



INDEPENDENT STATE OF PAPUA NEW GUINEA

2017 NATIONAL BUDGET

VOLUME 1 ECONOMIC AND DEVELOPMENT POLICIES

For the year ending 31 December 2017

PRESENTED BY

HON. PATRICK PRUAITCH, CMG, MP

TREASURER

ON THE OCCASION OF THE PRESENTATION OF THE 2017 NATIONAL BUDGET

FOREWORD

“Responsible Fiscal Consolidation for Future Growth and Development”

It is my great pleasure to deliver the 2017 National Budget which will be the O’Neill-Dion Government’s fifth and final budget. The 2017 Budget not only sets out the priorities for the coming months leading up to the General Elections but also provides an opportunity to reflect on the Government’s performance against the economic landscape over the last five years.

The 2017 Budget is set within the National development frameworks, including Vision 2050, the Development Strategic Plan 2010-2030, and the Medium Term Development Plan II. It is designed to chart a Responsible Fiscal Consolidation for Future Growth and Development. In light of a global downturn, the Government has been and will continue to adjust its policies and expenditure to reflect available resources. However, recognising that, economic growth is a necessary but not sufficient condition for prosperity and advancement, the Government will maintain its investments in the fundamental areas of education, health, key infrastructure and law and order.

Ensuring we have a free, fair and safe General Elections in 2017 and the necessary expenditures related to the hosting of APEC in 2018, where we are afforded the opportunity to showcase our country, also feature in the 2017 National Budget.

Over the years, critics have argued that we are not doing enough in the face of the reduced revenue outlook. This is disappointing as I can rest assure the people of PNG that the O’Neill-Dion Government has and will continue to monitor events and respond deliberately and responsibly to maintain the growth momentum and protect and provide opportunities for our people and our businesses.

Even the recent IMF Article IV Mission to PNG in September, has commended the Government for the form and substance of the Supplementary Budgets in 2015 and 2016 which really prefaces our trajectory in 2017. We will continue to tighten our belts, live within our means and we are confident that when global prices turn around we will be in the best position possible to optimise our opportunities.

The 2017 National Budget Expenditure envelope is K13,349.5 million against a revenue scenario of K11,473.1 million. This translates into a deficit of K1,876.5 million, or 2.5 per cent of GDP. This is expected to bring the total debt-to-GDP ratio to 28.8 per cent of GDP, which is well within the *Fiscal Responsibility Act 2006* ceiling of 30.0 per cent.

The Government will reinvigorate its commitment to ongoing fiscal discipline, structural reforms, new revenue measures and high quality and prioritised expenditures that will help assist in bringing the Budget deficit to balance just beyond 2021.

A number of key policy measures are critical to the Government in particular the following:

- Continue the budget reform process aimed at improving the effectiveness and transparency of the Budget management process;
- pursue structural reforms among State Owned Enterprises (SOEs) and streamlining of the public service to minimise wastage and encourage productivity;

- ensure major projects are effectively implemented through improved design, costing, scoping and implementation processes and promote transparency through open and competitive public tenders;
- implementation of new tax and non-tax measures broadly consistent with the Tax Review Committee's recommendations;
- continued support for the Government's key policy priorities in education, health, infrastructure, agriculture, law and order, and Small and Medium Sized Enterprises (SMEs); and
- responsibly manage the Government's debt profile through capital markets, structural reforms, proceeds of external financing and the potential issuance of a debut Sovereign Bond.

Financing the Budget under the current conditions poses an ongoing risk and to this end, the Government has taken a proactive approach initially through first of two tranches of a commercial facility of up to USD500 million from Credit Suisse. Papua New Guinea's inaugural Sovereign Bond awaits more favourable market conditions and the State continues to finalise the sale of extra equity in the PNG LNG Project to the Project Area Landowners.

To assist enhanced debt management, the Government, in collaboration with the IMF Technical Assistance Team, have undertaken a debt sustainability analysis (DSA) review in June 2016 which has re-benchmarked targets for the next Medium Term Debt Strategy.

The implementation of the PNG's Sovereign Wealth Fund has undergone a number of processes including the passing of the Legislation in 2015 and now the process to appoint a Board is well underway which will precipitate the implementation of administrative, operational and legislative framework for the effective operation of the PNGSWF.

Since 2014, PNG became a member of the Extractive Industry Transparency Initiative (EITI), which seeks to address key governance issues in the petroleum and mining sectors. This collaborative effort from the Government, industry players and civil society has made great progress and will publish reports on the revenue flows and in particular the public expenditure in the sector to greater accountabilities and more effective policies in such a high value area for the country.

Microeconomic reforms continue to be a key priority of the O'Neill-Dion Government with reviews into the financial sector and the competition policy framework scheduled to be completed later this year with key recommendation to manifest in 2017 so that Papua New Guinea continues to pursue a vibrant and competitive private sector.

The Government has also restructured its assets starting with the Kumul Consolidated Agenda to manage SOEs and various State investments. As shareholder, Kumul Consolidated Holdings (KCH) must drive shareholder value, improve corporate governance and commercial accountabilities and provide cost effective services.

Government has established a Public Private Partnership (PPP) Policy through Legislation aimed at attracting the Private sector into the delivery of public infrastructure and services. In 2017, we hope to announce several programs in this area.

For the first time in the history of PNG, the current Government has wound back on increased spending on the eve of elections. However, key policy priorities and programs will still be maintained to ensure goods and service delivery to the people of PNG are not compromised. I commend the 2017 Budget to the Honourable Members and to the people of Papua New Guinea.



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HON. PATRICK PRUAITCH, CMG, MP
TREASURER

Contents

CHAPTER 1: BUDGET OVERVIEW	2
1.1 ECONOMIC OUTLOOK.....	2
1.2 FISCAL STRATEGY	2
1.3 REVENUE	3
1.4 TAX AND NON-TAX MEASURES AND DEVELOPMENTS	3
1.5 EXPENDITURE	3
1.6 STATUS OF TRUST ACCOUNTS	4
1.7 FINANCING AND DEBT STRATEGY	4
1.8 NATIONAL REFORM AGENDA	4
1.9 IMPROVING STATE'S COMMERCIAL INVESTMENTS	5
CHAPTER 2: ECONOMIC DEVELOPMENTS AND OUTLOOK	6
2.1 WORLD ECONOMIC GROWTH OUTLOOK	6
2.1.1 Inflation.....	8
2.1.2 Commodity Prices	8
2.1.3 Copper.....	8
2.1.4 Crude Oil	3
2.1.5 Gold.....	2
2.1.6 Agriculture Commodities	3
2.2 EXCHANGE RATE DEVELOPMENTS	4
2.3 DOMESTIC ECONOMIC DEVELOPMENTS AND OUTLOOK	3
2.4 2017 ECONOMIC OUTLOOK	5
2.5 LABOUR MARKET	7
2.6 MONETARY DEVELOPMENTS	9
2.7 CONSUMER PRICE INDEX	10
2.7 BALANCE OF PAYMENTS AND INTERNATIONAL RESERVES	11
2.8 RISKS TO THE ECONOMIC AND FISCAL OUTLOOK	14
CHAPTER 3: FISCAL STRATEGY AND OUTLOOK	15
3.1 2016 BUDGET UPDATE	15
3.2 THE 2017 BUDGET STRATEGY AND OUTLOOK	15
3.3 THE MEDIUM TERM FISCAL OUTLOOK	15
3.4 MEDIUM TERM FISCAL STRATEGY 2013-2017	17
3.5 IMPLEMENTATION OF THE SOVEREIGN WEALTH FUND	67
CHAPTER 4: REVENUE	19
4.1 2016 AND 2017 REVENUE DEVELOPMENT AND OUTLOOK	19
4.2 TAX REVENUE.....	19
4.3 GRANTS	22
4.4 OTHER REVENUE	23
4.5 MEDIUM TERM REVENUE OUTLOOK	24
REVENUE AND GRANTS.....	24
i. Tax Revenue	25
ii. Grants.....	25
iii. Non Tax Revenue.....	25
iv. SWF Revenue Flows.....	25

v. <i>Stabilisation Fund</i>	25
CHAPTER 5: TAX AND NON-TAX MEASURES AND DEVELOPMENTS	27
5.1 OVERVIEW	27
5.2 MAJOR TAX POLICY MEASURES	28
5.2.1 <i>Resourcing revenue raising agencies for improved compliance</i>	28
CHAPTER 6: EXPENDITURE	38
6.1 OVERVIEW	38
6.2 DEVELOPMENT ASSISTANCE FROM DEVELOPMENT PARTNERS	39
6.3 MAJOR EXPENDITURE	40
6.4 SECTOR EXPENDITURE	41
6.4.1 <i>Administration Sector</i>	41
6.4.2 <i>Economic Sector</i>	42
6.4.3 <i>Education Sector</i>	43
6.4.4 <i>Health Sector</i>	43
6.4.5 <i>Community and Culture Sector</i>	44
6.4.6 <i>Transport Sector</i>	45
6.4.7 <i>Law and Justice Sector</i>	46
6.4.8 <i>Provincial Sector</i>	46
6.4.9 <i>Utilities Sector</i>	47
6.5 NON-FINANCIAL INSTRUCTIONS	47
6.6 BUDGET REFORMS	50
6.7 CONSOLIDATED BUDGET OPERATING RULES	51
CHAPTER 7: FINANCING & DEBT STRATEGY	52
7.1 OVERVIEW	52
7.2 FINANCING DEVELOPMENT	52
7.2.1 <i>Foreign currency denominated loans and bond issuance</i>	52
7.2.2 <i>Treasury Bonds (Inscribed Stock) issued via tender</i>	52
7.2.3 <i>Treasury Bills issued via tender</i>	53
7.3 PUBLIC DEBT	53
7.4 MEDIUM TERM DEBT STRATEGY	55
7.4.1 <i>Maintain debt at sustainable levels</i>	55
7.4.2 <i>Manage debt portfolio to keep financial risk at prudent levels.</i>	55
7.4.3 <i>Develop the domestic debt market.</i>	57
CHAPTER 8: NATIONAL REFORM AGENDA	58
8.1 OVERVIEW	58
8.2 PUBLIC SECTOR REFORM	58
8.3 A COMPETITIVE AND DYNAMIC PRIVATE SECTOR	63
CHAPTER 9: IMPROVING STATE'S COMMERCIAL INTEREST	69
9.1 OVERVIEW	69
9.2 POLICY REFORMS ON STATE INVESTMENTS	69
9.3 STATE OWNED ENTERPRISE POLICY	70
9.4 PUBLIC ENTERPRISE AND STATE INVESTMENT PERFORMANCE	71
9.5 BROAD REFORMS FOR STATUTORY BODIES	73
9.6 MANAGING MINING AND PETROLEUM ASSETS	73

TABLES

TABLE 1: BUDGET BALANCE 2015–2017 (KINA, MILLION)	15
TABLE 2: BUDGET BALANCE 2015–2021 (% OF GDP)	17
TABLE 3: TOTAL REVENUE AND GRANTS (KINA, MILLION)	19
TABLE 4: TAXES ON INCOME PROFITS AND CAPITAL GAIN	20
TABLE 5: TAXES ON PAYROLL AND WORKFORCE	21
TABLE 6: TAXES ON GOODS AND SERVICES	21
TABLE 7: TAXES ON INTERNATIONAL TRADE AND TRANSACTIONS	22
TABLE 8: GRANTS (KINA, MILLION)	23
TABLE 9: OTHER REVENUE (KINA, MILLION)	24
TABLE 10: PROGRESSIVE EXPORT DUTY RATES FOR UNPROCESSED OLD-GROWTH LOGS	29
TABLE 11: PROPOSED PRESCRIBED VALUE FOR TAXING EMPLOYER PROVIDED ACCOMMODATION	32
TABLE 12: MEDIUM TERM EXPENDITURE PROFILE (KINA, MILLION)	39
TABLE 13: 2017 EXPENDITURE BY SECTOR (KINA, MILLION)	39
TABLE 14: 2017 LOANS, GRANTS AND GOVERNMENT COUNTERPART FUNDING (KINA, MILLION)	40
TABLE 15: AMALGAMATING AGENCIES	48
TABLE 16: 2016-2017 CENTRAL GOVERNMENT BORROWING	55
TABLE 17: DEBT SUSTAINABILITY MEASURES	55
TABLE 18: PERCENTAGE OF FOREIGN CURRENCY DEBT TO TOTAL CENTRAL GOVERNMENT DEBT	56
TABLE 19: PERCENTAGE OF TREASURY BILLS TO DOMESTIC DEBT PORTFOLIO	57
TABLE 20: AVERAGE MATURITY OF THE DOMESTIC DEBT PORTFOLIO	57
TABLE 21: GENERAL BUSINESS TRUST ASSETS, AS AT 31 ST DECEMBER 2015	72

CHARTS

CHART 1: WORLD ECONOMIC GROWTH (1991-2021)	7
CHART 2: IMF ALL COMMODITY PRICE INDEX.....	8
CHART 3: PNG ALL COMMODITY PRICE INDEX.....	8
CHART 4: COPPER PRICE	3
CHART 5: COPPER PRICE AGAINST STOCK	3
CHART 6: CRUDE OIL PRICE	2
CHART 7: CRUDE OIL PRICE AGAINST STOCK	2
CHART 8: GOLD PRICE	3
CHART 9: PRICE INDEX OF PALM OIL & COFFEE.....	4
CHART 10: PRICE INDEX OF COPRA & COCOA	4
CHART 11: TRADE WEIGHTED INDEX.....	3
CHART 12: EXCHANGE RATE DEVELOPMENTS	3
CHART 13: ECONOMIC GROWTH (2005-2021)	4
CHART 14: CONTRIBUTION TO GROWTH BY SECTORS, 2016 AND 2017	6
CHART 15: EMPLOYMENT INDEX CHART 16: TOTAL EMPLOYMENT GROWTH	7
CHART 17: MINING & NON MINING EMPLOYMENT GROWTH CHART 18: INDUSTRIAL EMPLOYMENT GROWTH	8
CHART 19: WAGES INDEX.....	9
CHART 20: MONEY SUPPLY	10
CHART 21: MONEY SUPPLY (ANNUAL % GROWTH).....	10
CHART 22: INFLATION OUTCOME AND PROJECTION 2003-2021	11
CHART 23: BALANCE OF PAYMENTS	12
CHART 24: INTERNATIONAL RESERVES	13
CHART 25: NET BORROWING (-) / NET LENDING (+) AS A PERCENTAGE OF GDP OVER THE MEDIUM TERM.....	16
CHART 26: MEDIUM TERM FISCAL OUTLOOK	16
CHART 27: TOTAL REVENUE AND GRANTS 2012-2021.....	25
CHART 28: DEBT PORTFOLIO COMPOSITION	54
CHART 29: CURRENCY COMPOSITION OF CENTRAL GOVERNMENT EXTERNAL DEBT PROJECTED FOR 2017	56

CHAPTER 1: BUDGET OVERVIEW

1.1 ECONOMIC OUTLOOK

In 2017, the global economy is projected to recover, growing by 3.4 per cent from 3.1 per cent in 2016. The recovery in the global economy will translate to gradual increase in commodity prices. Prices of key commodities such as oil are expected to increase slightly.

The PNG economy continues to grow but not as strong as the recent past years. In 2017, the economy is projected to grow at 2.8 per cent, driven by a rebound in agriculture, fishery and forestry, mining and quarrying and the non-resource sectors after dismal performance in 2016. On the other hand, the oil and gas sector is expected to revert to trend of natural decline after absorbing the full impact of the first ever LNG production in 2014 and 2015.

Over the medium term, the PNG economy is projected to grow by 2.7 per cent driven mainly by the traditional drivers in the non-mining sectors, led by the agriculture, fishery and forestry and the other non-resource sectors.

Inflation is expected to increase to 7.0 per cent, mainly due to the continued depreciation in the Kina exchange rate among major trading partners and volatile movements in the prices of seasonal items. The election related spending and the slight recovery in commodity prices are expected to boost income and spending in the economy.

In terms of international trade, PNG's trade activities with the rest of the world is projected to remain strong in 2016 largely attributed to higher volumes of exports relative to imports, which more than offsets the impact of the prevailing low commodity prices. The main driver behind the resurgence in strong international trade activities is the agriculture sector recovering from the adverse effects of the El Nino weather phenomenon in 2015 and the mining sector in particular the resumption of production from Ok Tedi mine in March 2016. These developments coupled with the continuing production from the PNG LNG project are expected to result in the current account balance maintaining a surplus position of K11,449.8 million in 2016.

Reflective of this positive developments, PNG's trade position in 2017 is expected to remain stable.

1.2 FISCAL STRATEGY

The 2017 Budget is framed against the backdrop of a weak recovery in global economy, slight improvements in commodity prices although still below historical levels, and modest growth in the domestic economy, driven mainly by the agriculture sector, the mining sector and the other non-resource sectors. This follows strong consecutive growths in the recent past years driven by the construction phase of the LNG project and the production and exports of LNG in 2014 and 2015.

The Government's fiscal strategy for 2017 aims at ensuring the fiscal anchors such as public debt to GDP is kept at manageable levels, adopting a sustainable fiscal deficit and maintaining macroeconomic stability to achieve an orderly fiscal consolidation. Fiscal consolidation can be achieved through ensuring expenditures allocated to government priorities are maintained at current levels; ensure expenditure prioritisation and reallocation of spending on goods and services from non-essential to productive areas; refining and broadening of the tax system to promote efficiency and a sustainable revenue base; continuation of budget reforms and other

complementary policies; and pursuing policies to centralise borrowing and debt guarantees to inhibit State's exposure to contingent liabilities.

Pursuing the above strategies are consistent with the Government's broader policy framework such as the *Fiscal Responsibility Act 2006*, the Medium Term Fiscal Strategy and other overarching policy frameworks such as Vision 2050, the Development Strategic Plan (DSP) 2010-2030, the Medium Term Development Plan II and STaRS.

1.3 REVENUE

Subdued economic activities in 2016 underpinned by falling commodity prices have significantly impacted key revenues to the Government. In 2017, these issues affecting the economy are expected to subside as the economy gradually recovers from 2016. The election related spending and the construction of the 2018 APEC facilities are expected to provide some stimulus to the economy to support revenues. The revenues are also expected to be supported by dividends from State entities and compliance and tax measures enforced through tax administration. Details of the tax measures are provided in Chapter 5.

In 2017, Total Revenue is projected at K11,473.1 million, comprising of K9,182.2 million in Tax Revenue, K1,045.3 million in Grants and K1,245.7 million from Other Revenue (dividends and department fees and charges). Compared to the 2016 Supplementary Budget estimate, Total Revenue is expected to be lower by K248.4 million.

1.4 TAX AND NON-TAX MEASURES AND DEVELOPMENTS

The recent review into PNG's taxation regime was part of the Government's ongoing effort to initiate and develop ways to improve its taxation policy and administration that will contribute to a modern and efficient tax system that is able to support PNG's economic and social development objectives.

The 2017 Budget introduces a number of revenue and administrative measures, which are broadly consistent with the Tax Review Committee's (TRC) recommendations.

The measures are aimed at improving compliance, increasing revenue, encouraging spending in productive areas and making the taxation treatment simple and efficient. This is critical to support the Government's effort to make tax administration responsive and efficient.

The 2017 Budget also introduces minor policy and housekeeping technical amendments to simplify administration, correct typographical errors and outdated referencing to clarify the law for ease of administration.

1.5 EXPENDITURE

Total expenditure is estimated at K13,349.5 million of which capital expenditure is K4,019.3 million, K2,592.4 million is Government funded, K452.8 million are loans and K968.1 million are donor grants. The total expenditure represents a K485.0 million, or 3.5 per cent reduction from the 2016 Budget Supplementary Budget of K13,834.6 million.

The 2017 expenditure provides a lower ceiling compared to previous years. Therefore, a clear prioritisation of expenditures should guide the formulation of the 2017 Budget. The main priorities of the Budget are the following:

- facilitating the 2017 National General Election and the hosting of the 2018 APEC Summit;

- placing more emphasis on monitoring, evaluation and compliance to achieve improved development outcomes;
- continue to support policy priorities in education, health, infrastructure, agriculture and small and medium enterprises (SME) sectors; and
- further promoting the efficient and effective implementation of major projects through improving design, scoping and the implementation processes.

The Government will continue to take further steps in 2017 to address inefficiencies in the public sector. These measures include freezing staffing restructures, unattached officers to be redeployed or made redundant, and address inefficiencies among agencies.

1.6 STATUS OF TRUST ACCOUNTS

Since 2005 a total of K9,722.7 million, up to and including the 2016 Budget has been paid into trust accounts for implementation of priority expenditure programs. These trust accounts have been largely funded from additional mineral revenue in the supplementary budgets and annual budgets during commodity boom years.

A total of K792.0 million was appropriated for trust accounts in the 2016 Budget. Of this, K456.0 million has been paid into trust accounts as at 30th September 2016, with the remainder to be paid when funds become available later in 2016. A total of K70.0 million was reduced in appropriations for budget funded trust accounts in the 2016 Supplementary Budget and a total of K802.0 million is appropriated for budget funded trust accounts in the 2017 Budget.

1.7 FINANCING AND DEBT STRATEGY

The stock of Central Government debt continued to increase in 2016 as the Government accessed the domestic and international markets to fund its National Budget. Interest rates increased over 2016 despite a noticeable reduction in the demand for inscribed stock since the beginning of the year. Demand remained strong for Government's Treasury Bills and Central Bank Bills throughout the year.

In the 2016 Budget, the Government considered raising funds in offshore debt markets via a sovereign bond. Discussions on sovereign bond are currently underway. Once these funds are raised they will be used to restructure the debt portfolio. Apart from the sovereign bond, other external financing was also sourced from Credit Suisse. The first tranche of this has already been disbursed to the Government. Restructuring of the portfolio, will reduce the current high level of Treasury Bills to more prudent levels. Furthermore, it will lead to a reduction in refinancing risk and increase the average maturity of the domestic portfolio. While the debt-to-GDP ratio is expected to rise slightly to around 29.4 per cent in 2016 and 28.8 per cent in 2017, it is projected to fall thereafter reaching as low as 27 per cent in 2021.

1.8 NATIONAL REFORM AGENDA

The Government recognises the importance of ongoing reforms to enhancing outcomes for Papua New Guineans. Accordingly, the Government will continue to pursue its ambitious reform agenda throughout 2017. These reform activities are critical given the current economic conditions brought on by lower commodity prices, lower than expected revenue from the mineral and petroleum sectors and changing weather patterns.

Prompted by these unfavorable circumstances, the PNG Government is convinced that the way forward to remedying these concerns are by and through economic diversification, where

focus is now on improving infrastructure and expanding private sector growth and participation to allow broad-based, inclusive and sustainable economic growth.

In order to realise this ambition, the Government had already initiated various projects and reform exercises at the micro level aimed at creating an environment conducive for private sector growth, particularly on improving access to markets, improving access to credits, expanding and improving financial services, removing non-physical barriers to competition, and more importantly, improving the enabling policies, legislative and regulatory environment for the private sector to thrive.

On the other hand, the Government is also committed to public sector reforms that will enhance the efficiency and effectiveness of the public sector. In addition, the Government will continue to monitor reforms to ensure they achieve their intended objectives and explore opportunities for further reform.

1.9 IMPROVING STATE'S COMMERCIAL INVESTMENTS

The State has major interests in enterprises in PNG. Its interests includes public enterprises and various listed investments. Public enterprises are often referred to as State Owned Enterprises (SOEs) and play pivotal roles in terms of provision of essential services such as telecommunication, aviation, sea port, electricity, water, banking and postal services to the people of PNG.

SOEs are critical in determining development outcomes based on the virtue of their central role in service delivery in particular the utility and the communication infrastructure right throughout the country. SOEs can operate efficiently and effectively in goods and services delivery provided they are disciplined, transparent and displaying strong guiding policies to achieve optimal results and outcomes. The introduction of the Kumul Consolidated Holdings (KCH) framework is part of the reform activities to address deficiencies of the past and to ensure that resources are utilised effectively for the benefit of the country.

CHAPTER 2: ECONOMIC DEVELOPMENTS AND OUTLOOK

2.1 WORLD ECONOMIC GROWTH OUTLOOK

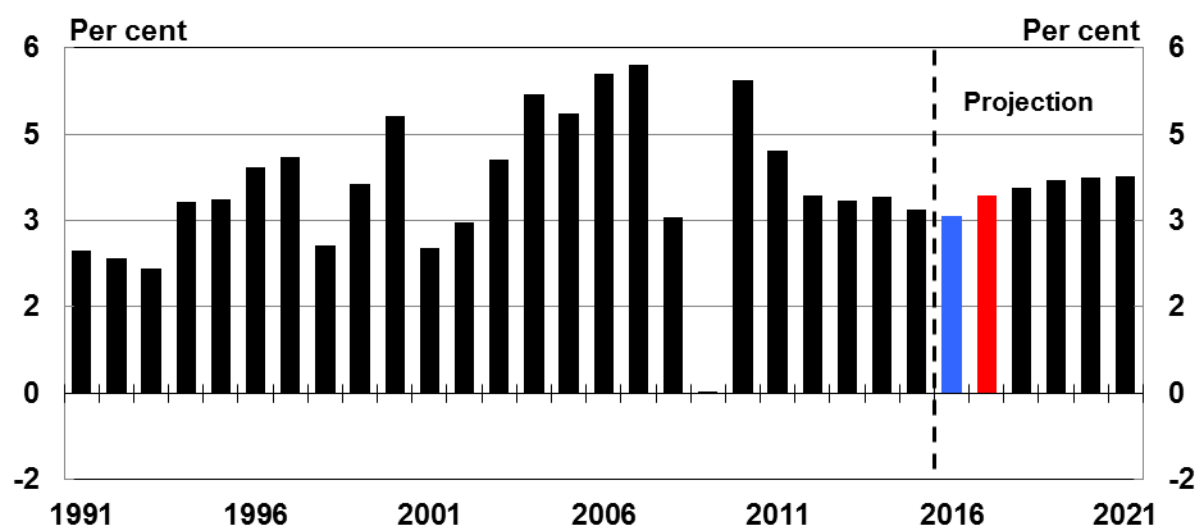
The global economy has weakened in 2016. According to the 2016 October World Economic Outlook (WEO) report published by the International Monetary Fund (IMF), the global economy is projected to slow to 3.1 per cent in 2016. A more subdued outlook for advanced economies following the June UK vote in favour of leaving the European Union (Brexit) and weaker-than-expected growth in the United States (US) have contributed to the slowdown in global growth. These developments have put further downward pressure on global interest rates, as monetary policy is now expected to remain accommodative for a longer period.

Growth in the advanced economies is projected at 1.6 per cent for 2016; down 0.3 percentage points from the 2016 April WEO. The weak outlook for the advanced economies is due to continued weakness in non-residential investment and a sizeable drawdown of inventories in US, deceleration in investment in some of the larger Euro area economies, uncertainty in the aftermath of Brexit and weak consumer spending, external demand, and corporate investment in Japan. The US economy is expected to grow at 1.6 per cent, Japan at 0.5 per cent, UK at 1.8 per cent and the Euro area to grow at 1.7 per cent in 2016.

Growth in the emerging and developing economies¹ is expected to strengthen slightly in 2016 to 4.2 per cent following five consecutive years of weak growth². Growth in China reflects policy support and strong credit growth resulting in robust consumption and service activities. Growth in India is driven by large improvements in terms of trade, effective policy action and stronger external buffers. Meanwhile, Brazil's economy remained in recession, but is expected to improve from the effects of the decline in commodity prices and political uncertainty. Russia's economy is stabilising after adjusting to the aftermath of oil price and sanctions and easing financial conditions. Uncertainty continues to remain in Turkey due to the attempted coup in July while in other parts of emerging Europe, macroeconomic performance remains broadly stable. In the Sub-Saharan Africa, activities have weakened in Nigeria due to shortage in foreign exchange, militant activity in the Niger Delta and electricity blackouts while in South Africa, activity remained flat. In the Middle East, subdued oil prices, geopolitical tension and civil conflicts continued to confront economies in this region. The outlook for these economies is uneven and generally weak.

¹ China, India, Brazil, Russia and Middle East and North Africa

² Emerging and developing market economies accounting for over three-quarters of projected world growth this year.

Chart 1: World Economic Growth (1991-2021)

Source: International Monetary Fund (IMF), World Economic Outlook (WEO) October 2016

Note: The World economic growth in 2009 was 0.028 per cent

In 2017, the global economy is projected to recover gradually, growing at 3.4 per cent driven by the emerging and developing economies. The gradual normalisation of macroeconomic conditions in Brazil, Nigeria and Russia are expected to support growth in the region while growth in China is expected to slow down. Growth in the advanced economies is expected to pick up slightly to 1.8 per cent due to the strengthening of the recovery in the US and Canada and a rebound in Japan due to recent fiscal stimulus.

Over the medium term, the global growth is projected to gradually increase to 3.8 per cent driven by the emerging and developing economies. The economies of Nigeria, Russia, South Africa, Latin America and parts of Middle East are expected to recover. China's transition towards consumption and service based growth and continued resilience in other emerging and developing market economies are expected to strengthen and support growth in the region³.

In advanced economies, growth is projected to remain subdued in line with aging population and low factor productivity in the US. Impediments to trade, migration, and capital flows are expected to erode growth potential in UK. Unfavorable demographics, crisis legacies of high unemployment, debt and impaired bank balance sheets, and deep-rooted structural impediments are holding back total factor productivity growth in the Euro area while shrinking population is expected to affect Japan's growth.

Risks associated with the current global economic outlook have become more pronounced. Risks stemming from policy and institutional domain such as the UK vote to leave the European Union and the ongoing US election campaign have brought to the fore issues related to labour mobility and migration, global trade integration, and cross-border regulation.

China's transition to a service and consumption based economy will continue to have an impact on prices, trade volumes, and profits on global industries with associated effects on asset prices, international portfolio allocations, and investor sentiments. Furthermore, financial market turbulence, rising global risk aversion and bank distress in vulnerable economies are expected to derail the global outlook. Other additional risks include drought in East and

³ Increasing weight in the world economy of large emerging market economies, such as China and India are growing well above the world average, thus driving the world economic growth.

Southern Africa; civil war and domestic conflicts in parts of Middle East and Africa; the unfolding migrant situation in Jordan, Lebanon, Turkey, and Europe; multiple acts of terror worldwide; and the spread of the Zika virus in Latin America, the Caribbean, the southern United States, and Southeast Asia.

2.1.1 Inflation

Inflation in the advanced economies is projected to pick up to 0.8 per cent in 2016, from 0.3 per cent in 2015, mostly reflecting stable energy prices. In 2017, inflation is projected to increase to 1.7 per cent. In the emerging and developing economies, inflation is expected to soften to 4.5 per cent in 2016 from 4.7 per cent in 2015, reflecting the waning effects of earlier currency depreciations. Over the medium term, inflation is expected to rise as fuel prices increase modestly and output gaps gradually decline.

2.1.2 Commodity Prices

Movements in commodity prices continued to fluctuate in line with developments in the global economy in 2016. Prices of PNG's major export commodities, especially crude oil recovered noticeably, however, remained below expectations whilst copper prices have remained broadly depressed. On the other hand, gold price has remained elevated on investors demand for safe-haven assets due to ongoing economic and political uncertainties globally.

The BPNG's All Price Index⁴ is a relevant indicator in assessing the movements in global commodity prices of PNG's key exports. In the first half of 2016, prices of PNG's major exports rose by 3.5 per cent compared to the same period in 2015.

Chart 2: IMF All Commodity Price Index

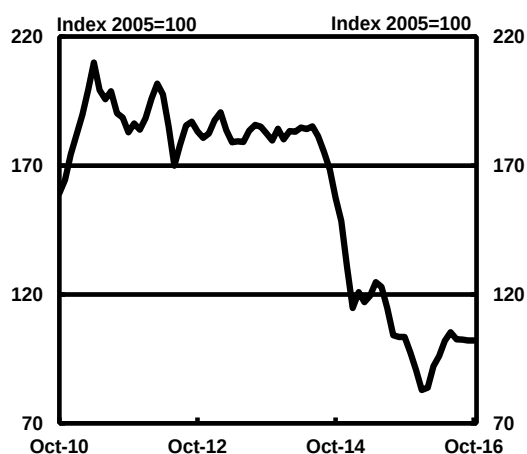
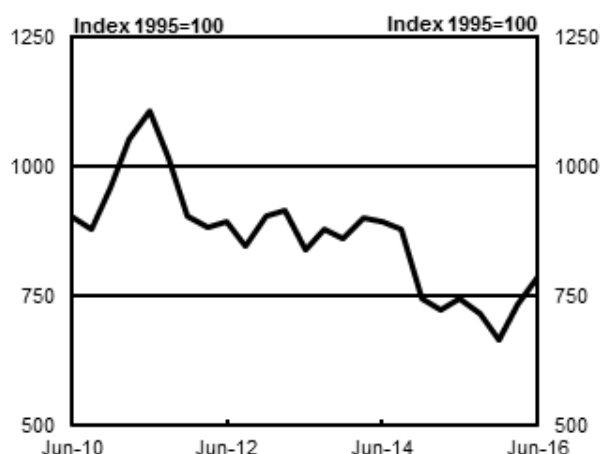


Chart 3: PNG All Commodity Price Index



Source: International Monetary Fund (IMF) & BPNG

The following discussions are centred on PNG's major exports of mineral, petroleum and agricultural commodities.

2.1.3 Copper

The price of copper remained depressed in 2016. Initially, copper price hit a multi-year low of US\$4,310.5 per tonne on 15th January followed by a brief rally to US\$5,103.0 per tonne in March. According to IMF February and March Commodity Market Reports, the increase was attributed to strong import demand from China driven by state infrastructure investment in

⁴ BPNG 2016 June quarter QEB data

February (up 50.0 per cent from a year ago), supported by weak US dollar and a momentary stabilisation in global markets.

