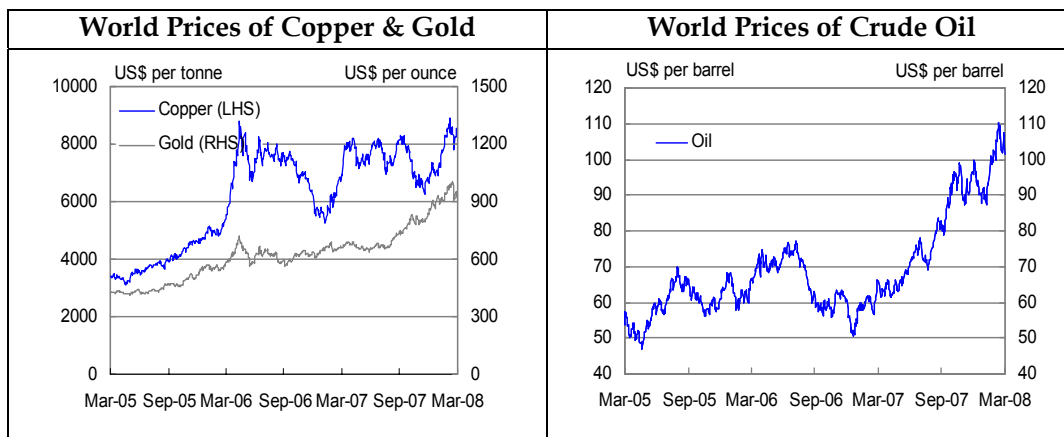




# TREASURY ECONOMIC MONITOR (TEM)

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Economic Policy Division, Department of Treasury, P O Box 542, WAIGANI, Papua New Guinea:  
 Inquiries: **Phone:** (675) 312 8821 or 312 8760; **Facsimile:** (675) 312 8807

Address : Economic Policy Division  
Department of Treasury  
PO Box 542, WAIGANI  
Papua New Guinea

Telephone : (675) 312 8821  
Facsimile : (675) 312 8807

Website : [www.treasury.gov.pg](http://www.treasury.gov.pg)

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## 1. THE INTERNATIONAL ECONOMIC OUTLOOK

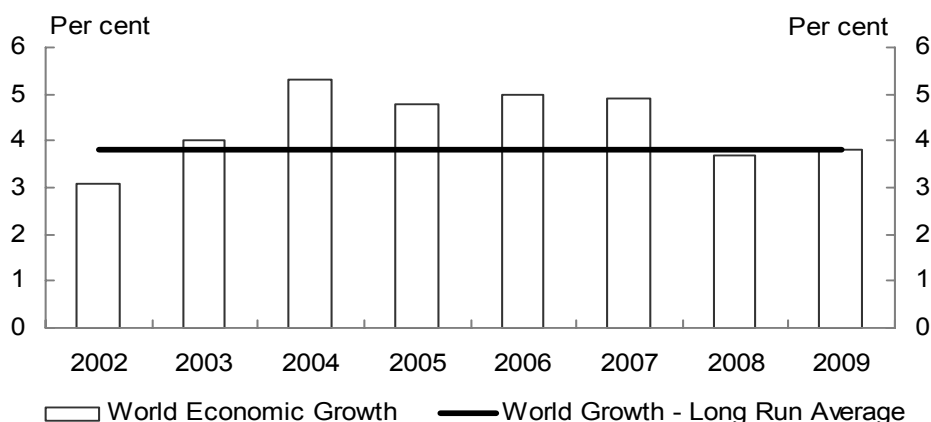
According to the International Monetary Fund's (IMF) April 2008 World Economic Outlook (WEO), the global expansion is losing speed in a major financial crisis. The slowdown has been greatest in the advanced economies, particularly in the United States while the emerging and developing economies have so far been less affected by financial crisis and continued to grow at a rapid pace, led by India and China, although activity is beginning to moderate in some countries.

Global growth is projected to slow to 3.7 per cent in 2008, 1.2 percentage point lower than the growth recorded in 2007. Moreover, growth is projected to remain broadly unchanged in 2009. Accordingly, global growth is projected to moderate from 4.9 per cent in 2007 to 3.7 per cent in 2008 and 3.8 per cent in 2009.

The IMF is foreshadowing that the US economy may tip into a mild recession in 2008 as the result of downturns in the housing and financial markets, before starting a modest recovery in 2009 as the balance sheets of financial institutions are slowly resolved. Activity in the Euro area is projected to slow down to well below potential, owing to trade spillovers, financial strains, and negative housing cycles. However, growth in developing and emerging economies is expected to ease modestly but remain robust in both 2008 and 2009. This slow down reflects efforts to prevent overheating in some countries as well as trade and financial spillovers, and some moderation in commodity prices.

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

**Chart 1: World Economic Growth**



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

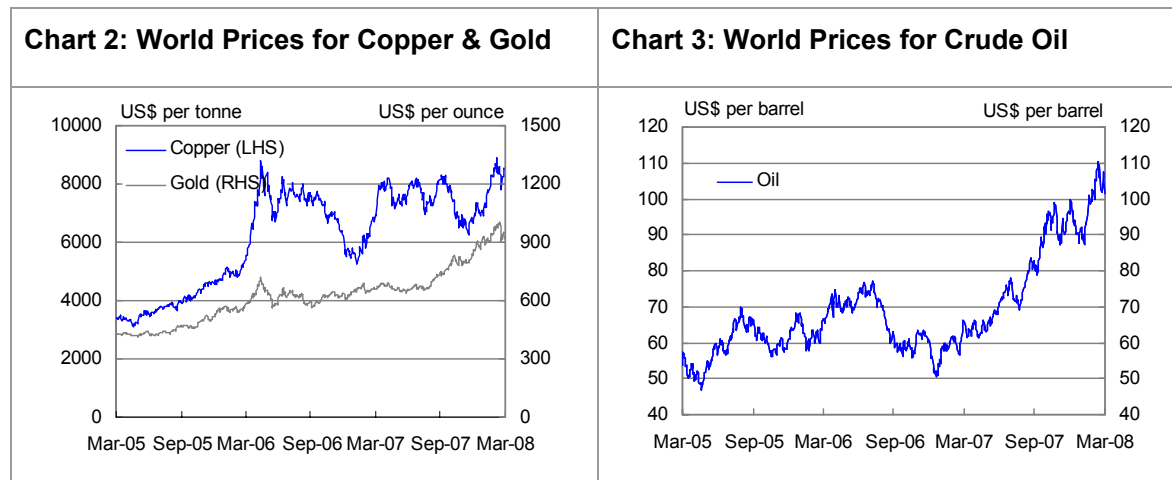
### 1.1 Commodity Markets

The world price for PNG's key mineral exports of gold, copper and oil soared in the first quarter of 2008.

The world price for copper increased in the March quarter of 2008 (chart 2) after tracking lower in the last quarter of 2007. On average, copper price increased by 7.2 per cent to trade around US\$7763.4 per tonne during the quarter. Strong demand from emerging markets, especially China and India, and the low inventory levels (supply) continue to be the driving force behind the price of copper.

