2017 Budget Strategy Paper

Presented by the
Hon. Patrick Pruaitch, CMG, MP.
Treasurer

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Acronyms

APEC	**Asia-Pacific Economic Cooperation**
DPM	**Department of Personnel Management**
DSP	**PNG Development Strategic Plan (2010-2030)**
EITI	**Extractive Industries Transparency Initiative**
FRA	**Fiscal Responsibility Act (2006/2014)**
GDP	**Gross Domestic Product**
GFS	**Government Financial Statistics**
ICAC	**Independent Commission Against Corruption**
IMF	**International Monetary Fund**
LNG	**Liquefied Natural Gas**
MTDP	**Medium Term Development Plan (2011-2015)**
MTDP2	**Medium Term Development Plan (2016-2017)**
MTFS	**Medium Term Fiscal Strategy (2013-2017)**
PNG	**Papua New Guinea**
RHS	**Right Hand Side (axis)**
SME	**Small and Medium Enterprises**
SOE	**State Owned Enterprises**
StaRS	**The Strategy for Responsible Sustainable Development**
SWF	**Sovereign Wealth Fund**

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Government of Papua New Guinea
2017 Budget Strategy Paper

A. Purpose

The publication of the National Budget Strategy Paper is in accordance with the *Papua New Guinea Fiscal Responsibility Act 2006.* It is a key component of the government's budget reform agenda. It provides a platform for the continuous improvement in both the preparation of budgets and the efficient management of public finances. More broadly, the budget strategy paper will charts out the fiscal framework to support both robust and sustainable inclusive growth.

The Budget Strategy Paper supports transparency and accountability in the budget process by providing the general public with an understanding of the fiscal landscape of the country and governments economic and social policy responses to the prevailing conditions. It also provides the public an opportunity to gauge the government's record on pursuing and/or achieving its policies.

In particular, the 2017 Budget Strategy Paper,[1] provides an update on the government's performance up until final year of the O'Neill Dion government running into the national elections in 2017.

More specifically, the 2017 National Budget Strategy will contain:

i. The principles that will guide the 2017 National Budget;
ii. The broad fiscal parameters for the 2017 Budget and the key government policies for the management of revenues and expenditures;
iii. A discussion on the risks to the budget parameters, the Budget Strategy and the national socio-economic outcomes;
iv. The medium term outlook for government revenues and expenditures; and
v. A discussion on the progress of the O'Neill Dion Budget Strategy as it relates to the Medium Term Fiscal Strategy (MTFS), the Medium Term Debt Strategy, The Fiscal Responsibility Act and the Medium Term Development Plan (MTDP);

The government will continue with budget reforms to ensure the national budget is transparent, accountable, efficient and responsive to the needs of the people.

[1] Fiscal data included in the Budget Strategy Paper is indicative only. The macroeconomic and fiscal forecasts will be updated with the 2017 Budget to reflect any changes in economic and financial conditions.

B. EXECUTIVE SUMMARY

The 2016 fiscal stance has been adversely affected by a number of headwinds. These include the sharp fall in commodity prices, particularly the oil price in early 2016 and the latent effects of the drought. This translated into a lower revenue outturn (in both tax and non-tax revenue) in the first half or 2016 which necessitated the introduction of a supplementary budget in August 2016.

The 2017 Budget[2] therefore will be framed against a relatively weak world economic environment which entails that commodity prices are expected to remain subdued in 2017. In addition, the slow recovery from the effects of drought in parts of the country is also adversely affecting the non-resource sector. Therefore, the 2017 Budget will continue to follow the path of fiscal consolidation. The 2017 budget will target a budget deficit of 2.5 per cent of GDP.[3]

The 2017 Budget and all future budgets will focus on improving revenue receipts by both deepening and widening the tax base. Measures will be undertaken to improve tax compliance and enforcement, reducing tax exemptions and increasing the tax rate for particular items. The tax measures will ensure that a more equitable taxation regime is established such that the less well-off in PNG are least affected.

In the medium term, the fiscal framework will follow a gradual and measured reduction in the budget deficits, with the aim of a achieving a balanced budget beyond 2021. The fiscal framework is therefore geared to, as much as possible, mitigating any disruption to socioeconomic and macroeconomic stability, by creating a pathway for both an orderly and a sensible fiscal consolidation.

