Department of Treasury.

Tax on income and profits exceeded the original budget estimate by K1,419.7 million (or 46.2 per cent) and exceeded the revised budget estimate published in the 2008 Budget by K104.4 million (or 2.4 per cent).

While almost all revenue heads under this category performed better than anticipated in the 2007 Budget, the major factors underlying the higher outcome were Mining and Petroleum Revenue (K1,041 million higher), company tax (K212 million higher) and personal income tax (K116 million higher). This reflects the effect of continued strong commodity prices, as well as stronger than expected economic activity in 2007.

¹ Numbers could vary from tables to tables due to rounding.

The outcomes were broadly in line with the revised estimate with the exception of company tax which came in K90.5 million higher than the revised estimate in the 2008 Budget. This was due to unexpectedly high payments from foreign contractors at the end of the financial year.

Domestic taxes on goods and services exceeded the original budget estimate by K200.5 million (or 26.4 per cent) and exceeded the revised budget estimate published in the 2008 Budget by K18.2 million (or 1.9 per cent). The main factors contributing to the higher than expected revenue were higher than expected GST revenue reflecting stronger domestic activity, which resulted in an increased level of imports; and to a lesser extent higher excise collections. The outcomes were broadly in line with the revised estimate.

Taxes on international trade exceeded the original budget estimate by K103.8 million (or 34.6 per cent) and exceeded the revised budget estimate by K37.8 million (or 10.3 per cent). All tax heads under this category performed better than both the original and the revised estimates. This was due to higher log export volumes and prices, as well as higher import duty collections reflecting increased importation of refined fuels at the end of 2007.

Table 7: Non-tax Revenue 2006 – 2007 (Kina Millions)

	2006 Actuals	2007 Budget	2007 Revised	2007 Outcome
Property Income	339.3	242.8	375.2	290.7
<i>Dividend</i>	68.1	73.5	73.5	65.0
<i>Mining and Petroleum Dividend</i>	271.2	169.3	301.7	225.7
Interest and Fees from Lending	0.6	2.6	2.6	0.5
Other Nontax Revenue	88.9	81.8	82.0	119.8
Non-tax Revenue	428.8	327.2	459.8	411.0

Source: Department of Treasury

Non-tax revenue collections exceeded the original budget estimate by K83.8 million (or 25.6 per cent) but came in lower than the revised estimate published in the 2008 Budget by K48.8 million (or 11.0 per cent).

Mining and Petroleum Dividends were K225.7 million, K56.4 million higher than anticipated in the original budget estimate but K76.0 million lower than the revised estimate. This was all from the 15 per cent of the State's share of the Ok Tedi Mining Ltd, which recorded stronger than expected profits on the back of high commodity prices.

Non-mining dividend receipts were K65.0 million in 2007, K8.5 million lower than both the original and the revised Budget estimate. These receipts comprised of K33.0 million from the Bank of PNG and K32.0 million from National Fisheries Authority, of which K10.0 million was a dividend, declared in 2006, but paid in 2007. K0.1 million came from other sources. The expected K25 million dividend from IPBC was not received in 2007.

Other non-tax revenues were K119.8 million in 2007, K38.0 million higher than both the original and revised estimates. This was due to an unexpectedly large payment of Departmental revenues, particularly from the Department of Foreign Affairs.

Reporting and utilization of project support grants and infrastructure tax credits were K292.4 million and K12.4 million lower than the revised estimates. Further detail is provided in Section 1.3

3. Expenditure and Net Lending

Total Expenditure (GoPNG)

Total expenditure and net lending in 2007 was K6,552.1 million. This was K1,095.5 million higher than the original budget estimate and K326.5 million lower than the revised estimate published in the 2008 Budget. Total GoPNG sourced expenditure (i.e. excluding project grants and infrastructure tax credits) was K1,404 million higher than the original estimate due to the Supplementary Budget, and K21.6 million lower than the revised estimate.