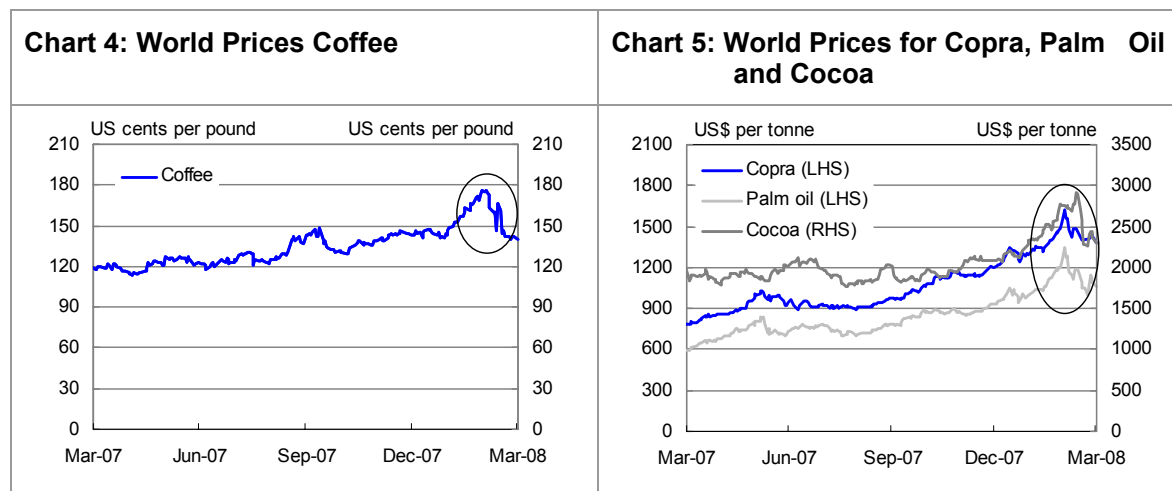
The world gold price continued to increase in the March quarter of 2008 (chart 2). On average, gold price increased by 17 per cent in the quarter to trade at historical highs of US\$923.2 per ounce. The ongoing credit concerns in the US economy, the depreciating dollar and volatility in most asset markets pushed the price of gold to record levels in the first quarter as investors converged on gold for safe haven purposes.

Crude oil prices continued to surge higher in the March quarter of 2008 (chart 3). The price per barrel eclipsed the US\$100 mark during the quarter with continued speculation that demand will continue to grow faster than supply – global demand for oil remains very strong, supply response haven't materialized to keep up with demand, a depreciating dollar and geopolitical concerns surrounding supply continue to be the main drivers. On average oil prices increased by 8 per cent in the March quarter to trade around US\$97.8 per barrel.



Source: Department of Treasury

World prices for Papua New Guinea's Agricultural commodity exports of Coffee, Palm oil, Cocoa and Copra were very strong in the first quarter of 2008, reflecting rising global demand driven by economic growth in emerging markets like China and increased production of biofuel which has reduced availability of crops for food and industry. The prices remained historically high during the course of the year.



Source: Department of Treasury

The price of coffee increased by 20.9 per cent to trade around US cents 153.3 per pound in the March quarter of 2008 (chart 4). This is due to lower production from Brazil in 2007, due to little rain in the harvest months of August and September. Price remained high in 2008 because Brazil's 2007 harvest was exhausted by March hence affecting global supply.

The world price for palm oil increased by 31.4 per cent during the March quarter to trade around US\$1080.8 per tonne (chart 5). The rise in price continue to reflect a booming growth in China and India where demand for palm oil is huge in the food and cosmetics industry, tight supply from Malaysia and rising crude oil price which is increasing the demand for vegetable oils for biofuel production.

The world price for cocoa increased by 22.6 per cent during the March quarter to trade around US\$2412.2 per tonne (chart 5). The increase in price is attributed to the increase in global demand, shift in investment funds to commodities and supply issues from producers in developing countries especially increase supply of pest infestation.

The price of Copra also increased in the March quarter. The price of copra increased by 25.7 per cent to trade around US\$1373.2 per tonne (chart 5). The increase in price of copra with all other commodities is attributed to rising global demand, supply issues and rising oil prices in the world market.

## **2. DOMESTIC ECONOMY**

### **2.1 Gross Domestic Product**

The economy continued to grow very strongly in 2007, due to stable macroeconomic policies, improved business confidence, microeconomic reforms and high commodity prices.

The economy grew by an estimated 6.5 per cent in 2007, up substantially from the 2.6 per cent in 2006 and slightly higher than the 6.2 per cent forecast at the time of the 2008 Budget. This strong growth marks the sixth and strongest successive year of economic growth. Economic activity increased across all sectors of the economy with the exception of the oil and gas extraction sector. Robust growth was recorded in the communication, construction, manufacturing, mining, agriculture, forestry and fisheries, and wholesale and retail trade sectors.

Total estimated non-mining GDP grew by a strong 7.3 per cent in 2007, up substantially from 3.8 per cent in 2006. This reflected exceptionally strong growth in the communication and construction sectors, as well as robust growth in the wholesale and retail trade sectors, manufacturing and agriculture, forestry and fishery sectors.

The communication sector grew exceptionally strongly in response to microeconomic reform that allowed competition in the mobile phone sector, where the existing operator and new entrant have expanded operations. This has contributed greatly to increased domestic economic activity.

The stronger construction sector was driven by increased private investments in the mineral sector, in particular the Ramu Nickel and Cobalt project. It also reflected Government's increased capital spending into the rehabilitation of the country's infrastructure (i.e. construction of roads, wharves, schools, hospitals, utilities and airstrips); as well as increased private sector activity as businesses expand into other provinces or due to new business prospects.

Economic activities in the wholesale and retail trade sector, the manufacturing sector, and other smaller sectors grew strongly driven by improved business confidence and profitability, low interest rates, increased private sector investments, spin-off activities of larger robust sectors and higher household consumption.

Employment grew by a strong 10 per cent in 2007, with particular strength in the retail sector, agriculture/forestry/fisheries sector; building and construction; transport, storage and communication sector and manufacturing sector. This very strong employment growth reflected increased confidence, profitability and growth in the non-mining sectors of the economy.

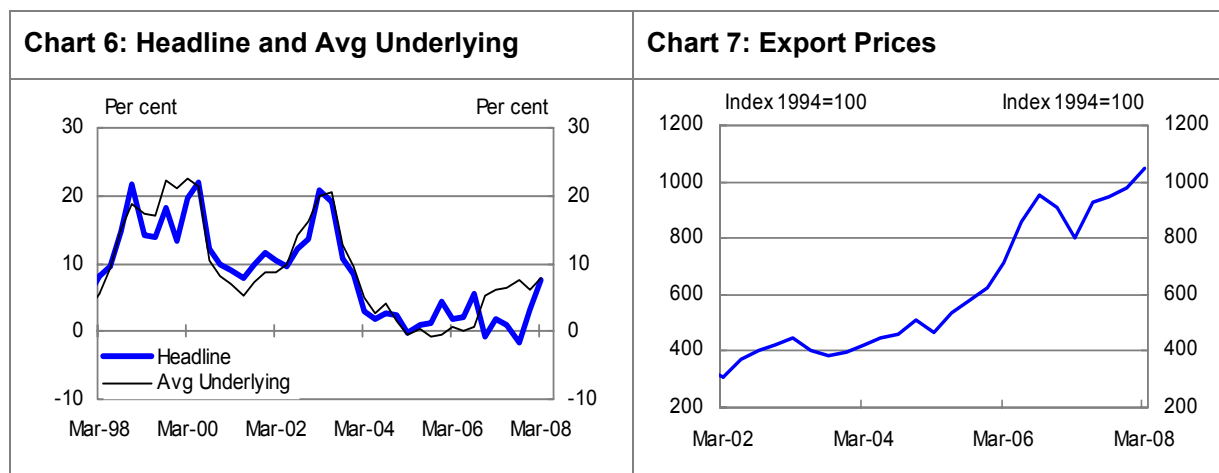
## 2.2 Labour Market

In the year to March quarter 2008, total private non-mineral sector employment rose by 8.5 per cent driven by higher employment growth in most sectors building and construction sector, manufacturing, agriculture, forestry and fisheries sectors. Employment in the mineral sector also recorded robust growth, up 13.4 per cent in the year to March 2008.