The pace of fiscal consolidation over the medium term needs to be carefully managed to accommodate high priority expenditure projects that will continue to promote broad based economic growth and employment in the country. This means that deficit levels over the medium term need to be gradually reduced until the budget returns to a smaller deficit by 2021.

The approach will provide the necessary capacity to fund priority expenditures such as the conducting of a free, fair and safe national elections in 2017 and the hosting of APEC in 2018. Furthermore, the government will maintain its priority policy expenditures such as the Tuition Fee Free Education Policy, Free Primary Health Care Policy, Law and Order Sector Initiatives, key national infrastructure projects, Agricultural Sector Mobilisation Policies and

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[2] Similar to the 2016 Budget, Volume One of the 2017 Budget will be reported under IMF GFS 2014 reporting standards.

[3] It should also be noted that the GDP figures used as the basis for calculation are the revised number from the National Statistics Office released in March 2016.

the continued expansion and engagement in the Small to Medium Enterprises Sector.

This will be achieved by:

i. Ensuring that expenditures allocated to the government priorities are maintained at the current level; with adjustment for inflation;
ii. Ensuring that expenditure prioritization and reallocation of spending on goods and services by reducing (and eventually eradicating) expenditure on non-essential and/or non-productive items;
iii. Ensuring an effective and timely drawdown of concessional loans and project grants;
iv. Deepening and broadening the tax base by undertaking a variety of measures to improve compliance and enforcement, and revenue-raising measures;
v. Managing the government debt profile through capital markets structural reforms, including the issuance of a debut sovereign bond;
vi. Pursuing policies to centralise borrowing and debt guarantees to control State's exposure to contingent liabilities;
vii. Continuing to undertake budget reforms and other complementary policies; and
viii. Pursuing orderly structural reforms that support the fiscal framework including reforms to State-owned enterprises and the size and efficiency of the public sector.

From an implementation perspective, this must be supported by reforms addressing the size and effectiveness of the public service; the service delivery capacity and cost effectiveness of the state-owned enterprises; and continued institutional development such as EITI, the SWF, and the anti-corruption initiatives such as ICAC. These institutions are prerequisites for Papua New Guinea to maximise the opportunities from its resource boom gains, protects those opportunities and extends such opportunities for the next generation.

C. THE 2017 BUDGET STRATEGY

The 2017 Budget will be guided by the principle of inclusive growth that is consistent with Vision 2050, PNG Development Strategic Plan (DSP) (2010-2030), the Medium Term Development Plan 2 (MTDP2) (2016-2017), the Strategy for Responsible Sustainable Development (StaRS 2017), and the *Fiscal Responsibility Act* 2006 (FRA).

The adverse fiscal and macroeconomic impact on PNG resulting from the precipitous fall in international commodity prices early 2016 and the continuation of subdued prices is likely to persist in 2017. In particular, the negative impact on mineral and petroleum tax revenue and revenue more broadly, affected the fiscal outcome in 2016 and continues to shape the fiscal framework in 2017. The revenue shortfall in 2016 of K1.9 billion necessitated a supplementary budget.

Given that the trend in lower revenue collections is expected to continue in 2017, the 2017 Budget will take a gradual and measured approach to fiscal consolidation. In this vein, for the 2017 Budget, total expenditure and net lending will decline to K12.8 billion from K13.8 billion in the 2016 Budget. However, the government will develop the architecture of the 2017 Budget to allow for the funding of government priority policy expenditures whilst ensuring that non-productive expenditure in all sectors of government are curtailed, particularly in relation to the Operational Budget.

In particular, the 2017 Budget Strategy Paper will develop a platform to ensure that productive expenditure is both maintained and enhanced while unproductive expenditure is continuously minimized and eradicated. To this end, complementary policy reform initiatives will be pursued to contain expenditure wastage. In all, the government will live within its means by reprioritising and reallocating expenditure on goods and services from non-essential and/or non-productive to essential and/or high value priority expenditures. The latter is defined by the impact such expenditure has on overall inclusive economic growth. Such measures will follow a sustainable path of fiscal consolidation, taking public debt to GDP onto a downward trajectory over the medium term. This implies that the government will adhere to a gradual and measured approach to fiscal consolidation which is intended to safeguard the drivers of inclusive growth.