In the second half of the year, the price of the red metal declined and currently trading around US\$4,621.9 per tonne in October. The low copper price continues to be dragged down by the global oversupply and ample inventories. In addition, an estimated annual increase of 4.5 per cent (430,000 tonne) in world mine production in the first half of 2016, especially the Peruvian mine supply, is adding pressure on prices. This combined with sluggish global demand from the world's top consumer, China is weighing down on price.

Copper price is currently trading between US\$4,500 and US\$4,900 per tonne. On average, copper price is trading around US\$4,700 per tonne which is 17.0 per cent lower than a year ago.

Chart 4: Copper Price

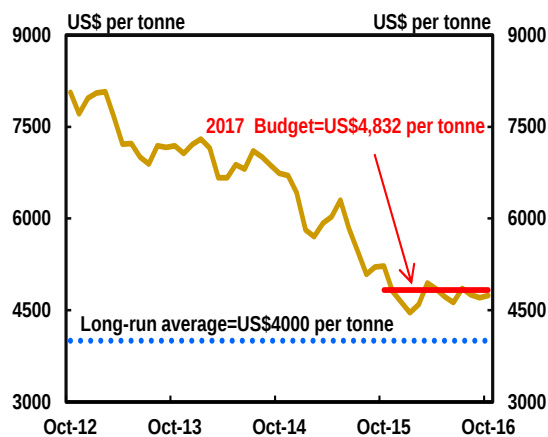
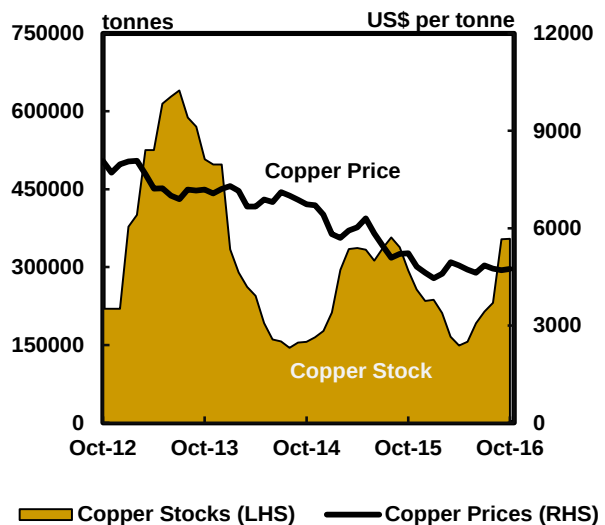


Chart 5: Copper Price against Stock



Source: International Monetary Fund (IMF) & London Metal Exchange

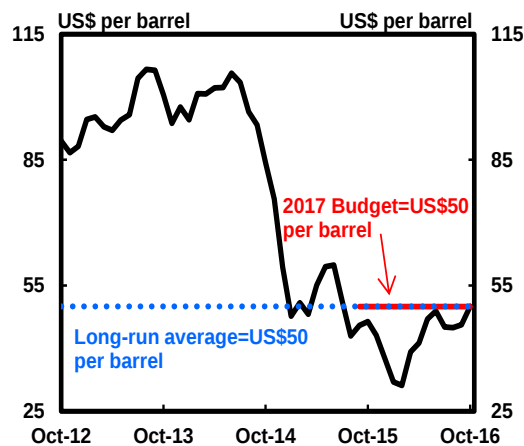
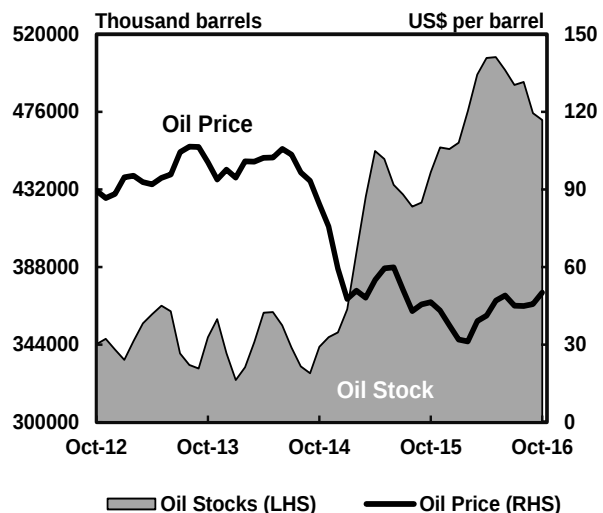
While the global economy is anticipated to recover in 2017, the copper market is expected to remain relatively in surplus, as China's demand slows against increased supply in the global market. Consistent with this outlook, the 2017 Budget assumption for copper price is US\$4,832 per tonne.

2.1.4 Crude Oil

Crude oil price continued to track developments in underlying market fundamentals, and ongoing talks about a change in policy objective by the Organisation of Petroleum Exporting Countries (OPEC) to restore a balanced oil market on a sustainable basis.

After hitting a 12-year low of US\$26.0 per barrel in February, oil price recovered noticeably rallying over the first half of 2016 and has remained elevated in recent months. The oil price recovery reflects a number of factors including supply outages in Iraq, Nigeria, Canada, and the United Arab Emirates and seasonal oil demand. Key among the factors relates to the planned output cuts among OPEC and the Non-OPEC countries. This will be decided during the cartel's meeting on 30th November 2016.

Currently, the crude oil price is trading between US\$40.0 per barrel and US\$52.0 per barrel. On average, crude oil price is trading around US\$43.0 per barrel which is 16.0 per cent lower than a year ago due to weak demand against increased global oil supply.

Chart 6: Crude Oil Price**Chart 7: Crude Oil Price against Stock**

Source: International Monetary Fund (IMF) & US Energy Information Administration (EIA)

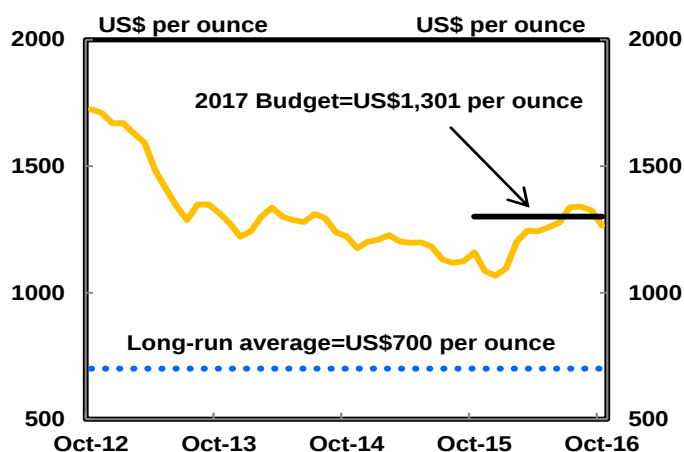
The oil price in 2017 is expected to track developments in underlying fundamentals discussed earlier. Based on this outlook, the 2017 Budget assumption for crude oil price is US\$50 per barrel.

2.1.5 Gold

Gold price continued to track developments associated with the US economy and uncertainties elsewhere.

The precious metal recovered at the turn of the year followed by a sustained increase over the course of the year due to strong appeal for safe-haven assets. Instabilities in the global financial market and currency corrections in emerging market economies initially raised investors appeal for safe-haven assets thus boosting gold prices. The increase in physical demand by central banks and a weak US Dollar have also contributed to the recovery in gold price. In addition, the delayed interest rate hike by the US Federal Reserve (Fed), coupled with the Brexit have increased uncertainties on global economic environment and lent further growth to safe-haven demand, thus boosting gold prices to hover above US\$1,300 per ounce.

Recently, gold price slipped due to a US dollar strengthening and speculation about a US rate hike before the end of 2016. This resulted in gold trading between US\$1,250 per ounce and US\$1,300 per ounce. On average, gold price is trading around US\$1,260 per ounce which is 7.0 per cent higher than a year ago.

Chart 8: Gold Price

Source: Department of Treasury, IMF and Bank of England

In 2017, the price of gold is expected to remain high due to ongoing safe-haven demand resulting from global economic and political uncertainty. On the downside, the decision on interest rate hike in December by the US Fed will exert downward pressure on gold price. Based on this outlook, the 2017 Budget assumption for gold price is expected to remain stable at US\$1,301 per ounce.

2.1.6 Agriculture Commodities

Prices for PNG's key agricultural exports have been subject to continued weakening in global demand and supply constraints for most agriculture commodities.

Coffee

The adverse effects of El Nino in 2015 hampered production in 2016 resulting in poor crop yields and supply constraints thus pushing price high, particularly, for coffee. The dry weather has impaired production in Brazil - the world's top coffee producer - in the second half of the year. This was also the case for Vietnam and South America. Looking ahead, the adverse weather conditions in Vietnam is likely to reduce output in 2016 and 2017. Moreover, the potential development of La Nina (Cold) weather in Colombia could also affect the crop.

Cocoa

The La Nina and extensive Harmattan (very dry, dusty wind) weather have adversely affected cocoa harvest in 2015 and 2016. These developments have placed cocoa prices on a rising trend in the first half of 2016. Severe weather issues in some major growing regions might hamper production, in particular, August rainfalls in the Ivory Coast - the world's top cocoa producer. This is likely to push up the price further. The risk to this up side relates to the anticipated crop recovery in Ghana in 2017.

Palm Oil

The price of palm oil is mainly influenced by developments in Southeast Asia. Palm oil prices increased in 2016 driven by the impact of El Nino which hampered production from leading producers (Indonesia and Malaysia). Apart from weather issues, higher use of palm-based biodiesel by Indonesia could tighten supplies of the tropical oil from the world's top exporter for the rest of 2016 and early 2017. Palm oil price is expected to continue to increase in 2017.

Copra Oil

Frequent typhoons in Philippines – world's top producer of copra oil - has continued to affect output and harvest thus causing prices to surge higher. An emergence in demand for fresh coconut water (kulau) has reduced production of copra oil.

Chart 9: Price Index of Palm Oil & Coffee

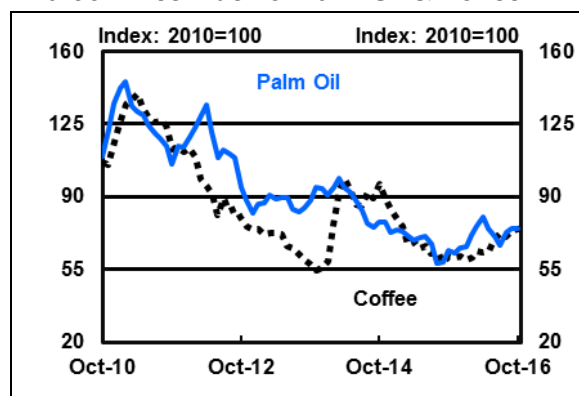
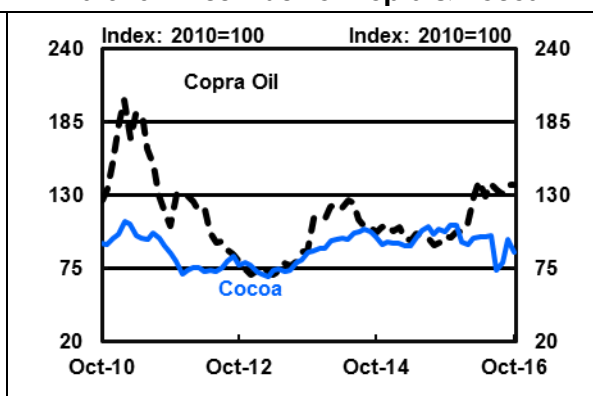


Chart 10: Price Index of Copra & Cocoa



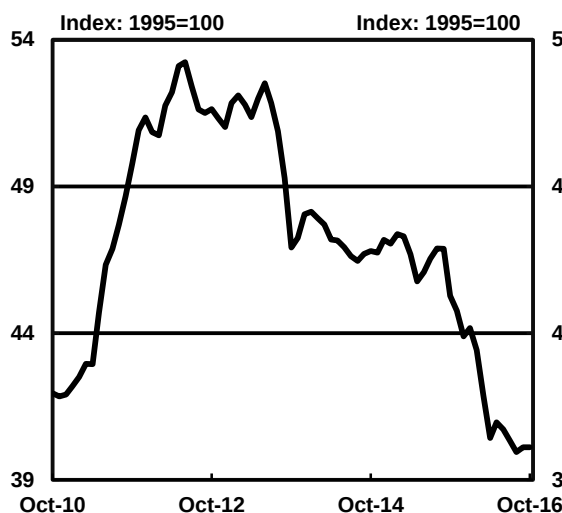
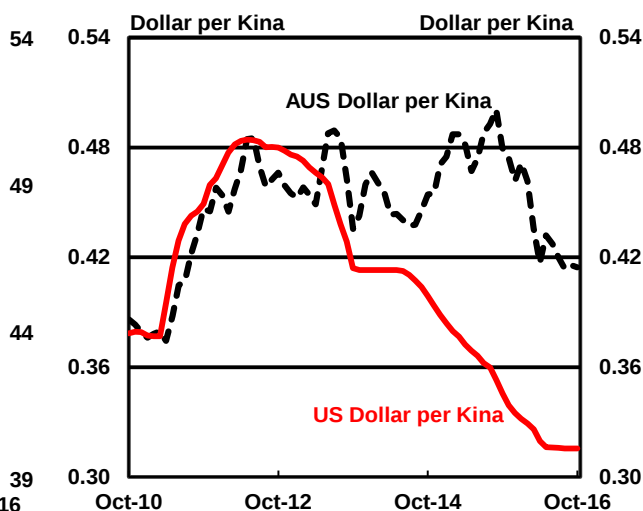
Source: International Monetary Fund (IMF) and Reuters

Since the beginning of the year, prices of coffee, palm oil and copra oil have increased by 25.4 per cent, 13.2 per cent and 33.9 per cent respectively while cocoa price declined by 8.0 per cent. Over the year to October, coffee price averaged around US\$3,368 per tonne, palm oil price US\$624 per tonne, copra oil price US\$1,449 per tonne and cocoa price US\$2,877 per tonne. Prices for PNG's key agriculture exports are expected to increase in 2017.

2.2 EXCHANGE RATE DEVELOPMENTS

PNG's Trade Weighted Index (TWI)⁵ continued to decline since the start of the year. Over the past ten months of 2016, the PNG TWI declined by 10.8 per cent compared to corresponding period in 2015 (Chart 11). The decline in TWI reflects ongoing depreciation of the PNG Kina against the key trading currencies, particularly, the US dollar and the Australian Dollar (Chart 12). The Kina depreciated by 11.4 per cent and 10.0 per cent against the US Dollar and Australian Dollar, respectively.

⁵ The Trade Weighted Index (TWI) measures the value of the Kina against a basket of currencies of PNG's major trading partners.

Chart 11: Trade Weighted Index**Chart 12: Exchange Rate Developments**

Source: Bank of PNG

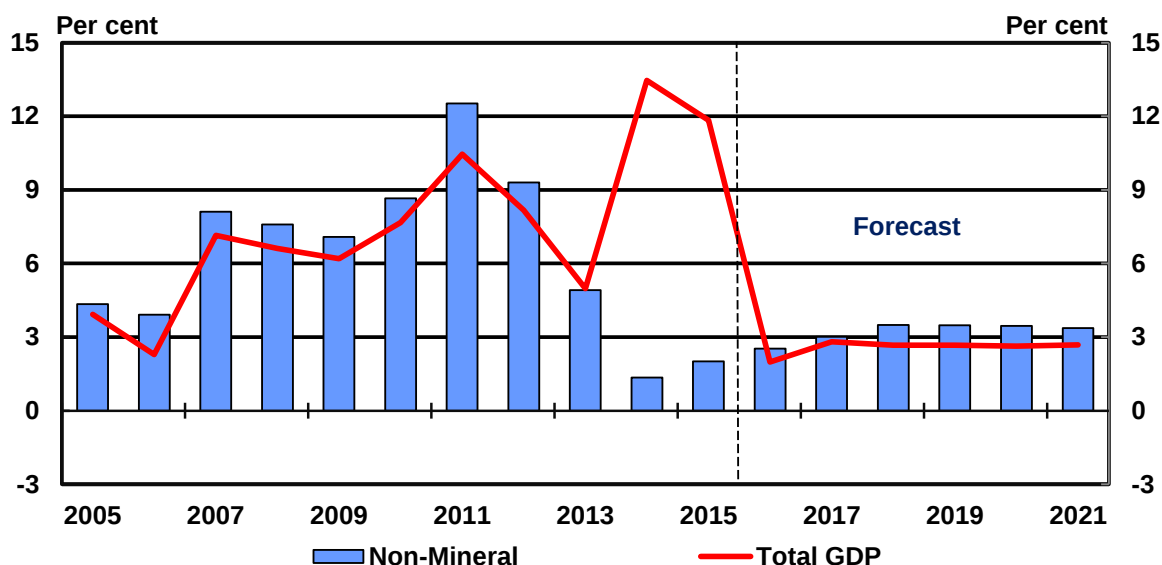
The Kina also depreciated against all other key trading currencies: including Singapore Dollar (11.5 per cent), Chinese Renminbi (7.2 per cent), Hong Kong Dollar (11.3 per cent), Philippines Peso (8.5 per cent), Japanese Yen (20.4 per cent), New Zealand Dollar (10.3 per cent), Malaysian Ringgit (6.9 per cent) and Euro (11.8 per cent) amongst others.

The depreciation of the Kina against the US Dollar continues to reflect the persistent imbalance in the PNG foreign exchange market. Domestic import demand remained relatively high against supply due to the low foreign currency inflows and a backlog of import orders. The depreciation of the Kina against the Australian Dollar is attributed to the strengthening of the Aussie Dollar against the US Dollar on the back of favourable Australian economic developments and increase in commodity prices, especially the price of iron ore.

2.3 DOMESTIC ECONOMIC DEVELOPMENTS AND OUTLOOK

2.3.1 2016 Economic Update

Real GDP is expected to grow at a moderate rate of 2.0 per cent in 2016, following very strong growth over the recent past years. This is a downward revision from the 2016 Mid - Year Economic and Fiscal Outlook (MYEFO) Report estimate of 2.2 per cent and the 2016 Budget estimate of 4.3 per cent. The downgrade in growth reflects the prevailing low commodity prices, lower than anticipated production from the mining and oil and gas sectors and weather issues affecting the agriculture sector. This is further exacerbated by the reduction in Government spending in the economy and the shortages of foreign exchange to purchase imports.

Chart 13: Economic Growth (2005-2021)

Source: Department of Treasury

The oil and gas sector is estimated to contract by 1.3 per cent in 2016 following strong growth in 2014 and 2015. The contraction reflects declining oil production profile associated with maturing oil fields and gas production reaching full capacity.

The mining and quarrying sector is estimated to grow at 8.2 per cent in 2016, a downward revision from the 2016 MYEFO estimate of 9.4 per cent and the 2016 Budget estimate of 9.3 per cent. The downgrade is due to lower than anticipated production from the major mines due to weather related disruptions, technical failures and compliance issues. The Ok Tedi mine is slowly ramping up production after resuming operation in March 2016. The Ramu nickel mine was ordered to shut down for some months in the first half of 2016 after the Mineral Resources Authority (MRA) penalised the mine for non-compliance while the Porgera mine was forced to scale-down operation in May 2016 due to a landslip and the sabotage of power transmission lines. Meanwhile, the Lihir mine was performing well due to ongoing expansion and improvements in operation.

The agriculture, forestry and fishery sector is expected to grow by 3.1 per cent in 2016, a downward revision from the 2016 MYEFO estimate of 3.4 per cent and the 2016 Budget estimate of 3.8 per cent. The devastating impact of the drought in 2015 have affected key palm oil projects in Ramu and West New Britain Province while coffee has benefited from the drought. Bumper crop is expected for coffee in the 2016 coffee season. Copra and copra oil production continue to benefit from favourable prices. Cocoa is expected to gain momentum with the prevailing high prices and new areas coming into production (Sepik provinces). These combined with good management practices to control the Cocoa Pod Borer (CPB) and the use of new CPB resistant clone cocoa seedlings introduced by the PNG Cocoa and Coconut Institute (PNGCCI) are expected to see increase in supply response from Cocoa.

Activities in the other non-resource sectors of the economy continue to be affected by the indirect impacts of the depressed commodity prices through reduction in income and spending in the economy and the shortages in foreign currencies. Sales activity has declined due to weak demand while costs of business continue to rise. Some of the costs have been offset through cost cutting measures while others have been passed on to consumers. These factors have stalled further business expansion and growth in 2016, thus affecting growth in the non-resource sectors of the economy. The total non-mining GDP has been revised down to

2.5 per cent in 2016 from 2.6 per cent growth estimated at 2016 MYEFO and the 2016 Budget estimate of 3.4 per cent.

The manufacturing sector is expected to grow at 2.0 per cent in 2016, a downward revision from 4.0 per cent at Budget. The downgrade is due to stiff competition from cheaper imports and the lack of foreign currencies at the banks to facilitate import demand.

In the wholesale retail and trade sector, most businesses have indicated weak sales due to the decline in demand for goods and services. Sales in this sector have also been impacted by the shortage in foreign currencies to source imports. This has led to businesses consolidating their operation rather than expanding. Growth in 2016 has been revised down to 1.9 per cent from 3.0 per cent estimated at 2016 MYEFO and the 2016 Budget.

The construction sector is expected to grow at 1.6 per cent in 2016, a downward revision from 3.0 per cent estimate at 2016 Budget. The downgrade is due to the reduction in Government capital expenditure in 2016 and the general slowdown of business activities. Despite these developments, the construction sector continues to benefit from a number of major construction projects funded under concessional loans from donor partners such as the Asian Development Bank (ADB) and the Exim Bank of China. Some of the major impact projects include; Port Moresby roads, Lae-Nadzab four-lane highway, the second phase of the Lae wharf Tidal Basin, the Port Moresby Sewage upgrade, and the National Airports Expansion. These developments are expected to support growth in the construction sector in 2016.

The electricity, gas and water sector is expected to grow at 3.0 per cent in 2016, a downward revision from the estimated 5.0 per cent at Budget. The growth of this sector continues to reflect Government's ongoing capital investment in PNG Power Limited, developments in other sectors of the economy, mainly the real estate sector, town expansion, urbanisation and population growth.

The transport, storage and communication sector is expected to grow at 4.0 per cent in 2016 driven by the expansion in the communication and transport sector. A major contributor to growth in 2016 is the extension of flights internationally and domestically including the rural areas of PNG. The expansion in the communication sector reflects diversification into television services and mobile banking services.

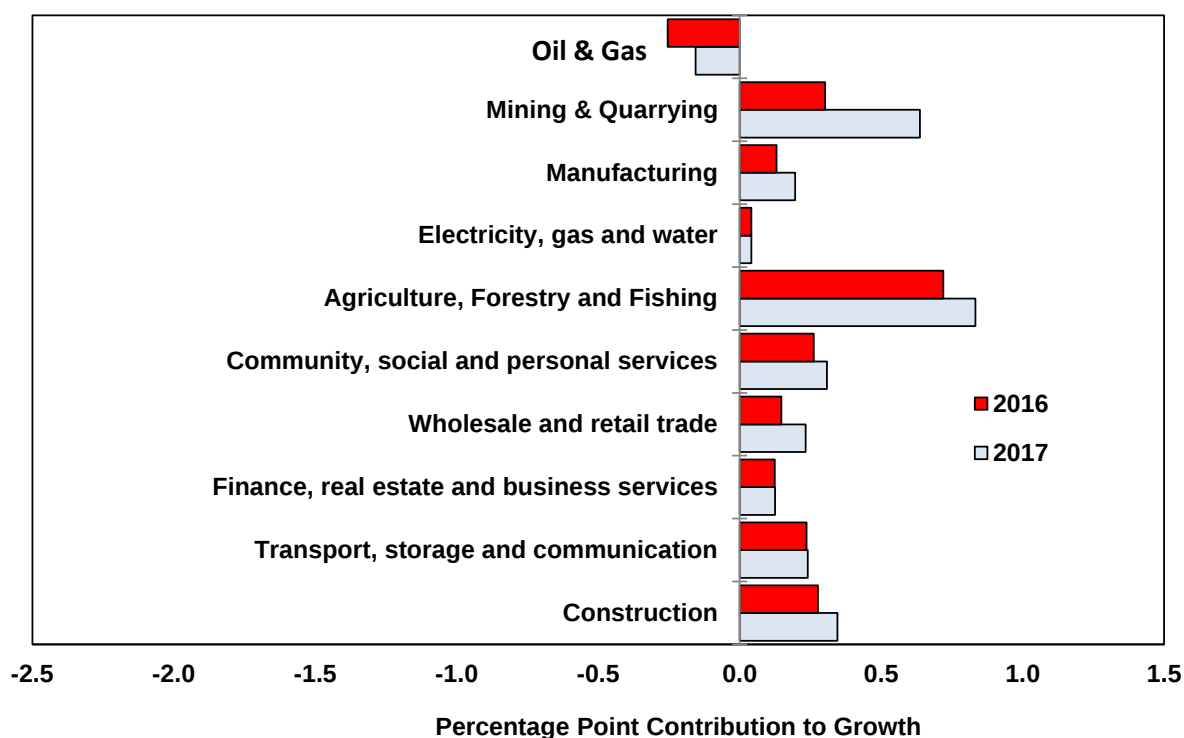
The finance, real estate and business services sector is expected to grow by 3.0 per cent in 2016 driven by the finance sector.

Activity in the community, social and personal services sector continue to reflect developments in Government's expenditure programs. This sector is expected to grow at 3.0 per cent in 2017.

2.4 2017 ECONOMIC OUTLOOK

In 2017, the PNG economy is expected to improve but not as strong as the recent past years. The economy is expected to grow at 2.8 per cent, driven by improvements in the agriculture and the mining sectors. Meanwhile, growth in the oil and gas sector is expected to decline in line with maturing oil fields.

Chart 14 shows the contribution from each sectors to overall economic growth in 2016 and 2017.

Chart 14: Contribution to Growth by Sectors, 2016 and 2017

Source: Department of Treasury

The mining and quarrying sector is expected to grow strongly at 16.3 per cent in 2017, an increase of 8.1 percentage points from 2016. This is driven by improved production from Ok Tedi mine, Ramu nickel mine and Porgera mines. The Ok Tedi mine is set to produce at full capacity in 2017 following a slow start in 2016 while the Ramu nickel mine is expected to ramp up production to around 90 per cent of capacity after the temporary shutdown in 2016. The Porgera mine and other smaller mines are expecting a normal year of operation.

The agriculture, forestry and fishery sector is expected to grow at 3.6 per cent driven by improved prices and production and favourable weather conditions. Palm oil production is expected to recover from the impact of El Nino in 2016 while supply response from cocoa is expected to gain momentum with the prevailing high price and new areas coming into production. Copra production will continue to benefit from favourable prices while coffee production is set to moderate in 2017 following a bumper season in 2016.

The gradual pick up in the global economy will assist commodity prices to improve and stimulate activities in the non-resource sectors. The non-resource sectors are also expected to be supported by the election related spending, preparations for the 2018 APEC meetings and continued Government capital investment in other key infrastructures. In line with this outlook, the total non-mining GDP is expected to grow at 3.0 per cent in 2017, up from 2.5 per cent in 2016.

Medium Term Outlook

Over the medium term, the PNG economy is expected to grow at a modest rate of around 2.7 per cent driven by the agriculture, forestry and fishery sector and supported by other non-resource sectors of the economy. Although economic activities are expected to be generally supported by the mining and the petroleum sectors, their contributions to growth are expected to decline.

The agriculture sector will be supported by the gradual increase in commodity prices and key projects to support the sector. Some of the major impact projects include the Productive Partnership in Agriculture Project (PPAP), the Freight Subsidy Project and the Nursery Project aimed at growing the cocoa and coffee industry. The palm oil industry is expected to be supported by new projects while existing projects will expand. The fisheries sector is expected to expand in line with its initiatives to support local businesses.

The mining and quarrying sector is expected to weaken over the medium term, as Ok Tedi mine continues mine life extension activities. This outlook does not capture the potential new projects including the Wafi-Golpu project, and the Frieda River project which will provide some upside when they are confirmed to commence operation.

The oil and gas sector is expected to decline over the medium term depicting the continued natural decline of the oil fields. This outlook does not capture the prospect of the second LNG project coming on board over the medium term. This project will also provide some upside to growth in this sector over the medium term.

The non-mining sector is expected to grow at 3.5 per cent over the medium term. The gradual improvement in commodity price outlook and the continued growth of the agriculture sector are expected to support economic activity in other non-resource sectors of the economy. The non-resource sectors are also expected to be supported by the Government's key investment and reform objectives to broaden the economy and reducing business impediments. These are some of the key APEC agendas to be addressed over the medium term. Furthermore, the prospect of the pipeline projects coming on stream will also support growth in this sector.

2.5 LABOUR MARKET

Total employment has declined in the first half of 2016 in line with the slowdown in the economy due to low commodity prices, completion of most construction projects, mainly buildings, shortages of foreign exchange to purchase imports and the reduction in Government spending. According to BPNG's employment index, total level of employment in the non-mining declined by 4.4 per cent through-the-year to June quarter of 2016, while employment in the mining sector increased modestly at 1.7 per cent growth over the same period.

Chart 15: Employment Index

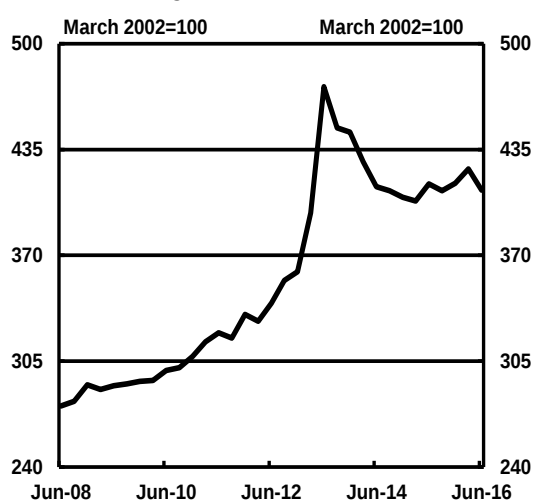
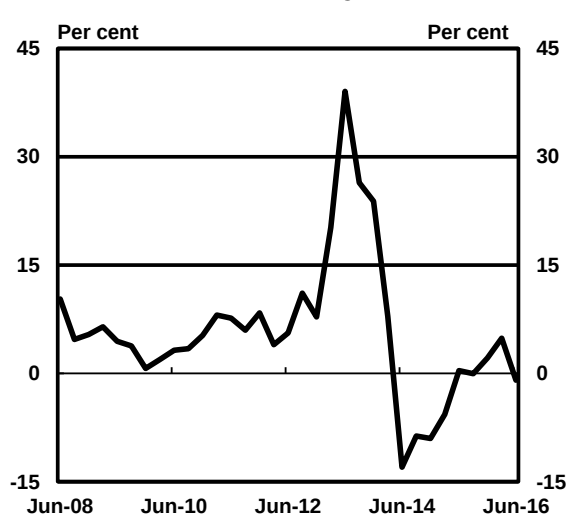


Chart 16: Total Employment Growth

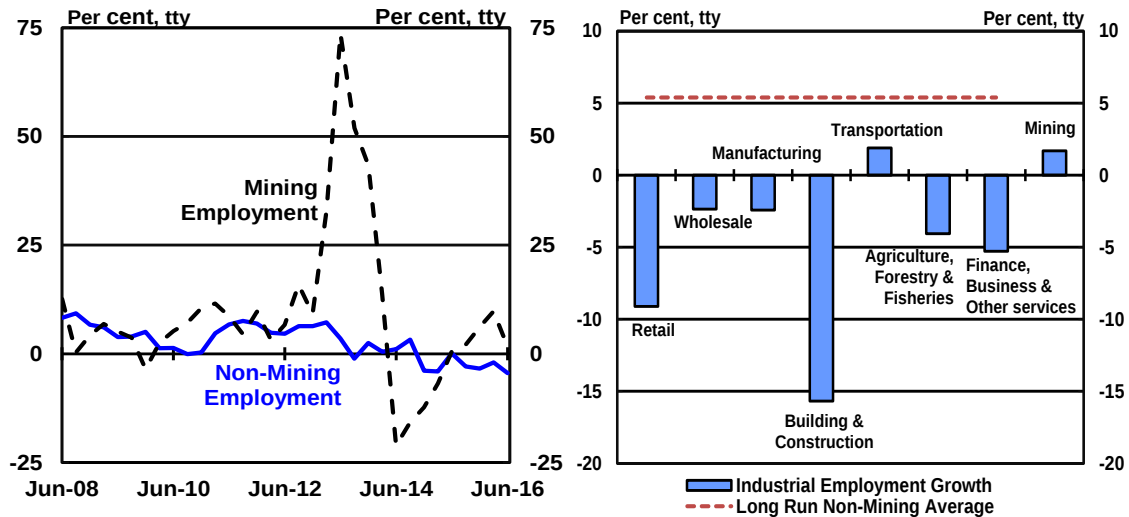


Source: Department of Treasury and Bank of PNG

Through-the-year, employment growth in all non-mining sectors declined except for the transportation sector which increased by 1.9 per cent. The building and construction sector

recorded the highest decline of 15.7 per cent followed by retail sector (down 9.1 per cent), finance, business and other services (down 5.3 per cent), agriculture, forestry and fisheries (down 4.1 per cent), wholesale (down 2.4 per cent), and manufacturing sector (down 2.4 per cent).