Employment pace continues to vary by region but more importantly all regions have shown growth over the year to March 2008 with Momase and New Guinea Islands recording the highest growth of 15.8 per cent and 11.8 per cent respectively.

## 2.3 Prices

The underlying Consumer Price Index CPI rose by 2.9 per cent in the March quarter to be 7.9 per cent higher through-the-year, driven largely by increases in the price of rents, council charges, fuel and power, and food. Headline CPI increased by 3.1 per cent in the March quarter to be 7.5 per cent higher in through-the-year terms. This is the highest rate of inflation of both headline and underlying since inflation was brought under control in 2003. This is a concerning outcome and suggests that PNG may be returning to a high inflation environment.



Source: National Statistics Office and Treasury

The increase in prices is broad based, with 16 of the 24 subgroups recording above trend increases in the March quarter. Prices of imported goods increased by 7.4 per cent due to higher world fuel and food prices as well as the lagged impact of the depreciation in the Kina. But domestic prices are also increasing, with non-tradeable inflation of 7.7 per cent. This is not just imported inflation. Indications are that inflation is likely to continue to increase in the June quarter as the March quarter numbers do not include the full impact of high prices of rice, fuel and flour.



### CPI by Expenditure Group

In quarterly terms all expenditure groups recorded increases, with particularly large increases from *rents, council charges, fuel and power* and *food* (Table 1).

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

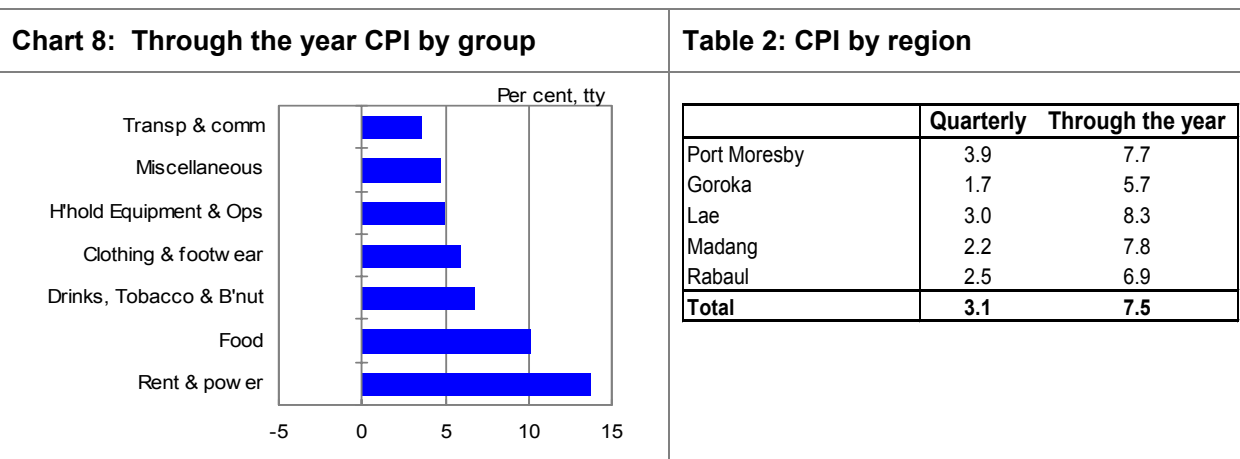
**Table 1: March 2008 CPI Growth by Expenditure Groups**

	Quarterly	Through the year
Transport and Communication	1.3	3.6
Miscellaneous	0.3	4.7
Household equipment and operation	1.0	4.9
Clothing and Footwear	2.0	6.0
Drinks, Tobacco and Betelnut	2.9	6.8
Food	4.6	10.1
Rent, council charges, fuel and power	5.1	13.8
<b>Average All groups CPI</b>	<b>3.1</b>	<b>7.5</b>
<b>Average Underlying CPI</b>	<b>2.9</b>	<b>7.9</b>

Source: National Statistical Office

### CPI by Region

All regions recorded price increase in the March quarter. Over the last year growth in prices have been fairly sharp running above 5 per cent for all the major towns in the country, with Lae, Madang and Port Moresby recording the largest increases (Table 2).



Source: National Statistics Office and Treasury

### Contributing Factors

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

- The PNG economy is in the midst of a huge terms of trade boom with export prices up by more than 80 per cent since 2005 (chart 7). While this has provided PNG with greater purchasing power it has not increased the productive capacity of the economy. As proceeds from the commodity price boom are used to purchase domestic goods and

services (as against increased imports) this has and will continue to create inflationary pressures.

- Despite the commodity price boom, monetary policy remains essentially unchanged. Interest rates have remained very low since 2005 and the money supply has been growing rapidly – currently at around 28 per cent, although it has been as high as 40 per cent in mid 2007.
- The terms of trade boom has provided the government massive mineral revenues. Since 2005 there has been over K5.4 billion in supplementary and additional appropriations. The government has taken the opportunity to increase its spending with over K1.2 billion in actual spending already undertaken, adding significant stimulus into the economy. With K3.9 billion still sitting in the trusts – that is funds parked in trusts plus funds earmarked for release, the full potential impact of fiscal stimulus is a worry and the government needs to control its impact by preventing additional spending in 2008 and 2009 adding further stimulus.
- The lagged effects of the depreciation of the exchange rate, which has fallen by 4.7 per cent over the past two years against the trade weighted index (TWI). This trend has reversed recently, with the Kina appreciating by 3.9 per cent against the TWI and by 8 per cent against the US\$ over the March quarter but has depreciated by 0.4 per cent against the Australian dollar.
- The private sector is expanding rapidly due to increased business confidence, relatively low interest rates and high profitability. However, the expansion is taking place in an economy that is running up against significant capacity constraints. Employment grew by 10 per cent and lending to private sector by 29 per cent over the last year while GDP growth was a robust 6.5 per cent in 2007. This is resulting in skills shortages and higher wages.

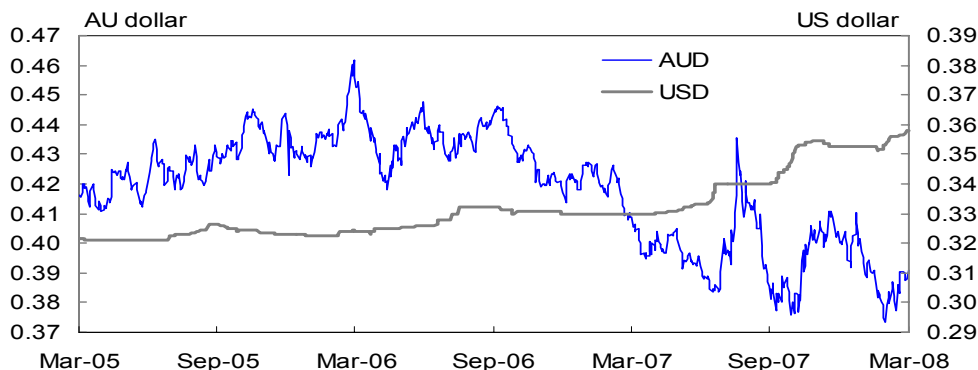
There are significant upside risks to inflation. The economy is in the midst of a terms of trade boom, money supply is growing rapidly, government expenditure has increased significantly with a large amount of potential spending in trust accounts, the private sector is expanding rapidly and the exchange rate is depreciating against most major currencies. There are also a number of specific international factors driving up inflation, including higher oil and food prices.

