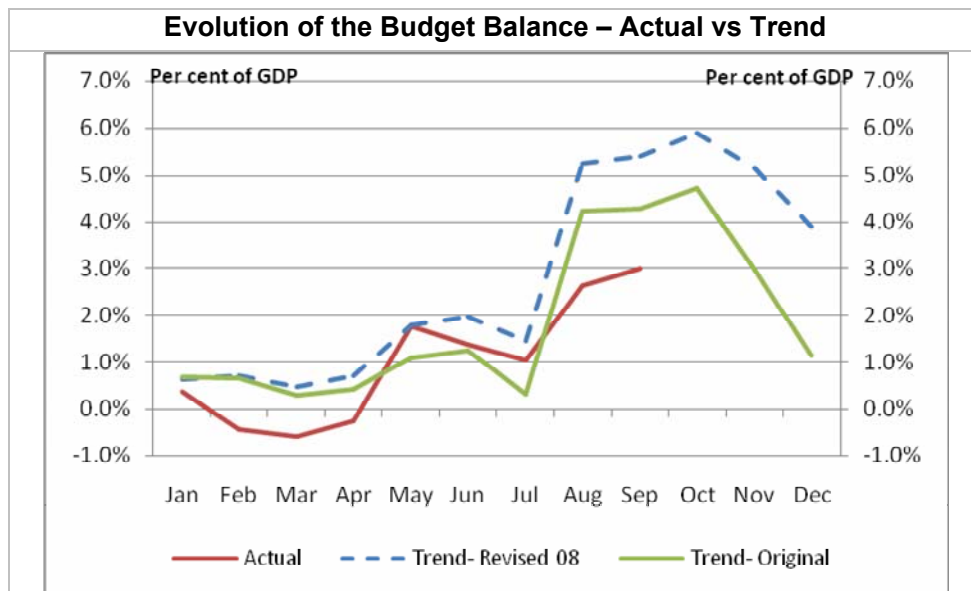




TREASURY ECONOMIC MONITOR (TEM)

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1. THE INTERNATIONAL ECONOMIC OUTLOOK

According to the International Monetary Fund's (IMF), November 2008 update of the key World Economic Outlook (WEO) projections, global growth deteriorated in the second half of 2008, as financial sector deleveraging has continued and producer and consumer confidence fell. The world economy has entered into major downturn in the face of the most dangerous financial shock in major financial markets since the 1930s.

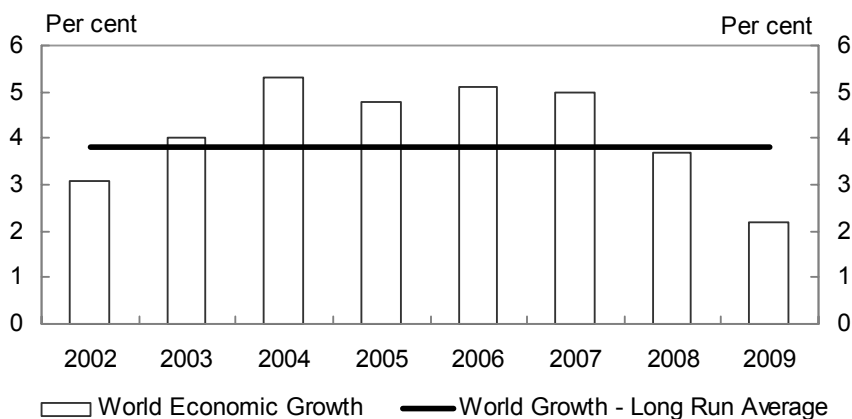
The World Economy slowed substantially in 2008, with world growth projected to slow from 5 per cent in 2007 to 3¾ per cent in 2008 and to just over 2 per cent in 2009.

The downturn has been led by advanced economies. Activities in the advanced economies are now expected to contract by ¼ per cent on an annual basis in 2009. This would be the first annual contraction during the post-war period although the downturn is broadly comparable in magnitude to those that occurred in 1975 and 1982.

The United States economy has suffered, as households respond to depreciating real and financial assets and tightening financial conditions. Growth in the Euro area has been hard hit by tightening financial conditions and falling confidence. In Japan the support to growth from net exports has declined.

The combination of falling commodity prices and increasing economic slack has helped to contain inflationary pressures. In a number of countries, inflation risk are still manifest, as higher commodity prices and continued pressure on local supply conditions have affected wage demands and inflation expectations.

Chart 1: World Economic Growth



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

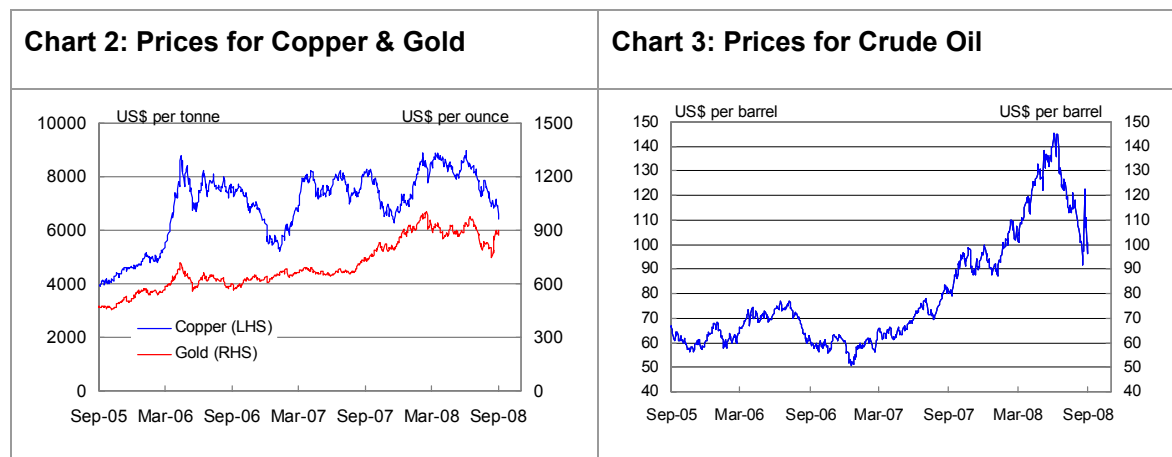
1.1 Commodity Markets

Commodity markets witnessed two opposing trends in the September quarter. In the early months of the quarter, the price of almost all commodities skyrocketed into never before trading territories, before plunging at the end of the quarter when impact of the global financial crisis began to be felt. The price of PNG's key export commodities of copper, gold and oil collapsed at the end of the quarter.

After increasing at the beginning of the September quarter, the world price of copper fell sharply at the end of the quarter, falling on average by 9 per cent to US\$7,692.6 per tonne.