Table 8: Total Expenditure and Net Lending 2006 – 2007 (Kina Millions)

	2006 Actuals	2007 Budget	2007 Revised	2007 Outcome
Recurrent Budget	3696.6	3370.0	3370.0	3497.8
Development Budget	1559.5	1636.6	1718.5	1327.5
Additional Priority Expenditure	625.0	450.0	450.0	405.7
2nd Supplementary Budget	0.0	0.0	1340.0	1321.1
Total Expenditure and Net Lending	5881.1	5456.6	6878.5	6552.1

Source: Department of Treasury.

Recurrent expenditure was K127.8 million higher than both the original and the revised estimate in the 2008 Budget. Compared to the original estimates, this was due to a combination of higher expenditure by national departments, provincial governments and statutory authorities, which more than offset the lower expenditure in interest expenses.

Development expenditure turned out to be K309.1 million lower than the original Budget and K391.0 million lower than the revised figure contained in the 2008 Budget. However, this is largely due to a K304.8 million recorded underspend of project grants and infrastructure tax credits relative to the revised estimate, due to the fact that expenditure reports on a large proportion of these items are yet to be provided by donors. These items can be expected to be revised in the future as these reports are submitted. Nonetheless, there was a K86.2 million underspend of GoPNG funded development expenditure. The 2007 Additional Priority Expenditure and the Supplementary Budget turned out to be K44.3 million and K18.9 million lower than expected.

4. Financing

A budget surplus of K454.4 million (or 2.4 per cent of GDP) was achieved in 2007, compared with the original budget deficit estimate of K35.0 million (0.2 per cent of GDP), and the projection of a surplus of K321.0 million or 1.7 per cent of GDP announced in the 2008 Budget.

Net external financing for 2007 saw an outflow of K398.3 million compared with the original budget estimate of an K83.7 million outflow and the revised estimate of a K355.0 million outflow, reflecting lower concessional loans drawdowns and higher amortization than expected at the time of the Budget.

Net domestic financing saw an outflow of K56.1 million compared with the projected inflow of K118.7 million estimated in the 2007 Budget, and a revised estimate of a K34.0 million inflow. This is comprised of a net K70.9 million inflow of funds from Treasury Bill and inscribed stocks, offset by a K127.0 million inflow of net domestic financial assets, (such as a higher Waigani Public Account balance and a reduction in the cheque float). Unfortunately, at the time of printing, the full breakdown of these items is not available, however the Departments of Treasury and Finance will be able to make these details known in the 2007 Public Accounts.

FISCAL OUTTURN 2007

Table 9: Central Government Revenue & Grants (K million)

	2007 Budget	2007 Rev Budget	2007 Outcome	Variance
A. TAX REVENUE	4,129.9	5,693.4	5,853.9	160.5
A1. TAX ON INCOME AND PROFITS	3,071.6	4,386.9	4491.3	104.4
Personal Income Tax	890.3	994.1	1006.9	12.8
Company Tax	511.7	633.2	723.7	90.5
Dividend Withholding Tax	168.1	183.3	199.3	16.0
Interest Withholding Tax	21.9	19.4	19.3	-0.1
Mining and Petroleum Taxes	1,292.8	2,362.0	2,333.9	-28.1
Gaming Tax	106.0	95.2	97.0	1.8
Other: Direct	80.8	99.6	111.2	11.6
A2. DOM. TAXES ON GOODS AND SERVICES	758.0	940.3	958.5	18.2
Excise	309.8	335.8	342.0	6.2
GST	420.0	554.3	557.5	3.2
Mining Levy	25.6	48.0	56.6	8.5
Other: Indirect	2.6	2.2	2.4	0.3
A3. TAXES ON INTERNATIONAL TRADE	300.3	366.3	404.2	37.9
Import Duty	96.9	124.2	135.9	11.7
Export Duty	118.0	152.6	155.2	2.5
Excise duties on Imports	85.4	89.4	113.1	23.6
B. NON-TAX REVENUE	327.2	459.8	411.0	-48.8
B1. PROPERTY INCOME	242.8	375.2	290.7	-84.5
Dividends	73.5	73.5	65.0	-8.5
Mining and Petroleum Dividends	169.3	301.7	225.7	-76.0
B2. INTEREST AND FEES FROM LENDING	2.6	2.6	0.5	-2.2
B3. OTHER NON TAX REVENUE	81.8	82.0	119.8	37.9
B4. ASSETS SALES	0.0	0.0	0.0	0.0
C. TOTAL REVENUE	4,457.1	6,153.2	6,264.9	111.7
% of GDP	24.9%	33.2%	33.8%	0.6%
D. INFRASTRUCTURE TAX CREDIT	85.4	33.0	20.6	-12.4
E. GRANTS	879.1	1013.4	721.0	-292.4
Budgetary Support	0.0	0.0	0.0	0.0
Project Grants	879.1	1013.4	721.0	-292.4
F. TOTAL REVENUE AND GRANTS	5,421.6	7,199.6	7,006.6	-193.0
As % of GDP	30.3%	38.8%	37.8%	-1.0%
G. PRINCIPAL RECEIPTS FROM LENDING	6.0	6.0	4.1	-1.9
H. GROSS BORROWING	2,277.7	1620.0	4,669.6²	3,049.6
I. ASSET SALES	0.0	0.0	0.0	0.0
J. TOTAL RECEIPTS	7,705.3	8,825.6	11,680.3	2,854.7
As % of GDP	43.1%	47.6%	63.0%	15.4%