Chart 17: Mining & Non Mining Employment Growth Chart 18: Industrial Employment Growth



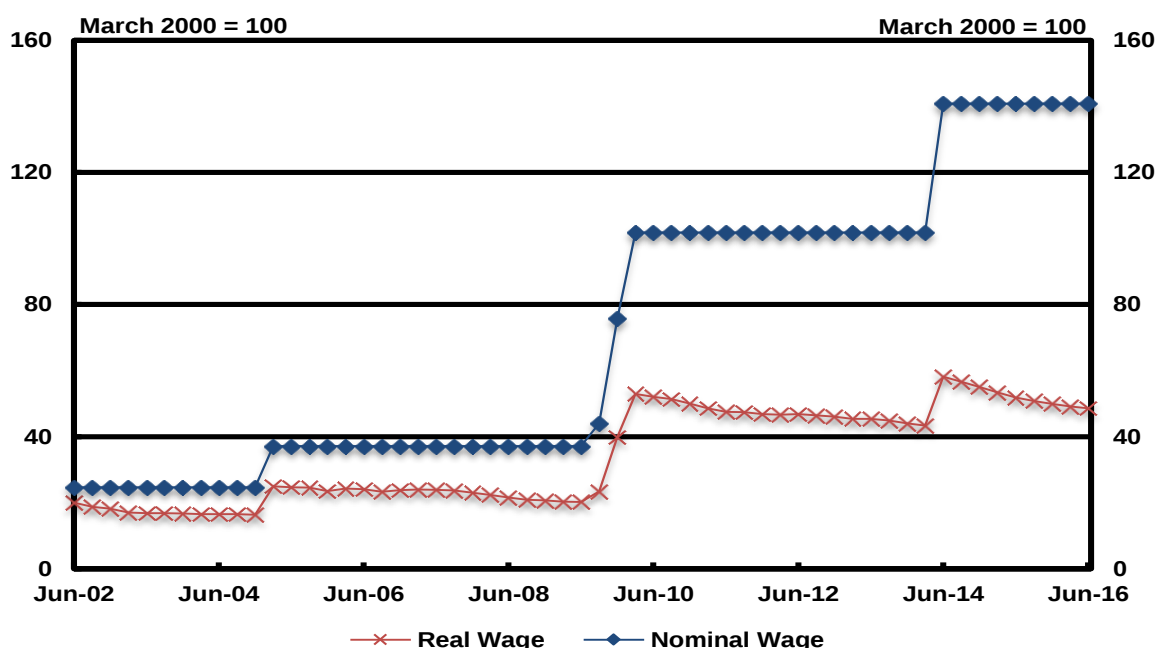
Source: Department of Treasury and Bank of PNG

Employment growth in the mining sector was attributed to the resumption of Tolukuma gold mine, high gold production and manning requirements at Lihir, and additional demand for contract services at Simberi Gold mine.

Nominal Salary and Wages

Nominal salary and wages in PNG have remained flat at a record high of K140.8 per week till July 2016 – the official end-period for the recent Minimum Wage Board (MWB) Determination which became effective on 23rd July 2016. The increasing trend of the wage index (Chart 19) is reflective of the uninterrupted economic growth in the PNG economy over the last decade. While much of the growth has been led by the boom in the mining and petroleum sectors, associated spin-offs from this boom have also translated into salary and wage pressures in the non-mining sector.

Chart 19: Wages Index



Source: Department of Treasury, Bank of PNG and National Statistical Office

The most recent MWB Determination increased minimum wage earners⁶ hourly rate by almost 40.0 per cent to K3.50 per hour in July 2016, following the rates of K3.20 and K3.36 per hour in 2014 and 2015, respectively. This change reflects the notable economic growth in PNG including inflationary pressures since the previous determination was effected. According to the Department of Labour and Industrial Relations, the new rate of K3.50 per hour (or K140.80 per week) will remain in operation until superseded by a new Determination.

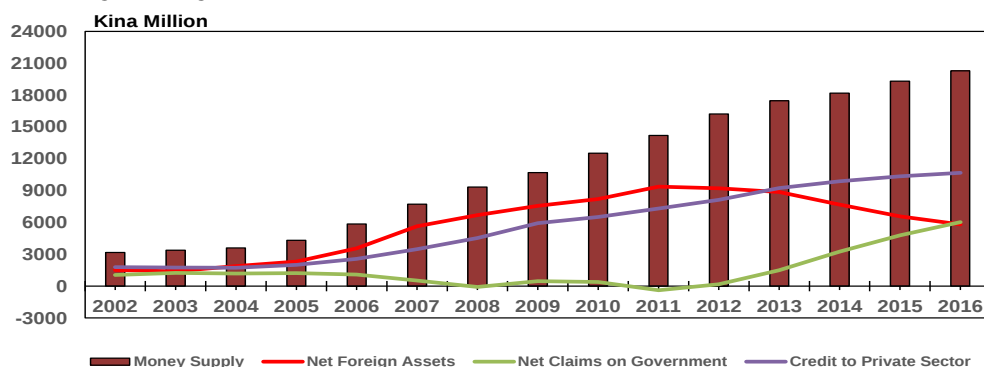
On real wage basis, minimum wages in the June quarter of 2016 have declined from June 2015 by 6.3 per cent due to the impact of inflation on real incomes (Chart 19).

2.6 MONETARY DEVELOPMENTS

The Central Bank continued its neutral monetary policy stance by maintaining the Kina Facility Rate (KFR)⁷ at 6.25 per cent. In 2016, the Broad Money supply increased to an average K20,284.8 million in the first half of 2016, up 5.0 per cent relative to 2015. The increase was driven by continued issuance of securities to finance the 2016 Budget, which resulted in the net claims on Government increasing by K1,234.4 million or 25.7 per cent. Credit to the private sector rose on average by 3.1 per cent, an increase of K325.4 million relative to 2015. Meanwhile, the Net Foreign Assets (NFA) continued a downward trend, declining by 11.5 per cent, an average of K754.4 million.

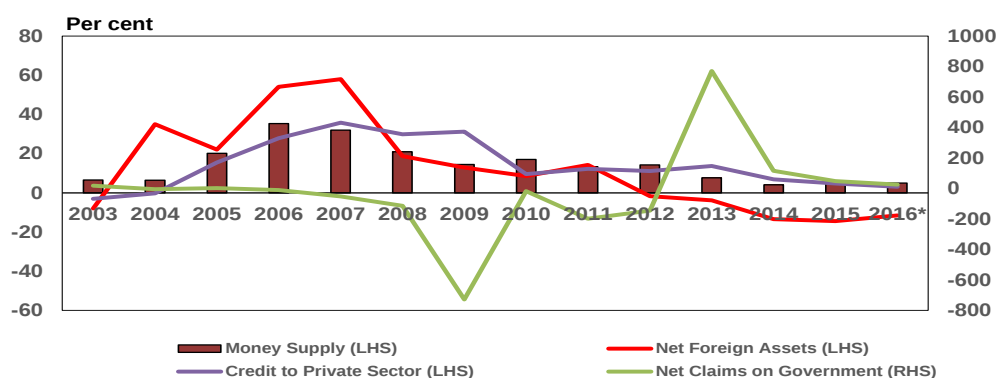
⁶ The determination of a minimum wage employee is defined as an unskilled worker aged 16 and over in formal employment in any industry sector located in either an urban or rural environment and or who may or may not be represented by an industrial organisation registered under the Industrial Organisations Act and if not so represented is considered incapable of entering into a collective bargaining process. The minimum wage workers included plantation workers, shop assistants, security guards, unskilled workers and others.

⁷ In the March Monetary Policy Statement (MPS), the Bank made an announcement to have an alternative policy mechanism to address the weak transmission of the Kina Facility Rate (KFR) to market interest rates. The mechanism is still being assessed in consultation with stakeholders, both domestic and external. The aim is to have a mechanism that will be more effective in ensuring that the policy signalling rate transmits to market interest rates.

Chart 20: Money Supply

Source: Bank of PNG

Overall, growth in Broad Money Supply has weakened since 2012 (Chart 21) driven by the decline in NFA and the slow-down in growth of net claims on Government and credit to the private sector. The decline in NFA is attributed mainly to the reduction in foreign direct investment associated with the completion of the construction phase of the LNG project and the low export earnings as a result of the fall in commodity prices.

Chart 21: Money Supply (Annual % growth)

Source: Bank of PNG

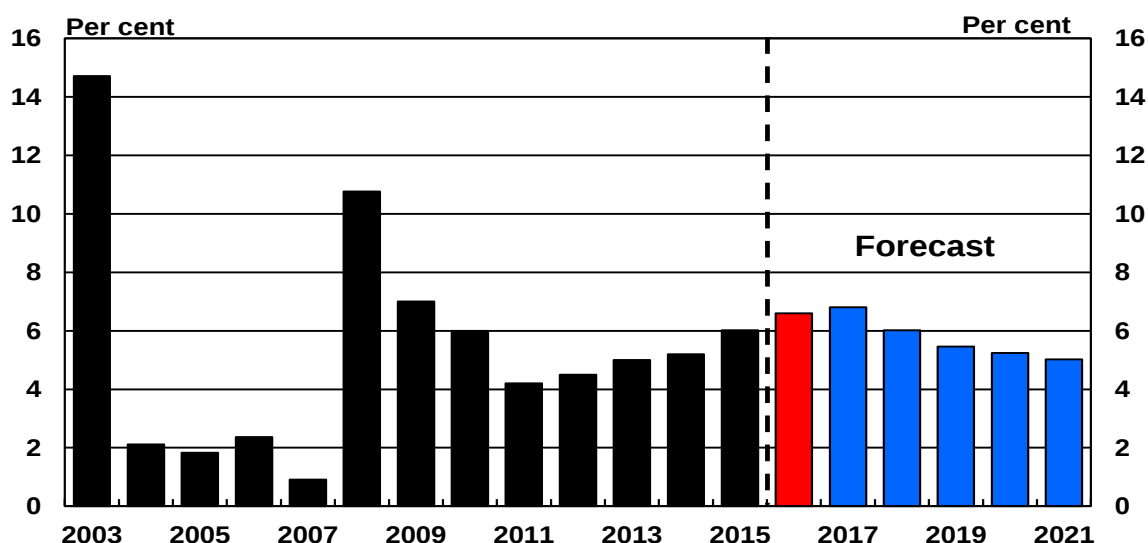
*2016 January to June

According to the Bank's 2016 September Monetary Policy Statement (MPS), the Broad Money Supply is projected to increase by 7.7 per cent in 2016 before moderating to 6.7 per cent in 2017 and 6.0 per cent in 2018.

2.7 CONSUMER PRICE INDEX

2016 Inflation Update

Inflation in 2016 is expected to be 6.6 per cent, higher than the 2016 Budget estimate of 5.7 per cent. The upward revision from previous updates reflects inflationary pressures from domestic and tradable seasonal items, and the impact of ongoing depreciation in the Kina exchange rate. According to NSO 2016 June CPI report, prices of most domestic goods and services continued to remain high especially alcohol beverages and tobacco and betel-nut, fruits and vegetables, medical services and housing rents among others.

Chart 22: Inflation outcome and projection 2003-2021

Source: National Statistical Office (NSO)/Department of Treasury

In 2017, inflation is projected to increase to around 7.0 per cent reflective of expectations of some feed-through effect of the Kina depreciation and the slight pick-up in domestic economic activity relating to the National Elections, slight improvements in commodity prices and construction of APEC facilities which are expected to boost income and spending in the economy. Over the medium term, inflation is projected to ease below 6.0 per cent in line with the macroeconomic objective of low and stable price.

The Government is mindful of possible inflationary pressures stemming from high costs of doing business in PNG and is pursuing reforms to address this issue. Domestic inflationary pressures will continue to be monitored to ensure price stability and economic growth is maintained in the domestic economy.

2.7 BALANCE OF PAYMENTS AND INTERNATIONAL RESERVES

2016 Update

In the first half of 2016, low commodity prices, shortage in foreign currency and the drought, affected the exports and imports of goods and services and economic activity.

The trade balance recorded a surplus of K7,482.3 million in the first half of 2016, a slight increase of 5.4 per cent from K7,100.9 million in the same period of 2015. The increase in the surplus was due to significant contraction in imports of 36 per cent of goods and services while total exports of goods and services declined by 13.0 per cent.

Trade with the rest of the world is projected to be high volumes of exports relative to imports, which will more than offsets the impact of the low commodity prices. Much of it is expected to come from the agriculture sector, and the mining sector with the resumption of production by the Ok Tedi mine in March 2016. These developments including the ongoing production from the PNG LNG project are expected to result in a current account balance surplus of K11,449.8 million in 2016.

The income balance showed a deficit of K408.7 million in the first half of 2016, a significant reduction of 37.8 per cent relative of 2015. This was the result of lower dividend payments and compensation of employees in the first half of 2016. Payments going abroad declined by 6.0 per cent relative to 2015

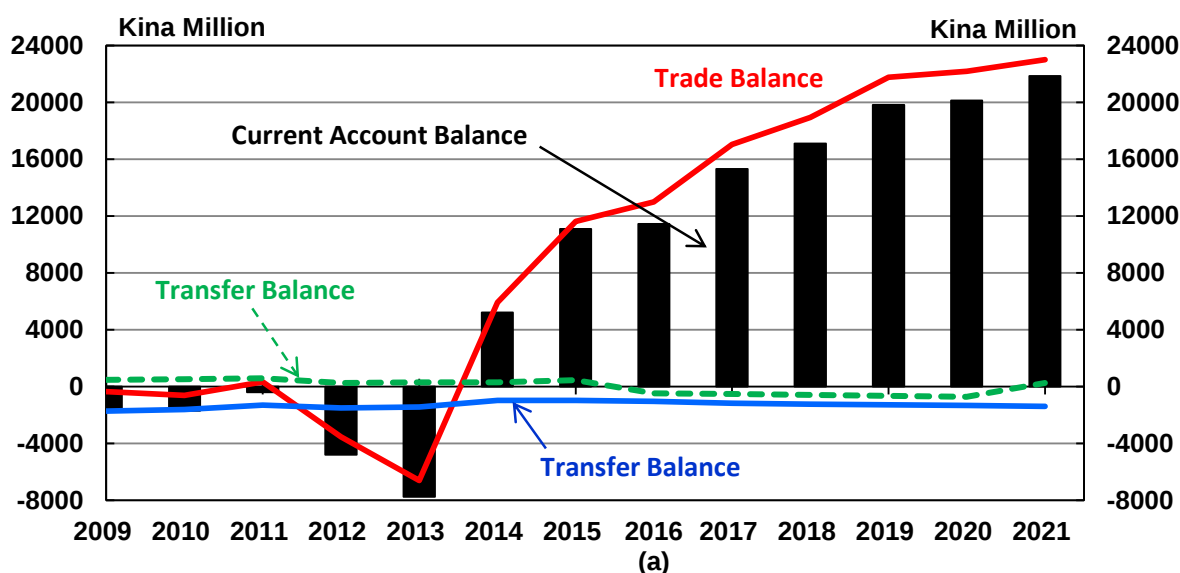
The surplus in transfers balance increased in the first half of 2016, by 50.0 per cent to K371.0 million relative to 2015. Significant decline in transfer payments in gifts and grants of 43.0 per cent contributed to the surplus while transfer receipts have declined by 5.0 per cent.

The financial balance recorded a net outflow of K7,543.1 million in the first half of 2016, compared to the net outflow of K7,071.9 million in the corresponding period of 2015. Net outflows in other investments reflect the build-up in foreign account balances of mining, oil and LNG companies allowed under Development Agreements.

The overall balance of payments recorded a deficit of K73.0 million in the first half of 2016, compared to a deficit of K388.0 million in the corresponding period of 2015.

Based on the developments in the first half of 2016, PNG's trade balance is expected to be stable as a result of resumption of production by the Ok Tedi mine, production by the PNG LNG project, and improvement in prices of some agriculture commodities.

Chart 23: Balance of Payments



Source: Bank of BPNG

2017 Outlook

In 2017, the current account balance is expected to be a surplus of K15,054.1 million or 26.3 per cent of GDP compared to an estimated surplus of K11,634.6 million or 22.6 per cent of GDP in 2016. The huge surplus in the current account balance reflects the full year of operations at the Ok Tedi mine and the ramp up of production at the Ramu nickel mine after the disruptions in 2016. In addition, the agriculture sector is expected to rebound and grow strongly in 2017 driven by anticipated improvement in prices and production and weather conditions.

On the other hand, income payments abroad for 2017 are expected to increase as the inflows from the sale of PNG LNG results in income and dividend payments to shareholders overseas. This is expected to expand the deficits in the income balance. The income deficit is projected to be 2.0 per cent of GDP in 2017.

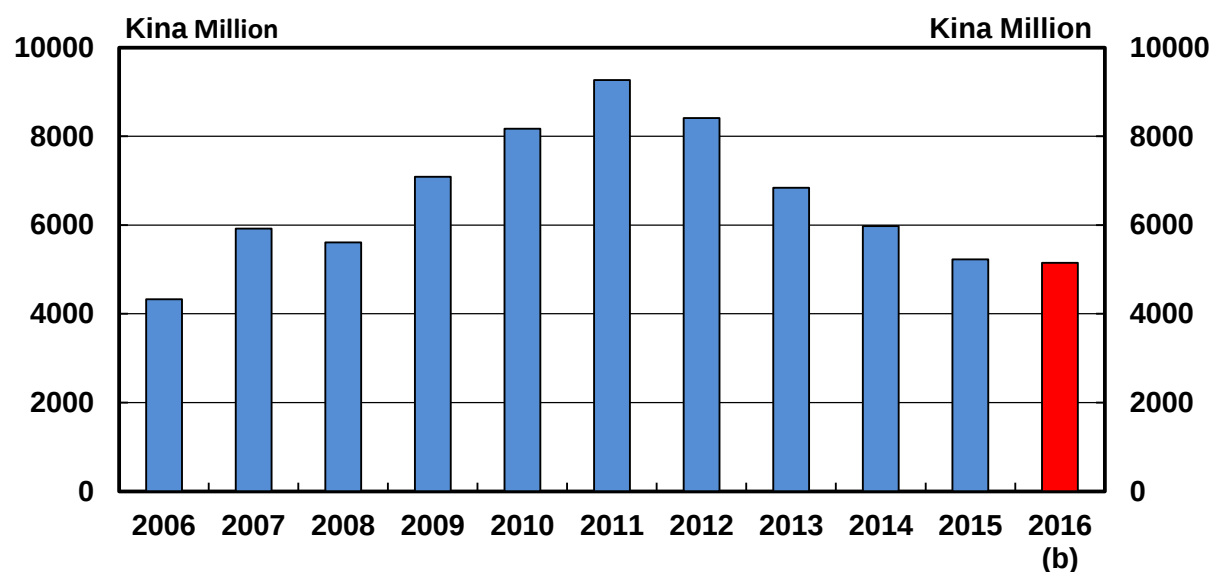
Medium Term Outlook

Over the medium term, the current account balance is projected to maintain a large surplus position driven by continued gas and condensate production as well as improvements in the agriculture sector, especially coffee, cocoa and palm oil. The benefits of the major impact projects such as the Productive Partnership in Agriculture Project (PPAP), and the Coffee and Cocoa Nursery Projects are expected to materialise over the medium term resulting in increased coffee and cocoa production while palm oil will continue to benefit from the replanting programs and the expansion of the industry. These are expected to boost exports leading to an improvement in the current account balance.

Despite the expected strong exports as the basis of the anticipated surplus in the current account balance over the medium term, the emergence of the services sector is also worth noting given the government's ongoing funding on health, education and law and order amongst others. The services sector is deemed to have accounted for a fair share of the import demand in PNG both directly and indirectly.

The income balance on the other hand, is expected to record large deficits over the medium term with increased income payments abroad (mainly dividend payments to shareholders overseas) from major investments in the country. The income deficit is projected to average at around 2.0 per cent of GDP from 2018 to 2021.

Chart 24: International Reserves



Source: Bank of PNG

(b) Includes reserve levels up to 30th June 2016

International reserves totalled K5,226.3 million (US\$1.86 billion) at end of December 2015 and have fallen by 1.6 per cent to K5,153.1 million (US\$1.66 billion) as at 30th June 2016, which is sufficient for 10.6 months of total and 17 months of non-mineral import covers (Chart 24). By the end of 2016, the level of gross foreign exchange reserves is projected to be K5,466.6 million (US\$1.72 billion). The decrease in foreign reserves reflects lower foreign currency inflows and the intervention by the Central Bank in the foreign exchange market. This projection does not take into account any proceeds from the planned Sovereign Bond issuance and the syndicated commercial loan. Some of the reserves would continue to be used to clear the back log of import orders in the market.

2.8 RISKS TO THE ECONOMIC AND FISCAL OUTLOOK

Key risks to the 2017 and the medium-term economic and fiscal outlook include:

- 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 mining and quarrying sector;
- on the domestic front, the noticeable imbalance in the foreign currency market poses a considerable risk to economic activity and the inflation outlook;
- now that PNG is beginning to issue international debt, it will become subject to changes in global debt market liquidity and interest rates. While conditions in debt markets have been relatively benign in recent years and characterised by historically low interest rates, this situation may not continue. Changes in international debt markets could impact on developing countries such as PNG;
- 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;
- slower than expected implementation of large investment projects can also impact on overall economic growth and anticipated revenue growth;
- fiscal risks have emerged as a result of lower than expected revenue. Unbudgeted approval of tax exemptions would also pose a further risk to an already fragile tax collections;
- exposure through debt guarantees and contingent liabilities is a concern in determining the net worth of the State thus have implications on the credit rating;
- heavy reliance on domestic borrowing gives rise to risks associated with high interest costs, the ability to refinance and the crowding out of private investors; and
- careful fiscal management will be required to ensure debt levels remain sustainable. Current projections show the debt level is at risk of exceeding the legislative debt limit of 30.0 per cent of GDP.

CHAPTER 3: FISCAL STRATEGY AND OUTLOOK

3.1 2016 BUDGET UPDATE

The 2016 Budget has been significantly impacted by low commodity prices and the effects of the El Nino drought in 2015 and 2016. The imbalance in the foreign currency market has also contributed to lower revenue estimated in the 2016 Budget. The 2016 Supplementary Budget was introduced to adjust for the shortfall in revenue of K1,886.0 million. The 2016 Supplementary Budget reduced expenditure by K928.0 million and increased revenue by K958.0 million. These adjustments ensured that the planned deficit remained at K2.1 billion or 3.1 per cent of GDP and Debt to GDP ratio remained at 29.4 per cent.

3.2 THE 2017 BUDGET STRATEGY AND OUTLOOK

The 2017 Budget will be guided by the *Vision 2050*, *PNG Development Strategic Plan (DSP) (2010-2030)*, the *Medium Term Development Plan 2 (MTDP2) (2016-2017)*, the *Strategy for Responsible Sustainable Development (StaRS2017)*, and the *Fiscal Responsibility Act 2006 (FRA)*.

The 2017 Budget is framed against a relatively weak world economic environment that is still recovering from low commodity prices and lower than anticipated growth of the domestic economy. Despite the adverse impact on revenue, the 2017 Budget accommodates the government priority expenditures and at the same time maintains disciplined fiscal management by adhering to the fiscal anchors prescribed in the FRA.

Expenditure is planned at K13,349.5 million, which is lower by K485.0 million from the 2016 Supplementary Budget. Revenue at K11,473.1 million is lower by K249.0 million from the 2016 Supplementary Budget projection. The 2017 Budget will continue to fund key priority expenditures such as the Tuition Fee Free Education, Free Primary Health Care, Infrastructure Projects, Agriculture and Small to Medium Enterprises. Apart from funding these priorities, funding for National General Elections and 2018 APEC will be the highest priority for the 2017 Budget.

The Government has decided to have a balanced budget beyond 2021. In the 2017 Budget, the deficit and net borrowing are at K1,876.5 million or 2.5 per cent of GDP. The responsible management of the budget by bringing the total debt-to-GDP ratio in 2017 below the 30.0 per cent limit by the *PNG Fiscal Responsibility Act 2006*.

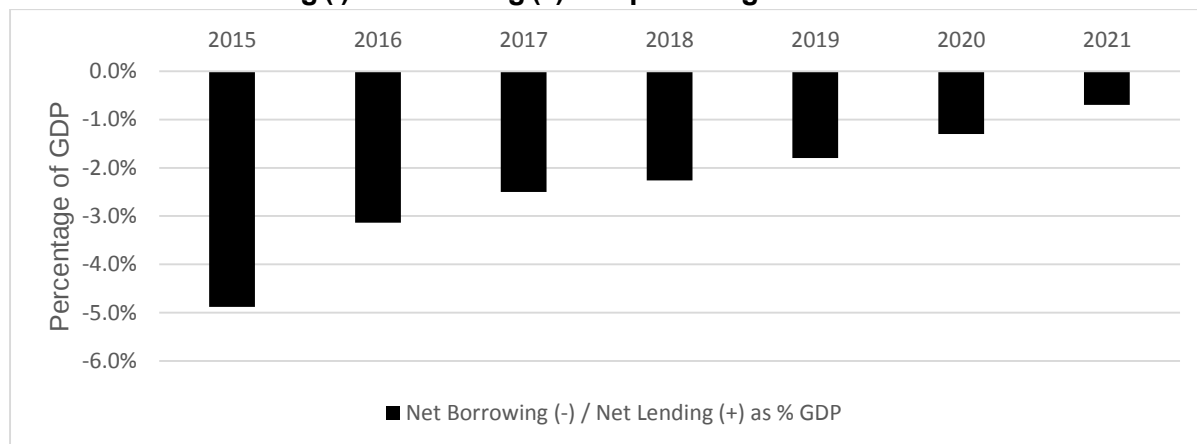
Table 1: Budget Balance 2015–2017 (Kina, Million)

Economic Activity	2015 Actual	2016 Budget	2016 Supp. Budget	2017 Budget
Revenue	10,776.4	12,650.1	11,722.1	11,473.1
Expenditure	13,788.8	14,762.6	13,834.6	13,349.5
Net Borrowing (-)	-3,012.4	-2,112.5	-2,112.5	-1,876.5
% of GDP	-4.9%	-3.1%	-3.1%	-2.5%
% of Debt to GDP	29.1%	29.3%	29.4%	28.8%

Source: Department of Treasury.

3.3 THE MEDIUM TERM FISCAL OUTLOOK

The fiscal plan to achieve a balanced budget around 2021 is maintained without compromising macroeconomic stability and economic growth.

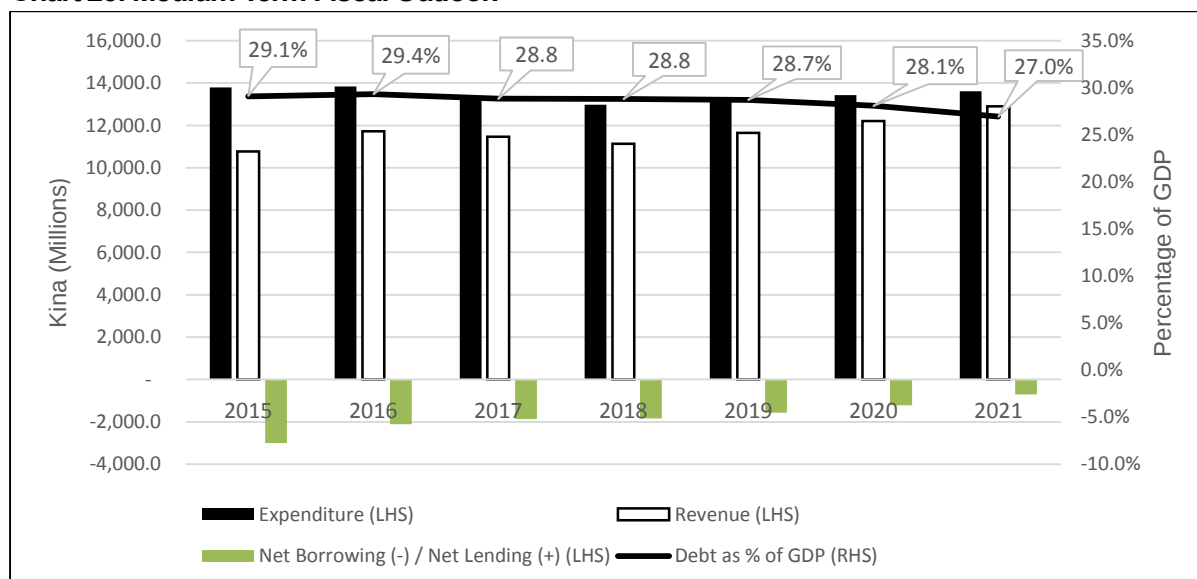
Chart 25: Net Borrowing (-) / Net Lending (+) as a percentage of GDP over the Medium Term

Source: Department of Treasury

The recent developments, particularly low commodity prices that translate to lower revenue, requires a prudent, gradual and cautious fiscal consolidation to strike a delicate balance between expenditure needs and macroeconomic stability and growth.

In 2017, the Government will improve the budget process through the alignment of policy priorities and expenditure allocations in fulfilling the government's policy objectives. Other microeconomic and structural policy reforms will be undertaken to institute transparency and accountability in the use of government resources.

Whilst ensuring value for government expenditures, the debt levels are expected to be reduced over the medium term. At the same time, revenue is projected to increase modestly from 2017 to 2019, before growing more strongly over the medium term driven by LNG-related revenue which will be realised from 2020 onwards.

Chart 26: Medium Term Fiscal Outlook

Source: Department of the Treasury

The 2017 Budget seeks to contain expenditure by reprioritising and reallocating expenditures that will result in higher quality spending. This approach will be guided by the *Medium Term Fiscal Strategy (MTFS) 2013–2017* and the *Medium Term Development Plan (MTDP)*.

Table 2 shows Net Borrowing of 4.9 per cent of GDP in 2015 and then a reduction in the levels of Net Borrowing over the medium term. This drives a reduction in the debt-to-GDP ratio over the medium term.

Table 2: Budget Balance 2015–2021 (% of GDP)

	2015	2016	2017	2018	2019	2020	2021
Net Borrowing (-)/ Net Lending (+)	-3,012.4	-2,112.5	-1,876.5	-1,839.6	-1,570.4	-1,215.1	-699.8
<u>2017 Budget:</u>							
Budget Balance (% of GDP)	-4.9	-3.1	-2.5	-2.3	-1.8	-1.3	-0.7
Debt as % GDP	29.1	29.4	28.8	28.8	28.7	28.1	27.0
<u>MTFS 2013– 2017:</u>							
Budget Balance (% of GDP)	-1.6	-0.6	0.1	0.0	0.0	0.0	0.0
MTFS 2013– 2017 Implied debt to GDP (%)	28.9	27.5	25.4	0.0	0.0	0.0	0.0

Source: Department of Treasury.

Note: Net Borrowing/Net Lending under GFS 2014 differs from the deficit/surplus reported under GFS 1986. See Appendix 3 for an outline of these changes and a detailed set of fiscal tables.

3.4 MEDIUM TERM FISCAL STRATEGY 2013-2017

The Medium Term Fiscal Strategy (MTFS) 2013-2017 ends this year and a new MTFS 2018-2022 will be formulated in 2017 with a view to provide guiding principles for fiscal prudence and debt sustainability.

The MTFS 2017 – 2021 is transitional for purposes of the 2017 Budget. Some of these key rules will continue to be relevant for MTFS 2018 – 2022.

Medium Term Fiscal Strategy (MTFS) 2013- 2017

Medium Term Fiscal Strategy (MTFS) 2013 – 2017

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. 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.
7. Strengthen efforts at bottom-up budgeting, starting in the priority areas of infrastructure, health, education law and order and rural development
8. Undertake reforms to ensure that the pattern of expenditure during the financial year is smoothed out.
9. 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.
10. Limit gross government liabilities to less than 60.0 per cent of GDP.
11. Greatly increase the government's average debt maturity profile and reduce the average cost of debt.
12. Identify and manage contingent liabilities to reduce the potential costs and risks to the budget.

Deficits

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

CHAPTER 4: REVENUE

4.1 2016 AND 2017 REVENUE DEVELOPMENT AND OUTLOOK

The weak economic activities in 2016 affected Government revenues. In 2017 as the economy is gradually recovering revenues will increase. The election related spending and expected APEC related constructions should provide added incentives to the economy, translating into increase in income, profits and revenue to the government. The revenues are also expected to be supported by dividends from State entities, enhanced compliance, some tax measures, and improved tax administration. Details of the tax measures see Chapter 5.

In 2017, Total Revenue is projected at K11,473.1 million (Table 3), comprising of K9,182.2 million in Tax Revenue, K1,045.3 million in Grants⁸ and K1,245.7 million from Other Revenues (dividends and department fees and charges). Compared to the 2016 Supplementary Budget estimate, Total Revenue is lower by K248.4 million.

Table 3: Total Revenue and Grants (Kina, Million)

	2015 Actual	2016 Budget	2016 Supp. Budget	2016 Revised	2017 Budget	Var.
Tax Revenue*	9,157.6	10,525.6	8,825.8	8,453.2	9,182.2	356.4
<i>Per cent of GDP</i>	<i>15%</i>	<i>16%</i>	<i>13%</i>	<i>12.6%</i>	<i>12.2%</i>	
Social Contributions	0.0	0.0	0.0	0.0	0.0	0.0
<i>Per cent of GDP</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Grants	819.5	1,513.2	1,948.0	1,881.4	1,045.3	-902.7
<i>Per cent of GDP</i>	<i>1.3%</i>	<i>2.2%</i>	<i>2.9%</i>	<i>2.8%</i>	<i>1.4%</i>	<i>-</i>
Other Revenue	1,026.0	611.3	947.7	747.7	1,245.7	298.0
<i>Per cent of GDP</i>	<i>1.7%</i>	<i>0.9%</i>	<i>1.4%</i>	<i>1.1%</i>	<i>1.7%</i>	
Total Revenue	11,003.1	12,650.1	11,721.5	11,082.3	11,473.1	-248.4
<i>Per cent of GDP</i>	<i>17.8%</i>	<i>18.8%</i>	<i>17.4%</i>	<i>16.5%</i>	<i>15.3%</i>	<i>-0.02</i>

Source: Department of Treasury

*Includes Other Tax (Elections Fees K24.0 million)

In 2016, Total Revenue is projected to be lower by K639.2 million compared to 2016 revised projections, due to weak collections from key revenue sources mainly Wages and Salary Taxes, Mining Petroleum Tax and dividends.