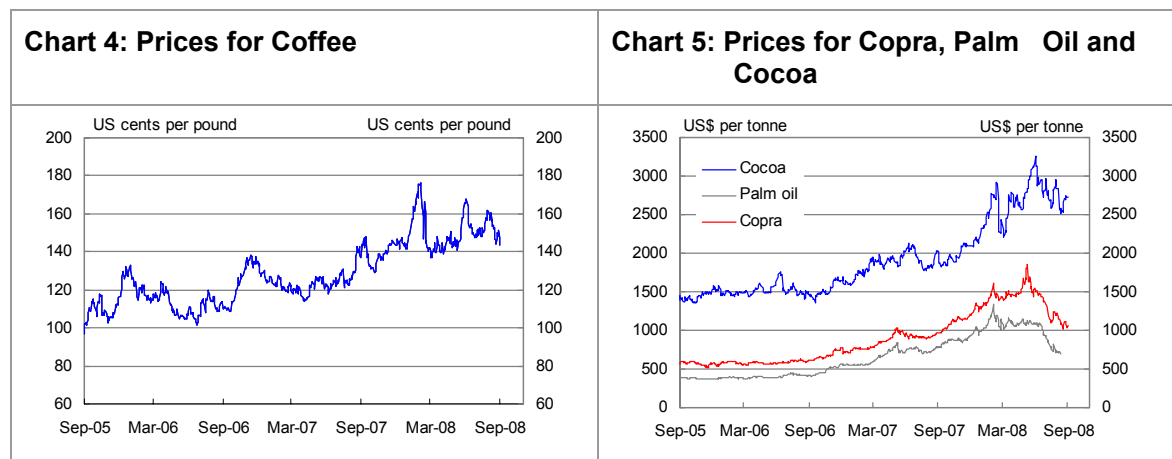
The world gold price also fell lower after trading higher in the early months of the September quarter. On average the price of Gold fell by 3 per cent, however, the price fall was more in the order of 5 per cent when comparing prices at end of June from the end of September.

Crude oil prices reached uncharted territory in July when it parked at US\$147 per barrel. This quickly turned around with the emergence of the Global Financial Crisis which broke out in the last two months of the quarter. On average the price of crude oil fell by 4 per cent to US\$118.2 in the September quarter. However, this masks a big fall in crude oil prices in August and September where price fell by 24 per cent alone.



Source: Department of Treasury

World prices for Papua New Guinea's Agricultural commodity exports of Palm oil and Copra fell in the September quarter while Coffee and Cocoa recorded minor increases.



Source: Department of Treasury

The world price for palm oil decreased by 18 per cent in the September quarter to trade around US\$890 per tonne (chart 5). This was largely attributed to the slow down in world demand which started to intensify in the latter part of the quarter.

The world price for copra also fell in the September quarter and is also attributed to the slow down in world demand. On average the price of copra decreased by 18 per cent to trade lower at US\$1,246.5 per tonne (chart 5).

Meanwhile there were small increases in the price of Coffee (chart 4) and Cocoa (chart 5) in the September quarter. The price of coffee increased by 5 per cent to trade around US\$153 per pound while the price of cocoa increased by 3 per cent to trade at US\$2,788 per pound.

2. DOMESTIC ECONOMY

2.1 Gross Domestic Product

In 2008, real economic growth is expected to be 7.2 per cent – the highest growth since 1993. This is broadly in line with forecast GDP growth of 7.3 per cent expected in the 2008 Mid Year Economic and Fiscal Outlook (MYEFO), although, the composition of growth has altered, with a large downward revision to expected oil production, partially offset by a broad upward revision across many of the non-mineral sectors.

The strong Gross Domestic Product (GDP) growth in 2008 is broad based and mainly driven by the non-mining sectors. The mining and quarrying sector is also expected to expand, largely due to increased production from Porgera and Ok Tedi. Oil production is expected to decline in 2008, as existing fields continue to mature, resulting in lower extraction rates.

Total non-mining GDP is expected to expand by 7.9 per cent in 2008, the strongest growth in over a decade, driven by continued robust growth in transport, storage and communication, construction, wholesale and retail trade, finance, real estate and business and the agriculture, forestry and fisheries sectors.

The transport storage and communication sector is expected to expand by a further 40 per cent in 2008, driven by the communication sector through the continued expansion of mobile phone services. The interconnectivity of the two networks in the year has further expanded operations and increased the number of subscribers substantially, and has vastly contributed to increased domestic activity in the economy. Subscribers to mobile networks are now estimated to be around one million, and activity related to the sector is now estimated to have contributed around 2 per cent to GDP.

The construction sector is expected to grow strongly by 15 per cent in 2008, with continued demand from both the private and public sectors. However, growth is expected to return to more moderate levels in the future. This is due to the construction sector operating at full capacity, which means that further growth requires increased capacity, rather than increased utilization of spare resources as observed over recent years.

Growth in the agriculture, forestry and fishing sector is expected to accelerate in 2008 to around 5 per cent. The robust growth in agriculture reflects increased production of copra, copra oil, coffee, cocoa and palm oil. This was supported by higher prices in the first half of 2008.

Other non-mineral sectors, such as wholesale and retail, finance, real estate and business, manufacturing, and community, social and personal services sectors are expected to have grown strongly in 2008, supported by low interest rates and increased business confidence in line with macroeconomic stability. Growth in these sectors is strongly supported by high employment and lending growth.

The mining and quarrying sector is expected to grow by 4 per cent in 2008, reflecting slightly higher production from the existing mines and the commencement and initial ramp up of the Simberi and Sinivit gold mines. Porgera and Ok Tedi are expected to increase production in 2008, while production from Lihir and a number of other small mines are anticipated to decline in 2008.

The oil and gas extraction sector is expected to decline by 8 per cent in 2008, reflecting a fall in annual total oil production of around 1.3 million barrels. This represents a continuation of the natural decline from all existing fields, despite increased workover due to high oil prices.

2.2 Labour Market

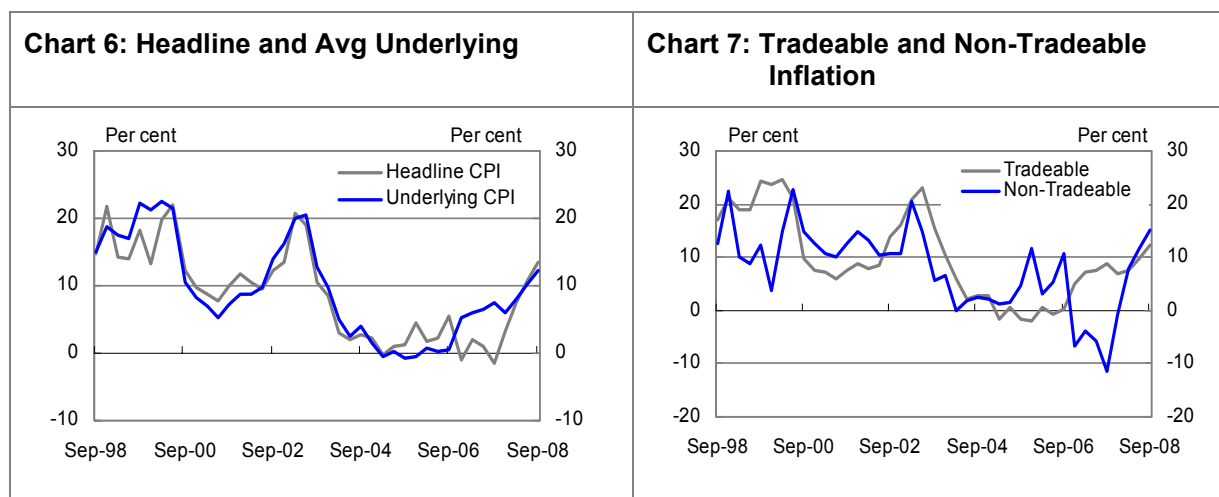
In the year to September quarter 2008, total private non-mineral sector employment rose slightly by 9.3 per cent driven by higher employment growth in most sectors, particularly, building and construction, manufacturing, and transportation. Employment in the mineral sector is up slightly by 0.3 per cent in the year to September 2008.