Source: Treasury

² This number is derived from the CS-DRMS and includes roll-overs through out the year compared to the TMS which nets these out.

Table 10: Central Government Expenditure (K million)

	2007 Budget	2007 Rev Budget	2007 Outcome	Variance
1 RECURRENT BUDGET				
A. NATIONAL DEPARTMENTS	1,929.2	2,032.1	2,098.3	66.2
Personnel Emoluments	816.2	848.2	834.7	-13.5
Total Goods & Services	1,112.9	1,183.9	1,263.7	79.8
General Goods & Services	948.4	944.3	1,050.8	106.5
Education Subsidies	43.0	143.0	148.9	5.9
Arrears Payments	0.0	0.0	1.2	1.2
SAP Payments	69.6	44.6	6.8	-37.8
Court Orders	52.0	52.0	56.0	4.0
B. PROVINCIAL GOVERNMENTS	696.6	696.6	744.8	48.2
Personnel Emoluments	576.0	576.0	621.6	45.6
Staffing Grants	156.4	156.4	183.6	27.2
Teachers Salaries	419.6	419.6	438.0	18.4
Goods & Other Services	63.4	63.4	65.3	1.9
Administration Grants	14.2	14.2	16.1	1.9
Health Function Grant	13.4	13.4	13.4	0.0
Education Subsidies	21.6	21.6	21.6	0.0
Derivation Grants	14.2	14.2	14.3	0.1
Conditional Grants	57.2	57.2	57.9	0.7
Trans/Infra/Maint. Grants	15.3	15.3	15.4	0.1
Local & Village Services Grants	32.5	36.7	37.4	0.7
Town & Urban Services Grants	7.2	3.0	3.0	0.0
Village Courts	2.2	2.2	2.2	0.0
Autonomous Bougainville Govt	50.7	50.9	50.0	-0.9
Police Grant	2.5	2.1	2.1	0.0
Recurrent Grant	48.0	48.6	47.9	-0.7
Establishment Grant	0.0			
Conditional Grants	0.2	0.2	0.0	-0.2
C. TRANSFERS & LOANS TO C.S.A	221.6	221.6	238.6	17.0
D. INTEREST PAYMENT & FEES	475.9	372.8	370.2	-2.6
Domestic	358.8	252.9	252.2	-0.7
External	117.1	119.9	117.9	-2.0
E. NET LENDING TO C.S.A	-4.0	-4.0	-4.1	-0.1
Gross Lending	0.0	0.0	0.0	0.0
Less : Loan Repayments	4.0	4.0	4.1	0.1
F. RECURRENT EXPENDITURE & NET LENDING	3,370.0	3,370.0	3,497.8	127.8
As % of GDP	18.8%	18.2%	18.9%	0.7%