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

### **3. MONETARY DEVELOPMENTS**

#### **3.1 Exchange Rate Developments**

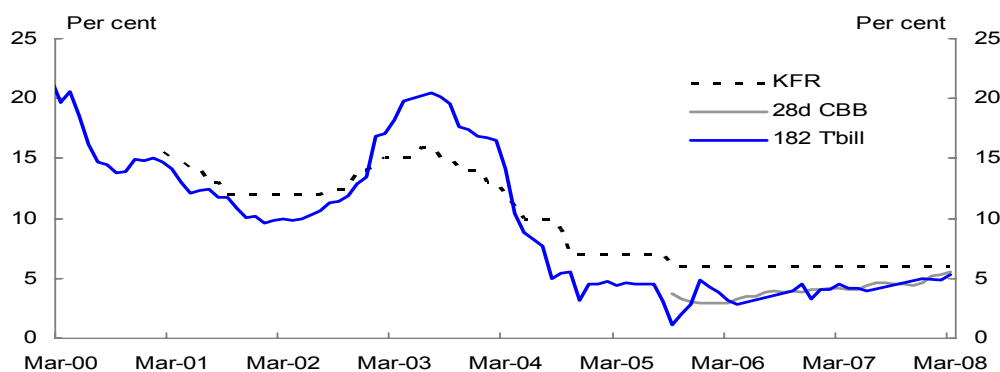
The Kina traded higher against the US dollar however remained volatile and depreciated against the Australian dollar in the first three months of 2008. The Kina appreciated by 8 per cent against the US dollar but depreciated against the Australian dollar by 0.4 per cent. This is due to the continued slide in the US dollar and the strengthening Australian dollar against most other currencies.

**Chart 9: Exchange Rate Movements**

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

**3.2 Interest Rate Developments**

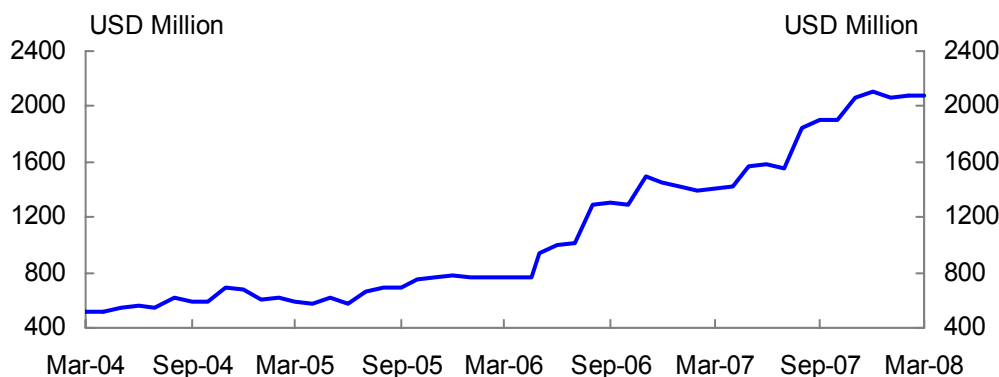
Despite very strong economic growth and rising inflationary pressures, interest rates continue to remain at historically low levels. The Kina Facility Rate (KFR) – which is the benchmark interest rate targeted by the BPNG – continued to remain unchanged at 6 per cent through to the end of March 2008. Central Banking bills have slightly increased to 5.49 per cent in the March quarter of 2008, but still remains below the KFR benchmark. Through the year to March quarter 2008, Treasury Bills (TB) were raised to 5.28 per cent from 4.49 per cent.

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

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

**3.3 Foreign Reserves**

The level of Gross Foreign Reserves at the end of March 2008 totalled K5,805 million (US\$2,075.4 million) compared to K4,219.0 million (US\$1,400.6 million) in the corresponding period of 2007. According to BPNG, this very high level of reserves is sufficient for 9.0 months of total import cover and is more than sufficient to perform the role of appropriately managing short term exchange rate volatility.

**Chart 11: Foreign Reserves (US\$ Millions)**

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

## 4. COMMODITIES

**Table 3: Total Export Values for Commodities**

TOTAL EXPORTS	Mar-07			Mar-08			Year-on-Year % Change		
	Quantity	Price(USD)(d)	Value (K,million)	Quantity	Price(USD)(d)	Value (K,million)	Quantity	Price(USD)	Value (K,million)
<b>AGRICULTURE, FORESTRY, FISHERIES</b>									
Cocoa (000 tonnes)	9.5	1660.4	47.8	8.6	2158.0	52.5	-9.5	30.0	9.8
Coffee (000 tonnes)	6.9	2520.4	52.7	11.1	2777.0	87.2	60.9	10.2	65.5
Copra Oil(a) (000 tonnes)	15.3	668.6	31.0	21.1	958.3	57.2	37.9	43.3	84.5
Copra Oil	14	709.5	30.1	16.8	1121.5	53.3	20.0	58.1	77.1
Copra	1.3	228.5	0.9	4.3	320.6	3.9	230.8	40.3	333.3
Palm Oil (000 tonnes)	126.9	501.9	193	127.2	790.1	284.3	0.2	57.4	47.3
Other Agriculture(b)	n.a.	n.a.	80.8	n.a.	n.a.	93.9	n.a.	n.a.	16.2
Tea	1.9	109.4	6.3	1.7	108.1	5.2	-10.5	-1.2	-17.5
Rubber	1.1	168.0	5.6	1.1	90.0	2.8	0.0	-46.4	-50.0
Other(c)	n.a.	n.a.	68.9	n.a.	n.a.	85.9	n.a.	n.a.	24.7
Forest Products (including logs)	n.a.	n.a.	190.7	n.a.	n.a.	173.5	n.a.	n.a.	-9.0
Logs	n.a.	n.a.	167.7	n.a.	n.a.	159.1	n.a.	n.a.	-5.1
Marine Products	n.a.	n.a.	4.7	n.a.	n.a.	9.1	n.a.	n.a.	93.6
<b>Agriculture, Forestry and Fishing Exports</b>			<b>600.7</b>			<b>757.7</b>			<b>26.1</b>
<b>MINERALS</b>									
Gold (000 oz)	432.5	588.2	770.9	441.8	790.7	988.1	2.1	34.4	28.2
Copper (000 tonnes)	43.3	5929.3	778	50.6	7121.0	1019.3	16.9	20.1	31.0
Oil (million barrels)	3580.4	58.9	639.3	2306.3	97.8	638.2	-35.6	66.0	-0.2
Refined Petroleum Products	n.a.	n.a.	192.4	n.a.	n.a.	69.2	n.a.	n.a.	-64.0
<b>Mineral Exports(d)</b>			<b>2,380.6</b>			<b>2,714.8</b>			<b>14.0</b>
<b>TOTAL EXPORTS</b>			<b>2,981.3</b>			<b>3,472.5</b>			<b>16.5</b>

(a) Includes copra.

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

(c) Includes vanilla and small proportion of manufactured goods

(d) Includes silver.

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

Year average	2007 (Mar)	2008 (Mar)
USD/PGK	0.3300	0.3535

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

Total export values increased by 16.5 per cent through the year to March 2008. This reflects continued high export values from the agriculture, forestry, fisheries and mineral sector driven by the continued high commodity prices.