Employment pace continues to vary by region but generally all regions have shown growth over the year to September 2008 with Momase recording the highest growth rates of 19 per cent. However, Southern region has recorded a decline of 5.1 per cent.

2.3 Prices

The underlying Consumer Price Index (CPI) rose by 2.9 per cent in the September quarter to be 12.2 per cent higher through the year, driven by increases in the price of *food, rents, council charges and fuel and power*. Headline CPI increased by 3.2 per cent in the September quarter to be 13.5 per cent higher in through-the-year terms (Chart 6).

Underlying inflation has been uncomfortably high for some time now (Chart 6), and is threatening to become entrenched in the PNG economy. While higher international food and energy prices realised in the beginning is still imparting significant pressures, there are significant inflationary pressures coming from within the domestic economy.



Source: National Statistics Office and Treasury

The increase in prices continue to be broad with over half of the subgroups recording above trend increases in the September quarter. Over the last year prices of imported (or tradeable) goods increased by 12.1 per cent. Domestic demand is also very strong with non-tradeable inflation up 15.1 per cent in the same period (Chart 7).

CPI by Expenditure Group

In quarterly terms expenditure groups that recorded large increases were food and rents, council charges, fuel and power. This was partially offset by a decline in transport and communication (Table 1).

Over the last year increases in CPI have been broad, with all groups increasing strongly. For the second consecutive quarter 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: September 2008 CPI Growth by Expenditure Groups

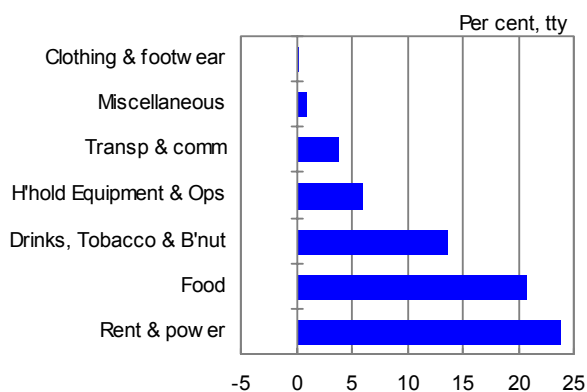
	Quarterly	Through the year
Clothing and Footwear	2.1	0.3
Miscellaneous	0.0	1.0
Transport and Communication	-1.0	3.8
Household Equipment and Operation	2.1	6.1
Drinks, Tobacco and Betelnut	2.0	13.7
Food	6.1	20.8
Rents, Council Charges, Fuel and Power	4.1	23.8
Average All Group CPI	3.2	13.5
Average Underlying CPI	2.9	12.2

Source: National Statistical Office

CPI by Region

All regions recorded price increase in the September quarter. Over the last year, growth in prices have been very sharp, with over 10 per cent inflation recorded in all major towns. Lae and Rabaul recorded the largest increase (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	2.0	12.1
Goroka	1.2	9.7
Lae	7.0	20.4
Madang	1.8	10.9
Rabaul	3.6	12.7
Total	3.2	13.5

Contributing Factors

A number of factors continue to contribute to the higher inflation outcome in 2008 and have not yet subsided. These include;

- The fast growth in money supply and credit which over the last year grew at a high 30 and 40 per cent respectively – This is still imparting significant stimulus despite the increase in KFR by another 50 basis points in September. Furthermore this worrying level of growth in monetary aggregates indicates that monetary policy remains relatively loose and needs to be tightened further;
- The terms of trade boom, this has substantially increased government revenues since 2005. To date over K6.3 billion in supplementary and additional appropriations have been made where over K1.6 billion has been spent adding significant stimulus into the economy. Over K4.5 billion still remain in trust and represents a huge potential for further stimulus. This needs to be kept in check to avoid adding fuel to the fire; and
- The continued rapid expansion of the private sector which is now running up against significant capacity constraints resulting in skill shortages, higher wage demands and increasing willingness of businesses to pass on higher costs to consumers.
- However some downside risks have emerged and have reversed some of the trends which had been imparting significant inflationary pressures. These are expected to stem from some but not all of the inflationary pressures in 2008.

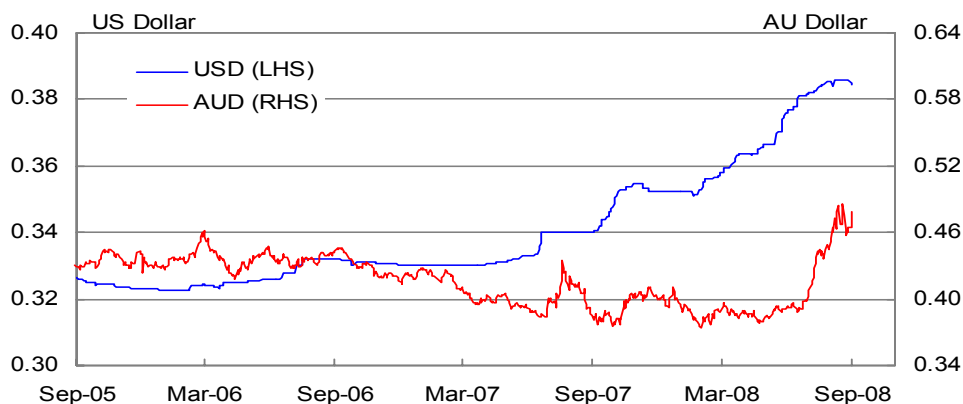
Inflation remains uncomfortably high in the September quarter, with headline inflation up by 13.5 per cent and underlying inflation up 12.2 per cent over the last year. The major driver of this outcome and for the second consecutive quarter is rents, council charges, fuel and power and food. This is a concerning trend however some risks to the downside have emerged which should assist to relieve some of the pressures in the December quarter. This includes the fall in oil price and the sharp appreciation of the Kina against the Australian dollar.