To achieve this outcome, the 2017 Budget Guiding Principles are to:

- Undertake a gradual and measured approach to fiscal consolidation through expenditure prioritization and reallocation that will result in higher quality spending;
- Adopt a budget that is affordable and sustainable by closely aligning the operational expenditure to falling revenue trend and capital expenditure anchored to concessional financing;
- Limit government funding in capital expenditure to concessional loan counterpart funding;
- Improve monitoring, transparency and accountability mechanisms to ensure expenditure efficiency;
- Refine the tax system to maintain tax integrity;
- Broaden the tax base to fund public outlays on a sustainable basis;
- Support tax administration;
- Expand the sources of public debt financing (such as a sovereign bond) to enable the government to restructure its public debt portfolio and to better facilitate the financing of the deficit prior to the return to balanced budgets;
- Return to a balanced budget just beyond 2021; and
- Undertake orderly institutional and structural reforms to support the medium term fiscal framework, such as public sector reforms, and strengthening Public Private Partnerships and the deregulation of

regulatory impediments and tackling to collusive behaviour of firms to promote increased competition in key markets.

Table 1: 2014-2021 Budget Balances (% of GDP)

	2015	2016	2017	2018	2019	2020	2021
MTFS 2013 - 2017 BUDGET BALANCE	-1.6	-0.6	0.1	0	0	0	0
MTFS 2013 - 2017 IMPLIED DEBT TO GDP	28.9	27.5	25.4	0	0	0	0
2017 BUDGET STRATEGY RECOMMENDED MAXIMUM DEFICIT	-4.6	-3.1	-2.5	-2.3	-1.8	-1.3	-0.7
2017 BUDGET STRATEGY IMPLIED DEBT TO GDP	29.1	29.3	28.8	28.8	28.7	28.1	26.9

Source: Department of Treasury

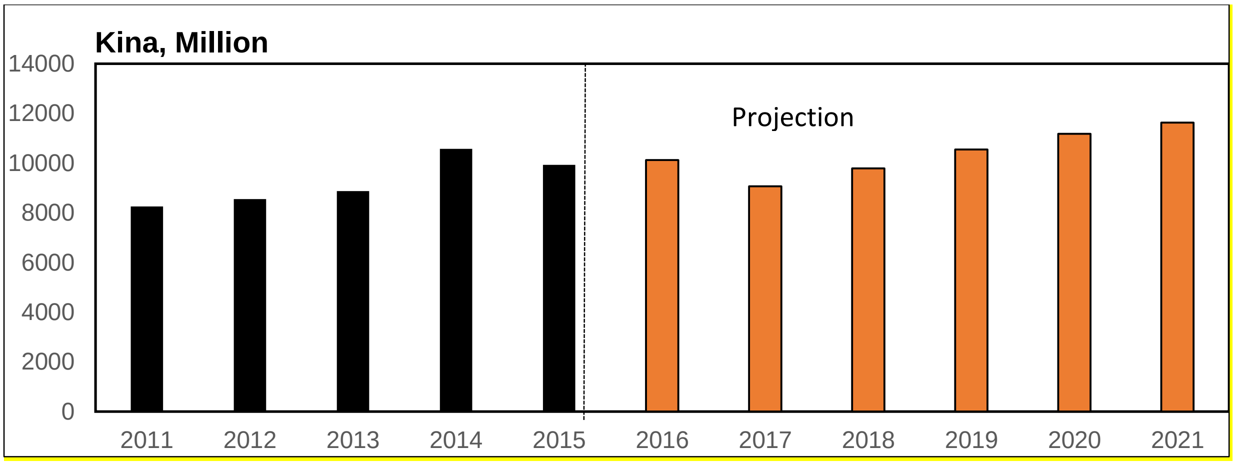
The government plans to return to a balanced budget just beyond 2021. This approach is to avoid a sharp contraction in the economy which would impact negatively on employment and investment.