4.2 TAX REVENUE

Taxes on Income Profits and Capital Gain

Taxes on Income Profits and Capital Gains are estimated at K5,818.9 million, comprising mainly the major tax sources K3,035.7 million in Personal Income Tax, K2,433.9 million in Company Income Tax, K154.2 million in Mining and Petroleum Tax (MPT), K138.8 million in Dividend Withholding Tax, K77.8 million in Interest Withholding Tax and K54.9 million in Royalties and Management Tax.

Collections from Personal Income Tax were weaker than anticipated in 2016 by K228.3 million from the 2016 Supplement Budget estimate of K3,077.4 million as a result of decline in employment in some key economic sectors, mainly finance, business and real estate, building and construction and the agriculture forestry and fishing sectors. In 2017, employment is expected to increase supported by improved business activity from gradual improvement in commodity prices, better growth outlook for the agriculture and the mining sectors, the elections and APEC constructions. These factors combined with K150.0 million from

⁸ Donor Grants component K968.1m.

compliance measures and a tax measure on Employer Provided Housing Benefit are expected to increase tax income from Personal Income Tax. Compared to the 2016 revised projections of K2,849.1 million, Personal Income Tax for 2017 is expected to be higher by K186.6 million.

Table 4: Taxes on Income Profits and Capital Gain

	2015 Actual	2016 Budget	2016 Sup. Budget	2016 Revised	2017 Budget	Var.
Taxes on Income, Profits and Capital Gains	5,894.2	6,764.4	5,657.8	5,375.1	5,818.9	161.0
Personal Income Tax	3,037.1	3,511.7	3,077.4	2,849.1	3,035.7	-41.7
Company Tax	2,374.8	2,793.2	2,230.3	2,230.1	2,433.9	203.6
Mining and Petroleum Taxes*	195.4	129.9	88.8	21.9	77.1	-11.7
Royalties & Management Tax	51.3	43.4	40.5	53.5	54.9	14.4
Dividend Withholding Tax Non Mining	168.9	232.7	151.0	133.7	138.8	-12.1
Interest Withholding Tax	66.0	52.7	69.2	86.4	77.8	8.7
Tax Related Court Fines	0.0	0.0	0.0	0.0	0.0	0.0
Sundry IRC Taxes & Income	0.6	0.8	0.7	0.4	0.5	-0.2

Source: Department of Treasury

*2017 MPT is 50% of K154.2 million estimate. The other 50% flows to SWF & drawdown to Budget.

Company Income Tax performed far below the estimate in 2016, lower by K563.1 million from the original Budget of K2,793.2 million and the revised estimate of K2,230.1 million. Weak business sales and profits have contributed to the decline. Factors contributing to the weak performance of this tax relate to low demand for goods and services combined with the shortage in the foreign currencies and high business costs.

In 2017, the increase in the commodity prices and the better growth outlook in the agriculture and mining sectors are expected to improve income and spending in the economy. These combined with GoPNG's ongoing capital expenditure, through concessional loan are expected to improve the inflow of foreign currencies, and assist business activity. The election related spending and the APEC related construction will generate sales and profits. Company Income Tax is expected to be supported by K125.0 million compliance measures. Compared to the 2016 revised projections, Company Income Tax for 2017 is expected to be higher by K203.6 million.

The rise in the prices of oil, gold and copper and the production and export of these commodities, will result in an increase in MPT from Ok Tedi, Porgera and the operating oil fields in 2017. The Ramu Nico mine is exempted from paying MPT until such time the exemption expires while the Lihir mine continues to undertake high capital expenditures reducing taxable income. For the LNG MPT receipts, the oil price outlook for 2017 at US\$50.0 per barrel, the accelerated deprivation allowance MTP might not be paid. In addition, the key mines are claiming infrastructure tax credits, thus affecting MPT receipts. Compared to the 2016 revised projections of K53.5 million, MPT receipts in 2017 is expected to be marginally higher by K1.4 million.

The Dividend Withholding Tax (DWT) and the other taxes on income, profits and capital gains for 2017 are expected to be generally in line with the 2016 Supplementary Budget estimate. The Interest Withholding Tax is attributed mainly to the Government's deficit financing in 2017.

Taxes on Payroll and Workforce

Taxes on Payroll and Workforce mainly Training Levy is expected at K17.6 million in 2017. This tax is expected to grow in line with the growth of the economy. Compared to 2016 Supplementary Budget estimate, Training Levy is expected to increase slightly by K0.6 million.

Table 5: Taxes on Payroll and Workforce

Tax on Payroll & Workforce	2015 Actual	2016 Budget	2016 Sup. Budget	2016 Revised	2017 Budget	Var.
Training Levy	18.0	17.0	17.0	17.0	17.6	0.6
Total	18.0	17.0	17.0	17.0	17.6	0.6

Source: Department of Treasury

Taxes on Goods and Services

A total of K2,762.2 million in Taxes on Good and Services are expected in 2017, comprising mainly of K1,484.7 million in gross GST collections, K691.1 million in Excise Duty, K300.3 million in Import Excise and K180.5 million in Gaming Machine Turnover Tax.

The gradual increase in commodity prices and in the agriculture and the mining sector in 2017 are expected to support income and spending on goods and services in the economy. This is expected to be strengthened by the election related spending, sales and GST collections at the provinces and the ports. Of the gross GST revenue, a total of K1,035.1 million is remitted to Waigani Public Account (WPA)⁹ while the remaining is distributed as GST to provinces and refunds to businesses. This key tax is expected to be supported by a compliance measure of K75 million. Compared to the 2016 Supplementary Budget estimate, the GST to WPA is expected to be higher by K145.1 million¹⁰.

Table 6: Taxes on Goods and Services

	2015 Actual	2016 Budget	2016 Sup. Budget	2016 Revised	2017 Budget	Var.
Taxes on Goods and Services	2,680.2	3,137.4	2,583.8	2,513.6	2,762.2	178.4
GST ¹	1,567.0	1,759.0	1,430.3	1,459.0	1,484.7	54.4
Sales taxes	0.0	-	0.0	0.0	0.0	0.0
Bank Account Debit Fees	0.0	-	0.0	0.0	0.0	0.0
Stamp Duties	126.1	117.8	115.8	55.8	42.9	-72.9
Excise Duty	503.3	734.8	569.8	571.2	691.1	121.3
Import Excise	298.7	316.7	272.9	273.7	300.3	27.4
Bookmakers' Turnover Tax	9.4	14.9	10.3	8.9	42.4	32.1
Gaming Machine Turnover Tax	162.1	176.5	168.2	131.5	180.5	12.3
Departure Tax	6.2	6.8	6.8	3.9	11.3	4.5
Motor Vehicle Tax	5.7	7.2	7.2	7.2	7.2	0.0
Other taxes on use of goods and on permission to use goods or perform activities	1.1	0.9	0.9	0.9	0.8	0.0
Other taxes on goods and services	0.4	2.9	1.6	1.6	0.9	-0.7

Source: Department of Treasury

¹ GST represents the total of collections by Provinces, Ports and less Refunds. Total Net to WPA K1,035.1 million. Refunds to Provinces K449.7 million.

⁹ GST is distributed between provinces, Central Government and as Refunds to Business

¹⁰ Net GST to WPA in 2015 was K918.0 million. See 2016 Mid-Year Economic and Fiscal Outlook Report.

The gradual improvement in income and spending in the economy are expected to support the sales of excise related items thus increasing Excise Duty and Import Excise. The Excise Duty will be supported by a one-off increase in the base rate on Tobacco, an increase in excise indexation rate of alcohol and a levy on diesel. Compared to the 2016 Supplementary Budget estimate, the Excise Duty and the Import Excise are expected to be higher by K121.3 million and K27.4 million, respectively.

Gaming Machine Tax and Bookmakers Turnover Tax are expected to increase by the improved income and spending in the economy. Compared to the 2016 Supplementary Budget estimate, these taxes are expected to be higher by K12.3 million and K32.1 million, respectively. These taxes will be supported by tax measures.

Taxes on International Trade and Transactions

Taxes on International Trade and Transactions are estimated at K559.5 million in 2017, comprising of K230.0 million in Import Duty, K326.6 million in Export Tax and K2.9 million in Other Import Taxes.

Import Duty in 2017 is expected to increase from the gradual pickup in the economic activity combined with improved foreign exchange, to facilitate imports of goods and services. Goods under this tax head are subject to tariff reduction policy and therefore income is not expected to increase. Compared to the 2016 Supplementary Budget estimate, Import Duty is expected to be lower by K8.2 million.

Collections from Export Duty is mainly from log exports and is subject to the global price of logs, weather condition and demand from China. Revenue from this tax in 2016 was supported by higher export volumes and competitive exchange rate. In 2017, Export Duty is expected to be generally in line with 2016 revised estimate. A tax measure will also support this tax.

Table 7: Taxes on International Trade and Transactions

	2015 Actual	2016 Budget	2016 Sup. Budget	2016 Revised	2017 Budget	Var.
Taxes on International Trade & Transactions	565.2	606.8	567.1	547.6	559.5	-7.6
Import Duty	243.4	328.3	238.2	218.6	230.0	-8.2
Other Import Taxes	5.7	4.1	2.2	2.2	2.9	0.7
Export Tax	316.2	274.5	326.8	326.8	326.6	-0.2

Source: Department of Treasury

4.3 GRANTS

Total Grant in 2017 is projected at K1,045.3 million, of which K968.1 million in Donor Grants and K77.2 million from the expected drawdown of SWF¹¹ funds. Donor Grants are subject to movements in the exchange rate and policies of donors.

¹¹ Flows between SWF and Budget based on assumed commencement of SWF operation

Table 8: Grants (Kina, Million)

	2015 Actual	2016 Budget	2016 Sup. Budget	2016 Revised	2017 Budget	Var.
GRANTS	819.5	1513.2	1948.0	1881.4	1045.9	-902.7
Foreign Governments	778.8	998.8	998.8	998.8	968.1	-30.7
Current	505.0	549.8	549.8	549.8	968.1	418.3
Cash	0.0	12.4	12.4	12.4	0.0	-12.4
In-Kind	505.0	537.3	537.3	537.3	968.1	430.8
Capital	273.8	449.0	449.0	449.0	0.0	-449.0
Cash	-	25.1	25.1	25.1	0.0	-25.1
In-Kind	273.8	423.9	423.9	423.9	0.0	-423.9
International Organizations	40.7	135.3	135.3	135.3	0.0	-135.3
Current	22.4	124.5	124.5	124.5	0.0	-124.5
Cash	0.9	53.1	53.1	53.1	0.0	-53.1
In-Kind	21.5	71.5	71.5	71.5	0.0	-71.5
Capital	18.3	10.8	10.8	10.8	0.0	-10.8
Cash	18.3	0.0	0.0	0.0	0.0	0.0
In-Kind	-	10.8	10.8	10.8	0.0	-10.8
Other General Govt. Units	0.0	379.1	813.9	747.3	77.2	-736.7
Current	0.0	379.1	813.9	747.3	77.2	-736.7
Cash	0.0	379.1	813.9	747.3	77.2	-736.7
In-Kind	0.0	0.0	0.0	0.0	0.0	0.0
Capital	0.0	0.0	0.0	0.0	0.0	0.0
Cash	0.0	0.0	0.0	0.0	0.0	0.0
In-Kind	0.0	0.0	0.0	0.0	0.0	0.0

Source: Department of Treasury

Grants in 2016 are expected to decrease by K166.0 million. This is due to a downward revision in transfers from expected operation of the SWF. The downward revision is the result of weaker than anticipated revenue flows from mining and petroleum tax to the SWF. Donor Grants remained unchanged at K1,134.1 million.

4.4 OTHER REVENUE

Other Revenue is estimated at K1,245.7 million comprising mainly of K1,075.0 million in dividends, K51.1 million in Rent¹², K91.2 million from Sales of Goods and Services, K0.8 million in Fines Penalties and Profits and K23.6 million in Transfers not elsewhere classified.

Of the total dividends, K100.0 million is expected from Kumul Consolidated Holdings, K300.0 million from Kumul Petroleum Holdings, K150.0 million from National Fisheries Authorities, K200 million from Ok Tedi mine, K75.0 million from National Gaming Board, K25.0 million from Motor Vehicle Insurance, K150.0 million from the Bank of Papua New Guinea and K75.0 million from Other State entities. Compared to the 2016 Supplementary Budget estimates, dividends for 2017 are expected to be higher by K352.2 million.

¹²Mainly Land Lease Rentals

Table 9: Other Revenue (Kina, Million)

	2015 Actual	2016 Budget	2016 Sup. Budget	2016 Revised	2017 Budget	Variation
OTHER REVENUE	1,026.0	611.3	893.4	747.7	1,245.7	352.2
Property Income	943.1	516.9	853.3	653.3	1,130.1	276.8
Interest	0.0	4.0	4.0	4.0	4.0	0.0
Dividends	911.4	480.0	816.4	616.4	1,075.0	258.6
<i>Mining Petroleum and Gas Dividends</i>	<i>456.4</i>	<i>300.0</i>	<i>500.0</i>	<i>300.0</i>	<i>500.0</i>	<i>0.0</i>
<i>Dividends from Statutory Authorities</i>	<i>85.0</i>	<i>45.0</i>	<i>178.0</i>	<i>178.0</i>	<i>375.0</i>	<i>197.0</i>
<i>Dividends from State Owned Enterprises</i>	<i>370.0</i>	<i>135.0</i>	<i>138.4</i>	<i>138.4</i>	<i>125.0</i>	<i>-13.4</i>
<i>Other Dividends</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>75.0</i>	<i>75.0</i>
Rent	31.7	32.9	32.9	32.9	51.1	18.2
Sales of goods and services	65.6	85.4	31.1	85.4	91.2	60.1
<i>Administrative fees</i>	<i>25.3</i>	<i>31.1</i>	<i>31.1</i>	<i>31.1</i>	<i>38.8</i>	<i>7.7</i>
<i>Incidental sales by nonmarket establishments</i>	<i>40.3</i>	<i>54.3</i>	<i>0.0</i>	<i>54.3</i>	<i>52.4</i>	<i>52.4</i>
Fines, penalties, and forfeits	2.8	0.8	0.8	0.8	0.8	-0.1
Transfers not elsewhere classified	14.4	8.2	8.2	8.2	23.6	15.4
<i>Current transfers not elsewhere classified</i>	<i>14.4</i>	<i>8.2</i>	<i>8.2</i>	<i>8.2</i>	<i>23.6</i>	<i>15.4</i>

Source: Department of Treasury

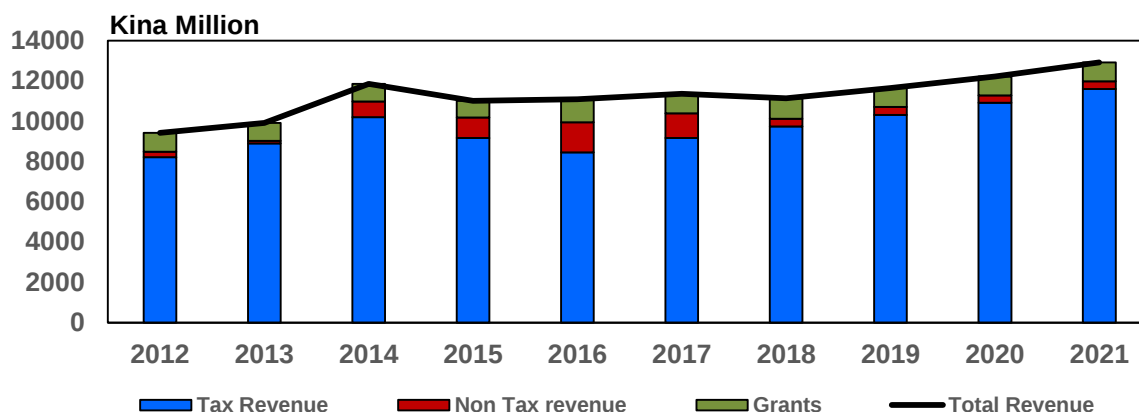
In 2016 Other Revenue is estimated at K693.4 million, a downward revision of K200 million, mainly from the Kumul Petroleum Holdings from the estimated K400 million at Supplementary Budget.

4.5 MEDIUM TERM REVENUE OUTLOOK

REVENUE AND GRANTS

Over the medium term, Total Revenue is estimated to increase gradually. Tax Revenue will continue to be the main source and will need to be strengthened and supported, by reducing costs of doing business, improving service delivery and removing business impediments, broadening the economy, supporting employment and ceasing to provide non-essential tax concessions.

Total Revenue is expected to decrease from K11,353.7 million in 2017 to K11,138.8 million in 2018. The decrease is due to large one-off dividends in 2017. From 2019 to 2021, Total Revenue is projected to increase to K11,645.8 million in 2019, K12,210.3 million in 2020 and K12,907.4 million in 2021.

Chart 27: Total Revenue and Grants 2012-2021

Source: Department of Treasury

i. Tax Revenue

Tax revenue is projected to increase from K9,182.2 million in 2017 to K9,729.9 million in 2018, K10,316.7 million in 2019, K10,918.2 million in 2020 and K11,592.2 million in 2021.

ii. Grants¹³

Donor grants are provided at the discretion of donors in accordance with their internal budget policies and depend on the successful delivery of outcomes from existing projects, as well as exchange rate fluctuations. The current donor grants projections for the medium term are expected to remain below a billion Kina.

iii. Non Tax Revenue

Non Tax Revenue is projected to decrease from K1,222.9 million in 2017 to K384.3 million in 2018. From 2019 onwards, Non Tax Revenues are projected to remain below K400.0 million due to lower non-mining and petroleum dividends. Dividend estimates from State entities for the medium term are as follows; BPNG (K20.0 million), KCH (K10.0 million), MVIL (K25.0 million) and NFA (K25.0 million). The dividends will be guided by the dividend policy and will be updated during the course of each budget year.

iv. SWF Revenue Flows

The revenue flows between the PNG's offshore Sovereign Wealth Fund (SWF) and the Budget are based on the assumed operation of the SWF in 2017¹⁴. The expected drawdown from the SWF to Budget is reported in Fiscal Table 8 in the Appendix for the years 2016 to 2021. Compared to previous publication¹⁵, the estimated flows between the SWF and the Budget are lower than anticipated as a result of low commodity price outlook.

v. Stabilisation Fund

In 2017, the Stabilisation Fund is expected to receive a total revenue of K77.2 million mainly from mineral and petroleum tax. This is significantly lower than previously anticipated lower

¹³ Excludes SWF to show only Donor Grant. SWF flows captured in Non Tax Revenue. Refer Fiscal Table 8 in Appendix for Total Grant inclusive of SWF Transfers

¹⁴ The projected revenue flows between the SWF's Stabilisation Fund and Savings Fund are based on Treasury's revenue forecasts.

¹⁵ 2016 Budget Volume 1 Economic Development and Policies

estimates for MPT¹⁶. In line with the SWF drawdown rule, a total of K77.2 million is expected to be transferred to the Budget after accounting for the Fund's necessary expenses.

From 2018 to 2021, total revenue deposited to the Stabilization Fund is projected to remain below K200.0 million. In line with the SWF drawdown rule, the Budget is expected to receive around the same level of revenue after accounting for the Fund's necessary expenses.

Details of the Stabilisation Fund revenue and expenditure transaction are provided in Appendix Fiscal Table 14.

Savings Fund

In 2017, current projections shows nil dividends flowing to the Savings Fund¹⁷. The closing balance is projected to be zero inflows to the Savings Fund. The same is expected for the medium term.

Details of the Savings Fund revenue and expenditure flows are provided in Appendix 3 Fiscal Table 15.

¹⁶ The K77.2 million is the 50 per cent of the total mining and petroleum tax according to the SWF Organic Law. Nil projections for mining and petroleum dividends for 2017 and medium term.

¹⁷ Mineral and petroleum dividends deposit into the Savings Fund is a portion of the seventy per cent dividend share to the Central Government.

CHAPTER 5: TAX AND NON-TAX MEASURES AND DEVELOPMENTS

5.1 OVERVIEW

The recent review into PNG's taxation regime was part of the Government's ongoing effort to initiate and develop ways to improve its taxation policy and administrations that will contribute to a modern and efficient tax system that is able to support PNG's economic and social development objectives.

The 2017 Budget introduces a number of revenue and administrative measures, which are broadly consistent with the Tax Review Committee's (TRC) recommendations.

The measures are aimed at improving compliance, increasing revenue, encouraging spending in productive areas and making the taxation treatment simple and efficient. This is critical to support the Government's effort to make tax administration responsive and efficient.

In the 2017 budget, the Government:

- resources revenue raising agencies, especially Internal Revenue Commission (IRC) to improve compliance;
- increases the benefits from unprocessed old-growth logs by reintroducing the progressive export duty rate system to capture appropriate resource rent on varying log species;
- redistributes the gross profits of gaming machines to increase the Government share from 46 per cent to 55 per cent;
- increases excise on alcohol and tobacco to meet the cost of law and order, social and health expenses associated with consumption of these products. This measure will be aided by an Anti-illicit Task Force to combat illicit activities associated with trading and consumption of sin goods;
- increases excise on diesel from 6 toea to 10 toea for maintenance of existing national road networks in good condition and to adjust for inflation;
- merges bookmakers stamp duty with bookmaker's turnover tax (BTT) and increases BTT to 15 per cent to simplify administration and encourage individual spending in productive areas;
- increases departure tax from K30 to K114 to maintain real value of departure tax eroded by inflation overtime;
- adjusts the taxable component of employer (provided) housing benefit to restore current market value of housing and promote equity between employees living in different housing cost jurisdiction;
- standardises the taxation treatment of corporate income tax, dividends, interest and foreign contractors across all sectors of the economy;
- imposes Additional Profits Tax across all mining and petroleum project developments with a revamped method;
- repeals double deduction provisions for exploration expenditures; and
- implements the minimum reporting standards of Base Erosion & Profit Shifting (BEPS).

The 2017 Budget also introduces minor policy and housekeeping technical amendments to simplify administration, correct typographical errors and outdated referencing to clarify the law for ease of administration.

5.2 MAJOR TAX POLICY MEASURES

5.2.1 Resourcing revenue raising agencies for improved compliance

The Tax Review Committee's (TRC) wide ranging recommendation for reforms in revenue administration to ensure a highly efficient and effective revenue collection. The Government recognises that underinvestment in revenue administration attributes to significant compliance issues, tax avoidance, tax planning and subsequent revenue losses.

In a recent case study, IRC undertook business information survey with 140 businesses in certain part of NCD. Based on information collected, IRC raised a default assessment worth K35.0 million which it is notifying them to pay. This confirms that there is tax revenue to be collected. This is labour intensive and requires increased resources to cover other centres of PNG - and in doing so, it will increase the tax base.

For these reasons, the Government is providing an increased funding to IRC in 2017. IRC is receiving a total allocation of K90.0 million, K16.0 million above the 2016 appropriation. The increased funding aims to resource IRC for improved compliance and broadened the tax base.

Of the K90.0 million, K5.0 million will be held in Division 207 (Treasury and Finance Miscellaneous) under the Department of Treasury, for a joint Task Force on compliance enforcement. The members of the joint Task Force will comprise of senior Treasury and IRC officials with the Department of Treasury providing the secretariat. The terms of reference will be finalised and presented to NEC for approval in early 2017, which will include outsourcing/engaging reputable international accounting firms to audit major companies.

With the increased funding for 2017, the Government expects IRC to raise K400.0 million additional tax in 2017.

5.2.2 Increase benefits from exports of unprocessed old-growth logs through Progressive Export Duty Rate

The log export tax on the export of unprocessed, old-growth logs provided under the *Customs Tariff Act 1990*, was intended to encourage downstream processing and ensure PNG receives a fair share from exploitation of old-growth log resources, exported unprocessed.

Prior to 2007, the unprocessed old-growth logs were taxed in a stepped fashion at progressive rates to capture the resource rent of the varying log species. This regime was replaced with a fixed rate of 28.5 per cent in 2007.

Since the introduction of the fixed rate, export volumes of unprocessed old-growth logs increased significantly, indicating massive reduction in downstream processing. This has undermined the intention of the export duty and raised serious concerns on whether PNG is benefiting fairly from the exports of unprocessed old-growth logs.

In this budget, the Government is correcting the 28.5 per cent fixed rate applied on export of unprocessed old-growth logs and reverting to progressive export duty rates applied prior to 2007. This measure should encourage downstream processing, capture resource rent from high valued species of old-growth logs and simplify administration. Table 10 reflects the progressive export duty rates.

Table 10: Progressive Export Duty Rates for Unprocessed Old-Growth Logs

New 2017 Thresholds	New 2017 Export Tax
(FOB price, US\$/m ³)	(US\$/m ³)
0	$P \times 0.095$
Above \$25.00	$P \times 0.2375 - 3.56$
Above \$30.00	$P \times 0.4275 - 9.26$
Above \$35.00	$P \times 0.4750 - 10.92$
Above \$40.00	$P \times 0.5225 - 12.82$
Above \$55.00	$P \times 0.6175 - 18.04$

Source: Department of Treasury

This measure expects to increase Government's revenue by K88.0 million and will come into effect on 1st January 2017.

5.2.3 Redistribute Gross Profits from Gaming Machine Taxes to Increase Consolidated Revenue Fund Share

The *Gaming Control Act 2007 (GCA)* governs all forms of gambling activities in the country. The legislation provides for the control of all forms of gaming including lotteries, games and wagers, gaming machines and casinos. The establishment of the National Gaming Control Board's (NGCB) is stipulated under the GCA.

The growth in revenue from gaming tax over the years indicates more people are gambling. Since gambling contributes to social issues in the country, a Community Benefit Fund (CBF) was established to retain 14.0 per cent of the gross profit from gaming machines to address gambling related issues through, social support programs to provide a better and lasting response to addictions. The 14.0 per cent retention equates to around K50.0 million annually. The Government also provides budgetary support towards community development and social support programs.

In this Budget, the Government redistributes the gross profits from gaming machines to increase Government's share from 46.0 per cent to 55.0 per cent in 2017 while reducing CBF's share to 10.0 per cent from 14.0 per cent and permit holders' shares to 20.0 per cent from 25 per cent. The Government expects from this redistribution revenue of K32.0 million in 2017. This measure will come into effect on 1st January 2017.

5.2.4 Increase Alcohol and Tobacco Excise

The consumption of alcohol and tobacco contributes to increased social, law and order and health problems. These translate to social costs that Government funds annually through budgetary appropriations, for example increased funding to law and order sector to maintain peace and order in the communities, increased provisions for free primary health care and tuition fee free education for an educated and smarter community.

Excise on alcohol currently attracts a bi-annual capped indexation rate of 2.5 per cent, lower than the average projected annual inflation rate of 6.5 per cent, which implies that real value of excise has eroded over time. To restore real value of excise on alcohol excise, the Government increases the biannual capped indexation rate from 2.5 per cent to 5.0 per cent biannually applicable from 1st December 2016. This is also intended to minimise social and law and order problems related to alcohol consumption.

Tobacco excise on the other hand is currently indexed at fixed 5.0 per cent biannually. Though this rate is at par with the CPI rate, the cost far outweighs the benefits. The World Health Organisation (WHO) reports have confirmed that Tobacco use is the leading cause of

preventable death, and as such, the Government will apply a one-off increase of 15.0 per cent on the tobacco excise effective base rate from 1st December 2016. This aims to reduce tobacco related health issues. For this to work effectively, the Government will set up an Anti-Illicit Trade Task Force to address illicit activities as dual approach to deterring those restoring to cheap illicit tobacco and alcohol for substitution.

This measure is expected to raise K43.0 million, K19.0 million from Alcohol and K24.0 million from Tobacco. This measure will come into effect on 1st December 2016 and 1st January 2017 for alcohol and tobacco excise increases respectively.

5.2.5 Improving Road Network and Maintaining Efficient Road System Through Increased Diesel Excise to 10 Toea

Petroleum products are excised at a fixed rate of 6 toea and 61 toea per litre for diesel and petrol respectively. The entire 61 toea of petrol excise is remitted to the Government while 6 toea from local diesel excise is shared, 4 toea is remitted to National Roads Authority (NRA) and 2 toea to Government. The 6 toea excise on imported diesel is remitted directly to the Government.

The Government will increase diesel excise from 6 toea to 10 toea. The increase will have minimal effect on overall inflation at around less than 0.02 per cent. From this increase National Roads Authority (NRA) will maintain its 4 toea diesel excise share from local excise and will also receive the imported excise diesel component while the remaining 6 toea will be paid to Government. This will ensure NRA receives adequate funding to maintain the existing road networks in good condition.

This measure is expected to raise K21.0 million for the Government and K55.0 million for NRA in 2017 and will come into effect on 1st January 2017.

5.2.6 Merge Stamp Duty Into Bookmaker Turnover Tax (BTT) & Increases BTT

There are two types of taxes applied to all wagers/bet placed with bookmakers; (i) the Bookmakers Turnover Tax (BTT) and (ii) Stamp Duty. The National Government receives the stamp duty portion on bookmakers. Six provincial governments where bookmaker-betting shops operate receive BTT.

BTT is a form of gambling tax levied on the value of a punter's bet. A bookmaker is liable to remit to IRC 4.0 per cent of the net turnover which then transferred to provinces where bookmakers betting shops operate.

Stamp duty is charged on each bet placed depending on the corresponding threshold of the bet. As a compliance mechanism, bookmakers are required to use betting tickets (triplicates) printed and issued by IRC. The Bookmakers pay the stamp duty upon purchasing the betting tickets from IRC and bookmakers recover stamp duty paid by charging punters or betters on the bets made.

The current administration of Stamp Duty on bookmakers and BTT generates low revenue relative to the administration costs. Further, there is no equity in the current taxation treatment as all wagers are taxed at varying rates based on varying betting tickets.

In this Budget, the Government will merge Stamp Duty into the BTT and increases BTT rate to 15.0 per cent. This rate reflects the stamp duty portion subsumed into the BTT and it restores the value of BTT eroded by inflation over 10 years.

The revenue generated from this measure will be shared between the National Government and Provincial Government at 60 per cent and 40 per cent ratio. This will increase the provinces share 2 years prior to the implementation of this measure. This means provinces increased share will be realised in 2019. The Government expects to receive K18.0 million in 2017 from this merger, which will come into effect on 1st January 2017.

5.2.7 Increase Departure Tax to adjust to inflation

Departure tax is a final tax of K30 levied under the *Departure Tax Act 1980*. It is charged on each passenger leaving Papua New Guinea ports to a foreign destination by an aircraft or a ship. The departure tax is charged on the ticket fares and the travel agents remit collections to IRC on the 21st day of the succeeding month.

The Departure tax rate was not revised for the past nineteen years and therefore to align with current economic developments and to restore its value eroded by inflation, the Government will increase departure tax from K30.0 to K114.0.

This measure is expected to raise the Government revenue by K20.0 million in 2017 and will come into effect on 1st January 2017.

5.2.8 Increasing the Taxable Component of Employer Provided Housing Benefit

Housing allowance received in cash is fully taxed while an employer provided accommodation is concessionally taxed. This means only a portion of accommodation value is included in the taxable income. The prescribed benefits in relation to employee housing which are subject to taxation were last updated in 2011. However, accommodation value is still below the current market price and does not reflect the true value.

The appreciation of housing costs has provided a large and growing tax subsidy to employees who receive free housing from their employer, but particularly to high income earners.

Modest accommodation previously assessed to be “low cost” or “medium cost” are now assessed as “high cost” in many cases. Hence, low and middle income earners are taxed on the same housing benefits as high income earners living in high cost housing. Furthermore, those areas which were assessed as low cost areas are now assessed as high cost areas.

In this budget, the Government will increase the taxable component of employer provided housing, by increasing the current taxing threshold, to reflect an up market tier of housing cost and a very high cost tier of housing. Also the areas are adjusted accordingly to reflect current market prices. Table 11 below reflects this measure.

This measure strikes a better balance between encouraging and supporting employers who provide accommodation to employees, and ensuring fairness for all taxpayers, including those who do not benefit from employer provided housing. This also intends to restore equity between employees living in different housing cost.

Table 11: Proposed Prescribed Value for taxing Employer provided accommodation

Type of Housing	AREA 1	AREA 2	AREA 3
Very High Cost house or flat (weekly rent K5001 and above)	K2500.00	K1500.00	K0.00
Up-Market Cost house or flat (weekly rent from K3001 to K5000)	K1500.00	K1000.00	K0.00
High cost house or flat (weekly rent above K1000 but less than K3000)	K700.00	K500.00	K0.00
Medium cost house or flat (weekly rent K300 – K1000)	K400.00	K300.00	K0.00
Low cost house or flat (weekly rent below K300)	K160.00	K150.00	K0.00
Mess/barracks	K60.00	K50.00	K0.00
Government mess/barracks	K7.00	K7.00	K0.00
Employees in approved low cost housing scheme	K0.00	K0.00	K0.00

Source: Department of Treasury

Note: Area 1- Goroka, Lae, Madang, Mt Hagen, Port Moresby, Kokopo, Alotau & Kimbe

Area 2- Bulolo, Daru, Kainantu, Kavieng, Kerema, Kiunga, Kundiawa, Lorengau, Mendi, Popondetta, Poger, Rabaul, Tabubil, Vanimo, Wabag, Wau, Wewak, Buka, Arawa & Lihir

Area 3- any place in Papua New Guinea not included in Area 1 and 2.

Off-shore employer provided accommodation will be fully taxed the current exemption for accommodation provided offshore from income derived in PNG appears overly generous and unfair from a policy perspective.

This measure is expected to increase the Government revenue by K6 million in 2017 and is expected to come into effect on 1 January 2017.