3. MONETARY DEVELOPMENTS

3.1 Exchange Rate Developments

The Kina appreciated in value by a small 2 per cent against the US dollar, however, appreciated sharply against a weakening Australian dollar by 23 per cent in the September quarter. The sharp appreciation against the Australian dollar comes at a time when the Australian dollar is weakening against most currencies as a direct result of the global financial crisis.

Chart 9: Exchange Rate Movements



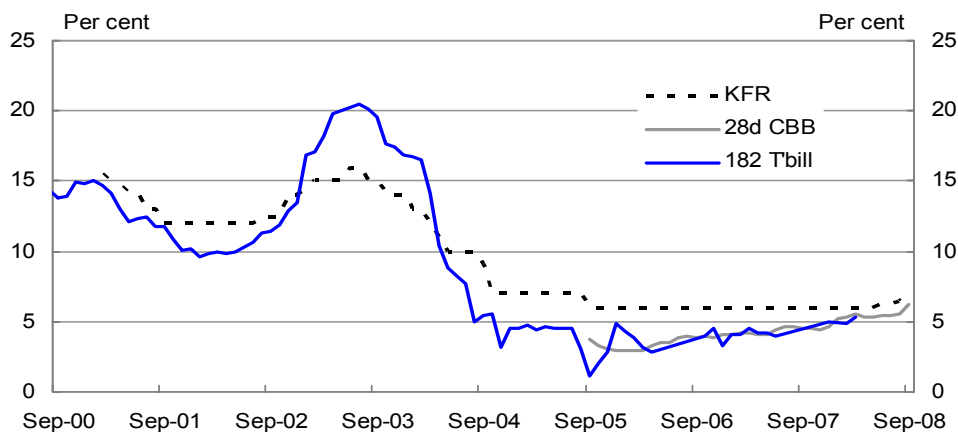
Source: Bank of Papua New Guinea, 2008 September Quarterly Economic Bulletin

3.2 Interest Rate Developments

Despite very strong economic growth and rising inflationary pressures, interest rates continue to remain at historically low levels in 2008. The Kina Facility Rate (KFR) – which is the benchmark interest rate targeted by the BPNG, has been adjusted upwards by 75 percentage points to 7.00 per cent in the September quarter from 6.25 per cent in the June quarter. The 28-day Central Banking Bill (CBB) increased from 5.45 per cent at the end of June quarter to 6.17 per cent at the end of September quarter. In 2008 the interest rates still remain below the KFR benchmark.

There were no Treasury Bill auctions during the period up to September quarter 2008 reflecting the Government’s cash flow position.

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

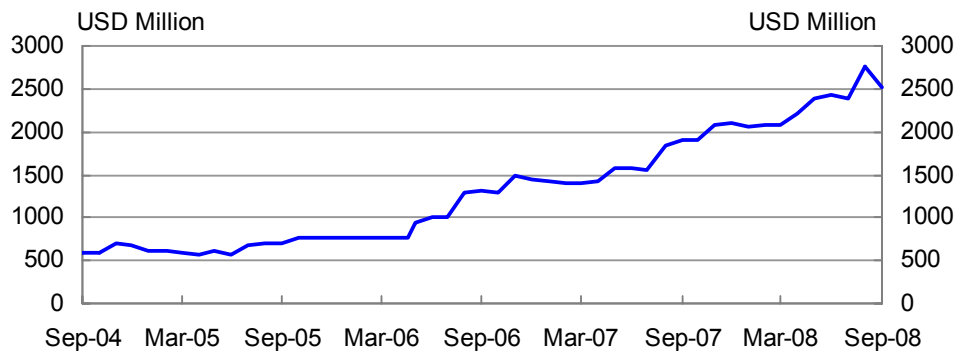


Source: Bank of Papua New Guinea, 2008 September Quarterly Economic Bulletin

3.3 Foreign Reserves

The level of Gross Foreign Reserves at the end of September quarter 2008 was K6,479.8 million (US\$2,513 million) compared to K5,500million (US\$1,897.8 million) in the corresponding period of 2007. According to BPNG, this is equivalent to 9.2 months of total import cover and is sufficient to manage short term exchange rate volatility.

Chart 11: Foreign Reserves (US\$ Millions)



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

4. COMMODITIES

Table 3: Total Export Values for Commodities

TOTAL EXPORTS	Sep-07			Sep-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)
AGRICULTURE, FORESTRY, FISHERIES									
Cocoa (000 tonnes)	16.2	1954.0	93.1	6.8	2832.9	50.1	-58.0	45.0	-46.2
Coffee (000 tonnes)	19.3	2512.1	142.6	21.5	3052.8	170.7	11.4	21.5	19.7
Copra Oil(a) (000 tonnes)	15.1	767.8	34.1	22.8	1050.6	62.3	51.0	36.8	82.7
<i>Copra Oil</i>	12.6	858.1	31.8	14.1	1377.1	50.5	11.9	60.5	58.8
<i>Copra</i>	2.5	312.8	2.3	8.7	521.5	11.8	248.0	66.7	413.0
Palm Oil (000 tonnes)	82	673.8	162.5	85	895.7	198	3.7	32.9	21.8
Other Agriculture(b)	n.a.	n.a.	80.3	n.a.	n.a.	62.1	n.a.	n.a.	-22.7
Tea	1.3	102.0	3.9	1.5	120.5	4.7	15.4	18.1	20.5
Rubber	1.3	196.2	7.5	1.3	257.3	8.7	0.0	31.2	16.0
Other(c)	n.a.	n.a.	68.9	n.a.	n.a.	48.7	n.a.	n.a.	-29.3
Forest Products (including logs)	n.a.	n.a.	129.5	n.a.	n.a.	95.8	n.a.	n.a.	-26.0
Logs	550	7.0	113.3	461	6.9	82.2	n.a.	n.a.	-27.4
Marine Products	15.4	138.0	62.5	4.9	254.2	32.4	n.a.	n.a.	-48.2
Agriculture, Forestry and Fishing Exports			704.6			671.4			-4.7
MINERALS									
Gold (000 oz)	499.6	646.4	949.7	542.3	795.4	1121.9	8.6	23.1	18.1
Copper (000 tonnes)	39.7	7635.0	891.5	45.8	8103.0	965.2	15.4	6.1	8.3
Oil (million barrels)	3121.6	86.2	791.0	2420.7	138.6	872.6	-22.5	60.9	10.3
Refined Petroleum Products	n.a.	n.a.	138.9	n.a.	n.a.	232.4	n.a.	n.a.	67.3
Mineral Exports(d)			2,771.1			3,192.1			15.2
TOTAL EXPORTS			3,475.7			3,863.5			11.2
(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 (Sept)	2008 (Sept)						
USD/PGK		0.3400	0.3845						

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

Total export values increased by 11.2 per cent through the year to September 2008.

Export values from agriculture, forestry and fishing sector has declined by 4.7 per cent to K671.4 million in September 2008 compared to K704.6 million in the corresponding period of 2007. The slight fall reflected the decline in values of logs and marine products, which more than offset the increase in agriculture export values.