D. FISCAL PARAMETERS FOR THE 2017 BUDGET

D.1 Revenue

Total revenue (excluding grants) in 2017 is expected at K10.0 billion driven by the modest growth in the economy, dividends from State entities, additional revenue-generating measures, and compliance and enforcement activities undertaken by the tax administrations.

Chart 1: Government Revenue 2011-2021



Source: Department of Treasury

Revenues from the mining and petroleum sectors are expected to flow to the Sovereign Wealth Fund and drawn down to finance the budget once in operation. Larger tax revenue collections from the PNG LNG project are not expected until the mid to late-2020s, after the project has amortised its construction costs (under the prevailing oil prices). Added to this, the current low commodity price environment further negatively impacts the Mining & Petroleum Tax revenues.

D.1.1 Revenue Reforms

The recent review into PNG's tax system was part of the government's ongoing effort to improve its taxation policy objectives and administration contributing to a modern, robust and efficient tax system that is able to support the nations' economic and social development objectives.

The Tax Review Committee (TRC) undertook a comprehensive review of the PNG Tax System and presented over ninety recommendations. The government has worked on some of these recommendations to be considered as part of the 2017 Budget.

Some of the measures considered for the 2017 Budget will be aimed at both deepening and broadening the tax base. This will be achieved by undertaking measures to improve revenue administration, compliance and enforcement, and instituting additional revenue-generating measures to both streamline and strengthen the tax revenue base.

The 2017 Budget will consider appropriate resourcing for revenue administrators to implement the relevant recommendations put forward by the TRC, particularly related to improved compliance and enforcement activities.

D.2 Expenditure

Total Expenditure and Net Lending in 2017 is projected at K12.8 billion, a reduction from the 2016 Budget figure of K13.8 billion.

Given the resource envelope, the government's priority spending on Tuition Fee Free Education, Free Primary Health Care, Infrastructure Projects, Agriculture and Small to Medium Enterprises will be adequately funded through reprioritisation and reallocation of spending on goods and services that are non-essential and/or non-productive. This will ensure that government continues to deliver socio-economic benefits to its citizens, as well as maintaining robust inclusive economic growth with the latter expected to generate the necessary employment growth to reduce poverty.

The 2017 operational expenditure shall not exceed total tax revenue and a significant proportion of deficit funding shall be towards capital expenditure via concessional financing with government counterpart funding. Further, all capital expenditures shall be key nation building infrastructure that will also support employment growth in rural, urban and peri-urban areas.

Apart from continuing to maintain its priority expenditures, the government will be faced with two significant external events - 2017 National Elections and hosting APEC in 2018 – which will also need the requisite funding.

Irrespective of the demands on the public purse, the government will maintain its obligations in accordance with the *Papua New Guinea Fiscal Responsibility*

Act 2006 that calls for a fiscal consolidation path to maintain economic growth and employment.

In addition, the 2017 Budget will accelerate the reforms to mitigate (and eventually eradicate) unproductive and improper expenditure. An example of the latter is related to an improvement in the management of the public payroll to reduce the number of 'ghost' workers.

E. FINANCING

For 2017, the government is projecting a budget deficit of K1, 875.4 million, which is lower than both the 2015 outcome of K2, 532.6 million and revised estimate of K2,112.5 million as per the 2016 Supplementary Budget.

The lower budget deficit in 2017 will ease the pressure on the domestic debt market to finance the budget. Over the last 12 to 18 months there has been an ongoing concern that the domestic market is reaching its saturation point with respect to its exposure to government securities.

In mitigating the risk of a saturated domestic debt market for government securities and crowding-out of the private sector, the government has sourced an external commercial financing option from Credit Suisse AG and may further issue a debut international sovereign bond in the near future. A proportion of the proceeds from the bond will be used to restructure and reposition the government's debt portfolio in accordance with its prudent fiscal guidelines also ensuring that the portfolio is more robust to weather market shocks going forward.

In this vein, the Government will continue to examine various financing options apart from the traditional financing methods of domestic debt via issuance of Treasury bills and Treasury bonds, previously known as Inscribed Stocks.

In addition, given the importance of strengthening the domestic securities market, the government intends to collaborate with Bank of Papua New Guinea, key investors and other key stakeholders in this endeavour.