Exports from the agriculture, forestry and fishing sector increased by 26.1 per cent to K757.7 million in March 2008 compared to K600.7 million in the corresponding period of 2007. This reflects the

high export prices of copra oil, coffee and palm oil. The boost in the export volumes reflects the increased number of copra mills, rebound of coffee and expansions of palm oil industry.

Mineral sector continued to support the increase in March 2008 with a 14 per cent rise in export value to K2,714.8 million from K2,380.6 million in the corresponding period of 2007. This is driven by the continued high prices for PNG's key mineral exports of gold and copper and crude oil.

## 5. BALANCE OF PAYMENTS

The current account balance recorded a surplus of K269 million at the end of March quarter 2008, which is much higher than the deficit of K294 million recorded in the corresponding period of 2007. This is due to higher values of exports and a drop in the values of imports through the year.

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

	March – 2007	March – 2008	Change
Current Account Balance	-294	269	563
Balance of Trade in Goods & Services	-235	738	973
<i>Exports of Goods and Services</i>	3236	3713	477
<i>Imports of Goods and Services</i>	-3471	-2975	496
Balance of Income	-332	-343	-11
Balance of Transfer	273	-126	-399
Capital and Financial Account*	275	-242	-517
Net Errors and Omissions	19	-27	-46

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

\*Includes changes in official reserves

The surplus in the Balance of Trade in Goods and Services at the end of the March quarter 2008, was K738 million, which is K973 million higher than the corresponding period of 2007. The slightly higher trade surplus is due to higher value of merchandise exports which more than offset the value of merchandise imports. This was attributed to higher export values of agriculture exports which more than offset declines in mining and petroleum products.

The balance of income was a deficit of K343 million in the March quarter of 2008 compared with a deficit of K332 million from the corresponding period of 2007. The outcome was due to increase interest and dividends payments by resident companies combined with lower income receipts.

The balance of transfer was a deficit of K126 million in the March quarter of 2007 compared to a surplus of K273 million in the corresponding period of 2007. The deficit was due to lower receipts from gifts and grants combining with higher transfer payments relating to family maintenance.

The capital and financial accounts recorded a deficit of K242 million in the March quarter of 2008 compared with a surplus of K275 million in the same period of 2007. This was mainly reflective of low net capital inflow and high portfolio investment in particular financial transactions abroad which also reflected a slow down in foreign direct investment and higher loan repayments in the first quarter of 2008.

The level of gross foreign exchange reserves for the first quarter of 2008 was K5,805 million (US\$2,075.4 million), sufficient to smooth any short term exchange rate volatility.

## 6. CENTRAL GOVERNMENT FISCAL OPERATIONS FOR MARCH 2008

### Technical Note:

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

It is stressed that care is needed in interpreting this data. In particular, readers should be aware that, for a variety of reasons, revenue and expenditure do not occur evenly through the year. For example, in an average year:

- Expenditure tends to occur later in the year than the receipt of revenue,
- Agencies are slow in drawing down on their warrant authorizations,
- Reporting and recording lags in projects funded by grants and external loans,
- Interests on Inscribed Stock are mainly paid in May and November.

To assist in the use of this raw data to track progress against the projections in the 2008 Budget, Treasury has included “trend” benchmarks for revenue and expenditure.

The trend calculation measures how much would have been received or paid for revenue and expenditure items in each month based on the average pattern over the past five years if the projections in the 2008 Budget were to be achieved.

### Summary of Fiscal Performance

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

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

	Budget	Jan	Feb	Mar	Mar Trend	% of Trend	% of Budget
Total Revenue	6004.2	243.2	479.3	692.2	839.4	82%	12%
Total Expenditure	5801.8	169.4	563.7	809.0	804.9	101%	14%
Budget Balance	202.4	73.8	-84.4	-116.9	34.5		
% of GDP	1.0%	0.4%	-0.4%	-0.6%	0.2%		

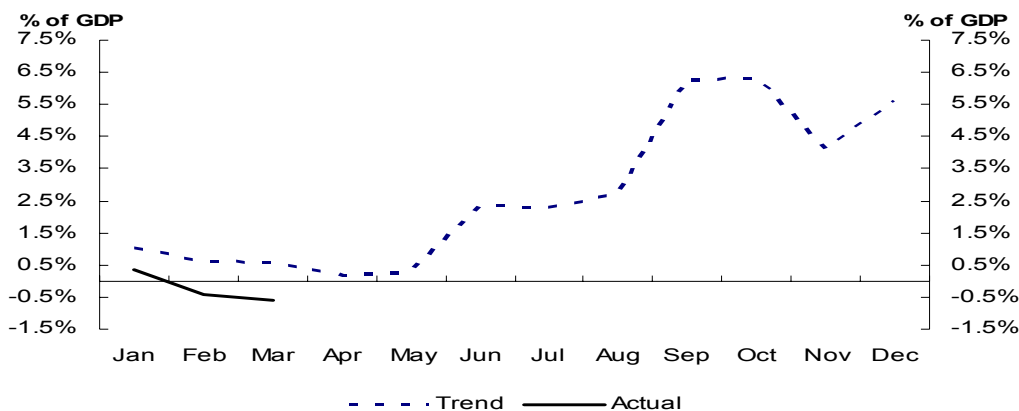
Source: Department of Treasury (based on Treasury Management System reports)

Total GoPNG revenue was below trend to March 2008, with collections 8 per cent below the trend required to meet 2008 Budget estimates.

Total GoPNG expenditure has been higher and the March 2008 outturn turned out to be 1 per cent above trend.

Overall, the Government's Budget position was a deficit of K116.9 million or 0.6 per cent of GDP compared to K31.4 million or 0.2 per cent of GDP in 2007, and the expected (trend) surplus of K34.5 million or 0.2 per cent of GDP. The evolution of the Budget Balance as depicted in Chart 14 below reflects the actual budget balance incurred against the anticipated monthly trend base on the 2008 Original Budget. The trend also reflects the impact of the high mining and petroleum prices.

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



## 2. Revenue and Grants

### Total Revenue (GoPNG)

Total GoPNG revenue was below trend in the March Fiscal Outturn of 2008.

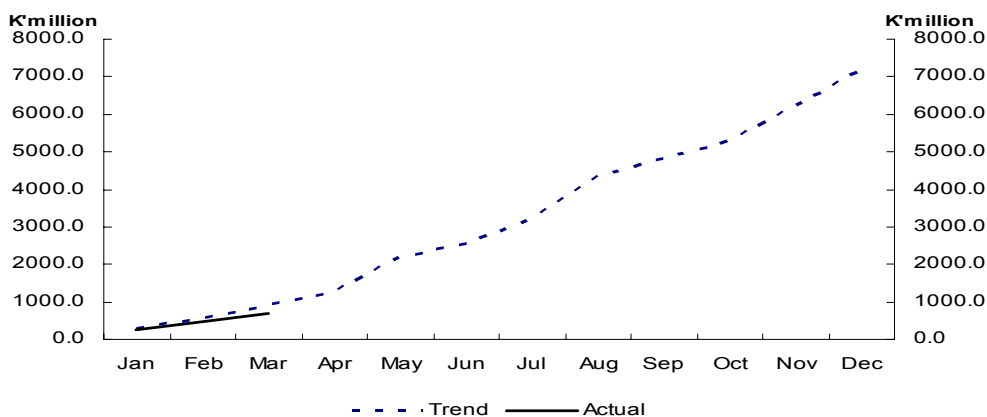
Tax receipts in the March 2008 Outturn were K677.1 million, which is 14 per cent below trend. This is primarily attributable to the lower receipt of major direct taxes (lower by 23 per cent) and domestic taxes (lower by 8 per cent) in the first quarter, though IRC reported a higher collection than forecast. Taxes on international trade performed better than trend by 12 per cent.