Mineral sector export values increased by 15.2 per cent to K3,192.1 million in the quarter compared to K2,771.1 million in the corresponding period of 2007. This reflects the prices for gold and crude oil exports and higher volumes of gold and copper.

5. BALANCE OF PAYMENTS

The current account balance recorded a surplus of K1,078 million at the end of September quarter 2008, compared to a surplus of K98 million in the corresponding period of 2007. This is due to higher surplus in the balance of trade in goods and services.

Table 4: Balance of Payments; September 2007 – September 2008 (Kina Millions)

	September - 2007	September - 2008	Change
Current Account Balance	98	1,078	980
Balance of Trade in Goods & Services	553	1,233	680
<i>Exports of Goods and Services</i>	3,650	4,141	491
<i>Imports of Goods and Services</i>	-3,097	-2,908	189
Balance of Income	-471	-173	298
Balance of Transfer	16	18	2
Capital and Financial Account*	-92	-1,048	-956
Net Errors and Omissions	-6	-30	-24

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

*Includes changes in official reserves

The surplus in the Balance of Trade in Goods and Services at the end of the September quarter 2008, was K1,233 million, which is K680 million higher than the corresponding period of 2007. The 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 both agriculture and mineral commodity exports.

The balance of income was a deficit of K173 million in the September quarter of 2008 compared with a deficit of K471 million from the corresponding period of 2007. The outcome was due to a decline in interest and dividends payments by resident companies combined with higher interest receipts.

The balance of transfer was a surplus of K18 million in the September quarter of 2008 compared to a surplus of K16 million in the corresponding period of 2007. The outcome was due to higher receipts for gifts and grants.

The capital and financial accounts recorded a deficit of K1,048 million in the September quarter of 2008 compared to a lower deficit of K92 million in the corresponding period of 2007. This was mainly reflective of low net capital inflow and high portfolio investment in particular financial transactions abroad.

The level of gross foreign exchange reserves for the September quarter of 2008 was K6,479.8 million (US\$2,513 million), sufficient to smooth any short term exchange rate volatility.

6. CENTRAL GOVERNMENT FISCAL OPERATIONS FOR SEPTEMBER 2008

Technical Note:

This report outlines the fiscal performance for the September 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 September 2008 Fiscal Outturn. The trend numbers in this report are now based on the Revised 2008 Budget.

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

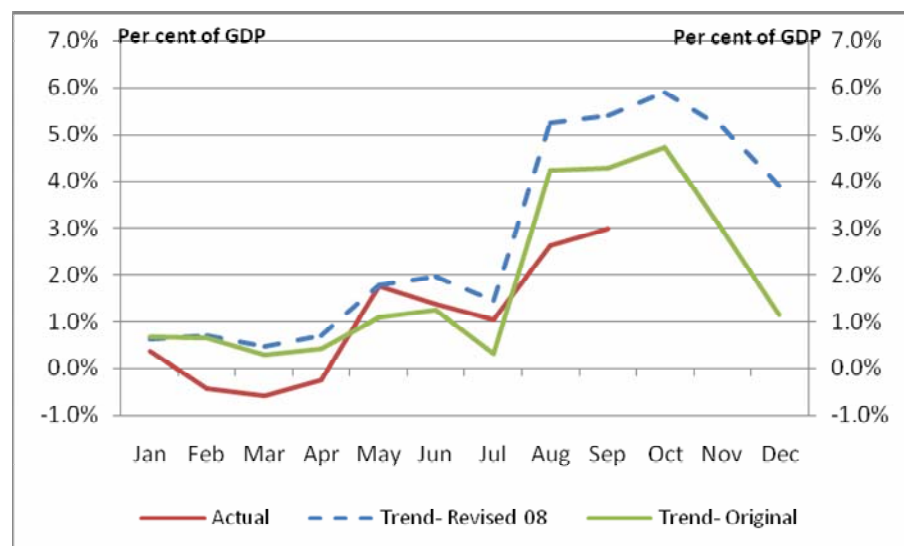
GoPNG ONLY	Budget 08	2008 Revised	July	August	Sept	Sept Trend	% of Trend	% of Revised 08
Total Revenue (GoPNG)	6004.2	6595.4	2502.4	4148.7	4481.9	4621.6	97.0	68%
Total Expenditure (GoPNG)	5801.8	4166.1	2198.1	3540.6	3343.1	2845.0	117.5	80%
Budget Balance	202.4	2429.3	304.4	608.1	1138.9	1776.6		
% of GDP	1.0%	11.3%	1.4%	2.8%	5.3%			

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

Total GoPNG revenue was slightly lower to September 2008, with collections 3 per cent below the trend required to meet 2008 Budget estimates. Total GoPNG expenditure for the September 2008 outturn were above trend by 17.5 per cent.

Overall, the Government’s Budget position was a projected surplus of K643.1million or 3.0 per cent of GDP at the end of the September quarter. The evolution of the Budget Balance as depicted in Graph 12 below reflects the actual budget balance incurred against the anticipated monthly trend base on the 2008 Original Budget and the 2008 Revised Budget.

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



2. Revenue and Grants

Total Revenue (GoPNG)

Total GoPNG revenue was slightly above trend in the September Fiscal Outturn of 2008.

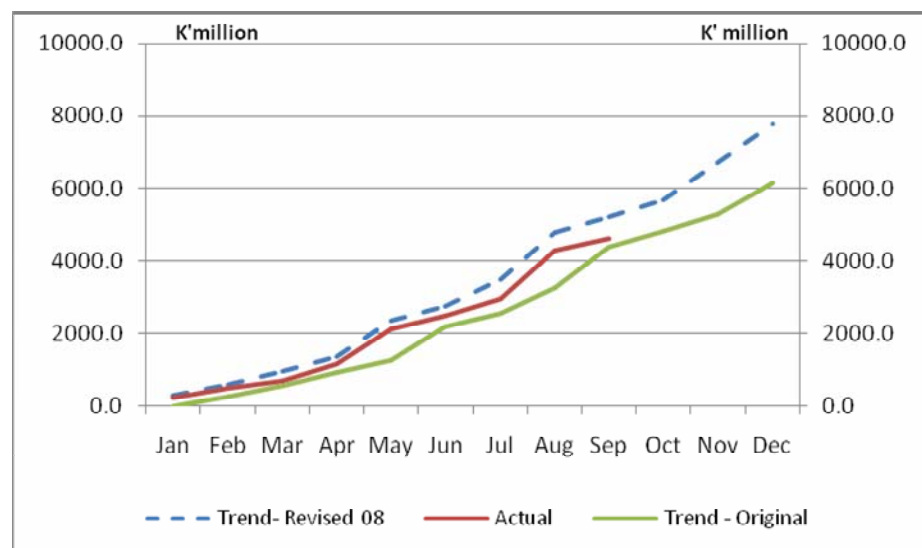
Tax receipts in the September 2008 Outturn were K4,335.5 million, which was 8 per cent higher than the trend. Taxes on income and profits were lower than trend by 3.5 per cent, primarily attributable to the slightly higher recording of all direct tax heads with the exception to gaming taxes; domestic taxes on goods and services were lower than trend by 8 per cent due to the lower GST collection and domestic excise; and taxes on international trade were below trend by 4.3 per cent.