F. MEDIUM TERM ECONOMIC AND FISCAL OUTLOOK

F.1 2017 to 2021 Economic Outlook

In 2017, PNG's economy is projected to continue to grow at 2.8 per cent, supported primarily by the non-resource sector. In the medium term, the non-resource sector is expected to be the main driver of growth with intermittent resource projects coming on-stream, taking growth above trend in these years.

Effective implementation of key MTDP enablers to broaden the economy will provide a more sustainable and robust employment and growth outlook for

PNG. The growth prospects of the mineral and petroleum investment projects such as the Elk-Antelope project, the Stanley Gas Project, the expansion of the PNG LNG Project, the second LNG project, petrochemical projects and the Wafi-Golpu project are expected support growth.[4]

Inflation is anticipated to rise above 6.0 per cent in 2017 due to the national elections and the APEC meetings. Over the medium term, inflation is expected to moderate below 6.0 per cent in line with the macroeconomic objective of low and stable inflation.

Table 2: Economic Parameters

	2015	2016	2017
Economic Growth			
GDP	11.8	2.0	2.8
Non-mining GDP	2.0	2.5	3.0
Inflation			
Average on Average (%)	6.0	6.6	6.8
Dec on Dec (%)	6.4	6.4	6.5
Interest rate			
Kina Facility Rate	6.25	6.25	6.25
Mineral Prices			
Gold (US$/oz)	1,160	1,267	1,301
Copper (US$/ton)	5,502	4,724	4,832
Oil (Kutubu Crude: US$/barrel)	49	42	50
LNG (US$ per thousand cubic feet)	8	7	8
Condensate (US$/barrel)	49	42	50
Nickel (US$/tonne)	11,831	9,351	10,459
Cobalt (US$/tonne)	29,500	2,4212	2,5243

Source: Department of Treasury

F.2 The Medium Term Fiscal Outlook

In the medium term, the government has adopted a path of fiscal prudence by undertaking both revenue-raising and expenditure-reducing measures, to return to a balanced budget just beyond 2021. This will enable the Government to create the necessary fiscal buffers to better respond to future external shocks and not unfairly overburden the next generation.

F.2.1 Revenue

Meanwhile, the global commodity prices are expected to improve over the medium term but remain below the commodity boom years with higher commodity prices will provide an impetus to growth and buoy revenue generation. Effective implementation of key MTDP enablers will support the diversification of the economy, while reform activities to reduce cost of doing business will be needed to encourage private sector growth which in turn will have a positive impact on revenue generation.

Furthermore, a robust tax system which allows for improved administration, compliance and enforcement, reducing and streamlining tax exemptions and

[4] The current GDP projections exclude these projects. These will be included once investment decisions are final.

special arrangements and additional progressive taxes are required to support and strengthen government revenues over the medium to longer term.

F.2.2 Expenditure

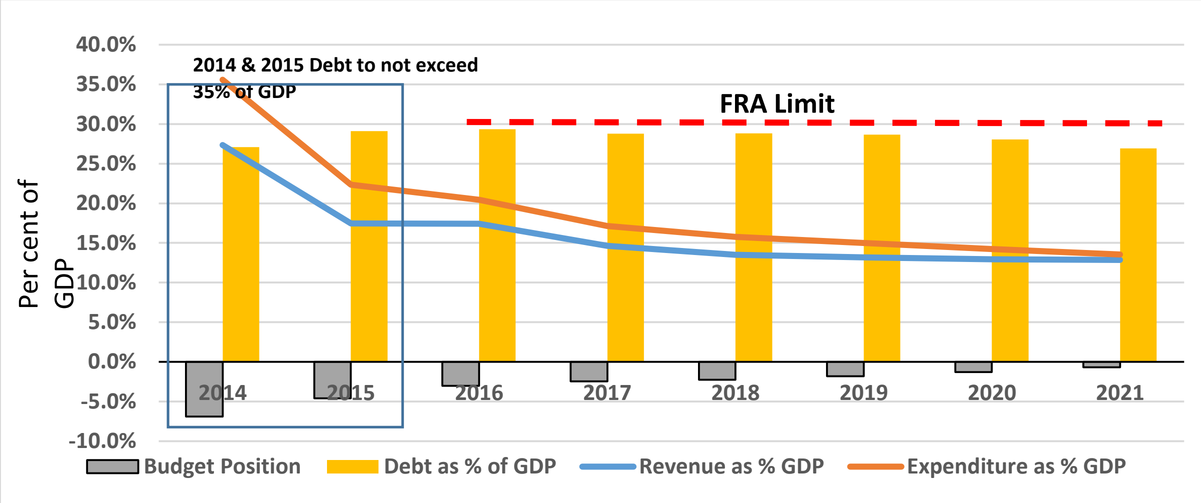
Over the past three years, the Government has directed expenditure towards the provinces, infrastructure, health, education and law and order. Growth in Total Expenditure and Net Lending from 2012 to 2014 has been 44 per cent, while revenue growth was 18 per cent, contribution to deficits of 7.7 per cent of GDP and 6.9 per cent of GDP in 2013 and 2014, respectively.