Non-tax revenue receipts for the March Outturn were K15.1 million, which is below trend by 69 per cent. This is primarily attributable to the non receipt of dividends and to a lesser extent, lower departmental revenues.

### Tax Credits and Grants

While not technically PNG Government revenue, project support grants from donors and infrastructure tax credits (ITC) are included in Budget estimates of revenue and expenditure in order to give a better picture of the total resources applied to development in Papua New Guinea.

**Chart 13: Actual Revenue against the Trend**



Unfortunately, tax credits utilized are only partially recorded on the Government's accounting system, making it difficult to assess progress in the implementation of this program, and the only grants report received from donors are recorded on a quarterly basis making it difficult to assess its implementation on a monthly basis.

Infrastructure tax credits of K7.3 million are recorded as being utilized in the March Outturn, which is 20 per cent above trend and Project support grants from donors has yet to be recorded.

Total revenue and grants were K699.5 million at the end of March 2007. This is lower than the trend expected at K911.3 million by 23 per cent.

### **3. Expenditure and Net Lending**

#### *Total Expenditure (GoPNG)*

National Departments' recurrent expenditure totalled K387.0 million as at March 2007. This is 11 per cent below trend, and represents 17 per cent of the 2008 Budget appropriation.

National Departments' personnel emoluments expenditure was K186.0 million in March Outturn, compared to the K183.4 million anticipated in trend expenditure, which is 1 per cent above trend and represents 17 per cent of the 2008 Budget.

National Departments' general goods and services expenditure was K201.1 million in the March Outturn. This is 20 per cent below trend and it represents 15 per cent of the 2008 Budget appropriation.

Grants to Provincial Governments totalled K172.8 million in March compared to K126.3 million in trend expenditure. This is 37 per cent above trend and represents 24 per cent of the 2008 Budget appropriation.

Provincial Government personnel emoluments expenditure (including teachers) was K133.4 million in the March Outturn compared to K104.6 million anticipated in trend. This is 27 per cent above trend and represents 22 per cent of the 2008 Budget appropriation.

Provincial Government goods and services grant expenditure totalled K27.2 million in the March Outturn compared to K11.9 million in trend expenditure. This reflects higher expenditure in the first quarter, and is 127 per cent above trend, however this represents only 41 per cent of the 2008 Budget appropriation.

Transfers to Statutory Authorities totalled K63.6 million in the March 2007 Outturn. This is 21 per cent above trend and is 28 per cent of the 2008 Budget appropriation.

Interest payments and fees totalled K70.6 million in the March Outturn and is 24 per cent below trend. This represents 19 per cent of the 2008 Budget appropriation.

Domestic development expenditure in the March Outturn turned out to be K100.5 million, which is 18 per cent above trend. However, this represents only 19 per cent of the 2008 Budget appropriation.

Draw downs on concessional project loans has yet to be recorded in the March Outturn.

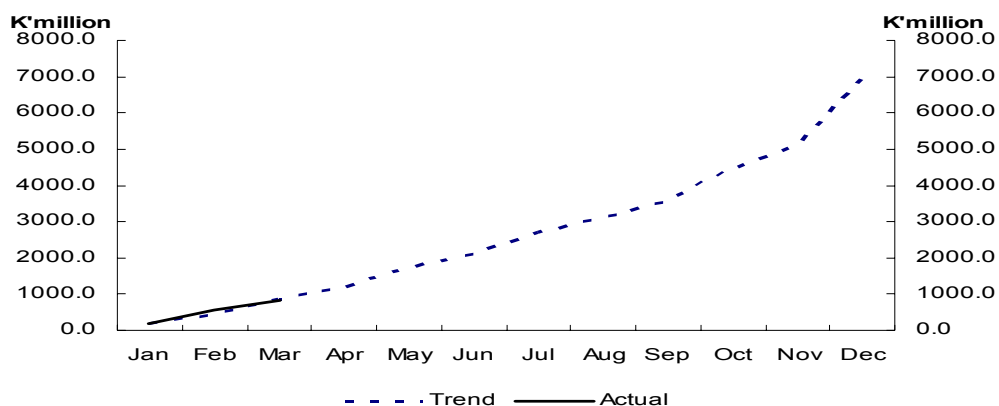


### Tax Credits and Grants

As noted above, while not technically PNG Government expenditure, project support grants from donors and infrastructure tax credits are included in Budget estimates of revenue and expenditure in order to give a better picture of the total resources applied to development in Papua New Guinea.

Unfortunately, tax credits utilized are only partially recorded on the Government's accounting system, making it difficult to assess progress in the implementation of this program, and the only grants report received from donors are recorded on a quarterly basis making it difficult to assess its implementation on a monthly basis.

**Chart 14: Actual Expenditure and Net Lending against the Trend**



Infrastructure tax credits of K7.3 million are recorded as being utilized in the March Outturn, which is 20 per cent above trend and Project support grants from donors has yet to be recorded.

Funds appropriated under the Additional Priority Expenditure, are yet to be recorded.

Overall total expenditure and net lending for the March Outturn were K816.4 million compared to the trend estimate of K876.9 million. This is 7 per cent below trend, and represents 12 per cent of the 2008 Budget appropriation.

## 4. Financing

A Budget deficit of K116.9 million (or 0.6 per cent of GDP) was recorded in the March 2008 Outturn, compared to the trend deficit of K34.4 million (or 0.2 per cent of GDP).

Net external outflows totalled K55.4 million and this along with the deficit was financed through the net domestic borrowing of K172.2 million.