5.2.9 Standardise Taxation Treatment of Dividend, Corporate Income Tax, Interest and Foreign Contractors across all sectors of the Economy

The 2017 Budget introduces measures to standardise taxation treatment of dividends, interest and foreign contracts at 15 per cent and corporate income tax (CIT) at 30 per cent across all sectors for simplification, broaden the tax base and increase efficiency.

i. Standardising Dividend Withholding Tax rate at 15 per cent

Companies are required to withhold tax on dividends and remit to IRC. The dividend withholding tax (DWT) rates varies across different sectors. Non-resources companies and mining companies attract 17.0 per cent and 10 per cent respectively, while petroleum companies are exempt.

Currently, some petroleum companies attract Corporate Income Tax (CIT) rate of 50.0 per cent, others 45.0 per cent while few attract 30.0 per cent including the LNG, however, no DWT is applied. This means the effective rate of company tax for petroleum companies, may range from as high as 50.0 per cent, to as low as 30.0 per cent, whereas for non-resource and mining companies CIT rates are 42.0 per cent and 37.0 per cent. This reflects inconsistent tax treatment in one sector compared to other sectors.

In this budget, the Government will introduce a single rate of 15.0 per cent for DWT across all sectors. This means the current non-resource companies DWT rate of 17.0 per cent will reduce to 15.0 per cent. This measure will increase distributional profits to shareholders and increase spending. In addition, the mining DWT will increase from the current 10.0 per cent to 15.0 per cent whilst petroleum and gas companies will increase to 15.0 per cent. This measure will apply to all resource projects except those with stability clauses.

This measure is expected to reduce DWT collections in the non-resource sector by K6 million in 2017. However, overall this measure is expected to have a positive impact in the medium to long term. It will come into effect on 1 January 2017.

ii. Standardising Corporate Income Tax at 30.0 per cent

Most companies attract a standard CIT rate of 30.0 per cent, while some attract up to 50.0 per cent, especially those in the petroleum sector. The petroleum companies with the high CIT rate of 45.0 per cent to 50.0 per cent do not attract a DWT. Most oil fields are now maturing and some fields are currently extracting gas and are attracting a reduced CIT rate of 30.0 per cent, but are not paying DWT. The standardising tax treatment on dividend will now ensure these companies pay DWT.

For purpose of broader simplification and harmonisation, the Government has reduced the CIT for all petroleum companies to 30.0 per cent, to align with the effective corporate tax rate of mining and non-resource companies.

This will reduce the current petroleum company tax but its impact will be minimal given the reduced oil prices. Also, the impact of the reduced CIT will be minimised by the revenue collection from the imposition of the 15.0 per cent DWT. This measure will apply to all projects except those with stability clauses.

This measure is expected to reduce revenue from the petroleum sector by K2.0 million in 2017 and will come into effect on 1 January 2017.

iii. Uplifting Exemption from Interest Withholding Tax for Foreign Lenders Lending to Resource Companies

Most companies attract a standard CIT rate of 30.0 per cent, while some attract up to 50.0 per cent, especially those in the petroleum sector. The petroleum companies with the high CIT rate of 45.0 per cent to 50.0 per cent do not attract a DWT. Most oil fields are now maturing and some fields are currently extracting gas and are attracting a reduced CIT rate of 30.0 per cent, but are not paying DWT. The standardising tax treatment on dividend will now ensure these companies pay DWT.

For purpose of broader simplification and harmonisation, the Government has reduced the CIT for all petroleum companies to 30.0 per cent, to align with the effective corporate tax rate of mining and non-resource companies.

This will reduce the current petroleum company tax but its impact will be minimal given the reduced oil prices. Also, the impact of the reduced CIT will be minimised by the revenue collection from the imposition of the 15.0 per cent DWT. This measure will apply to all projects except those with stability clauses.

This measure is expected to reduce revenue from the petroleum sector by K2.0 million in 2017 and will come into effect on 1 January 2017.

iv. Foreign Contractor Withholding Tax (FCWT) to flat 15 per cent rate

The FCWT applies under *Division 14A* of the *Income Tax Act 1959* (ITA) when a non-resident contractor is engaged by a PNG resident to perform a contract for prescribed purposes such as construction, installation, or consultancy services. The tax is levied on 25 per cent of the gross value of the contract, which is taxed at the non-resident rate of 48 per cent, resulting in an effective tax rate of 12 per cent.

The 2017 Budget introduces a final FCWT at the rate of 15 per cent with the legislative design no longer linked to the non-resident corporate tax rate. This is necessary to simplify administration and to give more certainty to the tax payer on the taxable amount.

The measure is expected to have positive impact on Government revenue and will come into effect on 1 January 2017.

5.2.10 Removal of Double Deduction for Exploration Expenses

The 2017 Budget will repeal the double deduction provision to increase the tax base and align the taxation treatment to the petroleum sector.

Exploration expenditure for petroleum companies are deducted using a 25 per cent declining balance method or a straight line depreciation. There is, however, a limitation that the deduction for exploration cannot cause a tax loss.

For mining companies, exploration expenditure have double deduction for depreciation purposes. This means that if a mining company spends K100.0 on exploration activity, the law allows for a deduction of K200.0 from the assessable income. Exploration expenditures from areas outside the project area may be pooled and deducted using a 25 per cent declining balance subject to certain restrictions.

Double deduction incentives only applies in the mining sector and not in the petroleum sector. This incentive in mining project the effect of reducing the corporate income tax paid by the mining companies and provides a 30 per cent subsidy on the double deducted amount.

Repealing this provision will ensure a level playing field across the resource sector, simplify administration and increase efficiency.

This measure is expected to have positive impact on Government revenue in the medium to long term and it will come into effect on 1 January 2017.

5.2.11 Revamped Additional Profit Tax (APT) or Resource Rent Tax

APT is a tax payable in addition to the company income tax.

The APT or resource rent taxation was developed to capture some of the super profits (the profit that is above the average rate of return) of resource companies. Resource rent taxes of this type are applied on the basis that resource companies exploit a non-renewable resource that is owned by the people. Resource developers are entitled to a reasonable return on their investment, reflecting the very substantial risks inherent in exploration and development, yet the people have a right to take a share of any extraordinary profits resulting from very high income of those resources.

Currently, APT is designed to apply in two tiers involving two calculation whereby APT rate of 7.5 per cent and 10 per cent are imposed when the super normal profit kicks in at two threshold rates of 17.5 per cent and 20 per cent respectively. The current APT rates are below international standards and highly concessional. This was confirmed by the IMF and TRC's reports. The APT is currently only applied to the PNG LNG project.

In this budget, the Government will introduce a revamped APT that will apply to all resource projects. Under the revamped APT, the hurdle rate will be a flat nominal rate of 15 per cent, a single APT threshold rate of 15 per cent and APT rate of 30 per cent. This measure intends to simplify administration, ensure a level playing field across the resource sector and ensure a fair return to the people of PNG.

The Government is aware, the prevailing commodities prices will not result in an APT soon but it is important to ensure the fiscal regime of the mining sector is robust and efficient to ensure a fair return to PNG's future generation.

This measure will apply to all resource projects except those with Fiscal Stability clauses.

This measure is expected to be revenue positive in the long term and will come into effect on 1 January 2017.

5.2.12 Implementation of the Minimum Standards – Base Erosion Profit Shifting (BEPS) Action 13 Transfer Pricing and Country by Country Reporting

Transfer pricing in PNG is administered through Division 15 of ITA. This division has provisions to counter “non-arm's length transfer pricing” or “international profit shifting arrangements” which may have adverse tax implications for PNG's revenue. It provides a mechanism by which PNG adopts an arm's length principle for taxation purposes as the basis for ensuring that PNG receives its fair share of tax by adjusting profits under comparable circumstances.

The ITA require taxpayers to keep proper records relating to their transfer pricing. However, there is no specific statutory requirement to prepare and maintain transfer pricing documentation. IRC at present collects transfer pricing information through Schedule 7 - International Dealings Schedule (IDS).

PNG has seen significant increase in international trade and commerce with wide ranging changes in volume and complexity. An increase proportion of this international activity is carried on between members of Multi National Enterprises (MNE). In light of the acceleration in globalized business activities, protecting PNG's tax base is vital to our wealth and development. BEPS is now a genuine problem recognised globally and involves tax planning strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low tax rates or tax haven locations where there is little to no economic activity.

The Government acknowledges that BEPS issue is significant and through responsible agencies needs to have in place the most appropriate mechanisms to counter transfer pricing and protect our revenue. It is imperative for PNG to adopt the most up to date reporting standards and systems like those of other member nations.

The implementation of the revised OECD reporting standards will not only allow the IRC to have better information and access to information through automatic exchange of reports by MNEs but also lead to increased tax revenue through tax audits and voluntary compliance.

This measure is expected to strengthen revenue base and save more revenue in the medium to long term and will come into effect on 1 January 2017.

5.2.13 Anti-illicit Trade Task Force

Anecdotal evidence confirms that there are illicit products entering the PNG market without them being taxed. Notable products are cigarettes and soft drinks. Illicit trade has been growing from strength to strength due to the lucrative nature of the products and affected the legitimate businesses.

PNG Customs Service is the agency responsible for border protection. Despite efforts from PNG Customs Service in executing its mandated duty, the illicit products continue to flood

PNG market. This is a pressing issue that needs to be addressed because it has detrimental effect on the PNG Economy.

Illicit trade has a huge impact on the economic and social fabric of society. Some of the negative impacts include loss of revenue, undermining the rule of law, aiding corrupt practice and the funding of organized crime. It also undermines investment in manufacturing and negatively impacts employment. Thus, it requires a collective approach from both the Government and industry to detect, control and eradicate illicit trade.

In addressing the issue, the Government will establish a multi-agency anti illicit trade task force comprising private and public sector under a private public partnership. The task force will be responsible for intelligence sharing, enforcement, investigation, arrest, prosecution and implementation of deterrents for illicit trade.

The anti-illicit trade taskforce will provide the best opportunity in undertaking co-ordinated and effective action against illicit trade.

This measure will protect revenue. The anti-illicit Taskforce will be established in 2017.

5.2 MINOR POLICY AND TECHNICAL AMENDMENT PROPOSALS

There are few minor policy and technical or housekeeping amendments proposed to simplify administration, correct typographical errors, out-dated referencing to clarify the law for ease of administration.

5.2.1 Remove Tariff Item 2402.20.30 from the Excise Tariff Act

Tariff item 2402.20.30 covering for cigarettes of tobacco substitutes with filter containing dark fired tobacco (spear or equivalent) was introduced to cater spear with filter produced by local industry some years back. This product is now no longer in the market.

However, importers are bringing in tobacco products and misclassifying them under this tariff item code to access the low excise rate under this product. To minimise abuse of this tariff item code, this budget introduces an amendment to repeal this item code.

This measure is expected save revenue and will come into effect on 1 January 2017.

5.2.2 Simplifying The Taxation of Dividend Withholding Tax

The 2017 Budget introduces an amendment to Section 189B and Division 4 (Sections 311A to 311O) of the Income Tax Act 1959, along with Regulation 65A of the Income Tax Regulations to ensure simplification in the administration of the tax on dividends, particularly the application and incidence of DWT.

This measure will have no cost to Government revenue and will come into effect on 1 January 2017.

5.3 TECHNICAL OR HOUSE KEEPING AMENDMENTS

The following amendments will correct typographical errors and out-dated referencing to clarify the law for ease of administration:

- A general administration provision included Section 6 of the ITA to ensure consistency between the Internal Revenue Commission Act (IRC) and ITA;

- Section 9 (4)(e) and (g) of the ITA are repealed to correct out dated legislative references to the Central Banking Act and a secrecy provision respectively;
- Amendment to section 144 AB (1) to change the word ‘country’ last appearing in Section 144AB (1) to the correct word ‘company’;
- Section 299F (2) of the ITA is also amended replace the word ‘employer’ used in subsection (2) with the word ‘employee’;
- Update to Regulation 88 (1) of Income Tax Regulation 1959 to correct out-date referencing of ‘Supreme Court’ to ‘National Court’;
- Further amendment to the heading of Part VI Division 2 of ITA by deleting the words “and royalty payments”; and
- Repealing of redundant exemption provisions under section 22B, 23, 25B, 29 (a), (b), (c), (d), (e), (f), (g), (h), (i), (j), and section 38, 43A of the ITA.

5.4 POLICY DEVELOPMENT AREA

The Government will continue to review the TRC’s recommendations in 2017 to introduce reforms for implementation in 2018 and beyond to contribute to a modern and efficient tax system that is able to support PNG’s economic social development objectives.

The Government will assess TRC’s recommendations relating to Mining and Petroleum Taxation, Taxation Incentives, Capital Gains Taxation, and tax administration in 2017 for consideration in 2018 Budget and beyond. This will also include the review into the current Tariff reduction program and Non-tax fees and charges.

In addition, the Government will continue to undertake reforms to ensure prudent fiscal management of Public Funds by the statutory bodies.

CHAPTER 6: EXPENDITURE

6.1 OVERVIEW

Total Government Expenditure projections for 2017 and over the medium term are now based on the Government Finance Statistics (GFS) 2014 classification. Under this new reporting system, expenditure consists of expense and net acquisition of non-financial assets and GST and Bookmakers Turnover Tax to provinces. The 2017 Budget also reflects the budget reform jointly undertaken by the Departments of National Planning and Monitoring and Treasury.

Total expenditure in 2017 is estimated to be K13,349.5 million, of which, K11,928.7 million is GoPNG fund and K1,420.9 million is donor fund. The donor funding comprises of K452.8 million in loans and K968.1 million in grants. The total expenditure is lower by K485.0 million or 3.6 per cent from the 2016 Supplementary Budget.

The 2017 Budget is framed under a constrained fiscal environment with sharp declines in commodity prices, latent effects of the drought and a foreign currency imbalance. The Government had to realign its expenditure within a ceiling of K13,349.5 million and revenue of K11,473.1 million resulting in a net borrowing of K1,876.5 million or 2.5 per cent of GDP. A clear prioritisation of expenditures is required to guide the formulation of the 2017 Budget.

Following are the key priorities:

- enhancing opportunities by building the foundation for the future development of the country while recognising the need for macroeconomic stability by returning to a balanced budget beyond 2021;
- continuing to support policy priorities in education, health, infrastructure, agriculture and tourism sectors, Rural development and Small to Medium Enterprises;
- facilitating the 2017 General Elections and hosting of the 2018 APEC Summit;
- promoting efficient and effective implementation of major projects through improving design, scoping, and implementation processes;
- placing more emphasis on monitoring, evaluation and compliance so as to achieve improved development outcomes;
- strengthening efficiency in the public sector; and
- strengthening and improving spending controls particularly in relation to the escalating public sector wage bill.

In light of the low fiscal resources, adjustments are made in both operational and capital budgets. The adjustments in operational are mainly from Goods and Services while the Personnel Emoluments expenditure is generally maintained from the 2016 Budget. Lower fiscal resources amplified the need to address inefficiencies in the public sector. The measures outlined under the Non-Financial Instructions (NFIs) section are steps taken to address these inefficiencies.

The 2017 Budget categorises expenditure by sectors as shown in the Medium Term Expenditure Table 12. The Government's expenditure profile depicts a reducing trend as the Government adjusts to reach a balanced budget just beyond 2021. Spending drops from 2018 to 2019, reflecting the one-off cost of hosting the General Elections in 2017 and the APEC Summit in 2018.

Table 12: Medium Term Expenditure Profile (Kina, Million)

Sector	2016 Sup. Budget	2017	2018	2019	2020	2021
Administration	2,219.2	2,732.3	2702.1	2,549.3	2,476.0	2,443.8
Community & Culture	149.7	224.6	222.2	209.6	203.6	200.9
Debt Services	1,479.6	1,382.9	1,367.6	1,290.3	1,253.2	1,236.9
Economic	452.4	398	393.6	371.3	360.7	356
Education	1,242.8	1,162.5	1,149.7	1,084.7	1,053.5	1,039.8
Health	1,536.7	1,221.5	1,208.0	1,139.7	1,106.9	1,092.5
Law & Justice	1,232.6	1,124.5	1,112.10	1,049.2	1,019.0	1,005.8
Provinces	3,565.8	3,989.9	4,020.20	4,040.7	4,059.5	4,090.1
Transport	1,025.2	897.1	887.2	837.1	813	802.4
Utilities	371.5	216.2	213.8	201.7	195.9	193.3
Grand Total	13,280.9	13,349.5	13,276.5	12,773.6	12,541.3	12,461.5

Source: Dept. of Treasury

Table 13 shows the detailed 2017 expenditure. More details are captured in this chapter under the expenditure by sector sections.

Table 13: 2017 Expenditure by Sector (Kina, Million)

Sectors	Operational	Capital	Grand Total	%
Administration	2,065.2	667.1	2,732.3	20.5
Community & Culture	35.1	189.5	224.6	1.7
Debt Services	1,382.9	0.0	1,382.9	10.4
Economic	178.7	219.2	398.0	3.0
Education	980.0	182.5	1,162.5	8.7
Health	869.9	351.6	1,221.5	9.2
Law & Justice	952.0	172.5	1,124.5	8.4
Provinces ¹⁸	2,589.7	1,402.2	3,991.9	29.9
Transport	254.1	643.1	897.1	6.7
Utilities	30.6	185.6	216.2	1.6
Grand Total	9,336.3	4,013.30	13,349.6	100

Source: Department of Treasury

6.2 DEVELOPMENT ASSISTANCE FROM DEVELOPMENT PARTNERS

In 2017, Development Partner assistance (comprised of Grants and Concessional Loans) amounts to K1,420.9 million or 10.6 per cent of total expenditure. Given the reduced overall expenditure, assistance from the Development Partners has become an important element in sectoral development agendas. Development Partner grants continue to provide key support to transport infrastructure, health, education, law and justice, capacity building in Government agencies, climate change and environmental support, enabling growth in the economic sector and addressing cross-cutting matters.

Total grants from Development Partners in 2017 is estimated at K968.1 million representing a 7.2 per cent of total expenditure. The Government of Australia through its Department of Foreign Affairs and Trade (DFAT) provides the largest share of grants - K727.1 million. The Australian Government has maintained its high level of commitment to PNG despite the overall decline in the budget for its aid program. Major interventions by DFAT include the Transport

¹⁸ Includes K384.2m from GST and Bookmakers Turnover Tax

Sector Support Program at K24.0 million, the Health and Education Procurement Facility Program at K105.7 million, the Australian Awards Program at K49.8 million, support to the Pacific Leadership and Governance Precinct Program at K47.9 million and the Incentive Fund Phase 4 at K28.8 million.

Total concessional loans from Development Partners in 2017 amount to K452.8 million or 3.4 per cent of total expenditure. The Asian Development Bank (ADB) provides the largest share of concessional loans making it PNG's second largest Development Partner and the largest multilateral partner. Transport infrastructure is PNG's highest development priority and ADB's investments are steered towards this sector. ADB's major investments in 2017 are through the Multi-Tranche Financing Facility (MFF) arrangements and includes K72.0 million to the Highlands Region Road Improvement and Investment Program (HRRIP), K25.0 million to PNG Towns Electrification and Investment Program (TEIP) and K57.9 million to the Civil Aviation Development and Investment Program (CADIP).

The Government is committed to ensure greater transparency in aid delivery and is working closely with all Development Partners to introduce the Government Finance Statistics (GFS) 2014 standard across the whole of Government sectors. The launching of the Public Expenditure Financial Assessment (PEFA) should strengthen the Government systems thereby providing confidence to our Development Partners.

An overview of funding from PNG's Development Partners and the related Government counterpart are shown below:

Table 14: 2017 Loans, Grants and Government Counterpart funding (Kina, Million)

Development Partner	GoPNG Counterpart	Grants	Loans	TOTAL
EU	12.5	104.3		116.8
ADB	99.5		214.1	313.6
UN	8.0	29.1		37.1
WB	24.5	5.4	85.2	115.1
NZ	2.5	30.8		33.3
JICA	13.0	53.5	111.4	177.9
DFAT	10.0	727.1		737.1
EIB	2.5		14.2	16.7
PRC	42.5		15.9	58.4
USAID	0.0	18.0		18.0
Ceska	3.0		12.0	15.0
Grand Total	218.0	968.1	452.8	1,638.9

Source: Department of National Planning and Monitoring

6.3 MAJOR EXPENDITURE

2018 Asia Pacific Economic Corporation Summit

The hosting of 2018 APEC presents enormous opportunity to promote PNG as an investment destination and is expected to spur growth and diversification of the economy. The APEC meetings provide an important forum to facilitate dialogue between Ministers of the 21 member countries, industry and business leaders. The Government aims to strengthen bilateral and multilateral relationships to enhance trade and investment.

The Government has allocated considerable funds to continue the preparations for this event. Funding on APEC related activities commenced in 2014 and by the end of 2016, the Government will have spent over K100.0 million.

Allocations for the APEC activities in the 2017 Budget is K250.0 million. This funding is specifically for physical infrastructure, logistical preparations and discussion on policy agendas. Government is working towards providing an enabling environment to optimise the opportunities that 2018 APEC will present.

2017 National Election

Facilitating the 2017 National General Election is a mandated obligation for the Government. Hence, the 2017 National Election remains a prime expenditure priority. In 2016, an aggregate of K45.0 million was pooled into a single basket to fund the security preparations for both the 2017 National Election and the 2018 APEC. The notion is to complete the election in 2017 and then utilise the same trained security personnel's for the APEC in 2018. For the 2017 Budget, a total of K400.0 million is approved for the preparation of 2017 National Election alone.

6.4 SECTOR EXPENDITURE

6.4.1 Administration Sector

The Administration Sector comprises of thirty-one agencies and is the largest of the nine sectors of the Government. The sector includes five central agencies and twenty-six line agencies including two principal revenue-collecting agencies – Internal Revenue Commission (IRC) and PNG Customs. With the recommendation for five agencies under this sector to be amalgamated (see *NFIs*, pg. 55) the size of this sector will subsequently decline over time.

The Administration Sector strives to instil high standards of public sector performance and management at all levels and institutions. These includes strengthening of the public sector reforms, institutional structures and human resource capacity development to achieve the MTDP2 priorities. The public finance management reforms, Public-Private-Partnerships, Church-State-Partnerships, National Statistical Office reform and improvements to electoral processes and systems are some approaches the sector has embarked on to achieve its objectives.

Going forward, Government will maintain the transition of public sector and institutional transformation to improve service delivery. The Administration Sector plays a key role in facilitating and administering these changes. The Governments Development Partners are urged to support and enhance these initiatives through grants targeted at capacity development and institutional strengthening at both the national and sub-national level. The Government of Australia, through DFAT, is the main contributor to governance and capacity building programs. Government will also support ongoing projects in key public sectors strengthening initiatives including financial management in the Department of Finance, support to revenue raising agencies, funding for national surveys including the Demographic Health Survey and the Household Income and Expenditure Survey, and Land and Housing Program.

Total expenditure for the Administration Sector in 2017 is K2,732.3 million or 20.5 per cent of the total expenditure. This is an increase of 24.0 per cent from the 2016 Supplementary Budget. Total expenditure for the sector consists of K2,065.2 million in operation (K758.9 million Personnel Emoluments, K1,306.3 million in Goods and Services) and K667.1 million capital expenditure.

Some costs captured under this sector are not administrative in nature. For example, the Department of National Planning holds funding for several major National Development projects such as the National Identity Card and the Land and Housing Program. The K1,491.5 million for Division 207 (Treasury and Finance Miscellaneous) includes several large cross-agency items such as Superannuation Obligation (K272.0 million), public service retrenchment (K20.0 million) and Office Accommodation (K78.0 million). For greater clarity, Public Debt Interest expenditure (K1,382.9 million) is shown as a separate line item in Table 13 (page 47).

The Administration Sector will continue to fund the two key expenditure items - 2018 APEC Summit and the 2017 General Election. Another priority for the sector is to build capacity for the revenue generating authorities and agencies. In particular, IRC and Customs were allocated K10.0 million for ASYCUDA and CEF while K20.0 million was allocated for RASII Project and Revenue Raising Initiatives. Increased funding in these areas should see increased revenue collection in the future.

6.4.2 Economic Sector

The Economic Sector includes agencies from the country's lead driving industries such as Mining and Petroleum, Forestry, Fisheries, Tourism and most importantly, Agriculture. A total of three agencies under this sector are recommended to be amalgamated (*see NFIs, pg. 55*). Currently, the sector comprises of twenty-nine agencies.

The Economic Sector which entails the strategic assets (includes both the renewable & non – renewable resources) has been the only sector with significant introduction of new projects in the 2016 Budget. With regards to funding new projects in the sector, the Government aims to improve income sources for small scale farmers and attract investors via Agriculture Commercialization Equity Fund (ACEF), Tourism Infrastructure Program, Land Administration and Fisheries Development Program. Projects implemented in this sector will continue in 2017, especially those that are ongoing.

Diversifying PNG's agricultural export base is paramount with specific emphasis on building the capacity of the sector. Government's investment in infrastructure, law & order and utilities should serve as the impetus to improve the productive capacity of this sector. Responsible usage with increased value added of our strategic assets must be encouraged, especially our tuna and forestry resources. Efforts to promote Tourism & Hospitality industry will continue especially in reinforcement of appropriate infrastructure necessary for the industry to grow.

Projects concerning climate change mitigation and environmental conservation will continue with administration by relevant agencies. Development and consumption of renewable and clean energy is crucial. Government seeks to encourage the production and consumption of renewable energy such as biofuels and solar which are also critical in our efforts to mitigate the effects of climate change.

The 2017 total allocation for Economic Sector is K398.0 million or 3.0 per cent of total expenditure. This is a reduction of 12 per cent from 2016 Supplementary Budget. The reduction is primarily due to reduced Government revenue coupled with the view that most Economic Sector agencies will be self-sustained through generation of internal revenue. The total budget for the sector consists of K178.7 million in operational and K219.2 million in capital expenditure. Of the total operational expenditure, K110.9 million is for Personnel Emoluments and K67.9 million is for Goods and Services.

6.4.3 Education Sector

The Education Sector has a total of nine agencies of which five are national universities and colleges. The sector's principal role is to deliver primary, secondary and tertiary education. Total funding for the Education Sector in 2017 Budget is K1,162.5 million or 8.7 per cent of the total budget. This is a reduction of 7.4 per cent from the 2016 Supplementary Budget. The sector's budget consists of K980.0 million in operational and K182.5 million in capital expenditure. Of the total operational expenditure, K233.8 million is allocated for Personnel Emolument and K746.2 million for Goods and Services.

From the total of K1,162.5 million, K602.0 million is maintained for the Tuition Fee Free Policy (TFFP) and a substantial amount is allocated to cover primary schools operations, curriculum development materials, procurement of text and resource books for teachers. The TFF funds are no longer warranted to Department of Education, but through the Department of Finance before being dispersed to schools. This process requires a further review as funds do not reach schools on time.

While the TFFP has been favourable in terms of improving access to education, quality of education has become a concern. Many provinces still have schools without enough suitable classrooms or clean water and sanitation facilities, to provide students with a suitable learning environment. Furthermore, there is need for extra housing for the increased number of teachers. A large share of sub-national education infrastructure must be addressed through the National Service Delivery Framework. The growing student population with increased access to learning, requires enough quality teachers, trained in the relevant sector pedagogy, wherever required to meet student needs.

To overcome past quality issues, all stakeholders have embraced a new Standards-Based Curriculum (SBC) for elementary, primary and secondary learners. SBC will continue to be developed, with associated resources and learning materials distributed to all schools. TVET will continue to develop a competency-based curriculum aligned with the National Qualifications Framework.

The sector investments include infrastructure developments in Universities, Nursing, Teachers, Technical and Business Colleges and establishment of Polytechnic and new institutions of higher educations. These investments are continued with appropriate funding in 2017 and onwards until completion. There is also significant contribution to the sector through Development Partners and private run schools.

6.4.4 Health Sector

The Health Sector is made up of eleven agencies with the Department of Health being the key policy agency. The sector's implementing agencies include the Hospital Management Services and seven Provincial Health Authorities. Provinces that have not gained Health Authority status have their hospitals and health services managed by the Hospital Management Services. The 2017 Budget recommends for the National Aids Council Secretariat which is an agency under the Health Sector to merge with the Health Department (see NFIs, pg. 55).

Health Sector remains a key priority under the MTDP2 with emphasis on primary health care for all and quality service delivery to rural majority and to the urban disadvantaged. Free Primary Healthcare and Subsidized Specialist services are historic policy initiatives which the Government will continue to support. The MTDP2, the Population Policy and the SDGs are policies aligning the Health Sector.

Total funding for Health in 2017 is K1,221.5 million or 9.2 per cent of the total budget. This is a reduction of 20.5 per cent from the 2016 Supplementary Budget.

The Government has maintained its key commitments in the Health Sector. The Capital component of K351.6 million includes K20.0 million fixed support for the Free Primary Health Care Service policy. The total operational component for the sector is K870.1 million which constitute of K535.6 million in Personnel Emoluments and K334.5 million in Goods and Services. From the Goods and Services component, K160.7 million is allocated for Medical Supplies Procurement and Distribution processes.

From the total capital component, K253.6 million is donor and loan funded. These funds are targeted towards critical health issues in the country including Drug Resistant TB Emergency Operation activity, TB Prevention Program Capacity Building Service Centre, Community Health Posts, Community Health Workers Training Institutions Rehabilitation Program, Health and Education Procurement Facility, HIV/AIDS Prevention, Medical Equipment/Cold Chain, PNG Health and HIV Financing Program, Rural Primary Health Sector Delivery, Strengthening HIV/AIDS Services, UN Assistance to Health Sector, Young Child Survival and Development (Health and Nutrition), and PNG Health and HIV Multilateral Partnership.

Overall the total expenditure for the Health sector has increased over the last five years.

6.4.5 Community and Culture Sector

The Community and Culture sector captures a wide range of activities and areas from addressing cross-cutting issues such as Gender Inequality, Youth Development, different forms of Violence and Social Protection to promoting Sporting and the country's cultural diversity. The sector has seen recent increased Government investments on national and international sporting and cultural events.

The Community and Culture Sector ensures that developments in other sectors are supported and complemented with the community and social developments through its eight agencies. The PNG National Commission for UNESCO was an agency under this sector but was successfully merged with Department of Education as a recommendation from 2016 Budget (see *NFIs*, pg. 55).

Improvements to community and social developments require strong sector policies, sufficient laws and adequate resource. Key policies in the sector include:

1. The *Lukautim Pikinini Act 2015*. This Act promotes and protects the welfare of children up to 18 years of age with support from various stakeholders including the government, development partners, private sector, churches, families and citizens;
2. The Gender Equity and Social Inclusion Policy (GESI). This policy is formulated for the National Public Servants to promote the principles of respect, equity and diversity in the workplace.

The agencies responsible under this sector are recommended to concentrate on policy research, formulation and coordination.

The Community and Culture Sector in 2017 will receive 224.6 million or 1.7 per cent of the total Budget. This is a 33.3 per cent increase from the 2016 Supplementary Budget. The funding is broken up into operational expenditure of K35.1 million and the capital expenditure of K169.5 million. The operational component consists of K25.4 million in Personnel Emolument and K9.7 million in Goods and Services.

6.4.6 Transport Sector

The Transport Sector is an important sector that provides the *enabling environment* for development across all sectors. Government is committed to build a strong transport infrastructure that is resilient to climate change issues and natural disasters. The three sub-sectors of the transport sector are; i) roads, ii) air and iii) maritime.

The MTDP2 priority areas of the transport sector as well as the National Transport Strategy, Medium Term transport Plan 2014-2018 and the SDG (Goal 9) include;

- Improving the assessment process of major rehabilitation and new construction projects to enhance socioeconomic returns for the people
- Encouraging a quality-based focus on new construction
- Encouraging industry standards to ensure the aspect of durability for projects are met
- Developing relevant policies

Apart from investing in major key national infrastructure, the government plans to invest in sub-national infrastructure, especially in areas where there is economic potential. Development partners have played a critical role in this sector through loan and grant funded projects that are of national significance.

Roads

The focus in 2016 was on roads, particularly the upgrading and construction of major national roads, namely; the Okuk (Highlands) Highway in partnership with ADB, Lae City roads (including 4 lane Lae-Nadzab road) in partnership with the Chinese Government, Mt. Hagen City roads, Madang Town roads and Kompam-Baiyer missing link road, The government has introduced District Roads Program purposely to develop the districts and promote and encourage economic activities. Provincial and district roads (other than national roads) come under the responsibility of provinces and districts. There will be on-going funding for roads in 2017 including preparations for 2018 APEC.

Decline in revenue forecast due to drop in commodity prices has created uncertainty for GoPNG financing on major road projects. As a result, GoPNG will seek and mobilise additional funding from our Development Partners to consider financing the main highways.

Air

Air transport is critical not only for access to services by citizens but for tourism and foreign investment for nation building. The MTDP2 states the reconstruction of rural airstrips, however, due to funding constraints, it is difficult to accommodate the program unless spending on road transport is reduced. The Government with support from ADB through the Civil Aviation Development Improvement Program (CADIP) –Tranche 1 & 2 will continue to improve provincial airports in the country. This includes Nadzab Airport Terminal Re-development and replacement of the Air Service Surveillance System.

Maritime

Maritime infrastructure is critical as it supports the nation's domestic and international trade. Recent major investments were at the Lae and Port Moresby sea ports purposely to improve the loading capacity and turnaround time. Government efforts will continue in 2017 and will concentrate on developing rural jetties to improve access to goods and services and improve maritime waterways safety in the country.

Total allocation for the Transport Sector in 2017 is K897.2 million which represents 6.7 per cent of the total Budget. This is a 12.5 per cent reduction from the 2016 Supplementary Budget. The funding constitutes operational expenditure of K254.1 million and capital

expenditure of K643.1 million. A significant amount (K296.6 million) of the sector's budget is funded through loans and grants. The operational component consists of K74.2 million in Personnel Emolument and K179.9 million in Goods and Services.