In the medium term, the Government has adopted a plan to reduce expenditure to a more sustainable level from 20.4 per cent in 2016 to 12.8 per cent by 2021.

F.2.3 Debt

The government debt to GDP ratio is estimated at 28.8 per cent and expected to gradually reduce over the medium term to arrive at a sustainable level towards 2021. This measured approach to debt reduction is to ensure that government maintains the priority expenditures, including expenditures relating to hosting APEC in 2018 and 2017 general elections, in a fiscally responsible manner.

Chart 2: Fiscal Outlook 2014-2021 (% GDP)



Source: Department of Treasury

G. RISKS TO THE ECONOMIC AND FISCAL OUTLOOK

The risks to the PNG Economic and Fiscal Outlook include:

1. Uncertainty in the global economy continues to pose a risk for PNG. Low commodity prices continue to translate into lower than projected export earnings for the country and lower than expected receipts for the government; as well as, posing a threat to economic activities in PNG's two biggest sectors - the agriculture, forestry & fishing sector and the mining, petroleum and quarrying sector.

2. On the domestic front, the noticeable imbalance in the foreign currency market also poses a considerable risk to macroeconomic stability, economic activity and the inflation outlook.

3. Given PNG's possible issuance of a debut international sovereign bond, there is a risk that the relatively benign conditions in the international capital markets may not continue and this could adversely impact PNG.

4. A small number of resource based projects provide a significant proportion of total revenue to the government. Their contribution to revenue is subject to operational risks which can affect production. The natural phenomena such as the landslip and weather related issues, industrial accidents, landowner issues and other events can substantially affect output and government revenue.

5. Slower than expected implementation of large investment projects can also impact on overall economic growth and anticipated revenue growth.

6. Fiscal risks have emerged as a result of lower than expected revenue. Unbudgeted approval of tax exemptions would also pose a further risk to moderate tax receipts.

7. Continued exposure through debt guarantees and contingent liabilities is heightens both the liquidly and solvency risks. This has a negative implication on PNG's credit rating.

8. Heavy reliance on domestic borrowing gives rise to risks associated with high interest costs, liquidity and roll-over risks and the heightened risk of crowding-out of private investors.

9. There is a risk that the debt ratio will not only surpass legislative debt limit of 30.0 per cent of GDP but also exceed the fiscally sustainable level.

Medium Term Fiscal Strategy (MTFS) 2017 – 2021 (2017 BSP)

Revenue:

1. Maintain an equitable taxation regime with a focus on compliance. Efforts to improve tax administration and enforcement will help to offset shortfalls in revenue due to low international commodity prices.
2. Restrict tax exemptions and special arrangements. Proposals to grant exemptions will be handled in a transparent manner with the full cost to the budget considered.
3. Broaden and strengthen the government's tax and non-tax revenue base.

Expenditure

4. Maintain the share of the total budget allocated to key enablers of the MTDP in 2017.
5. Improve spending agencies' focus on expenditure effectiveness and transparency in expenditure reporting and public accountability. Build capacity at both the local and central government levels to measure the impact of expenditures, particularly in health and education.
6. No new infrastructure programs should be funded for 2017 given the need to fund APEC and 2017 General Elections.
7. Ensure that government establishes the National Procurement Commission that would evaluate tenders transparently and impartially to ensure that the procurement processes are within budget appropriations.
8. Strengthen efforts at bottom-up budgeting, starting in the priority areas of infrastructure, health, education and law and order.
9. Undertake reforms to ensure that the pattern of expenditure during the financial year is smoothed out.
10. Focus on the first 8 months of the 2017 and allow for an incoming government post the elections to confirm its priorities for the next five year term.