## FISCAL OUTTURN - MARCH 2008

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

	2008 Budget	Jan Outturn	Feb Actuals	Feb Outturn	Mar Actuals	Mar Outturn	Mar Trend	% of Trend	% of Budget
<b>A. TAX REVENUE</b>	<b>5,516.7</b>	<b>240.6</b>	<b>229.6</b>	<b>470.2</b>	<b>206.8</b>	<b>677.1</b>	<b>790.8</b>	86%	12%
<b>A1. TAX ON INCOME AND PROFITS</b>	<b>4,142.0</b>	<b>131.1</b>	<b>123.5</b>	<b>254.5</b>	<b>115.5</b>	<b>370.0</b>	<b>478.2</b>	77%	9%
Personal Income Tax	1,053.7	93.9	64.5	158.4	66.6	225.1	275.2	82%	21%
Company Tax	699.7	8.0	26.4	34.3	16.6	50.9	63.8	80%	7%
Dividend Withholding Tax	195.5	8.3	17.5	25.7	5.8	31.5	33.8	93%	16%
Interest Withholding Tax	21.4	0.7	1.1	1.8	2.7	4.4	5.0	89%	21%
Mining and Petroleum Taxes	2,011.8	3.9	0.0	3.9	9.1	13.0	57.0	23%	1%
Gaming Tax	86.5	7.5	6.8	14.3	6.7	21.0	21.8	96%	24%
Other: Direct	73.4	8.8	7.2	16.1	8.1	24.2	21.6	112%	33%
<b>A2. DOM. TAXES ON GOODS &amp; SERV.</b>	<b>987.3</b>	<b>67.5</b>	<b>76.3</b>	<b>143.8</b>	<b>60.0</b>	<b>203.8</b>	<b>220.8</b>	92%	21%
Excise	368.3	37.6	23.5	61.1	24.8	85.9	86.6	99%	23%
GST	600.8	25.0	50.0	75.0	35.0	110.0	128.8	85%	18%
Mining Levy	15.0	4.3	2.5	6.8	0.0	6.8	3.8	177%	45%
Other: Indirect	3.2	0.6	0.3	0.9	0.2	1.1	1.5	70%	34%
<b>A3. TAXES ON INTERN. TRADE</b>	<b>387.4</b>	<b>42.1</b>	<b>29.9</b>	<b>72.0</b>	<b>31.3</b>	<b>103.3</b>	<b>91.8</b>	112%	27%
Import Duty	132.7	12.6	12.6	25.3	8.7	33.9	27.1	125%	26%
Export Duty	155.2	14.1	9.0	23.0	14.1	37.1	40.1	93%	24%
Excise duties on Imports	99.5	15.4	8.3	23.7	8.5	32.2	24.6	131%	32%
<b>B. NON-TAX REVENUE</b>	<b>487.5</b>	<b>2.6</b>	<b>6.5</b>	<b>9.1</b>	<b>6.0</b>	<b>15.1</b>	<b>48.6</b>	31%	3%
<b>B1. PROPERTY INCOME</b>	<b>388.3</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>30.7</b>	0%	0%
Dividends	128.5	0.0	0.0	0.0	0.0	0.0	4.1	0%	0%
Mining and Petroleum Dividends	259.8	0.0	0.0	0.0	0.0	0.0	26.6	0%	0%
<b>B2. INTEREST AND FEES FROM LEND.</b>	<b>5.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>	<b>1.4</b>	5%	1%
<b>B3. OTHER NON TAX REVENUE</b>	<b>94.2</b>	<b>2.6</b>	<b>6.5</b>	<b>9.1</b>	<b>6.0</b>	<b>15.0</b>	<b>16.6</b>	91%	16%
<b>B4. ASSETS SALES</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>		
<b>C. TOTAL REVENUE</b>	<b>6,004.2</b>	<b>243.2</b>	<b>236.1</b>	<b>479.3</b>	<b>212.8</b>	<b>692.2</b>	<b>839.4</b>	82%	12%
% of GDP	30.4%	1.2%	1.2%	2.4%	1.1%	3.5%	4.3%	82%	12%
<b>D. INFRASTRUCTURE TAX CREDIT</b>	<b>73.7</b>	<b>1.6</b>	<b>2.1</b>	<b>3.8</b>	<b>3.6</b>	<b>7.3</b>	<b>6.1</b>	120%	10%
<b>E. GRANTS</b>	<b>1123.7</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>65.8</b>	0%	0%
Budgetary Support	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Project Grants	1123.7	0.0	0.0	0.0	0.0	0.0	65.8	0%	0%
<b>F. TOTAL REVENUE AND GRANTS</b>	<b>7,201.6</b>	<b>244.8</b>	<b>238.3</b>	<b>483.1</b>	<b>216.4</b>	<b>699.5</b>	<b>911.3</b>	77%	10%
As % of GDP	36.5%	1.2%	1.2%	2.4%	1.1%	3.5%	4.6%	77%	10%
<b>G. PRINCIPAL RECEIPTS FROM LEND.</b>	<b>4.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.5</b>	<b>0.5</b>	<b>0.7</b>	65%	12%
<b>H. GROSS BORROWING</b>	<b>1793.9</b>	<b>-41.0</b>	<b>227.0</b>	<b>186.0</b>	<b>50.3</b>	<b>236.3</b>	<b>134.0</b>	176%	13%
<b>I. ASSET SALES</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>		
<b>J. TOTAL RECEIPTS</b>	<b>8,999.5</b>	<b>203.8</b>	<b>465.3</b>	<b>669.1</b>	<b>267.2</b>	<b>936.3</b>	<b>1,046.0</b>	90%	10%
As % of GDP	45.6%	1.0%	2.4%	3.4%	1.4%	4.7%	5.3%	90%	10%

Source: Treasury

Table 7: Central Government Expenditure (K million)