Non-tax revenue receipts for the September Outturn were K146.4 million, which was way below trend. This is due non mining dividends have yet to be recorded as dividend proceeds from these companies are managed by the IPBC who then decides on transferring these proceeds to the government accounts.

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 K21.9 million are recorded as being utilized in the September Outturn, which is 32.0 per cent below trend. Project support grants from donors have yet to be recorded. Treasury is yet to receive expenditure reports from donors.

Total revenue and grants were K4,621.6 million at the end of September 2008. This was below trend by 11.5 per cent.

3. Expenditure and Net Lending

Total Expenditure (GoPNG)

National Departments' recurrent expenditure totalled K1,814.8 million as at September 2008. This is 22.8 per cent above trend, and represents 80 per cent of the 2008 Original Budget appropriation and 2008 Revised budget.

National Departments' personnel emoluments expenditure were K653.8 million in September Outturn, compared to the K639.9 million anticipated in trend expenditure, which is 2.2 per cent above trend and represents 63 per cent of the 2008 Budget.

National Departments' general goods and services expenditure was K705.4 million in the September Outturn. This was 12 per cent above trend and represents 70 per cent of the 2008 Original Budget appropriation and the 2008 revised Budget.

Grants to Provincial Governments totalled K575.6 million in September compared to K488.8 million in trend expenditure. This was 17.8 per cent above trend and represents around 80 per cent of the 2008 Budget appropriation and the 2008 Revised Budget.

Provincial Government personnel emoluments expenditure (including teachers) was K452.4 million in the September Outturn compared to K401.4 million anticipated in trend. This is 7.3 per cent above trend and represents about 75 per cent of the 2008 Original Budget appropriation and the 2008 Revised Budget.

Provincial Government goods and services grant expenditure totalled K66.0 million in the September Outturn compared to K47.5 million in trend expenditure. This reflects a quite higher recording. It was 39.0 per cent above trend and represents 99 per cent of the 2008 Original Budget appropriation and 2008 Revised Budget.

Autonomous Bougainville Government incurred total expenditure of K39.7 million compared to trend expected at K29.1 million. This was 36.3 per cent above trend and around 73 per cent of the total 2008 Original Budget appropriation and 2008 Revised Budget.

Transfers to Statutory Authorities totalled K201.8 million in the September 2008 Outturn. This was 22.5 per cent above trend and is 80 per cent of the 2008 Budget appropriation.

Interest payments and fees totalled K228.9 million in the September Outturn and is 15.6 per cent below trend. This represents 61.0 per cent of the 2008 Original Budget appropriation and 64 per cent of the 2008 Revised Budget.

Domestic development expenditure in the September Outturn turned out to be K526.4 million, which was 26.7 per cent above trend.

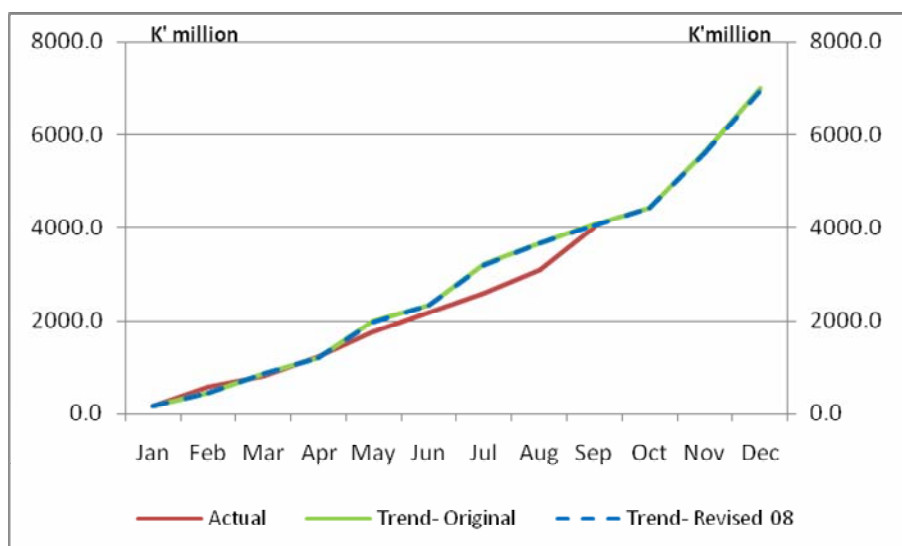
Draw downs on concessional project loans turned out to be K19.7 million which was 26.2 per cent below trend.

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 K21.9 million are recorded as being utilized in the September Outturn. This was 63.0 per cent below trend. Project support grants of K93.2 million has been recorded in the September Outturn. This is way below trend and is due to most of the project support grants not being recorded yet.

Funds appropriated under the Additional Priority Expenditure, are parked under Department 207 which is managed by the Finance and Treasury Departments. Total payments from this by September 2008 were K193.7 million. This was around 67.0 per cent below trend.

Overall total expenditure and net lending for the September Outturn was K3,978.5 million compared to the trend estimate of K4,054.9 million. This was 2 per cent below trend, however represents only 51.0 per cent of the 2008 Original Budget appropriation and 56.8 per cent of the 2008 Revised Budget.

4. Financing

A Budget surplus of K643.1 million (or 3.0 per cent of GDP) was recorded in the September 2008 Outturn.

Net external outflows totalled K137.7 million and net domestic outflow turned out to be K505.4 million. Both outflows were financed through the surplus generated.