Debt:

11. Maintain a gross government debt-to-GDP ratio at 28.8 per cent in 2017 and gradually reduce the ratio further in the medium term.
12. Limit gross government liabilities to less than 60.0 per cent of GDP.
13. Greatly increase the government's average debt maturity profile and reduce the average cost of debt.
14. Identify and manage contingent liabilities to reduce the potential costs and risks to the budget.

Deficits

15. Ensure a return to a balanced budget by 2021, consistent with maintaining macroeconomic stability and economic growth.
16. Continue the reform process to improve public financial management, ensuring that the measures approved by parliament are then given adequate resources for effective implementation.

H. BUDGET REFORMS AND COMPLEMENTARY POLICIES

Prudent allocation of expenditure is necessary to realise tangible outcomes and manage sustainable socio-economic deliverables. To achieve this, the government announced in the 2013 Budget for an improved budget process by undertaking the following measures:

- A budget which integrates capital and operational expenditure;
- A multi-year budgeting process;
- A sector-led budgeting process; and
- A performance-based budgeting process.

With the implementation of these budget reforms, measures have been refined to improve the integrity and efficiency of the budget process through the alignment of policy priorities and expenditure allocation, in fulfilling the government's policy objectives.

The 2017 Budget will seek to further advance the strong development of budget reforms through the development of systems and processes guided by the following reforms:

1. The further unification of the budget components (operational and capital expenditure), so that capital investments are matched with requisite operational expenditure such that the built physical capital is effectively utilized, maintained and absorbed into the operational budget;

2. A ministerial-led budget process, to link well informed ministerial strategic policy decisions with expenditure allocation;

3. A multi-year budgeting to improve the management of resources in the medium term, manage expectations, build better planning arrangements to synchronize expenditure with MTDP, and provide more predictability, coherence and consistency to the budget cycle;

4. A sector-led approach, to consolidate the efforts of agencies within each sector to effectively coordinate and deliver on the shared goals and targets in line with their sector plans and MTDP targets;

5. A performance-based budget, driven by historical achievements with systems and processes in place that explicitly defines what the targets are and how the impacts of these investments will be measured.

6. A two stage budget process that filters government agency submissions to ensure consolidation and alignment to government priorities, and sifts the allocation of expenditure to areas with maximum returns and where possible wider socio - economic deliverables.

H.1. Government Financial Statistics (GFS 2014)

The information presented in this document is based on the Government Finance Statistics 2014 classification adopted in the 2016 National Budget Volume 1 document. Generally, this follows the cash reporting standards originally laid down in the 2014 Manual of Government Finance Statistics published by the International Monetary Fund (IMF). This is a gradual shift from the 1986 GFS to the 2014 GFS and is part of the ongoing reform and upgrading of the Budget process and Budget reporting.

Further technical assistance is being requested from the IMF to provide additional training to the technical officers in the Department of Treasury to further enhance their skills to rollout the 2014 GFS to be followed in all budget documents for the 2018 Budget. Volume 1 of the 2017 National Budget document will continue to be reported in the 2014 GFS format.

H. 2 Complementary Policies

H.2.1 Microeconomic and Structural Reforms

The Papua New Guinea Sovereign Wealth Fund (PNG SWF) is an important mechanism to responsibly, prudently and efficiently manage revenues generated from the extraction of minerals and hydrocarbons and to help stabilise and protect the domestic economy and the budget from commodity price fluctuations and exchange rate swings. The macroeconomic stabilization objective will be achieved through the operation of the Stabilization Fund.

The Savings Fund will ensure that inter-generational benefits are secured and distributed. The government has moved to the next phase of operationalizing the SWF, with the imminent appointment of an experienced and well-qualified Board and the setting up of a secretariat in 2017 to support the Board. It will be integrated into the budget and fiscal policy framework to ensure effective government spending of mineral and petroleum tax and dividends and facilitate fiscal transparency and oversight of public finance management by parliament.