Table 10: Central Government Expenditure (K million) continue

	2007 Budget	2007 Rev Budget	2007 Outcome	Variance
2 DEVELOPMENT BUDGET				
Domestic Funds	509.1	509.1	483.2	-25.9
Project Grants	879.1	1,013.4	721.0	-292.4
Infrastructure Tax Credits	85.4	33.0	20.6	-12.4
Concessional loans	163.0	163.0	101.8	-61.2
Commercial loans	0.0	0.0	1.0	1.0
G. TOTAL DEVELOPMENT BUDGET (PIP)	1,636.6	1,718.5	1,327.5	-391.0
As % of GDP	9.2%	9.3%	7.2%	-2.1%
ADDITIONAL PRIORITY EXPENDITURE	450.0	450.0	405.7	-44.3
SUPPLEMENTARY BUDGET		1,340.0	1,321.1	-18.9
H. TOTAL EXPENDITURE & NET LENDING	5,456.7	6,878.6	6,552.1	-326.5
As % of GDP	30.5%	37.1%	35.3%	-1.8%
I. AMORTISATION	2,242.7	1,941.0	5,124.1	3,183.1
Domestic	1,996.0	1,423.0	4,623.1 ³	3,200.1
External	246.7	518.0	501.0	-17.0
J. LOAN REPAYMENTS	4.0	4.0	4.1	0.1
K. TOTAL PAYMENTS	7,703.4	8,823.6	11,680.3	2,856.7
As % of GDP	43.1%	47.6%	63.0%	15.4%

Source: Treasury

³ This number is derived from the CS-DRMS and includes roll-overs through out the year compared to the TMS which nets these out.

Table 11: Central Government Financing (K million)

	2007 Budget	2007 Rev Budget	2007 Outcome	Variance
A. TOTAL REVENUE AND GRANTS	5,421.6	7,199.6	7,006.6	-193.0
B. TOTAL EXPENDITURE AND NET LENDING	5,456.6	6,878.6	6,552.2	-326.4
C. DEFICIT (-) / SURPLUS (+)	-35.0	321.0	454.4	133.4
% of GDP	-0.2%	1.7%	2.4%	0.7%
D. EXTERNAL FINANCING	-83.7	-355.0	-398.2	-43.2
D1. CONCESSIONAL FINANCING	-4.3	-287.0	-207.1	79.9
New Borrowing	163.0	163.0	101.8	-61.2
Less Amortisation	-167.3	-450.0	-308.9	141.1
D2. COMMERCIAL FINANCING	-18.2	-15.0	-14.7	0.3
New Borrowing	0.0	0.0	1.0	1.0
Less Amortisation	-18.2	-15.0	-15.6	-0.6
D3. EXCEPTIONAL FINANCING	-61.2	-53.0	-176.4	-123.4
New Borrowing	0.0	0.0	0.0	0.0
Less Amortisation	-61.2	-53.0	-176.4	-123.4
E. DOMESTIC FINANCING	118.7	34.0	-56.1	-90.1
E1. DOMESTIC MARKET BORROWING (NET)	118.7	34.0	70.8	36.8
New Domestic Borrowing	2,114.7	1,457.0	4,693.9 ⁴	3,236.9
Less Amortisation	-1,996.0	-1,423.0	-4,623.1 ⁵	-3,200.1
E2. OTHER DOMESTIC FINANCING	0.0	0.0	-126.9⁶	-126.9
E3. ASSETS SALES FINANCING	0.0	0.0	0.0	0.0
E4. NET FINANCING	0.0	0.0	0.0	0.0
F. TOTAL FINANCING	35.0	-321.0	-454.3	-133.3
G. GROSS BORROWING	2,277.7	1,620.0	4,669.7	3,049.7
Concessional	163.0	163.0	101.8	-61.2
Commercial	0.0	0.0	1.0	1.0
Exceptional	0.0	0.0	0.0	0.0
Domestic	2,114.7	1,457.0	4,567.0	3,110.0
Financing Gap	0.0	0.0	0.0	0.0

Source: Treasury

⁴ Derived from CS-DRMS and includes gross rollovers in borrowings.⁵ Derived from CS-DRMS and includes gross rollovers in amortization.⁶ Includes Government bank account balances and cheque floats.