FISCAL OUTTURN - SEPTEMBER 2008

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

	2008	2008	Aug	Sept	Sept	Sept	% of	% of	% of
	Budget	Revised	Outturn	Actual	Outturn	Trend	trend	Rev Bdgt	Budget
A. TAX REVENUE	5,516.7	6,116.2	4,065.6	269.9	4335.5	4302.7	100.8	70.9	78.6
A1. TAX ON INCOME AND PROFITS	4,142.0	4,659.2	3,177.9	152.9	3330.8	3216.8	103.5	71.5	80.4
Personal Income Tax	1,053.7	1,086.2	718.8	79.9	798.8	809.2	98.7	73.5	75.8
Company Tax	699.7	778.2	504.9	48.5	553.4	553.6	100.0	71.1	79.1
Dividend Withholding Tax	195.5	196.8	184.3	9.9	194.3	150.0	129.5	98.7	99.4
Interest Withholding Tax	21.4	21.1	13.6	1.0	14.6	16.9	86.4	69.3	68.3
Mining and Petroleum Taxes	2,011.8	2,392.2	1,631.7	1.8	1,633.5	1,549.7	105.4	68.3	81.2
Gaming Tax	86.5	91.6	55.6	4.5	60.1	68.5	87.8	65.7	69.5
Other: Direct	73.4	93.1	69.0	7.1	76.1	68.9	110.5	81.7	103.6
A2. DOM. TAXES ON GOODS AND SERVICES	987.3	1,031.6	609.5	90.7	700.2	767.7	91.2	67.9	70.9
Excise	368.3	370.2	231.8	19.9	251.7	272.3	92.4	68.0	68.3
GST	600.8	646.1	364.0	70.0	434.0	485.0	89.5	67.2	72.2
Mining Levy	15.0	12.0	11.4	0.0	11.4	8.8	128.7	94.6	75.7
Other: Indirect	3.2	3.3	2.4	0.8	3.1	1.5	206.2	95.1	98.0
A3. TAXES ON INTERNATIONAL TRADE	387.4	425.4	278.2	26.3	304.5	318.2	95.7	71.6	78.6
Import Duty	132.7	149.9	102.5	10.9	113.5	114.5	99.1	75.7	85.5
Export Duty	155.2	152.0	92.0	7.4	99.4	110.0	90.4	65.4	64.1
Excise duties on Imports	99.5	123.5	83.6	8.0	91.6	93.7	97.8	74.2	92.1
B. NON-TAX REVENUE	487.5	479.2	119.0	6.6	146.4	318.9	45.9	30.6	30.0
B1. PROPERTY INCOME	388.3	376.5	70.7	0.0	89.9	239.8	37.5	23.9	23.2
Dividends	128.5	140.0	30.0	0.0	30.0	85.3	35.2	21.4	23.3
Mining and Petroleum Dividends	259.8	236.5	59.9	0.0	59.9	154.5	38.8	25.3	23.1
B2. LENDING	5.0	9.0	1.2	0.1	1.2	5.4	22.7	13.6	24.6
B3. OTHER NON TAX REVENUE	94.2	93.7	48.8	6.5	55.3	73.7	75.0	59.0	58.7
B4. ASSETS SALES	0.0	0.0	0.0	0.0	0.0	0.0			
C. TOTAL REVENUE	6,004.2	6,595.4	4,184.7	276.5	4,481.9	4621.6	97.0	68.0	74.6
% of GDP	30.4%	30.6%	19.4%	1.3%	20.8%	21.4%			
D. INFRASTRUCTURE TAX CREDIT	73.7	73.7	20.4	1.5	21.9	32.1	68.2	29.7	29.7
E. GRANTS	1123.7	1111.2	93.2	0.0	93.2	565.5	16.5	8.4	8.3
Budgetary Support	0.0	0.0	0.0	0.0	0.0	0.0			
Project Grants	1123.7	1111.2	93.2	0.0	93.2	565.5	16.5	8.4	8.3
F. TOTAL REVENUE AND GRANTS	7,201.6	7,780.3	4,298.3	277.9	4621.6	5219.2	88.5	59.4	64.2
As % of GDP	36.5%	36.1%	19.9%	1.3%	21.4%	24.2%			
G. PRINCIPAL RECEIPTS FROM LENDING	4.0	4.0	2.2	2.3	4.5	2.6	169.8	112.2	112.2
H. GROSS BORROWING	1793.9	2299.7	521.2	64.8	586.0	518.9	112.9	25.5	32.7
I. ASSET SALES	0.0	0.0	0.0	0.0	0.0	0.0			
J. TOTAL RECEIPTS	8,999.5	10,084.0	4,741.6	345.1	5212.1	5740.7	90.8	51.7	57.9
As % of GDP	45.6%	46.8%	22.0%	1.5%	23.4%	26.6%			

Source: Department of Treasury

Table 7: Central Government Expenditure (K million)

	2008	2008	August	Sept	Sept	Sept	% of	% of	% of
	Budget	Revised	Outturn	Actual	Outturn	Trend	trend	Rev Bdgt	Budget
1 RECURRENT BUDGET									
A. NATIONAL DEPARTMENTS	2,262.3	2,275.8	1,475.9	606.2	1814.8	1478.3	122.8	79.7	80.2
Personnel Emoluments	932.1	945.4	582.2	71.6	653.8	639.9	102.2	69.2	70.1
Total Goods & Services	1,330.2	1,330.4	893.6	267.3	1161.0	838.4	138.5	87.3	87.3
General Goods & Services	1,079.3	1,084.1	705.4	267.3	972.6	726.0	134.0	89.7	90.1
Education Subsidies	143.0	143.0	134.1	0.0	134.1	97.1	138.1	93.8	93.8
Arrears Payments	0.0	1.2	0.0	0.0	0.0	0.0		0.0	
SAP Payments	55.9	51.3	5.2	0.1	5.2	12.3	42.4	10.2	9.4
Court Orders	52.0	52.0	49.0	0.0	49.0	2.9	1667.6	94.2	94.2
B. PROVINCIAL GOVERNMENTS	723.5	728.3	524.7	50.9	575.6	488.8	117.8	79.0	79.6
Personnel Emoluments	596.8	601.5	402.0	50.4	452.4	401.4	112.7	75.2	75.8
Staffing Grants	166.3	171.0	135.3	15.3	150.6	120.0	125.5	88.1	90.6
Teachers Salaries	430.5	430.5	266.7	35.1	301.8	281.3	107.3	70.1	70.1
Goods & Other Services	65.8	65.9	65.8	0.2	66.0	47.5	139.0	100.1	100.3
Administration Grants	15.5	15.5	15.8	0.0	15.8	10.4	151.6	101.8	101.9
Health Function Grant	14.5	14.5	14.5	0.0	14.5	10.9	132.7	99.8	100.0
Education Subsidies	21.7	21.7	21.6	0.0	21.6	15.3	141.3	99.5	99.6
Derivation Grants	14.1	14.1	13.8	0.2	14.1	10.8	129.9	99.5	99.7
Conditional Grants	60.9	60.9	57.0	0.3	57.3	39.9	143.4	94.0	94.0
Trans/Infra/Maint. Grants	16.7	16.7	16.3	0.0	16.3	11.9	137.7	97.7	97.8
Local & Village Services Grants	30.9	30.9	35.6	0.0	35.6	18.0	197.4	115.1	115.2
Town & Urban Services Grants	11.1	11.1	2.9	0.0	0.0	8.3	0.0	0.0	0.0
Village Courts	2.2	2.2	2.1	0.3	2.4	1.7	144.0	108.0	109.2
AUTONOMOUS BOUGAINVILLE GOVT	54.0	54.3	39.6	0.1	39.7	29.1	136.3	73.2	73.6
Police Grant	2.2	2.2	2.2	0.0	2.2	2.1	107.4	99.6	100.5
Recurrent Grant	51.5	51.8	37.4	0.1	37.5	27.1	138.5	72.4	72.8
Conditional Grant	0.3	0.3	0.0	0.0	0.0	0.0		0.0	0.0
C. TRANSFERS & LOANS TO C.S.A	226.8	226.8	182.6	19.2	201.8	164.7	122.5	89.0	89.0
D. INTEREST PAYMENT & FEES	373.5	358.2	226.0	2.9	228.9	271.1	84.4	63.9	61.3
Domestic	275.3	275.3	168.2	-4.2	164.0	208.9	78.5	59.6	59.6
External	98.2	82.9	57.8	7.1	64.9	62.3	104.3	78.3	66.1
E. NET LENDING TO C.S.A	-4.0	-4.0	-2.2	-2.3	-4.5	-2.6	169.9	112.2	112.2
Gross Lending	0.0	0.0	0.0	0.0	0.0	0.0			
Less : Loan Repayments	4.0	4.0	-2.2	-2.3	-4.5	-2.6	169.9	-112.2	-112.2
RECURRENT EXPENDITURE & NET LENDING	3,636.1	3,639.4	2,446.7	676.9	2816.6	2429.4	115.9	77.4	77.5
As % of GDP	18.4%	18.5%	11.0%	3.1%	13.1%	11%			
2 DEVELOPMENT BUDGET									
Domestic Funds	526.7	526.7	462.8	63.7	526.4	415.6	126.7	99.9	99.9
Project Grants	1,123.7	1,111.2	93.2	0.0	93.2	507.5	18.4	8.4	8.3
Infrastructure Tax Credits	73.7	73.7	20.4	1.5	21.9	37.3	58.6	29.7	29.7
Concessional loans	163.0	163.0	12.9	6.8	19.7	75.1	26.2	12.1	12.1
Commercial loans	0.0	0.0	0.0	0.0	0.0	0.0			
G. TOTAL DEVELOPMENT BUDGET (PIP)	1,887.1	1,874.6	589.3	71.9	661.2	1035.5	63.9	35.3	35.0
As % of GDP	9.6%	8.7%	2.7%	0.3%	3.1%	4.8%	0.3%		
ADDITIONAL PRIORITY EXPENDITURE SUPPLEMENTARY BUDGET	1476.0	1426.0	47.0	146.7	193.7	590.0	32.8	13.6	13.1
		850.0	0.0	0.0	0.0			0.0	
H. TOTAL EXPENDITURE & NET LENDING	6,999.2	7,790.0	3,083.0	895.5	3978.5	4054.9	98.1	51.1	56.8
As % of GDP	35.5%	36.1%	14.3%	4.2%	18.5%	18.8%			
I. AMORTISATION	1996.3	2290.2	852.3	69.1	921.4	2058.9	44.8	40.2	46.2
Domestic	1553.0	1834.0	709.6	61.2	770.8	1056.3	73.0	42.0	49.6