Extractive Industries Transparency Initiative (EITI) is a global standard to promote open and accountable management of natural resources.

Under EITI taxes, payments, levies and dividends made by the extractive industry is disclosed publicly. The first annual PNG EITI Report for the 2013 financial year was launched by the government in March 2016 will be done so on an annual basis.

The Competition Review and Financial Sector Services Review will be completed before the end of 2016 and its recommendations will pave way for introducing new reforms that will provide a conducive environment for private sector development. These reviews combined with transparency and governance reforms will improve PNG's business environment and provide a further avenue to ensure that Government policies and initiatives are responsive to the needs of the country and its citizens.

The Financial Services Sector Review which was convened in 2011 to identify a number of vulnerabilities and weaknesses in the financial system will culminate in producing a well-coordinated Financial Sector Development Strategy (FSDS). This strategy with key recommendations, expected to be presented to NEC for endorsement in November 2016, will address issues such as limited access to finance, non-existence of a secondary market, the lack of market competition, and the prevalence of regulatory, licensing and supervisory gaps.

The equally important reforms that the government is perusing relate to the Financial Inclusion and Financial Literacy Strategy and Enhanced Secured Lending reforms. These reforms and the Financial Services Sector Review are complementary to each other in improving PNG's business environment and promoting economic growth through wider citizen's participation by providing access to formal financial services at a reduced cost.

The government has also put considerable effort into addressing the shortcomings of the previous iteration of the National Land Development Program to ensure that processes are in place to facilitate the registration and commercial use of customary land, whilst protecting the communal ownership of the land. This will address the chronic land shortage that inhibit investors access to more secured land for development.

The Public-Private Partnership (PPP) Policy is a long term contract between the government and private sector for the delivery of public infrastructure and services. The PPP Act will be gazetted in the short term and will be accompanied by a set of amendments which focus on the operational elements PPP delivery.

H.2.2 Measures to Inhibit State Exposure to Contingent Liabilities

In the context of emerging contingent liabilities, the government has commenced work on putting in place a Centralised Borrowing Policy Framework and come up with stringent criteria for assessing and screening requests to government associated with the guaranteeing of debt undertaken by state-owned enterprises and other entities.

The policy framework and operational plan for Centralised Borrowing will be endorsed by NEC in November 2016 which will ensure that loan financing from the private sector or development partners accrue benefits to the State and outweighs costs and other associated disadvantages. The Government is aware of the potential disadvantages of excessive indebtedness and is therefore determined to adopt a cautious and well-structured approach in this respect in line with its own debt management strategy.

A new set of guidelines and procedures for the mobilisation of loans, with the goal of supporting the implementation of a sustainable policy of recourse to loan financing will be adopted. The benefits will include a reduction in the total cost of the projects, and enhanced access to technical assistance and know-how as part of the loan packages.

The government will review the existing criteria and procedures for the drawdown of concessional loans and project grants to assist in identifying issues impeding timely and effective drawdown. This will assist in rolling out construction and operation of large investment projects so that it has a positive impact on the overall economic growth and anticipated revenue growth. And will also ensure that the State does not pay commitment/penalty fees for non-disbursement of loans.

The On-lending and Guarantee policies are at their final stage in preparation for submission to the NEC in November 2016. The intention of the guarantee policy is to develop a set of standardised operating procedures governing the application to the State for debt guarantees. This will ensure that borrowing is centralised thus all government assets and liabilities are consolidated to determine the net worth of the State.

The Dividend policy and Community Service Obligation Policy will be implemented in 2017. The dividend policy will ensure that State gets an appropriate return on its investments and a Community Service Obligations Policy will promote transparency and accountability in the State's basic service delivery functions.

I. CONCLUSION

The 2017 Budget Strategy Paper proposes a delay in the return to a balanced budget from 2017 until 2021. Further, it proposes a suite of revenue strengthening measures, the restructure of debt, and the continued progress of budget reforms and complementary policies.

The above set of policies have the specific endorsement and approval of the Cabinet and will guide and direct central agencies and departments in the preparation of the 2017 Budget.