6.4.7 Law and Justice Sector

The Law and Justice Sector is another priority area of the Government and will continue to receive a significant slice of the budget. The sector consists of thirteen agencies with the main agencies being the Royal PNG Constabulary, Department of Defence, National Judiciary Services, Correctional Institute Services and Department of Justice & Attorney General.

Reducing crime and corrupt practices and promoting good corporate governance across all sectors is the objective of the Law and Justice Sector. Hence, improving access to justice at the sub-national level and modernizing the police force are key areas of concern for the sector. These policy goals and priorities are articulated in the current MTDP2 and supported by the SDGs. The policy goals are targeted to reduce all forms of violence and enable all citizens to access justice.

Both the Government and donor partners, especially the Government of Australia, are investing significantly in the sector through Justice Service and Stability for Development (JSS4D). The APEC program also advocates for Safety and Security which are of paramount concern to the sector.

Major investments in the sector in 2017 will include: Waigani Court House Complex Redevelopment (K80.0 million); Police - Housing Project (K2.0 million); Police – Modernization Program (K15.0 million) and Defence - Infrastructure (K5.0 million).

In 2017, the Law and Justice Sector is allocated K1,124.5 million or 8.4 per cent of the total Budget. This is 8.8 per cent reduction from 2016 Supplementary Budget. The total budget consists of K951.5 million in operational (K603.9 million in Personnel Emolument and K348.2 million in Goods and Services) and K172.5 million in capital component. Of this capital component, K57.7 million is funded through the Australian Government.

6.4.8 Provincial Sector

The Provincial Sector is an important sector in terms of government service delivery to the rural and remote parts of PNG. The sector consists of 20 Provincial Administrations, an Autonomous Region and a District Commission. As outlined in the MTDP2, the main priority for the Provincial Sector is the implementation of the National Service Delivery Framework. The framework requires that funding to the sub-national level is effectively used to establish a consistent network of service delivery mechanism.

In 2017, the Provincial Sector will receive the largest allocation of ¹⁹K3,605.7 million or 27.2 per cent of the total Budget. This is an increase of 1.1 per cent from the 2016 Supplementary Budget. The sector allocation comprises of K2,203.5 million operational expenditure and K1,428.1 million capital expenditure. The total Provincial budget also consist of K463.2 million Goods and Services Tax and Bookmakers Turnover Tax.

The operational expenditure consists of K1,512.3 million Personnel Emoluments and K591.3 million Goods and Services. The high operational expenditure for the sector over the years reflects the recruitment of additional teachers and health workers to meet the growing demand. The operational expenditure includes the Administration and Functional Grants,

¹⁹ Excludes GST and Bookmakers Transfers to provinces

Public Servants' salaries, Teachers' salaries, Teachers' leave fares, Public Servants' leave fares and LLG grants.

Capital expenditure funding to the Sub-national Government includes K10.0 million per Province in direct funding through the Provincial Services Improvement Program (PSIP), K10.0 million per District under the District Services Improvement Program (DSIP) and K100,000.0 per Local Level Government under the Local Level Government Service Improvement Program (LLGSIP) annually. Another addition to these improvement programs will be K10,000.0 allocation to each Ward. With the removal of fixed sector allocations, the Provinces and Districts now have greater flexibility in utilising this funds to address local development priorities.

The introduction of Budget Formulation Framework and Guidelines have led to a reduction in funding to projects of sub-national level. Funding to this sector in 2017 and the forward estimates are limited to PSIP, DSIP and LLGSIP and the SSGs and PSG/DSGs as they are fixed commitments.

6.4.9 Utilities Sector

Utilities Sector is the smallest sector of the Government with just five agencies. This sector is responsible for providing households and businesses with essential services such as reliable electricity, safe and clean water supply, sanitation and modernized information and communications infrastructure. This is done through a coordinated effort of the State Owned Enterprises (SOEs) and the private sector strategically aligning and embracing MTDP2 and the Water and Sanitation and Hygiene (WaSH) policy. Investment in the Utilities Sector through development of its infrastructures will improve the standard of the sector's priority in electricity, water and sanitation and information and communication technology.

Currently with the insufficient electricity capacity, PNG's renewable energy sources present a basis for cheaper power for domestic consumption where environmental considerations are factored into development aspirations as stipulated in the StaRS and further strategically embraced in MTDP2. The importance of electrification in rural and urban areas will continue to be promoted in 2017 Budget.

The National Water, Sanitation and Hygiene (WaSH) Policy aims to accelerate access to water and sanitation services with long term hygiene behaviour change. However, programs over the medium term should include other provinces so that there is improved personal health, productivity and wellbeing throughout PNG.

An effective information and communication technology network is crucial to modernise PNG with an upgrade in quality and reach of services with a decline in cost. This will in turn improve dissemination of information, financial services, business and education. An extension of services into rural areas is also the priority of Government in this sector.

In 2017, the Utilities Sector is allocated K216.2 million representing 1.6 per cent of the total Budget. The sector's budget comprises of K30.6 million in operational and K192.6 million in capital expenditure. The operational component consists of K18.8 million in Personnel Emolument and K11.7 million in Goods and Services.

6.5 NON-FINANCIAL INSTRUCTIONS

To improve agency performance, accountability and transparency, the Government has been issuing Non-Financial Instructions (NFIs) in the Budget since 2011. The instructions are intended to improve the performance of all agencies (National Departments, Statutory Authorities and provincial Administrations) that receive government funding.

The Government has noted with concern the high levels of agency non-compliance of some of the NFIs issued in the 2016 Budget and this is a concern. In 2017, the Government will continue to publish NFIs and will enforce agency compliance.

For ease of agency reporting, an implementation updates is now required as part of the *Quarterly Budget Review* process conducted under *Public Finance (Management) Act 1995*. Agencies are expected to report on the status of implementing the NFI's in April 2017.

The 2017 Budget NFI's directed are:

Generic

All Agencies, particularly those receiving funds from the national budget are required to provide timely quarterly reports to Treasury (DoT) as per the PFMA in 2017. This includes;

- a. all statutory bodies to establish their financial status and clear timeframe of self-sustainment;
- b. agencies to provide updated and reconciled manpower data including costings through the manpower template before May 2017; and
- c. providing update on all International Memberships and Subscriptions through Department of Finance as part of the first quarter budget review;
- d. discourage creation of new agency

Disciplinary forces (Police, CIS and Defence) are to install power and water meters to individual institutional houses in order to manage excessive arrears in utility bills.

Agency Specific

Efficiency between agencies:

Since 2013 National Budget the government directed the following amalgamations and these are further enforced by the 2017 Budget.

Table 15: Amalgamating Agencies

Agency	Merged Into
Personnel Service Commission	Department of Personnel Management
Office of Tourism Arts and Culture	Tourism Promotion Authority
Department of Implementation & Rural Development	Department of National Planning & Monitoring
Coastal Fisheries Development Agencies	National Fisheries Authority
National Economic Fiscal Commission	Department of Treasury
National Aids Council Secretariat	Department of Health
National Coordination Office of Bougainville Affairs (NCOBA)	PM & NEC
Integrated Financial Management System (IFMS)	Finance ICT Division
National Tripartite Consultative Council (NTCC)	Department of Labour & Industry Relation (DLIR)
National Narcotics Bureau	Department of Justice & Antony General (DJAG),
Cocoa Coconut Industry	Kokonas Industri Koporation (KIK) and Cocoa Board;
Office of Urbanisation	Department of Lands

Border Development Authority (BDA)	Department of National Planning & Monitoring (DNPM), Treasury and Department Of Provincial Affairs (DPLGA);
Dept. of Public Enterprises	Department of Treasury
PNG Science Secretariat	Department of Higher Education Science and Technology (DHERST);

Source: Department of Treasury

Department of Foreign Affairs & Trade (DFAT):

All divisions under Department of Foreign Affairs and Trade must relocate to Central Government Office in 2017.

Internal Revenue Commission (IRC):

IRC to provide a report to DoT on its revenue collection trend for 2017.

Registrar for Political Parties:

The Registrar for Political Parties is requested to Review the current Organic Law on Integrated Political Parties and Candidates and the related Acts and amend clauses to include minimum criteria's on intending candidates.

Department of National Planning & Monitoring:

To carry out monitoring and evaluation program on all projects funded by the government.

Special Purpose Authorities (SPA):

The SPAs are to clearly articulate the justification of their existence to Departments of Treasury, National Planning & Monitoring and Personnel Management. SPAs to provide this in the 2017 second quarter budget review.

National Housing Corporation (NHC):

The Auditor General to conduct an audit on NHC assets. The audit report to be provided to Treasury in the second quarter of 2017.

PNG National Forest Authority (PNG NFA):

The PNG NFA is directed to strengthen its monitoring and regulatory functions of the logging industry and submit a report to Treasury, Finance and National Planning.

Institute of Medical Research (IMR):

IMR is required to review its operations and revenue collection capabilities and report to Treasury.

National Agriculture Research Institution (NARI):

NARI is to report on its investment plans to Treasury.

Department of Defence (DoD):

DoD is required to provide clear land titles of Taurama Barracks and property at ATS.

Department of Education (DoE):

The current process of disbursing funds on TFF has issues on transparency and accountability. DoE and DoT are required to review the process and provide a report.

Science & Technology Secretariat:

The Secretariat needs to clarify the payment of accommodation rent to its staff and provide this information to DoT.

University of Papua New Guinea (UPNG):

UPNG is to form a project steering committee involving DoT, DoF, DPM and DNPM to provide monitoring and evaluation on UPNG existing properties and revive the internal maintenance division. UPNG through the committee is required to provide a comprehensive maintenance report.

University of Technology (UNITECH):

UNITECH Development Company to provide consultancy services to review the design on the construction of its mess and submit the revised cost to DoT.

Department of Works (DoW):

DoW to conduct an investigation on the Conventional Centre and provide a defects report to DoT and a subsequent information paper to the Cabinet.

PNG Sports Foundation :

There are currently savings of K11.0 million allocated for the 2015 South Pacific Games still with PNG Sports Foundation. This savings are to be returned to the Consolidated Revenue Funds in 2017 and provide a report in the 2017 second quarter budget review.

Loan Arrangements:

All requests for loan financing from agencies including multilateral, bilateral or any other financial institutions are to be channelled through DoT to review its portfolio and advice Cabinet of its limitation.

Due to increase in debt stock over the years, the Government through DoT is to review the total debt stock to determine if the current Medium Term Debt Strategy holds.

DoT to remove budget allocation for irregular debt service and related charges from Public Debt Charges Vote 299.

6.6 BUDGET REFORMS

The government introduced a number of budget reforms in 2012. These reforms sought to increase the efficiency of the budget process through a unified (budget integration) and aligned (Sector Budget) presentation of the governments expenditure plan over the medium term (multi-year budgeting). The reforms also sought to ensure greater cohesion between Ministerial priorities and bureaucratic activity plans (Ministerial lead budget).

The preparation of the 2016 and 2017 budgets provided a process for greater Ministerial direction through the Ministerial Economic Committee (MEC). More concise direction from the MEC allows for alignment of Ministerial direction and bureaucratic implementation. This ensures that government priorities are addressed through the budget and resources are appropriated to implementing agencies and the government's partner service delivery organisations.

Further to this, specific items or activities within the budget can be flagged to measure implementation and deliverables of government priorities.

In the progression of these reforms, the 2 stage budget process provided a more aligned and efficient system in assessing the content of the budget. In stage one, only new government activities were requested and funnelled through the MEC for consideration against projected economic conditions. The 2017 budget process has implemented the Budget Strategic Committee (BSC), a committee that replaced the Budget Screening Committee (BSC) in the former process. The SBC is an efficient approach compared to BSC.

The 2017 Budget will continue to implement, align and refine the budget process and its relevant activities, for efficient budgetary allocation in realising government priorities through efficient and effective service delivery

6.7 CONSOLIDATED BUDGET OPERATING RULES

The Government has set in place the Consolidated Budget Operational Rules (CBORs) as a measure of improving service delivery through efficient and effective implementation of its priorities through the budget process. The CBORs is the authoritative source of information for agencies, in attuning their expenditure with Governments fiscal framework and is the primary document from which funding bids are processed through the budget.

The 2017 Consolidated Budget Operational rules has an added section on '*Public Service Manpower*'. This section brings to the fore, Government's intention to regulate the steep incline of Public Service growth and in turn its burgeoning Personnel Emolument expenditure.

Since the devolution of organisational powers to line agencies, the public service has seen exponential growth. Section 3, of the CBORs provides guidance on the process Government agencies must abide by, to ensure, that total manpower required by the Government, to deliver its priorities is precisely measured and adequately catered for in the Budget. In this regard agencies are requested to understand and comply with the requirements stipulated in this section of the CBORs.

The CBORs are updated annually by the Departments of Treasury and National Planning and Monitoring.

CHAPTER 7: FINANCING & DEBT STRATEGY

7.1 OVERVIEW

The Central Government stock of debt continued to increase in 2016 as the Government continued to borrow in the domestic and international markets to fund the deficit. Interest rates were steadily increasing over 2016, the outcome of low demand for Treasury Bond (Inscribed Stock) over the first half of the year. Demand remained moderately low for Treasury Bills throughout the year.

A first tranche of US\$ 200.0 million of Credit Suisse syndicated loan was disbursed in August 2016. The second tranche is expected in November. Off shore borrowing is diversifying the financial sources, if used to repay short term Treasury Bills will extend the term of the debt portfolio.

The debt-to-GDP ratio is expected to be around 28.8 per cent in 2017 and 2018, decline thereafter to 27.0 per cent in 2021.

International Development Partners have provided assistance through concessional foreign currency project loans.

7.2 FINANCING DEVELOPMENT

In 2017, the planned borrowing is K1,838.5 million comprising of acquisition of financial asset of K38.0 million and financing the net borrowing of K1,876.5 million. Over the next four years, total net borrowing is forecasted to decline to less than a billion in 2021.

From 2017 onwards, the Government will continue to examine and explore options of broadening the range of its financing sources and instruments. It will introduce measures as well as improvements that will continue to lead to greater efficiencies and functionalities in the primary and secondary securities markets.

7.2.1 Foreign currency denominated loans and bond issuance

The Government's predominant form of foreign currency borrowing has been concessional loans from bilateral and multilateral development partners. These are generally repayable over 20-30 years with very concessional interest rates and long grace periods.

In terms of the contribution to the financing requirement in 2017, the Government intends to undertake net external financing of K183.0 million through concessional loans of K128.6 million and commercial loans of K54.4 million. This comprises of expected gross external borrowings of K452.8 million and external repayments of K269.8 million.

Government will continue to seek other external financing apart from concessional loans in 2017 as part of the financing strategy. The external financing will ease the pressure on domestic markets and reduced the risk of refinancing short term domestic securities.

7.2.2 Treasury Bonds (Inscribed Stock) issued via tender

The Government, as part of its financing program early this year, set a target of issuing K900.0 million Treasury Bonds in 2016. Low demand for Treasury Bonds and investors preference for shorter dated debt instrument (Treasury Bills), the Government is unlikely to achieve it. This can be attributed to limited investor base and inability of the market to absorb

large amounts of Kina denominated stock. The Government will continue to review a range of options to broaden the investor base and expanding the venues to raise funds. Despite reduced demand yields across the range of maturities, issuance have remained largely unchanged over the course of 2016.

In 2017, gross issuance of Treasury Bonds is estimated to be same as in 2016 of K900.0 million with maturities of K682.3 million. As part of its consolidation plan the Government will aim to buyback a number of small Treasury Bonds placements during 2017. Treasury Bonds will be part of the domestic debt restructure once international financing sources are secured.

Issuance in 2017 will be continued monthly commencing in February, with further details to be released early next year.

7.2.3 Treasury Bills issued via tender

Treasury Bills are discounted securities issued for tenors (28, 63, 91, 182 and 364 days) via competitive tender. It is a cash management financing instrument to assist in managing the government cash flow.

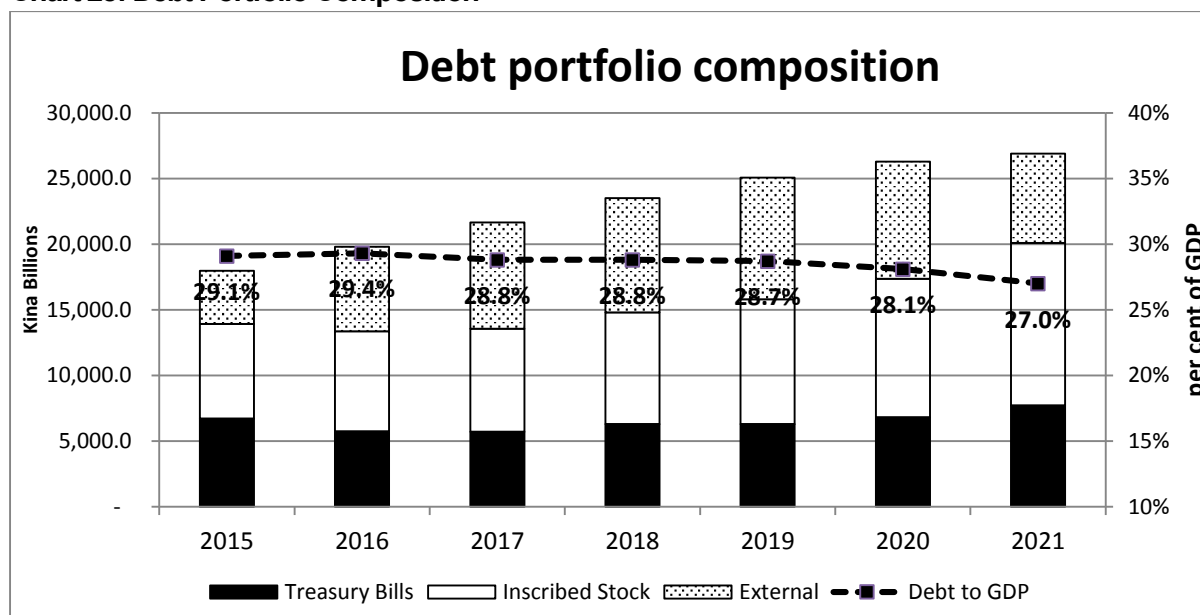
The demand for Treasury Bills during 2016 has been moderate, and is expected to remain for the remainder of the year. There has been a quantum shift by the major investors away from longer tenors of 182 days and 364 days to shorter tenors of 28, 63 and 91 days in first half of 2016; this trend shifted back to the longer end partly because of lower yields at the shorter maturities. Treasury Bills yields have remained steady over the year, with 28, 63, 91, 182 and 364 days rates trading around 1.22, 2.40, 2.62, 4.72 and 7.7 per cent, respectively. Yields at the end of 2015 were 91, 182 and 364 days were 2.58, 4.65 and 7.6 per cent, respectively.

In 2017, gross issuance of Treasury Bills is estimated to be K7,423.5 million, with maturities of K7,485.5 million. The net amortisations is projected to be K62.1 million.

Given the limited and small size of the domestic debt market to provide funding to meet government expenditure on weekly basis, the Government in early 2016 has embarked on a strategy to smoothen out its maturity profile to ensure market is able to refinance maturing debt service payments. This trend will continue in 2017 to manage and mitigate refinancing and liquidity risks in the domestic debt portfolio.

7.3 PUBLIC DEBT

Total public debt is estimated to increase from K19,784.7 million in 2016 to K21,623.3 million at the end of 2017. The *Fiscal Responsibility Act (FRA) 2006*, debt to nominal GDP is projected to decline from 29.4 per cent in 2016 to 28.8 per cent in 2017 well within the FRA limit of 30 per cent.

Chart 28: Debt Portfolio Composition

Source: Department of Treasury

Domestic Debt

Total domestic debt at the end of 2016 is projected at K13,369.4 million, a net decrease of K539.4 million from 2015 and is expected to decline over the course of 2017. In 2017, domestic debt is expected to increase by K155.6 million bringing the stock to K13,525.0 million.

By the end of 2016 Treasury Bills are expected to comprise 42.8 per cent of the domestic debt, well above the target range of 15.0 to 30.0 per cent set under the Medium Term Debt Strategy. Over the course of 2017, the domestic debt will be restructured to increase the average debt to maturity

External Debt

External debt at the end of 2017 is projected to be K6,415.3 million, a net increase of K2,357.2 million from 2016. The external financing from Credit Suisse will increase the external debt in 2017. Details pertaining to the contribution that external borrowing from Credit Suisse and Sovereign Bond issue may have towards meeting the 2016 financing task will depend on a successful bond closure taking place as well as the underlying market conditions at the time of the launch.

Whilst the proceeds from a second tranche of Credit Suisse would assist in meeting the Government's funding needs at the end of 2016 and early 2017, additional external debt will continue to be provided by international agencies (multilateral and bilateral creditors). International agencies provide project finance for capital works and infrastructure projects, this borrowing will increase.

Table 16: 2016-2017 Central Government Borrowing

Financing Source	Est. Balance 2016 end	Est. Repayment 2017	Est. Borrowing 2017	Est. Balance 2017 end	Net Change 2017
Domestic Debt	13,369.4	8,167.9	8,323.5	13,525.0	155.6
Treasury Bills	5,720.7	7,485.5	7,423.5	5,658.7	62.1
Inscribed Stock	7,648.6	682.3	900.0	7,866.3	217.7
External Debt	6,415.3	269.8	1,952.8	8,098.3	1,683.0
International					
Agencies	4,759.5	269.8	452.8	6,598.3	183.0
Foreign bonds (a)	1,655.8	0.0	1,500.0	1,500.0	1,500.0
Total	19,784.7	8,437.7	10,276.3	21,623.3	1,876.5
% of Nominal GDP	29.4%			28.8%	

(a) Estimate of proposed issuance with outcome dependent on successful bond closure and market conditions
Source: Department of Treasury

7.4 MEDIUM TERM DEBT STRATEGY

The objective of the Medium Term Debt Strategy 2013–2017 (the Debt Strategy) is to minimise the cost of debt consistent with the Government's tolerance for financial risk. There are three major strategies to support the debt management objective:

1. maintain debt at sustainable levels;
2. maintaining financial risks at prudent levels; and
3. develop the domestic debt market.

7.4.1 Maintain debt at sustainable levels

The *Fiscal Responsibility Act 2006 (FRA)* requires Debt to GDP below 30.0 per cent. With the new GDP data published by the National Statistics Office, Debt to GDP is below the FRA limit in the next five years.

The Government with the assistance from World Bank and IMF have undertaken training workshops on debt management performance assessment, debt sustainability analysis and medium term debt strategy in 2016. These training workshops are aimed at building capacity for government officials in these technical areas of debt management. It is expected that these training workshops will enhance staff technical capacity and will be able to produce a revised set of debt targets to be incorporated in the next updated Medium Term Debt Strategy.

Table 17: Debt sustainability measures

Measure	2014 Actual	2015 Actual	2016 Est	2017 Proj	2018 Proj	2019 Proj	2020 Proj	2021 Proj
Debt to GDP %	27.0%	29.1%	29.4%	28.8%	28.9%	28.7%	28.1%	27.0%
Fiscal Responsibility Act Limit	35.0%	35.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%

Source: Department of Treasury.

7.4.2 Manage debt portfolio to keep financial risk at prudent levels.

The composition of the portfolio is managed through instrument and average maturity targets to control the resulting portfolio risk.

Foreign Currency Risk

Foreign currency risk is the risk that the value of debt denominated in foreign currency and the debt service cost of this debt varies in accordance with exchange rates.

In 2016 the Government increased external financing through project loans and the Credit Suisse loan which has seen the level of foreign currency loans increased from 22.6 per cent to 32.4 per cent as a share of total Central Government debt.

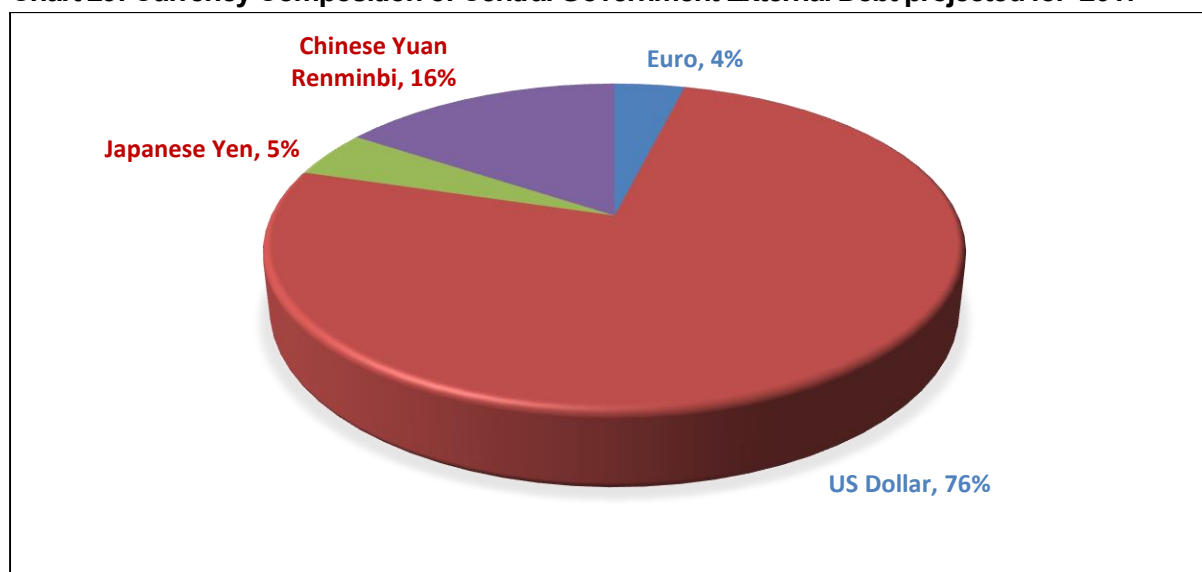
Table 18: Percentage of Foreign Currency Debt to total Central Government Debt

Target	2013 Actual	2014 Actual	2015 Est	2016 Proj	2017 Proj	2018 Proj	2019 Proj	2020 Proj	2021 proj
Up to 40%	25.5%	23.0%	22.6%	32.4%	37.4%	37.0%	37.0%	33.9%	33.6%

Source: Department of Treasury.

Concentration of loan denominated in one currency increases foreign currency risk. The Government external debt currency composition is heavily concentrated in US Dollars (76 per cent), followed by Chinese Yuan (16 per cent). The heavy concentration of borrowing in this external debt portfolio reflects that most loans are taken from multilaterals sources such as World Bank and Asian Development Bank.

Chart 29: Currency Composition of Central Government External Debt projected for 2017



Source: Department of Treasury

Interest Rate Risk

Interest rate risk represents the risk that debt servicing cost outcomes vary due to changes in interest rates.

Domestic debt currently issued is all fixed interest rate. For this debt, interest rate risk arises when Treasury seeks to refinance. There is a risk that debt servicing costs will change due to the interest rate being higher or lower than the maturing debt. As shorter term debt is required to be refinanced more often it exposes the portfolio to increased levels of interest rate risk.

Interest and yields rates were unchanged in 2015, have slightly increase in 2016 debt servicing costs have slightly increased. Interest rate risk was lower in 2015 compared to 2016.

Shorter term debt, however, is less expensive than longer term debt and there is a need to balance between cost and risk in short-term debt to long-term debt in the portfolio.

The Debt Strategy seeks to manage interest rate risk through the structure of the domestic debt portfolio. The Government will pursue to restructure the domestic debt portfolio in 2016 and 2017.

Table 19: Percentage of Treasury Bills to Domestic Debt Portfolio

Target	2013 Actual	2014 Actual	2015 Actual	2016 Est	2017 Proj	2018 Proj	2019 Proj	2020 Proj	2021 Proj
15 to 30%	47.5%	47.5%	48.1%	42.8%	41.8%	42.4%	39.7%	39.1%	38.1%

Source: Department of Treasury.

Note: Projection without Debt Restructuring option.

Refinancing Risk

Refinancing or roll-over risk is the risk that debt is unable to be repaid on maturity. The Debt Strategy seeks to manage refinancing risk by lengthening the maturity profile of the total debt portfolio through maintaining the weighted average term to maturity at about five years in the domestic debt and at around twelve years in the foreign-currency portfolios.

Table 20: Average Maturity of the Domestic Debt Portfolio

Target	2013 Actual	2014 Actual	2015 Est	2016 Est	2017 Proj	2018 Proj	2019 Proj	2020 Proj
5 years	4.0	4.1	3.8	4.4	4.2	4.5	4.6	4.7

Source: Department of Treasury.

The Government has reviewed its targets for the use of long-term fixed-rate debt relative to short-term variable-rate debt, and plans to increase Treasury Bonds on issue from K7.6 billion at the end of 2016 to K12.5 billion in 2021.

Operational Risk

Operational risk is the risk of loss due to operational failures resulting from internal processes, people, systems, or from external events. It encompasses risks such as fraud, legal, settlement, accounting, personnel and reputation risk.

The Government currently has a number of operational risks that it is endeavouring to manage. The Government will continue to focus on mitigating these operational risks going forward.

7.4.3 Develop the domestic debt market.

In order to increase the capacity and reduce the cost of borrowing domestically, the debt strategy aims to facilitate the development of the domestic market.

In 2017, the Government will work with relevant stakeholders to progress the key recommendations of are view of PNG's Government Bond and Capital Markets by development partners.

CHAPTER 8: NATIONAL REFORM AGENDA

8.1 OVERVIEW

In 2017, the Government will continue to build on past reforms by undertaking a number of important public sector adjustments that are necessary to improve the quality of public sector spending. These initiatives will help ensure that essential services are delivered more efficiently and effectively.

Achieving efficiency and effectiveness in the public sector is an important priority of the Government. In 2016, the Public Sector Reform Working Group (PSRWG) identified a number of government agencies for amalgamation and abolishment.

The Government will further look at ways to reduce wastage in the public sector pay bill and improve the public sector efficiency through the commencement of the Organizational, Staffing and Personnel Emolument Audit Committee (OSPEAC) which is already making good progress.

The Government will also work with key stakeholders in removing the impediments to doing business and investment in PNG.

The Government has also the Competition Review and the Financial Sector Services Review in 2016 and results from this work will be released in 2017.

Significant Budget reforms have been implemented in the past few years, with expenditure shown on an agency basis, the distinction between the recurrent and development budgets being removed to have an integrated budget and move to multi-year budgeting. The publication of revenue and expenditure estimates for four years beyond the current Budget year assists decision makers understand the full impact of expenditures and assess value for money.

These reforms are designed to achieve the development outcomes as planned in the existing development policies and strategies, such as the Vision 2050 and the PNG Development Strategic Plan 2010 – 2030 (DSP). The recently established Medium Term Development Plan II (MTDP II) outlines the process of translating Vision 2050 into key strategic actions and making decisions to allocate resources to achieve those strategies.

8.2 PUBLIC SECTOR REFORM

The Government recognizes that public sector reforms are crucial for improving the public sector efficiency. The high revenue scenario in previous years led to a culture of excess in the public services. In 2017, the Government will focus on meeting new service delivery standards by reducing excess spending, resource wastage and re-directing funding to the core sectors of the economy such as Health, Education; Infrastructure and with more focus to the Provinces, Districts and Local Level Governments to foster growth and development in light of envisaging further devolution of responsibilities from the National Government to the Provinces.

The Government hopes that the public sector reform initiatives will contribute to positive development outcomes for Papua New Guinea.

8.2.1 Equitable Resource Allocations to Provincial Governments

The *Intergovernmental Relations (Functions and Funding) Act 2009* sets out the revenue sharing formula between National, Provincial and Local-level Governments under the intergovernmental financing system whose main focus is to ensure that the total revenues of the provinces and the costs of delivering a minimum level set of basic services are taken into consideration when determining the grants for the Provincial and Local level Governments.

The overall goods and services grants for distribution (referred to as the Equalisation Amount) depends on a set proportion of Tax Revenue which excludes variable mining and petroleum taxes (referred to as Net National Revenue) available to the National Government each year intended to provide greater certainty for provincial and local-level governments as well as ensuring that the system remains affordable.

The equalisation amount is then distributed based on how much it costs to deliver a basic level set of service after taking into account the proportion of revenues available to each Provincial Governments.

Since its implementation in 2009, Provincial Governments have experienced an increase in their level of funding from K135.0 million to K508.4 million in 2017, an overall increase of K373.4 million.

For the 2017 fiscal year, the equalisation amount is K565.2 million, a reduction of K13.1 million from the 2016 level. This was arrived at by applying the prescribed percentage of 6.57 per cent to the 2015 actual net national revenue amount of K8,602.2 million. The reduction is primarily due to lower total tax revenue collections in 2015 compared to 2014. As a result, several provincial and local-level government grants have been slightly reduced in 2017.

8.2.2 Mergers of National Departments and Agencies

In the 2013 National Budget, four mergers were agreed: the Department of Personnel Management with the Public Service Commission; the Office of UNESCO with the Department of Education; the Tourism Promotion Authority, the Office of Tourism and Culture and the Department of Tourism; and the Office of Rural Development with the Department of Rural Development and Planning.

In 2014, the Government agreed to amalgamate the Coastal Fisheries Development Agency and the National Fisheries Authority; the National Economic and Fiscal Commission and Department of Treasury; and the National Aids Council and the Department of Health.

With the increased focus on the Service Improvement Program, there are obvious efficiencies in merging the Department of Implementation and Rural Development and the Department of National Planning and Monitoring.

The amalgamation of Government agencies with duplicate functions has made little progress. One area where efficiencies are likely to be greatest is merging or sharing corporate services across similar agencies.

In 2016, the Public Sector Reform Working Group (PSRWG) consisting of the Departments of Personnel Management (Chair), Treasury and Prime Minister and NEC, has progressed this has and identified additional agencies for possible merging and are outlined in the Non-Financial Instructions in Chapter 5 of this document.

The PSRWG will continue this work in 2017 and examine the potential for co-location of agencies and merging corporate service areas and in some cases abolishing agencies and transferring their functions to other relevant agencies. At this stage, there are 20 Government

agencies and has undertaken the preliminary work on this and is exploring various options and strategies on how best this reform can be achieved.