External	443.3	456.2	142.7	7.9	150.6	1002.7	15.0	33.0	34.0
J. LOAN REPAYMENTS	4.0	4.0	2.2	2.3	4.5	2.6	169.9	112.5	112.5
K. TOTAL PAYMENTS	8,999.5	10,084.2	3,937.4	967.0	4904.4	6116.5	80.2	48.6	54.5
As % of GDP	45.6%	46.8%	18.3%	4.5%	22.8%	28.4%			

Source: Department of Treasury

Table 8: Central Government Financing (K million)

	2008	2008	August	Sept	Sept	Sept	% of	% of	% of
	Budget	Revised	Outturn	Actual	Outturn	Trend	trend	Rev Bdgt	Budget
A. TOTAL REVENUE AND GRANTS	7,201.6	7,780.3	4,298.3	277.9	4621.6	5219.2	88.5	59.4	64.2
B. TOTAL EXPENDITURE AND NET LENDING	6,999.2	7,790.0	3,083.0	895.5	3978.5	4054.9	98.1	51.1	56.8
C. DEFICIT (-) / SURPLUS (+)	202.4	-9.7	1,215.4	-617.6	643.1	1164.3	55.2	6628.2	317.7
% of GDP	1.0%	0.0%	5.5%	-2.9%	3.0%	5.4%	0.3%		
D. EXTERNAL FINANCING	-279.3	-293.2	-129.8	-7.9	-137.7	-238.7	57.7	47.0	49.3
D1. CONCESSIONAL FINANCING	-210.3	-244.5	-62.7	-2.0	-64.7	-207.0	31.2	26.4	30.7
New Borrowing	163.0	163.0	12.9	0.0	12.9	75.1	17.2	7.9	7.9
Less Amortisation	-373.3	-407.5	-75.6	-2.0	-77.6	-282.1	27.5	19.0	20.8
D2. COMMERCIAL FINANCING	-15.0	-16.0	-8.3	0.0	-8.3	-11.0	75.5	51.7	55.2
New Borrowing	1.0	0.0	0.0	0.0	0.0	0.0			0.0
Less Amortisation	-16.0	-16.0	-8.3	0.0	-8.3	-11.0	75.5	51.7	51.7
D3. EXCEPTIONAL FINANCING	-54.0	-32.7	-58.8	-6.0	-64.8	-20.8	311.4	198.2	120.0
New Borrowing	0.0	0.0	0.0	0.0	0.0	0.0			
Less Amortisation	-54.0	-32.7	-58.8	-6.0	-64.8	-20.8	311.4	198.2	120.0
E. DOMESTIC FINANCING	76.9	284.6	1,085.5	625.5	-505.4	-925.6	54.6	-177.6	-657.2
E1. DOMESTIC MARKET BORROWING (NET)	77.0	76.8	-188.4	-3.2	63.0	-119.9	-52.6	82.1	81.9
New Domestic Borrowing	1630.0	1629.8	775.8	58.0	833.8	892.7	93.4	51.2	51.2
Less Amortisation	-1553.0	-1553.0	-709.6	-61.2	-770.8	-1012.5	76.1	49.6	49.6
E2. OTHER DOMESTIC FINANCING (b)	-0.1	207.8	-897.1	628.7	-568.4	-805.7	70.5	-273.5	
E3. ASSETS SALES FINANCING	0.0	0.0	0.0	0.0	0.0	0.0			
E4. NET FINANCING	0.0	0.0	0.0	0.0	0.0	0.0			
F. TOTAL FINANCING	-202.4	-8.6	1,215.4	617.6	-643.1	-1164.3	55.2	7467.5	317.7
G. GROSS BORROWING	1793.9	2300.0	441.1	693.5	285.1	518.9	54.9	12.4	15.9
Concessional	163.0	163.0	12.9	6.8	19.7	90.4	21.7	12.1	12.1
Commercial	1.0	0.0	0.0	0.0	0.0	0.0			0.0
Exceptional	0.0	0.0	0.0	0.0	0.0	0.0			
Domestic	1629.9	2137.0	521.2	686.7	265.4	338.6	78.4	12.4	16.3
Financing Gap	0.0	0.0	0.0	0.0	0.0	0.0			

Source: Department of Treasury