	2008	Jan	Feb	Feb	Mar	Mar	Mar	% of	% of
	Budget	Outturn	Actuals	Outturn	Actuals	Outturn	Trend	Trend	Budget
<b>1 RECURRENT BUDGET</b>									
<b>A. NATIONAL DEPARTMENTS</b>	<b>2,262.3</b>	<b>100.1</b>	<b>157.5</b>	<b>257.5</b>	<b>129.5</b>	<b>387.0</b>	<b>435.1</b>	89%	17%
Personnel Emoluments	932.1	63.3	65.9	129.2	56.8	186.0	183.4	101%	20%
Total Goods & Services	1,330.2	36.8	91.6	128.4	72.7	201.1	251.7	80%	15%
General Goods & Services	1,079.3	36.7	82.7	119.4	68.5	187.9	199.8	94%	17%
Education Subsidies	143.0	0.0	1.0	1.0	0.0	1.0	43.9	2%	1%
Arrears Payments	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
SAP Payments	55.9	0.1	0.4	0.5	1.1	1.7	1.6	104%	3%
Court Orders	52.0	0.0	7.5	7.5	3.0	10.5	6.4	165%	20%
<b>B.1 PROVINCIAL GOVERNMENTS</b>	<b>723.5</b>	<b>33.4</b>	<b>83.3</b>	<b>116.6</b>	<b>56.2</b>	<b>172.8</b>	<b>126.3</b>	137%	24%
<b>Personnel Emoluments</b>	<b>596.8</b>	<b>33.4</b>	<b>52.1</b>	<b>85.4</b>	<b>47.9</b>	<b>133.3</b>	<b>104.6</b>	127%	22%
Staffing Grants	166.3	19.2	15.9	35.2	14.2	49.4	37.2	133%	30%
Teachers Salaries	430.5	14.1	36.1	50.3	33.7	84.0	67.4	124%	20%
<b>Goods &amp; Other Services</b>	<b>65.8</b>	<b>0.0</b>	<b>22.2</b>	<b>22.2</b>	<b>5.0</b>	<b>27.2</b>	<b>11.9</b>	227%	41%
Administration Grants	15.5	0.0	5.1	5.1	1.2	6.4	3.9	162%	41%
Health Function Grant	14.5	0.0	4.3	4.3	1.6	6.0	3.3	179%	41%
Education Subsidies	21.7	0.0	7.2	7.2	1.6	8.8	1.3	703%	41%
Derivation Grants	14.1	0.0	5.5	5.5	0.5	6.0	3.4	176%	42%
<b>Conditional Grants</b>	<b>60.9</b>	<b>0.0</b>	<b>9.1</b>	<b>9.1</b>	<b>3.3</b>	<b>12.4</b>	<b>9.7</b>	127%	20%
Trans/Infra/Maint. Grants	16.7	0.0	5.2	5.2	1.7	6.9	3.6	190%	41%
Local & Village Services Grants	30.9	0.0	3.3	3.3	1.3	4.6	3.6	128%	15%
Town & Urban Services Grants	11.1	0.0	0.0	0.0	0.0	0.0	2.3	0%	0%
Village Courts	2.2	0.0	0.6	0.6	0.3	0.9	0.2	385%	39%
<b>B.2 AUTONOMOUS BOUGAINVILLE GOVT</b>	<b>54.0</b>	<b>1.1</b>	<b>11.6</b>	<b>12.8</b>	<b>2.2</b>	<b>14.9</b>	<b>6.8</b>	221%	28%
Police Grant	2.2	0.0	1.1	1.1	0.0	1.1	0.3	345%	50%
Recurrent Grant	51.5	1.1	10.5	11.6	2.2	13.8	6.4	215%	27%
Conditional Grant	0.3	0.0	0.0	0.0	0.0	0.0	0.0		0%
<b>C. TRANSFERS &amp; LOANS TO C.S.A</b>	<b>226.8</b>	<b>25.1</b>	<b>19.6</b>	<b>44.7</b>	<b>18.9</b>	<b>63.6</b>	<b>54.2</b>	117%	28%
<b>D. INTEREST PAYMENT &amp; FEES</b>	<b>373.5</b>	<b>9.7</b>	<b>61.4</b>	<b>71.0</b>	<b>-0.5</b>	<b>70.6</b>	<b>92.4</b>	76%	19%
Domestic	275.3	-0.7	53.2	52.5	-2.8	49.7	71.4	70%	18%
External	98.2	10.3	8.2	18.5	2.3	20.8	21.0	99%	21%
<b>E. NET LENDING TO C.S.A</b>	<b>-4.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-0.5</b>	<b>-0.5</b>	<b>-0.7</b>	65%	12%
Gross Lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Less : Loan Repayments	4.0	0.0	0.0	0.0	0.5	0.5	0.7	65%	12%
<b>F. RECURRENT</b>	<b>3,636.1</b>	<b>169.3</b>	<b>333.4</b>	<b>502.7</b>	<b>205.8</b>	<b>708.5</b>	<b>714.1</b>	99%	19%
As % of GDP	18.4%	0.9%	1.7%	2.5%	1.0%	3.6%	3.6%	99%	19%
<b>2 DEVELOPMENT BUDGET</b>									
Domestic Funds	526.7	0.0	61.0	61.0	39.5	100.5	85.4	118%	19%
Project Grants	1,123.7	0.0	0.0	0.0	0.0	0.0	65.8	0%	0%
Infrastructure Tax Credits	73.7	1.6	2.1	3.8	3.6	7.3	6.1	120%	10%
Concessional loans	163.0	0.0	0.0	0.0	0.0	0.0	5.5	0%	0%
Commercial loans	0.0	0.0	0.0	0.0	0.0	0.0	0.1		
<b>G. TOTAL DEVELOPMENT BUDGET (PIP)</b>	<b>1,887.1</b>	<b>1.7</b>	<b>63.1</b>	<b>64.8</b>	<b>43.1</b>	<b>107.9</b>	<b>162.9</b>	66%	6%
As % of GDP	9.6%	0.0%	0.3%	0.3%	0.2%	0.5%	0.8%	66%	6%
<b>ADDITIONAL PRIORITY EXPENDITURE</b>	<b>1476.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>		0%
<b>H. TOTAL EXPENDITURE &amp; NET LEND.</b>	<b>6,999.2</b>	<b>171.0</b>	<b>396.5</b>	<b>567.5</b>	<b>248.9</b>	<b>816.4</b>	<b>876.9</b>	93%	12%
As % of GDP	35.5%	0.9%	2.0%	2.9%	1.3%	4.1%	4.4%	93%	12%
<b>I. AMORTISATION</b>	<b>1996.3</b>	<b>32.8</b>	<b>68.8</b>	<b>101.6</b>	<b>17.9</b>	<b>119.5</b>	<b>168.4</b>	71%	6%
Domestic	1553.0	4.4	50.0	54.5	9.7	64.1	77.3	83%	4%
External	443.3	28.4	18.8	47.2	8.2	55.4	91.1	61%	12%
<b>J. LOAN REPAYMENTS</b>	<b>4.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.5</b>	<b>0.5</b>	<b>0.7</b>	65%	12%
<b>K. TOTAL PAYMENTS</b>	<b>8,999.5</b>	<b>203.8</b>	<b>465.3</b>	<b>669.1</b>	<b>267.2</b>	<b>936.3</b>	<b>1,046.0</b>	90%	10%
As % of GDP	45.6%	1.0%	2.4%	3.4%	1.4%	4.7%	5.3%	90%	10%

Table 8: Central Government Financing (K million)

	2008 Budget	Jan Outturn	Feb Actuals	Feb Outturn	Mar Actuals	Mar Outturn	Mar Trend	% of Trend	% of Budget
<b>A. TOTAL REVENUE AND GRANTS</b>	7,201.6	244.8	238.3	483.1	216.4	699.5	911.3	77%	10%
<b>B. TOTAL EXPENDITURE AND N/L</b>	6,999.2	171.0	396.5	567.5	248.9	816.4	876.9	93%	12%
<b>C. DEFICIT (-) / SURPLUS (+)</b>	202.4	73.8	-158.2	-84.4	-32.5	-116.9	34.4	-340%	-58%
% of GDP	1.0%	0.4%	-0.8%	-0.4%	-0.2%	-0.6%	0.2%	-340%	-58%
<b>D. EXTERNAL FINANCING</b>	-279.3	-28.4	-18.8	-47.2	-8.2	-55.4	-85.5	65%	20%
<b>D1. CONCESSIONAL FINANCING</b>	-210.3	-19.0	-6.3	-25.3	-7.1	-32.4	-71.8	45%	15%
New Borrowing	163.0	0.0	0.0	0.0	0.0	0.0	5.5	0%	0%
Less Amortisation	-373.3	-19.0	-6.3	-25.3	-7.1	-32.4	-77.3	42%	9%
<b>D2. COMMERCIAL FINANCING</b>	-15.0	0.0	0.0	0.0	0.0	0.0	-3.5	0%	0%
New Borrowing	1.0	0.0	0.0	0.0	0.0	0.0	0.1	0%	0%
Less Amortisation	-16.0	0.0	0.0	0.0	0.0	0.0	-3.5	0%	0%
<b>D3. EXCEPTIONAL FINANCING</b>	-54.0	-9.4	-12.4	-21.9	-1.1	-23.0	-10.2	225%	43%
New Borrowing	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Less Amortisation	-54.0	-9.4	-12.4	-21.9	-1.1	-23.0	-10.2	225%	43%
<b>E. DOMESTIC FINANCING</b>	76.9	-45.4	177.0	131.6	40.7	172.2	51.1	337%	224%
<b>E1. DOMESTIC MARKET BORR. (NET)</b>	77.0	73.6	48.0	121.5	58.4	179.9	186.0	97%	234%
New Domestic Borrowing	1630.0	78.0	98.0	176.0	68.0	244.0	263.3	93%	15%
Less Amortisation	-1553.0	-4.4	-50.0	-54.5	-9.7	-64.1	-77.3	83%	4%
<b>E2. OTHER DOMESTIC FINANCING (b)</b>	-0.1	-119.0	129.0	10.0	-17.7	-7.7	-134.9	6%	7701%
<b>E3. ASSETS SALES FINANCING</b>	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
<b>E4. NET FINANCING</b>	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
<b>F. TOTAL FINANCING</b>	-202.4	-73.8	158.2	84.4	32.5	116.9	-34.4	-340%	-58%
<b>G. GROSS BORROWING</b>	1793.9	-41.0	227.0	186.0	50.3	236.3	134.0	176%	13%
Concessional	163.0	0.0	0.0	0.0	0.0	0.0	5.5	0%	0%
Commercial	1.0	0.0	0.0	0.0	0.0	0.0	0.1	0%	0%
Exceptional	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Domestic	1629.9	-41.0	227.0	186.0	50.3	236.3	128.4	184%	15%
Financing Gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Source: Treasury