8.2.3 Budget Reforms

In 2014, the Department of Finance assessed PNG's public financial management systems against the internationally recognised Public Expenditure and Financial Accountability (PEFA) roadmap to improve the quality of cash management and effectiveness of spending.

This review found that the use of two different IT systems Integrated Financial Management System (IFMS) and Papua New Guinea Government Accounting System (PGAS) by the departments, with different account classification codes, has affected the comprehensiveness and quality of data in Budget execution reports. Non-compliance with internal controls, frequent reallocation decisions and delays in implementing the IFMS have impeded the ability of the Government to implement the Budget as approved.

The Budgeting facility of the IFMS has now been fully rolled out to all government agencies and the facility was used for the 2016 Budget. The accounting facility of the IFMS has only been rolled out to the line departments.

In 2017, the Government will prioritise the data migration from PGAS to IFMS and progress the roll out of the accounting facility of the IFMS system.

8.2.4 Management of Manpower and Personnel Emolument Ceilings

The effective management of the public sector manpower and pay bill has been a challenge for Government as the annual overspending in the public sector pay bill has grown. Many factors have contributed to this with the most obvious being the existence of two separate and distinct accounting information systems.

With the growth in the public service, agencies are exceeding their manpower and personnel emolument ceilings, incurring more costs with little oversight resulting in substantial blow outs in the agencies' personnel emoluments budgets.

To manage this and in order to have an effective public service, the Organizational, Staffing and Personnel Emolument Audit Committee (OSPEAC) (NEC Decision No. 53/2011) has been established in 2016.

The Committee, through its Technical Working Group (TWG), has been tasked with implementing specific budgetary and administrative issues that need to be improved by refining the payroll systems and processes to curb the escalating personnel emolument costs.

These include:

- (a) reorganisational and staff recruitment freeze;
- (b) inconsistency in manpower data;
- (c) PNG Government Accounting System (PGAS)/External payments;
- (d) offline payments;
- (e) unattached and unmatched Officers; and
- (f) complete roll-out of the Integrated Financial Management System (IFMS).

The freeze will continue in 2017 for agencies that have unattached officers, including those in the provinces, until they have all been redeployed or retrenched. Some funding has been allocated in the 2017 Budget to assist with the retrenchments.

8.2.5 Industrial Pay Fixation Agreement

Over the six year period from 2010 to 2016, the average pay of public servants has increased by 55 per cent and the average pay of the lowest paid has increased by 75.0 per cent. Police Constables, Teachers and Nurses have all experienced pay increases of a similar or higher magnitude over this period.

In 2010, the lowest paid public servants were earning K350.0 per fortnight and today they are earning K600.0 per fortnight. Likewise, the entry salaries of Base Grade Police Constables have increased from K600.0 to K1,050.0 per fortnight; the entry salaries for Base Grade Teachers from K390.0 to K900.0 per fortnight; and entry salaries for Base Grade Nurses from K450.0 to K820.0 per fortnight.

All public servants have witnessed, for the first time in 25 years, a significant boost in the real value of their earnings. When adjusted for cumulative inflation of 35.0 per cent over the past six years, the net real value of average earnings of 120,000 public servants has increased by an average of 20.0 per cent since 2011.

In 2017, the need for any general pay rise for the next three years (2017 – 2019) will be primarily determined by the Government's affordability for any pay rise, guided by OSPEAC.

8.2.6 Superannuation Reform

The DFRB Fund was first established as a Defined Benefit (Pension) Fund for the officers of the PNG Defence Force (PNGDF) who are members of the Fund. Since its establishment, the Fund members have been expressing their desire to change superannuation schemes to an Accumulation Scheme, which is similar to the State's superannuation payments arrangement with Nambawan Super Limited (NSL).

Amendments to Part IIIA (Section 24) of the DFRB Act, allowed for an Accumulation Scheme to be established in 2016 to receive and manage member and employer contributions of 8.4 per cent and 6.0 per cent respectively under the DFRB Fund, effective from 1st January, 2016.

As at 30th June 2016, a total of 3,078 members have elected to transfer to the new Accumulation Scheme. This represents 98.0 per cent of the total current Fund membership of 3,147. Payroll deductions on the State's employer and employee contributions for these members have already commenced.

Nambawan Super Limited (NSL) is an authorised superannuation Fund that manages the superannuation contributions for most of the public servants in Papua New Guinea.

The State has been remitting its superannuation contributions manually on a fortnightly basis until April 2012 when this process was automated. The automation involves transferring superannuation contributions electronically through the Government payroll systems to NSL on a fortnightly basis. In 2015, the Government remitted a total of K185.4 million and this year (as of pay 21/2016), the State paid K166.5 million to NSL through the automation. This method of payment is effective as it prevents the State from carrying a large back log of arrears as experienced in the past.

The Government expects to improve this process by factoring the 8.4 per cent employer contribution as part of the personnel emoluments component of all the Government funded agencies in 2017. This process will improve the administrative arrangements for remitting the State's employer contributions and will greatly reduce the outstanding State liabilities owed to NSL as well as improving the budget for this expenditure.

The unfunded State liability for NSL remains on the Government's balance sheet. The immediate priority for the Government in 2017 is to address the outstanding exit payments that are owed to the exiting members whilst exploring options on the outstanding balance.

In addition, the Government will address the complexity of superannuation taxation. The Government has set up a team in 2016 to review the Government's retirement income policy and will include a review of the unregulated superannuation funds by Treasury and the Bank of Papua New Guinea.

8.2.7 APEC Policy

Papua New Guinea has been highly active in Asia Pacific Economic Cooperation (APEC) throughout 2016. This is not only to aid preparations for 2018 but also to ensure we utilise the collective expertise of APEC economies to further our reform efforts.

APEC has a wide policy agenda but some excellent progress has been made on key economic reforms in 2016 including launching the Renewed APEC Agenda on Structural Reform (RAASR) which will be the focus of Economic Committee from 2016 through to 2020 with its mid-term review in 2018.

RAASR supports a robust, comprehensive and ambitious structural reform agenda to reduce inequality and stimulate growth in APEC economies, and contribute to APEC's overarching goal to promote balanced, inclusive, sustainable, innovative and secure growth, through measures in line with the following three pillars:

Pillar 1: more open, well-functioning, transparent and competitive markets;

Pillar 2: deeper participation in those markets by all segments of society, including MSMEs, women, youth, older workers and people with disabilities;

Pillar 3: sustainable social policies that promote the above mentioned objectives, enhance economic resiliency, and are well-targeted, effective and non-discriminatory.

Papua New Guinea's RAASR action plan deals with structural reforms around:

- Competition policy;
- Ease of doing business initiatives;
- Financial inclusion (including access to finance for SMEs);
- Energy policy reform;
- Health Workforce reform;
- Telecommunications infrastructure reform; and
- Good regulatory practice platforms.

The Finance Minister Process is another key APEC Committee that focuses on the economy. The Treasurer and Papua New Guinea officials have also been active in this Committee in a range of areas focusing on financial inclusiveness and access to finance for small and medium enterprises.

PNG will build on the success of the 2014 -15 Financial Inclusion and Financial Literacy (FIFL) strategy that saw more than 1 million additional adult Papua New Guineans gaining access to formal financial services by launching a new FIFL strategy that will take us through to 2020. This strategy will build on the successes and lessons from the previous strategy and the experiences we have heard about from other APEC economies and international experts.

Another significant achievement for PNG in 2016 was the launch of our secured lending regime, the Personal Properties Security Register. This register allows potential borrowers to offer movable properties such as cars and inventory as security to obtain loans. Since its launch in May this year, thousands of items have been registered in order to gain access to finance by Papua New Guineans.

Another priority of Finance Ministers process has been to tackle tax Base Erosion and Profit Shifting (BEPS). This does not involve the introduction of new taxes but seeks to enhance protections against tax avoidance. PNG has worked with other Governments and the Global Forum to strengthen its systems and capability to exchange information with other tax administrations which is a key enabler for fighting tax avoidance.

PNG has also joined the BEPS Inclusive framework, a collection of countries committed to implementing BEPS priorities to strengthen their tax system.

Other APEC priorities that PNG has been involved in include infrastructure financing, supporting tourism, disaster risk financing and the women in the economy forum.

8.3 A COMPETITIVE AND DYNAMIC PRIVATE SECTOR

The 2017 fiscal year will see the continuation of the existing programs to provide an investment friendly climate for the Private Sector. This will be supplemented by embarking on new and viable programs consistent with the following objectives:

1. Encourage State Owned Enterprises (SOEs) efficiency and increase the nature and level of competition within the markets which SOEs operate, with a particular focus on the telecommunication, electricity and transport sectors especially shipping and aviation;
2. Ensure strong regulatory enforcement of the competition and consumer protection law so that markets operate competitively with ethical traders, while safeguarding small businesses and consumers against unfair treatment and abuse;
3. Improve the productivity of sectors particularly important to the rural and remote areas of PNG such as tourism and agriculture;
4. Reduce the cost of doing business by removing regulatory impediments to private sector growth and facilitating the development of small and medium-sized enterprises (SMEs); and,
5. Encourage the operation and the transition of informal economy participants to the formal economy.

In 2017, the Government will continue these micro-reform initiatives.

8.3.1 Consumer & Competition Framework Review

The Competition Framework Review is an ongoing review that aims to improve the existing competition legislative framework as well as the functions of the competition regulator in the country so that a more vibrant and competitive private sector can thrive. Once this review is completed, a report containing recommendations with action plans will be presented to NEC for endorsement.

The review basically covers three main areas:

- i. Consumer protection and economic empowerment of women;
- ii. Market competition and fair trading; and,
- iii. Industry regulation and price oversight.

In 2017, this review combined with the significant transparency and governance reforms currently undertaken, will arm the Government with a roadmap for future reforms that will improve PNG's business environment.

8.3.2 Improved Economic Regulation and Consumer Protection

The Government, through the ICCC, will continue to implement price control arrangements for certain regulated industries and SOEs throughout 2017 including for the supply of electricity, water and sewerage, compulsory third-party motor vehicle insurance, postal services and port services, and for specific regulated products like rice, sugar, flour and petroleum. The ICCC is also considering to undertake productivity inquiries in other sectors to ensure charges applied are fair and reasonable.

Under the ICCC's broad responsibilities for consumer protection and product safety, it will continue to work on programs to enforce consumer protection and product safety and, educate and inform the public on consumer rights and business obligations. It is jointly working with the PNG Customs Service and others to ensure a holistic approach to consumer protection, especially in preventing imports of banned products into the country.

Furthermore, the ICCC will continue to promote and facilitate competitive markets, thereby generating lower prices, increased choice and greater economic growth, leading to overall enhancement of the welfare of Papua New Guineans. ICCC will also continue to monitor market behaviour, investigate complaints and initiate inquiries regarding potential anti-competitive behaviour.

The completion of the competition and consumer framework review will result in more improvements being made on the roles and responsibilities of the ICCC in regards to economic regulation and consumer protection.

8.3.3 Information and Communications Technology (ICT) Industry Reviews

Reforms of the regulation, licensing and administration of the information and communications technology (ICT) sector will continue in 2017. Through these reforms, the Government will set the policy framework to facilitate increased access, affordability and use of ICT.

The National Information and Communications Technology Authority (NICTA) will continue to conduct public inquiries examining impediments to access and affordability of ICT and investigating misuse for the purpose of providing recommendations for the Government's consideration.

The Government will continue to make ICT services accessible to remote parts of PNG through private sector operators. In addition, the Government will continue reforms to increase competition by separating the wholesale and retail services in the sector. The separation of retail from wholesale operations will encourage innovation and participation by SMEs, including through infrastructure-sharing arrangements.

8.3.4. Financial Services Sector Review

The Government recognises that effective and efficient financial systems and services are fundamental to economic growth and development and therefore commenced the Financial Services Review (FSSR) in 2014. The FSSR is a comprehensive review of the Country's Financial Services Sector with the aim of developing a well-coordinated Financial Sector Development Strategy (FSDS) with sequenced, prioritized and time-bound reforms and action plans fitting for the PNG conditions.

The overall objective of the FSDS is to facilitate and guide the evolution and maturation of the financial services sector, in support of broader economic and development objectives, and to establish a sound legal framework to support the strategy. The FSDS will highlight any important financial sector reforms which currently are not being pursued and make clear how the required financial sector reforms are needed to support the overall economic growth and development strategy for PNG.

The FSSR has identified 4 core issues to address in the PNG's financial sector, namely;

- i. Regulatory Framework Architecture Development
- ii. National Payment System Development
- iii. Government Bond and Capital Market Development
- iv. Expanding Financial Inclusion in PNG

The review is expected to be completed by end of 2016 and a completed strategy paper will be presented to the NEC for endorsement in early 2017. Once approved by NEC, the FSDS will become the guiding roadmap to further reform and develop the financial sector in PNG.

8.3.5. Financial Inclusion and Microfinance Expansion Program

The Government also recognizes that a vibrant private sector will thrive when more citizens are participating in the formal economy. With 85.0 per cent (rural majority) of Papua New Guineans still not included in the formal financial systems and services, it continues to place constraints on the growth of micro and small enterprises and also limits the opportunities for improvement in household financial well-being.

In 2013, the Centre for Excellence in Financial Inclusion (CEFI) stemmed out from the existing Microfinance Expansion Programs (MEP). The MEP by then had already created the operating environment for the emergence of successful microfinance institutions such as the Mi-Bank (originally known as Nation-wide Micro Bank), PNG Microfinance Limited, People's Micro-Bank, Women's Micro Bank and many others.

During the two years of operating, CEFI under the MEP has introduced International best practice for client protection principles, implemented Microfinance industry standards, and conducted training (training of trainers) in partnership with ADB for all the financial institutions in PNG.

With the MEP coming to its concluding phases (Financial Inclusion Strategy 2014 - 15), CEFI now exists as an institutional vehicle to coordinate, advocate, monitor, and drive both the microfinance expansion and financial inclusion work going forward in the medium to long term, and are currently being considered in the new Financial Inclusion Strategy 2016 - 2020.

8.3.6. National Land Development Program

The lack of access to land in Papua New Guinea is a key inhibitor to private sector development and remains a focus of the Government. Considerable work has been done under the National Land Development Program (NLDP), and processes are now in place to facilitate the registration and commercial use of customary land, whilst protecting the communal ownership of the land.

The Voluntary Customary Land Registration (VCLR) process under the land reform is a milestone achievement for PNG however, the administrative capacity to administer customary land remains a huge challenge. To address this challenge, the Government in February 2016 made a decision to establish the Office of the Customary Land Development (OCLD) which will then be transformed into an authority in the near future.

This office/authority will be solely responsible for land administration, dispute settlement and land development aspects of customary land in PNG relating to the migration of 'customary land' into the formal market system. Unleashing additional available land through the land reform program will support the development goals of the Government in providing much needed public goods and services for its people. It is expected that, once the program realises its full potential, customary landowners will become participants in economic development.

8.3.7. Informal Economy

In 2000, the government through the Department of Community Development in partnership with the Consultative Implementation and Monitoring Committee (CIMC) commissioned a study that reviewed the constraints to informal economy development which resulted in the formulation of the *Informal Sector Development & Control Act (2004)* and the development of Informal Economy Policy.

The Informal Economy Policy recognizes the informal economy as the grassroots expression of the private sector enterprise system and a partner in the formal economic system of PNG, and provides space for the informal economy to develop and flourish alongside the formal economy. The policy is aimed at ensuring the maximum participation of PNG citizens in the opportunities existing in the economy, notably through the informal economy, and to provide a regulatory environment for its growth whilst minimizing its negative aspects.

Additional activities that will be looked at are to carry out a National Audit of Informal Economic Activities and establish an association that gives "Voice" to the Informal Economy Participants.

8.3.8. Small-Medium Enterprises

The continued effort of the Government in encouraging Small-Medium Enterprises (SME) has seen major reforms that will improve the sector. The major SME policy reforms undertaken by the Government include the repealing of the *Small Business Development Corporation Act 1990* and the enactment of the *SME Corporation Act 2014 (Regulatory Reform)*, the review of the SME Policy 1998 and the endorsement of SME Policy 2016 and SME Master Plan 2016 – 2030 (Policy Reform), and the establishment of the SME Corporation replacing the Small Business Development Corporation (Institutional Reform).

Since access to finance is the single biggest barrier to people starting businesses, the Government through the SME Corporation are looking to set-up a dedicated "Credit Guarantee Corporation (CGC)" as an alternative to address this issue. This Credit Guarantee Corporation is basically a credit supplementing institution within the financial system and acts as guarantor to its clients' loans, which in this case, SMEs.

SME Corp has also been engaged with CIMC in the implementation of the Informal Economy Policy to develop a strategic link between the informal economy and SME sector and to move informal sector participants to the SME sector.

8.3.9. Domestic Market Development

Along with the SME Policy and Informal Economy Policy, PNG also launched the country's first National Trade Policy in 2016 to create an export driven economy that is also supported by an expanding domestic market that is efficient and competitive. The government is currently determined to translate these policies into sequenced, prioritized and time-bound reforms and action plans for implementation.

8.3.10 Aviation Industry Review

In 2006 the ICCC (acting on the direction of the Minister for Treasury) did a review of the aviation (air transport) industry. Some recommendations of the review has been implemented by the Government. However, much still needs to be done for the aviation industry as a whole.

In 2017, The Government intends to analyse the “2006 air transport review report” of the ICCC and do a further industry wide review on the aviation industry including the cost and price of services provision in the industry, especially the reasons for the high domestic airfares.

8.3.11 Investment Promotion Reforms

The Government's ongoing commitment to creating an enabling environment for private sector growth has led to a number of significant milestones achieved recently through the Investment Promotion Authority.

The Secured Lending Reform prefaced the enactment of the *Personal Property Security Act 2011* and its Regulations that created a single Web-based Online Personal Property Security Registry officially launched in early 2016 and handed over for Investment Promotion Authority (IPA) to administer. Following the launching of the companies online registry, there has been an increase in the number of new businesses being registered.

Furthermore, IPA also underwent a number of legislative reviews pertaining to the Companies Act, Business Names Act, and Securities Act, which were enacted in 2013 and 2015 respectively. However, there still appears to be many grey areas in the respective legislative frameworks as well as the registry infrastructures that requires further improvement.

The Government sees IPA as a crucial contact point between the Private Sector and the National Government's priorities, between the informal and formal sector, and between the foreign and domestic markets. Given this strategic position, the Government will collaborate with developing partners to further strengthen the role of the IPA to drive further essential private sector reform agendas to improve the business operating environment.

8.3.12. Developing Economic Infrastructure

The Government is aware that economic infrastructure (communication, transportation and distribution networks, financial institutions and markets, energy supply systems, etc.) in PNG is by far the greatest impediment to achieving a private sector led growth. The government has been over the years trying to find ways to address these issues in the most efficient and effective way.

The Government will continue to commit to these two reform programs (PPP & CSO) throughout the 2017 fiscal year.

8.4 IMPLEMENTATION OF THE SOVEREIGN WEALTH FUND

The objective of the Sovereign Wealth Fund of Papua New Guinea (PNGSWF) is to prudently, responsibly and efficiently manage the benefits from the resources sector. Unlike a “Rainy Day”, the PNG SWF is a “Build Papua New Guinea Fund” which seeks to invest in education, health, infrastructure through a Stabilisation Fund which will be a part of the established Budget management structure and an “inter-generational” component through a Savings Fund.

The structure is designed to protect the economy from the volatile cycles that accompanies high resource incomes for small economies.

The Organic Law on the Sovereign Wealth Fund (OLSWF) of PNG was passed by the Parliament in July 2015 and certified by the Speaker of Parliament in January 2016. Its implementation has commenced with the preliminary work on establishing the SWF Board with the funding made available in the 2016 Budget.

In compliance with the OLSWF, an independent external firm has been engaged to carry out an executive search domestically and internationally to identify suitable candidates for PNGSWF Board members. A Screening and Appointments Committee shall recommend for appointment by the Head of State.

This should be completed in early 2017 and will signify the successful completion of the first phase of implementation consistent with the OLSWF. The second phase will then focus on the implementation of administrative and operational arrangements, and legislative framework.

Technical Assistance has been sought from externally to assist to further operationalise the critical components of the OLSWF. The Administrative Secretariat is expected to be established in 2017.

The SWF Secretaries Committee and the Ministerial Committee on Economic Sector (MCES) will continue to oversee the implementation of the Sovereign Wealth Fund.

CHAPTER 9: IMPROVING STATE'S COMMERCIAL INTEREST

9.1 OVERVIEW

The State has majority interests in Public Enterprises in PNG. These Public Enterprises are also referred to as State Owned Enterprises (SOEs), mandated to provide essential services in sectors such as; telecommunication, transport, electricity, water, finance, and postal logistics services etc.

State has investments in the SOEs as well as other private companies in the banking, mining, petroleum and agriculture sectors. It thus owns equity interests in these investments, at a variety of levels alongside private investors.

SOEs are critical in determining development outcomes through their mandated roles as providers of essential services and infrastructure. Only with disciplined, transparent governance frameworks, and strong guiding policies, can SOEs operate to efficiently deliver essential goods and services.

The Government is also embarking on a policy pathway, to diversify PNG's economy base towards a more inclusive and sustainable economic growth through investments in the renewable resource sector. Through renewable resource sector reforms and increased government support, the building of a sustainable and responsible economy will be realized.

The Government's broad policy initiatives discussed in this chapter seek to support the objectives of enhancing the ongoing management and governance of State investments.

9.2 POLICY REFORMS ON STATE INVESTMENTS

The Government's Kumul Consolidation framework seeks to provide management expertise similar to private sector management expertise. The framework is intended to properly guide State investments in private commercial entities and SOEs to deal with deficiencies and ensure that resources are utilised more efficiently for the benefit of the whole country. All State assets have been consolidated into the Kumul framework and are now managed by the three Kumul holding entities.

Kumul Consolidated Holdings (KCH) oversees the management of the States infrastructure and service provision through its SOEs. KCH is the holding entity of assets formerly managed by the Independent Public Business Corporation (IPBC).

Kumul Minerals Holdings (KMH) holds the States mining interests including those previously held by Petromin.

Kumul Petroleum Holdings (KPH) holds the State's interests in petroleum projects including the PNG LNG project. It also holds assets formerly held by National Petroleum Company of PNG (NPCP).

The focus of the Kumul reform agenda is to provide commercial industry expertise to drive decision making in SOEs in order to enable better financial performance and efficient service delivery to the people.

In 2017 the Government through KCH is looking to diversify its investment base in the medium to long term. The Government is focusing more towards the traditional drivers of the economy

such as Agriculture, Fisheries and Forestry, whilst considering new sectors for investment such as Tourism and Water. By adopting a sustainable approach towards investments and providing the right economic environment to encourage private sector partnership, the Government can achieve optimal outcomes from its investments and increase development outcomes for the country as a whole.

9.3 STATE OWNED ENTERPRISE POLICY

SOEs are expected to operate on commercial terms, similar to private organisations. The reason being they would operate competitively and efficiently alongside the private sector to deliver much needed services to the people.

The Government will continue to focus on developing policies that promote commercial decision making, greater transparency, good governance, and enhanced competition to support better service delivery to the community as well as to attain higher returns from its investments.

The Government remains committed to promoting the following four broad measurable objectives in the medium term;

- improve SOE service delivery in telecommunications, electricity, water and sanitation, seaport and airport services, banking and finance, and motor vehicle insurance.
- improve PNG's share of revenue from the extractive industries and State investments.
- enhance the governance frameworks supporting SOEs and State investments.
- improve the recapitalisation of SOEs and State investments.

These objectives are promoted through various policy reforms including the On-Lending and Guarantee Policies, Dividend Policy, Community Services Obligation (CSO) Policy, and the Public Private Partnership (PPP) Policy. The Government's Kumul arrangements provides broad guidance in managing and administering SOEs and enabling them to actively participate in the economy.

The On-Lending and Guarantee Policies will ensure borrowing is centralised to ensure financing is undertaken on commercial terms and all Government assets and liabilities are consolidated to determine the State's net worth.

9.3.1 Dividend Policy

The Dividend Policy will continue to be implemented in 2017 going forward and will ensure the State gets an appropriate return on its investment. The Policy ensures that the Government, as a major shareholder, gets to communicate its dividend expectation clearly to SOEs and the board and management of the KCH.

The Policy seeks to ensure smooth interaction between the Kumul entities and the Sovereign Wealth Fund to balance the State's expectation of maximising flows into the fund at the same time maintaining any commercial requirements of the Kumul entities.

Dividends from the State's numerous investments can form an important revenue stream for the Budget. The need for greater predictability around how boards' will consider and declare dividends has been brought into sharper focus since the passage of both the Kumul and Sovereign Wealth Fund legislations.

9.3.2 Community Service Obligation (CSO) Policy

The CSO policy aims to promote transparency and good governance in service delivery by the SOEs in collaboration with the State.

The CSO policy is particularly important to ensure that Papua New Guineans are able to access vital public infrastructure and services delivered in a transparent and effective manner by SOEs whilst not impacting on their financial performance.

SOEs are frequently faced with the challenge of generating a comparable level of profit to private sector companies while providing goods or services to the community at a cost that would have rendered those activities unprofitable.

To ensure that all CSOs promote transparency and accountability, the Policy requires all CSOs undertaken to be fully costed and defined in a contract. This is to further enable SOEs to improve their performances. The Policy allows SOEs to remove CSO activities from their profitable arms of operation. Thus allowing the State to better understand the true cost of delivering CSOs and placing the Government at a better position to assess the scope for private sector involvement.

A pilot program will be undertaken in the medium term. Lessons from this pilot program will inform the Government to enable the broader roll-out of this policy in the longer term.

9.3.3 Public Private Partnership (PPP)

The Public Private Partnership (PPP) Policy is aimed at creating a long term contract between the Government and Private sector for the delivery of public infrastructure and services.

The Government approved the policy in 2013 and its legislation was drafted and passed in Parliament on the 26th of August 2014. The PPP framework provides an assessment process that will assist in prioritising projects to ensure that they are achieved in the most cost efficient manner.

The Legislation will be gazetted in the short-term and will be accompanied by a set of amendments reflecting recent legislative changes in the public sector.

The Government has promoted the PPP legislation recognising that private sector participation in infrastructure and service delivery will lead to greater efficiencies. Through the PPP framework the Government will utilize private sector capital, management, innovation and technology to realise these efficiencies. Greater use of PPP can also help improve SOE efficiency and profitability.

9.4 PUBLIC ENTERPRISE AND STATE INVESTMENT PERFORMANCE

KCH holds all assets formerly held by IPBC. KCH acts as a trustee owner and authority for state owned assets and enterprises. It manages and provides financial resources and services for certain state assets, notably the commercialised Majority SOEs and also acts as trustee of other certain prescribed trusts.

KCH manages the General Business Trust (GBT), the GBT was established under Section 31 of the *IPBC Act 2002*. Table 21 lists the GBT assets held as at 31st December 2015.

The valuation of total GBT Assets as at 31st December is K9.8 billion as shown in Table 21. Of the total assets, the value of investments in Unlisted Equity Investments (Majority SOEs)

is K8.1 billion. Other (minor) Unlisted Equities is K1.0 billion and investment in Listed Equities is K638.3 million.

Under the recent 2015 Kumul restructure arrangement, the investment in NPCP will be transferred to Kumul Petroleum Holdings Ltd. This is expected to reduce total net asset value of the GBT by K3.9 billion and a corresponding increase in Kumul Petroleum Holdings.

Table 21: General Business Trust Assets, as at 31st December 2015

PARTICULARS	SHAREHOLDINGS (%)	2015 (K million)
UNLISTED EQUITY INVESTMENTS IN GBT		
K8.1 billion		
Air Niugini Ltd	100	709
Eda Ranu Ltd	100	109
Motor Vehicle Insurance Ltd	100	509
National Development Bank	100	463
PNG Ports Corporation Ltd	100	477
PNG Power Ltd	100	687
PNG DataCo	100	205
Water PNG	100	49
Post PNG Ltd	100	91
Telikom PNG Ltd	100	405
Be mobile	85	4
National Petroleum Company PNG	100	3,895
PNG Dams Ltd	100	466
Port Moresby Private Hospital Ltd	100	79
Other Unlisted Investments (K1.03 billion)		1,036
Listed Equity Investments (K638.3 million)		
Bank of South Pacific	18	632
Highlands Pacific Ltd	4.4	6
TOTAL ASSETS K9.8 billion		9,822

Source: GBT Draft Report as of 31st December 2015.

All SOEs, State Authorities, and other equity investments are expected to make dividend contributions in 2016 and 2017 going forward, this is in line with the requirements of the approved Dividend Policy.

For 2015, KCH has paid a dividend of K310.0 million to the State, whilst KPH has paid K451.0 million. In 2016, there has been no record of dividend payments by KCH to the State. This is despite the State having projected in 2016 to receive K110.0 million as dividends from KCH.

For mining and petroleum dividends, KPH has paid to the State a K100.0 million in dividends from the projected K200.0 million for 2016. Whilst dividend payments from Statutory bodies have been from National Fisheries Authority K25.0 million and National Gaming control Board (NGCB) K10.0 million.

Dividends paid to the state form an important part of the Government revenue and contribute significantly to the Budget.

9.5 BROAD REFORMS FOR STATUTORY BODIES

The Government is undertaking major reforms to ensure prudent fiscal management of the use of Public Funds by Statutory bodies.

There are many statutory bodies being set up and operating without a set of investment parameters or guidelines provided for by the Government. The Government has mandated the Departments of Finance and Treasury to review all proposals for creation of statutory bodies to comply with the best fiscal standards.

In addition, a Financial Framework Review is being initiated as a whole of Government approach with the Department of Finance taking lead. Part of this review deals with public finance management issues regarding statutory bodies. As all funds received by statutory bodies such as fees and charges, must be paid without deduction into the Government's CRF account.

Part of the review is also the amendment to the *Public Financial Management Act (PFMA) 1995*, in which the amended PFMA Amendment Bill passed by Parliament in August 2016 will now guide statutory bodies in their investment decisions and ensure they adhere to the set parameters stated in the amended Act. It further outlines the strict penalties that will be imposed on those entities in breach of the PFMA.

9.6 MANAGING MINING AND PETROLEUM ASSETS

Effectively managing the mining and petroleum sectors is important to the PNG economy and the State as it represents significant portions of the State's asset holdings. In the past five years, economic growth has been driven by activities in the mining and petroleum sectors and supported by the associated high levels of construction.

The Government recognises the importance of managing these sectors in order to maximise benefits for the community and ensure resource revenues are optimally utilised to assist in meeting its development objectives. The Government anticipates to achieve this through the introduction of the Kumul Legislation in 2015, with the establishment of the Kumul Mineral Holdings and the Kumul Petroleum Holdings.

However, the recent drop in commodity prices has greatly affected revenues from both the mining and petroleum sectors. In the medium to longer term, prices are expected to pick-up allowing revenues to flow into the SWF and thus drawdowns into the Budget consistent with the formula of the SWF Organic Law. This ensures that the SWF plays its important stabilisation role.

In the medium term, potential major mining and petroleum projects such as the Elk-Antelope, Stanley Gas, Wafi-Golpu and the Frieda River mining projects, and the expansion of the PNG LNG (Pn'yang gas) are expected to contribute to the domestic economy and government revenue. Frieda and Wafi-Golpu projects have submitted their feasibility studies and application for mining licenses to the State for consideration and approval. These projects are expected to be permitted in 2017 and construction to begin thereafter.

Mining and petroleum assets held by or on behalf of the State, will be held within the Kumul structure ensuring consistent application of best practice governance arrangements and focussing management expertise on these valuable assets. The Government will influence the ongoing management of these assets through articulated policies carefully setting out the State's expectations.

9.6.1 Extractive Industries Transparency Initiative (EITI)

The Extractive Industries Transparency Initiative (EITI) is a global initiative that promotes revenue transparency relating to extractive industries. The benefits derived from the EITI process include promoting good governance, enhancing transparency and accountability, attracting investment and enhancing public debate and decision making through access to quality information.

The EITI represents a collaboration between government, the extractives industry and civil society to collectively enhance transparency and realise the associated benefits for Papua New Guinea. This work is led by a Multi-Stakeholder Group (MSG), the membership of which is comprised of representatives from government, the civil society and industry.

The key deliverable of EITI is to produce annual EITI Reports. The first EITI report was released in 2016 for the 2013 financial year. The content of the report includes a reconciliation of payments from mining and petroleum companies and revenues received by the State. The report also includes contextual information about the extractive sector, laws, regulations and fiscal regime. The MSG has used the report in 2016 to conduct an education and awareness campaign aimed at promoting greater transparency and accountability in the extractive industry.

9.6.2 State Equity Participation

The *Mining Act 1992* Review and the Tax Review have considered the fiscal regimes applying to the mining and petroleum sectors in PNG. The Tax Review report was submitted to the Government in October 2015. The findings include recommendations around the level and terms on which the State should seek to participate in resource projects.

The Government has considered the findings and is distilling them into principles to guide State equity participation. All this is being considered through a policy for Governments consideration and approval.

The policy will aim to provide a framework to guide State Investment decision in relation to equity acquisition in mining and the oil and gas projects. The policy will also aim to make the equity participation decision more transparent and ensure good governance.

The Government will continue the development of this policy initiated in 2016 into 2017. Further development of the policy will include wider consultation with external stakeholders.

9.6.3 Template Gas Agreement

The Government has initiated development of a Template Gas Agreement that aims to ensure transparency and more consistency in negotiating oil and gas project agreements with prospective developers. Work on the Template Gas Agreement is anticipated to be completed in 2017 for Government consideration and endorsement.

9.6.4 Domestic Market Obligation

More oil and gas projects are expected to come on stream within the next five to ten years which has the potential to increase PNGs production of oil and gas. The Government is now working through establishing a policy on domestic market obligation.

This policy aims to ensure that certain amount of oil and gas extracted is retained and used in country for domestic consumption. This policy will have a positive impact in the country by

increasing oil and gas supplies within country at low cost. Initial work on this policy began in 2016 and will lead into 2017 for completion.

APPENDIX 1: REVENUE TABLES

Table 1.1: Summary of Infrastructure Tax Credit Scheme (Kina million)

Table 1.2: Incentives Under the Income Tax Act Resulting in Permanent Loss of Revenue (Kina)

Table 1.3: Incentives Under the Income Tax Act Involving Deferral of Income Tax (Kina)

Table 1.4: Exemptions Under the Stamp Duties Act (Kina)

Table 1.1: Summary of Infrastructure Tax Credit Scheme (Kina millions)

	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Est. 2016
Total Mining & Petroleum & Gas Taxes Paid	1,077	1,947	2,334	1,991	749	1,476	2,073	1,033	662	794	195	45
Net Mining & Petroleum Taxes Paid by Companies claiming ITC	1,077	1,947	2,334	1,991	744	605	1,926	1,025	642	643	22	5
Total ITC Claimed & Allowed ¹	20	23	21	25	92	60	53	34	51	115	33	15
Expenditure Incurred on Approved ITC Projects ²	85	63	62	39	70	70	42	33	84	196	217	n/a
Tax Credit Claimed as Percentage of Taxes Paid by Companies Subject to ITC	1.9	1.2	0.9	1.3	12.3	9.9	2.5	3.3	7.8	14.5	16.9	34.1
Excess Credits Carried Forward (from prior years) ³	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Notes: 1. Actual deductions for tax credits to Mining and Petroleum companies involving in the scheme.

2. Actual expenditures incurred by the Mining and Petroleum companies participating in the tax credit scheme. Some portion of the credits will be carried forward for deductions against income in future years

Source: Department of Treasury, National Planning and Monitoring, and Internal Revenue Commission

2017 Budget, Volume 1

Table 1.2: Incentives Under the Income Tax Act Resulting in Permanent Loss of Revenue (Kina)

Section	Description	2005 Number	Amount	2006 Number	Amount	2007 Number	Amount	2008 Number	Amount	2009 Number	Amount	2010 Number	Amount	2011 Number	Amount	2012 Number	Amount	2013 Number	Amount	2014 Number	Amount	2015 Amount	2016 Amount	Grant Total Amount
25	Institutions and Hospitals		4 348,014		2 148,414			1	4,600	2	201,076	1	37,336											739,440
25A	Charitable Institutions		6 8,164,869		2 3,901,519			2	65,028					1	3,000									12,134,416
27	Non-Profit Bodies		1 23,911		3 896,816		2 3,101,292	1	378,576	2	2,271,160													6,671,755
35(1)	Exempt interest		17 1,403,878		9 518,541		4 109,036	6	134,349	7	329,604	5	501,234	5	244,750	5	234,710	1	60,473			232,377,218	79,230,700	315,144,493
35A	Fishing Operations																					19,812	856,566	876,378
45B	Export Sales Exemptions		4 14,896,443		5 21,796,614		1 788,393	2	1,750,431	3	2,253,401	1	125,342			1	12,932,567	1	3,468,211			22,376,987	85,263,149	165,651,538
45I	Rural Development		4 3,592,213		4 2,144,577		1 161,206	1	618,105									1	19,509,048			0	1,238,486	27,263,635
45N	Bougainville Incentive																					0	1,500,000	1,500,000
46AA	Rabaul Incentive																							
69	Gifts to political parties									1	600							1	1,500					2,100
69A	Gifts to Sporting Bodies		1 158,397		2 3,700		2 7,174	4	22,980	3	13,120	2	2,992									114,194	309,689	632,245
69C	Gifts to Law, Order and Justice		1 261									1	17,600									606	61,213	79,680
69E	Gifts to Charities		4 9,646		1 450		3 16,389	2	24,920	4	23,143	2	23,000	3	11,865							359,631	1,766,204	2,235,248
69I	Gifts to National Day Celebrations				2 23,603		1 60,000			3	10,555			1	5,000							600	39,311	139,069
69H	Gifts Law and Order projects		1 261																			10,000	0	10,000 261
69J	Gifts to PNGSC 2000 Olympics											1	1,440											1,440
69K	Gifts - PNG Sports Federation																					1,015,571	1,468,120	2,483,691
70A	Deduction for Education Expenses		35 814,961		26 426,101		3 5,759			1	6,600	1	4,144									223,051	1,130,632	2,611,247
72A	Double Deduction - Training		35 4,070,212		27 2,313,506		16 1,824,698	25	2,141,708	25	5,033,995	24	5,167,346	7	692,701	14	3,112,766	14	2,164,563		3 185,541	4,689,395	43,947,714	75,344,145
72C	Double Deduction - Export Market Development		4 119,357		6 144,895		3 1,128,192	3	156,825	7	1,574,165	6	1,851,965	2	294,289	1	58,986	2	54,513			204,190	1,604,541	7,191,917
95	Research and Development - 150%															2	52,632,782	2	13,963,352			206,819	13,331,013	80,133,966
97A	Primary Production Development Expenditure		2 2,848,016		1 4,149,637			4	249,272							1	2,055,675					4,809,417	15,365,615	29,477,632
97B	Agriculture Extension Services - 150%															1	27,810					306,506	468,144	802,460
CH 119	Pioneer Industries																							
219D	Exp. Prov. of Remote Banking																					14,243,817	6,460,379	20,704,196
	Other																					4,948,156	42,272,506	47,220,661
Total		119	36,450,439	90	36,468,373	36	7,202,139	51	5,546,794	58	11,717,419	44	7,732,399	19	1,251,605	25	71,055,296	22	39,221,660	3	185,541	280,957,813	254,041,475	799,051,614

Note: Number means the number of tax payers claiming the concessions
A dash means no exemptions were recorded.

Source: Internal Revenue Commission

Table 1.3: Incentives Under the Income Tax Act Involving Deferral of Income Tax (Kina)

Section	Description	2004 Number	Amount	2005 Number	Amount	2006 Number	Amount	2007 Number	Amount	2008 Number	Amount	2009 Number	Amount	2010 Number	Amount	2011 Number	Amount	2012 Number	Amount	2013 Number	Amount	2014 Number	Amount	2015 Amount	2016 Amount	Total Amount
68A	Solar Heating					1	5,796							1	11,712,956	1	15,752							3,952	13,793	11,752,249
73(3)	Depreciation 20% loading	2	19,978	3	3,824,267	7	396,272	2	89,426	1	1,018	1	14,100	1	3,345,605	1	100,178			2	152,031			62,172,343	3,886,540	74,001,759
73(6)	Depreciation non-oil fired plant			1	2,430,499					2	12,385,337			1	1,022									6,268	75,485,414	90,308,540
73(7)	Depreciation - industrial plant	4	4,773,645	7	5,997,844	5	4,331,053	2	222,795	2	2,556,924	1	482,788	2	8,898,590	2	1,836,654	5	17,689,261	4	6,352,567	4	3,396,152	82,134,504	40,318,742	178,991,519
73(9)	Depreciation - Primary Production	2	1,192,744	3	2,128,907	2	402,220	2	5,384,171	1	3,870,253	1	4,268,451	7	19,470,870	1	4,817,293	1	1,375,403	3	7,037,176			3,440,026	9,460,015	62,847,530
		8	5,986,367	14	14,381,517	15	5,135,341	6	5,696,392	6	18,813,532			12	43,429,043	5	6,769,877	6	19,064,664	9	13,541,774	4	3,396,152	147,757,095	129,164,504	417,901,597

Note: Number means the number of tax payers claiming the concessions
A dash means no exemptions were recorded.

Source: Internal Revenue Commission

Table 1.4: Exemptions under Stamp Duties Act

Schedule 1	Descriptions of Exemptions	2010		2011		2012		2013		2014		2015	
		Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number (est)	Amount (est)
Item 5	1st and 2nd Time Home Buyers Exemption	635	1,389,746	254	818,185	377	1,760,219	488	3,456,034	681	4,262,746	406	3,244,774
Item 5	Charities/Educational Bodies Religious Bodies	5	110,030	3	1,222,510	4	101,476	9	2,049,044	9	50,394	6	171,371
Item 8	Wills	4	107,530	10	188,135	6	111,918	20	346,800	7	138,750	6	90,000
Item 16A	Transfers of Marketable Securities	—	—	—	—	—	—	0	-	0	-	0	-
Section 6	Purchase of Property by State & Instrumentalities of state	6	283,580	4	338,450	7	923,450	14	917,100	21	2,010,631	10	130,425
								1 (Sec 6 (c)	1,862,400			1	35,546,350
Total		650	1,890,886	271	2,567,280	394	2,897,063	531	8,631,378	718	6,462,521	429	39,182,920

Note:

Number means number of transactions

2013 Figures are from January to December

2014 Figures are from January to December

2015 Figures are from January to June

— means no exemptions were granted

Section 6(c) exercised by Minister to exempt Valkyrie Ltd in a failed Govt Home Ownership Scheme

IPBC deal with PNG Ports for purchase of POM Wharf

Source: Internal Revenue Commission 27/10/2016

APPENDIX 2: GRANTS AND TRANSFERS TO PROVINCES

Table 2.1: National Governments Grants to Provincial and Local Level Governments (Kina Thousand)

Table 2.2: Grants, Transfers and other resources of the Provinces (Kina Thousand)

Table 2.1 National Government Grants to Provincial and Local-level Government (Kina Thousand)

Province	Personnel Emoluments							Goods and Services													Total Recurrent Grants (a) + (b)
	Salaries		Leave fares		Allowances		Sub-total PE (a)	Health Function Grant	Education Function Grant	Transport Infrastructure Maintenance Function Grant	Primary Product'n Function Grant	Village Courts Function Grant	Land Mediation Function Grant	Other Service Delivery Function Grant	Admin. Grant	Total Provincial Gov't Grants	Urban LLG Grants	Rural LLG Grants	Total LLG Grants	Sub - total G&S (b)	
	PS Salaries	Teachers Salaries	PS leave fares	Teachers leave fares	Village Court	Land Mediation															
Western	14.970	32.042	2.100	2.500	NA	NA	51.612	10,732.9	7,889.9	11,352.5	3,224.9	397.4	109.3	1,644.2	384.6	35,735.6	721.9	2,975	3,696.8	39,432.5	39,484.07
Gulf	11.786	17.120	0.300	0.600	NA	NA	29.806	5,297.9	4,027.4	5,783.3	1,916.3	389.8	62.1	1,632.7	1,566.3	20,675.7	139.2	2,920	3,059.4	23,735.1	23,764.93
Central	15.600	43.731	0.300	2.000	NA	NA	61.631	5,952.8	6,168.5	10,575.1	2,031.3	343.8	65.0	2,728.3	1,544.2	29,409.0	-	2,032	2,032.4	31,441.3	31,502.96
NCD*	0	0	0	0	NA	NA	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Milne Bay	8.300	54.963	0.320	1.000	NA	NA	64.583	7,456.6	7,652.6	7,285.7	2,265.6	379.3	62.1	4,356.6	1,817.5	31,276.0	280.5	2,410	2,690.4	33,966.3	34,030.93
Oro	11.547	24.882	0.500	1.100	NA	NA	38.029	4,524.4	3,954.5	4,064.7	1,987.2	330.6	66.3	1,987.1	1,030.2	17,945.0	696.7	1,598	2,294.3	20,239.3	20,277.36
Southern Highlands	26.156	64.801	0.370	0.750	NA	NA	92.077	4,191.1	4,844.1	4,374.1	1,164.3	419.4	65.0	1,832.2	787.6	17,677.9	663.5	2,469	3,132.3	20,810.1	20,902.21
Hela	15.049	19.343	0.150	0.260	NA	NA	34.802	5,968.5	3,718.7	4,009.8	1,700.3	276.4	86.4	1,633.3	2,090.5	19,483.8	929.2	1,344	2,273.1	21,756.9	21,791.75
Enga	19.621	44.661	0.200	1.000	NA	NA	65.482	4,611.3	4,843.1	10,183.7	800.7	369.9	60.7	2,866.2	1,674.5	25,410.0	231.3	2,072	2,303.7	27,713.7	27,779.23
Western Highlands	11.355	77.632	0.380	1.050	NA	NA	90.417	4,706.3	6,336.7	9,147.6	1,408.5	412.9	80.0	2,030.7	1,064.4	25,187.1	776.6	1,387	2,164.0	27,351.1	27,441.54
Jiwaka	11.459	29.830	0.125	0.400	NA	NA	41.814	4,562.4	5,613.7	9,301.1	1,133.8	343.8	69.2	1,887.0	1,866.4	24,777.4	-	872	871.8	25,649.2	25,691.02
Simbu	19.518	61.402	0.200	0.800	NA	NA	81.920	6,308.9	8,463.3	9,346.0	1,693.3	546.3	56.3	3,104.2	2,280.5	31,798.8	367.8	1,336	1,703.5	33,502.3	33,584.20
Eastern Highlands	10.126	83.168	0.700	1.000	NA	NA	94.994	7,336.0	10,552.5	17,245.1	2,693.1	636.2	66.6	3,624.0	2,933.1	45,086.6	723.0	1,975	2,698.2	47,784.9	47,879.88
Morobe	31.400	122.900	1.200	5.000	NA	NA	160.500	-	-	-	-	-	-	-	-	-	2,415.5	4,442	6,857.2	6,857.2	7,017.67
Madang	25.300	85.220	0.700	2.000	NA	NA	113.220	9,487.3	9,403.9	12,951.2	3,751.5	585.4	66.6	3,722.2	3,566.1	43,534.3	850.9	3,542	4,392.9	47,927.2	48,040.45
East Sepik	18.640	63.668	1.000	1.000	NA	NA	84.308	11,161.5	12,227.5	19,777.8	3,405.1	795.4	54.2	3,094.8	3,268.3	53,784.7	636.7	4,073	4,710.1	58,494.8	58,579.08
Sandaun	11.966	41.475	0.700	1.000	NA	NA	55.141	9,665.4	9,046.3	7,180.0	3,164.2	344.1	57.3	2,005.3	2,961.9	34,424.4	477.8	3,861	4,339.1	38,763.5	38,818.60
Manus	8.440	19.355	0.500	0.500	NA	NA	28.795	1,883.3	1,698.0	2,169.7	602.4	159.8	65.0	535.4	151.9	7,265.4	210.1	524	734.1	7,999.6	8,028.36
New Ireland	15.527	40.200	2.350	0.750	NA	NA	58.827	865.2	721.4	751.7	267.8	45.5	44.9	83.6	75.8	2,855.9	395.6	989	1,384.4	4,240.3	4,299.11
East New Britain	20.500	69.641	0.300	1.200	NA	NA	91.641	5,349.1	7,626.6	8,953.6	3,168.2	306.4	92.4	3,270.5	1,210.0	29,976.9	869.3	2,546	3,415.7	33,392.6	33,484.28
West New Britain	16.582	47.273	1.000	2.800	NA	NA	67.655	3,178.5	4,337.6	2,065.4	1,154.0	183.2	56.7	887.3	198.4	12,061.0	542.2	1,503	2,045.5	14,106.5	14,174.18
Bougainville*	29.782	61.617	0.300	2.100	NA	NA	93.799	-	-	-	-	-	-	-	-	-	-	-	-	-	93.80
TOTAL	353.624	1104.924	13.695	28.81	0	0	1501.053	113,239.1	119,126.3	156,518.1	37,532.7	7,265.5	1,285.9	42,925.8	30,472.1	508,365.5	11,927.8	44,871.2	56,799.0	565,164.5	566,665.6

Note:

NCD and Bougainville are not part of the Intergovernmental Financing Arrangement therefore do not receive any function grants

NCD receives Goods and Services Grant through a single Town and Services Grant indicated under urban LLG Grants category

ABG receive Goods and Services Grants through a single category of Recurrent Goods and Services Grants

Source: Treasury and NEFC

Table 2.2: Grants, transfers and other resources of Provincial Governments (Kina Thousands)

Province	Total Grants and Transfers	Non-Grant tax transfers				Total
	Recurrent Budget	GST (1)	Bookmakers Tax (2)	Mining & Petroleum Royalties/Dividends (3)	Own Source Revenues (4)	
Western	39,484.1	2,226.0	0.0	9,300.0	4,477.6	55,487.7
Gulf	23,764.9	394.0	0.0	1,762.0	359.2	26,280.1
Central	31,503.0	617.0	0.0	0.0	606.1	32,726.1
NCD*	0.0	283,685.0	8,345.4	0.0	0.0	292,030.4
Milne Bay	34,030.9	3,169.0	0.0	0.0	2,222.1	39,422.1
Oro	20,277.4	880.0	0.0	0.0	724.7	21,882.1
Southern Highlands	20,902.2	5,525.0	0.0	27,087.8	2,590.1	56,105.1
Hela	21,791.8	357.0	0.0	0.0	0.0	22,148.8
Enga	27,779.2	852.0	0.0	18,985.2	2,421.2	50,037.6
Western Highlands	27,441.5	8,937.0	529.2	0.0	4,123.0	41,030.8
Jiwaka	25,691.0	139.0	0.0	0.0	90.0	25,920.0
Simbu	33,584.2	995.0	0.0	0.0	1,601.7	36,180.9
Eastern Highlands	47,879.9	6,240.0	487.3	0.0	2,974.6	57,581.8
Morobe	7,017.7	75,503.0	1,603.4	1,825.2	15,428.9	101,378.2
Madang	48,040.4	4,886.0	1,605.7	0.0	1,771.1	56,303.2
East Sepik	58,579.1	2,655.0	0.0	0.0	2,984.7	64,218.7
Sandaun	38,818.6	932.0	0.0	0.0	1,814.4	41,565.0
Manus	8,028.4	24,630.0	0.0	0.0	759.9	33,418.3
New Ireland	4,299.1	2,880.0	0.0	25,236.7	5,483.6	37,899.5
East New Britain	33,484.3	7,388.0	960.7	0.0	3,839.9	45,672.9
West New Britain	14,174.2	16,788.0	0.0	0.0	3,152.7	34,114.9
Bougainville*	93.8	0.0	0.0	0.0	0.0	93.8
TOTAL	566,665.6	449,678.0	13,531.8	84,196.9	57,425.4	1,171,497.7

Notes

1) GST is based on 60% of the 2015 net inland GST collections, to be distributed to each province in 2017

2) Bookmakers is 100% of 2015 net collections

3) NEFC estimate based on 2015 actual collections which includes dividends from equity shares of mining and petroleum resource projects

4) NEFC estimate based on 2015 Actuals

5) NEFC cannot provide Own Source Revenue (4) estimates for NCD and Bougainville as these provinces are not part of Intergovernmental Financing Arrangements

APPENDIX 3: TABLES ON ECONOMIC AND FISCAL DATA

Table 1:	Gross Domestic Product by Economic Activity at Current and Constant Prices
Table 2:	Contributions to Growth in Real Gross Domestic Product
Table 3:	Prices of Main Export Commodities
Table 4:	Volume of Main Export Commodities
Table 5:	Value of Main Export Commodities
Table 6:	Summary of Balance of Payments
Table 7:	Employment Classified by Industry
Table 8:	Central Government Revenue by Economic Classification
Table 9A:	Budgetary Government Expenditure by Economic Classification
Table 9B:	Budgetary Government Expenditure by Economic Classification Expenditure by Agency Type
Table 10 (i):	Transactions in Assets and Liabilities for Central Government
Table 10 (ii):	Statement of Operations for Central Government
Table 10 (iii):	Statement of Sources and Uses of Cash
Table 11:	Monetary Aggregates
Table 12:	Stocks in Central Government Debt
Table 13:	Major Assumptions Underlying the Budget
Table 14:	Sovereign Wealth Fund – Stabilisation Fund
Table 15:	Sovereign Wealth Fund – Savings Fund

Government Finance Statistics

(Information contained herein is derived from the International Monetary Fund's Government Finance Statistics Manual 2014 (GFSM 2014)).

The government finance statistics framework is a macroeconomic statistical system designed to support fiscal analysis. The GFS framework incorporates economic and accounting principles that can be used when compiling government budgets and presenting fiscal statistics.

Changes between the GFSM 1986 and GFSM 2014

In the 2013 Budget the Government announced that it would be moving from an International Monetary Fund (IMF) GFSM 1986 framework of Budget reporting to an updated GFSM 2001 framework. The IMF in 2015 released an updated version of the GFSM 2001, the GFSM 2014. The updated framework allows for harmonization with other macroeconomic frameworks, such as the System of National Accounts, Monetary Statistics and Trade Statistics, and also allows for cross-country comparisons. The GFSM 2014 is being used for the first time in Papua New Guinea in Volume 1 of the 2016 Budget. It represents a significant modernisation and expansion of the coverage of the previously used GFSM 1986.

The GFSM 2014 better defines the public sector and in particular the general government sector, as it is based on the concept of institutional unit coverage. The general government sector consists of all government units, representing budgetary central government, provincial government, local government and extra budgetary accounts within the country that are controlled and largely financed by the government. In contrast, the coverage of the GFSM 1986 system was defined on a narrower functional basis to include all units carrying out a function of government.

Due to its broader and more extensive coverage of economic units, the GFSM 2014 allows for greater understanding of where and how the government is spending its money, and therefore supports better decision making, economically as well as functionally.

In terms of the updated reporting framework, Volume 1 of the 2016 Budget will see the introduction of three new tables: The **Statement of Sources and Uses of Cash**, the **Statement of Operations**, and the **Classification of Functions of Government (CoFoG)**. It also includes a new reporting approach to the pre-existing **Revenue** and **Expense** (previously Expenditure) Tables, the **Transactions in Financial Asset and Liabilities** Table (replacing the Central Government Financing Table), and a revised **General Government Debt** table.

Balancing items

Two important balances are derived from GFSM 2014 and used in the Volume 1 Tables. Revenue minus expenses (*other than the consumption of fixed capital*) equals the **gross operating balance** and is set out in the Statement of Operations. The gross operating balance is therefore a reflection of the total change in net worth of the general government sector due to transactions and is a measure of the sustainability of government operations.

The gross operating balance minus the net acquisition of non-financial assets gives **Net Lending/Net Borrowing**. Net lending/borrowing is also equal to net acquisition of financial assets minus net incurrence of liabilities. In essence net lending/borrowing measures the extent to which the government is either putting financial resources at the disposal of other sectors in the economy and non-residents (net lending) or utilising the financial resources generated by other sectors and non-residents (net borrowing). This balance can therefore be

seen as an indicator of the financial impact of government activity on the rest of the economy and non-residents. It is the equivalent of the overall deficit/surplus in the GFSM 1986, but determined using the accrual basis of recording.

Net lending/borrowing is similar to a surplus/deficit under GFSM 1986; however, there are two major differences:

- (1) net lending/borrowing does not include any financing transactions, whereas the overall deficit/surplus included lending for policy purposes; and
- (2) net lending/borrowing is an accrual concept, while the overall deficit/surplus is a cash concept.

The **Statement of Sources and Uses of Cash** may assist in assessing the liquidity of the general government. The statement reflects the total amount of cash generated or absorbed by current operating activities, transactions in non-financial assets (*fixed assets, property, plant and equipment*), and transactions involving financial assets and liabilities other than the financial asset currency (cash) itself. The net change in the stock of cash is the sum of the net cash received/used from these operating activities, transactions in non-financial assets and transactions involving financial assets (other than cash) and liabilities. As a 'cash' statement it excludes in-kind related flows/transactions.

The **Statement of Operations** presents details of transactions in revenue and expense, as well as the net investment in non-financial assets, the net acquisition of financial assets, and the net incurrence of liabilities. The Statement of Operations is intended to be compiled using the accrual basis of recording transactions. With the exception of consumption of fixed capital, in-kind and imputed transactions, and other accounts receivable/payable, all of the line items in the Statement of Operations can be applied to both cash and accrual data. In the case the Government of PNG a modified cash-basis approach is taken where some accrual-like information is available.

Under the GFSM 2014 methodology **Revenue** transactions are recorded on a gross basis and in the Government of PNG context non-payable infrastructure tax credits, revenue from asset sales and recoveries of previous years will be excluded. GST collections and bookmakers' licence fees collected and to be transferred to provinces will not be offset in revenue but the corresponding amounts will be reflected as items in expense per economic and functional classification in the Expense Table. Under the GFSM 2014 methodology, sales of assets are deducted from the total non-financial assets to reflect the net investment in non-financial assets. New borrowing acquired and received by the Government is regarded as an incurrence of a liability and is therefore registered as a transaction in assets and liabilities. The GFSM 2014 now includes all in-kind related receipts where data is available.

The classification of **Expense** by economic type under GFSM 2014 is broadly similar to the corresponding classification in the GFSM 1986. The primary exception is that acquisitions of non-financial assets are not considered an expense and repayment of borrowing is regarded as transactions in assets in liabilities under GFSM 2014. Other differences include: Consumption of fixed capital which is an expense under GFSM 2014 was not included under the GFSM 1986 as it is a non-cash expense. Transfer payments are classified by type of payment under GFSM 2014. Under the GFSM 1986 they were classified by the sector receiving the payment. The major types of transfer payments are subsidies, grants, and social benefits. The GFSM 2014 now includes all in-kind related payments where data is available.

Table 9A details the General Government Expense Economic Classification. This table provides for a summary of expense per economic classification and Table 9B provides final output expenditure for the National Government, Provincial Governments, Autonomous Bougainville Government and Commercial and Statutory Authorities.

General Government Debt

Table 10.1 details the General Government's **Transactions in Financial Assets and Liabilities**.

Table 12 summarises the **General Government's Stock of Debt** at the end of the reporting period.

The new **Classification of Functions of Government (CoFoG)** shows the cross-economic functional classification of expenditure for the general government, detailing where government expenditure is directed by function. CoFoG provides meaningful information that may be used to study the effectiveness of government programs in areas like health, education, economic affairs, social protection and general public services. There are ten major functions. It is an internationally standardised table that allows cross-country comparisons of government priorities.

TABLE 1: GROSS DOMESTIC PRODUCT BY ECONOMIC ACTIVITY AT CURRENT AND CONSTANT PRICES (Kina Million)

	2015 Est	2016 Est	2017 Proj	2018 Proj	2019 Proj	2020 Proj	2021 Proj
Agriculture, Forestry and Fishing							
nominal	10882.2	12191.5	13382.7	14633.1	15793.0	17035.2	18341.1
deflator	256.3	278.5	295.2	311.4	324.6	338.4	353.3
real	4245.6	4377.7	4533.5	4699.1	4865.5	5033.4	5191.9
rate of real growth	1.9	3.1	3.6	3.7	3.5	3.5	3.1
Oil and Gas Extraction							
nominal	10073.8	9844.6	11369.4	12138.9	12354.7	12727.5	13013.7
deflator	280.1	277.3	322.9	346.6	354.8	366.9	375.5
real	3596.6	3550.0	3520.8	3501.8	3481.9	3469.1	3465.4
rate of real growth	85.8	-1.3	-0.8	-0.5	-0.6	-0.4	-0.1
Mining and Quarrying							
nominal	3028.6	4034.3	4813.3	4973.7	4878.5	4966.6	5171.3
deflator	446.6	549.9	564.3	574.5	555.5	568.4	586.8
real	678.1	733.7	852.9	865.7	878.2	873.8	881.3
rate of real growth	0.6	8.2	16.3	1.5	1.5	-0.5	0.9
Manufacturing							
nominal	2882.8	3134.5	3453.0	3828.5	4204.9	4600.6	5025.4
deflator	240.2	256.0	273.8	291.9	308.3	324.3	340.6
rate of deflator growth	6.0	6.6	7.0	6.6	5.6	5.2	5.0
real	1200.4	1224.4	1261.1	1311.6	1364.0	1418.6	1475.3
rate of real growth	1.5	2.0	3.0	4.0	4.0	4.0	4.0
					0.0	0.0	0.0
Electricity, gas and water							
nominal	987.9	1084.7	1194.9	1312.1	1427.3	1546.6	1673.1
deflator	393.7	419.6	448.8	478.5	505.3	531.6	558.3
rate of deflator growth	6.0	6.6	7.0	6.6	5.6	5.2	5.0
real	251.0	258.5	266.2	274.2	282.5	290.9	299.7
rate of real growth	4.0	3.0	3.0	3.0	3.0	3.0	3.0
Construction							
nominal	7759.8	8404.1	9168.3	10067.6	10950.9	11866.4	12837.4
deflator	244.0	260.1	278.2	296.6	313.2	329.5	346.1
rate of deflator growth	6.0	6.6	7.0	6.6	5.6	5.2	5.0
real	3180.3	3231.2	3295.8	3394.7	3496.6	3601.5	3709.5
rate of real growth	1.0	1.6	2.0	3.0	3.0	3.0	3.0
Wholesale and retail trade							
nominal	3956.1	4297.2	4733.9	5223.4	5736.9	6276.8	6856.4
deflator	277.5	295.8	316.4	337.3	356.2	374.7	393.6
rate of deflator growth	6.0	6.6	7.0	6.6	5.6	5.2	5.0
real	1425.7	1452.8	1496.3	1548.7	1610.7	1675.1	1742.1
rate of real growth	1.8	1.9	3.0	3.5	4.0	4.0	4.0
Transport, storage and communication							
nominal	1519.1	1684.1	1873.2	2086.9	2292.1	2507.8	2739.3
deflator	140.0	149.3	159.6	170.2	179.7	189.1	198.6
rate of deflator growth	6.0	6.6	7.0	6.6	5.6	5.2	5.0
real	1084.9	1128.3	1173.4	1226.2	1275.3	1326.3	1379.3
rate of real growth	5.0	4.0	4.0	4.5	4.0	4.0	4.0
Finance, real estate and business services							
nominal	2069.9	2272.7	2503.6	2775.9	3048.8	3335.7	3643.7
deflator	273.2	291.2	311.4	332.0	350.6	368.9	387.4
rate of deflator growth	6.0	6.6	7.0	6.6	5.6	5.2	5.0
real	757.8	780.5	803.9	836.1	869.5	904.3	940.4
rate of real growth	3.0	3.0	3.0	4.0	4.0	4.0	4.0
Community, social and personal services							
nominal	3461.8	3800.9	4207.4	4642.6	5074.4	5525.3	6006.5
deflator	216.0	230.3	246.3	262.6	277.3	291.7	306.4
rate of deflator growth	6.0	6.6	7.0	6.6	5.6	5.2	5.0
real	1602.5	1650.6	1708.4	1768.2	1830.1	1894.1	1960.4
rate of real growth	2.5	3.0	3.5	3.5	3.5	3.5	3.5
Total Real GDP Growth							
nominal	47259.7	51386.4	57337.6	62320.6	66399.2	71026.3	75945.7
rate of nominal growth	8.7	8.7	11.6	8.7	6.5	7.0	6.9
deflator	257.6	274.7	298.1	315.6	327.5	341.3	355.4
real	18344.3	18709.1	19233.9	19747.7	20275.6	20808.5	21366.8
rate of real growth	11.8	2.0	2.8	2.7	2.7	2.6	2.7
Total non-mining GDP							
nominal	34157.3	37507.4	41154.9	45208.0	49166.0	53332.2	57760.7
rate of nominal growth	7.3	9.8	9.7	9.8	8.8	8.5	8.3
deflator	242.8	260.0	276.9	293.9	308.9	323.9	339.4
real	14069.6	14425.4	14860.2	15380.3	15915.4	16465.6	17020.1
rate of real growth	2.0	2.5	3.0	3.5	3.5	3.5	3.4

Source: Department of Treasury

**TABLE 2: CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT
(Percentage points)**

	2015 Actual	2016 Est	2017 Proj	2018 Proj	2019 Proj	2020 Proj	2021 Proj
Agriculture, Forestry and Fishing	0.5	0.7	0.8	0.9	0.8	0.8	0.8
Oil and Gas Extraction	10.1	-0.3	-0.2	-0.1	-0.1	-0.1	0.0
Mining and Quarrying	0.0	0.3	0.6	0.1	0.1	0.0	0.0
Manufacturing	0.1	0.1	0.2	0.3	0.3	0.3	0.3
Electricity, gas and water	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Construction	0.2	0.3	0.3	0.5	0.5	0.5	0.5
Wholesale and retail trade	0.2	0.1	0.2	0.3	0.3	0.3	0.3
Transport, storage and communication	0.3	0.2	0.2	0.3	0.2	0.3	0.3
Finance, real estate and business services	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Community, social and personal services	0.2	0.3	0.3	0.3	0.3	0.3	0.3
TOTAL GDP*	11.8	2.0	2.8	2.7	2.7	2.6	2.7
Total Non-mining GDP	2.0	2.5	3.0	3.5	3.5	3.5	3.4

*Sum of industries less imputed bank service charge, plus import duties, less subsidies.

Source: Actual data for 2008 to 2010: National Statistical Office. Estimates and projections: Dept. of Treasury

TABLE 3: PRICES OF MAIN EXPORT COMMODITIES
(Kina per tonne fob, unless otherwise specified)

	2015 Actual	2016 Est	2017 Proj	2018 Proj	2019 Proj	2020 Proj	2021 Proj
AGRICULTURE							
Copra	1096	1242	1257	1257	1257	1257	1257
Cocoa	8451	9515	9558	9418	9418	9418	9418
Coffee	9756	11134	12180	13110	13583	13583	13583
Palm Oil	1694	2157	2166	2163	2163	2163	2163
Rubber	3933	4461	4637	4616	4616	4616	4616
Tea	5677	5205	5358	5358	5358	5358	5358
Copra Oil	2381	2698	2731	2731	2731	2731	2731
Logs (K/m ³)	210	243	246	246	246	246	246
MINERALS							
Gold (US\$/oz)	1160	1267	1301	1315	1331	1354	1370
Silver (US\$/oz)							
Copper (US\$/ton)	5502	4724	4832	5084	5123	5294	5498
Oil (Kutubu Crude: US\$/barrel)	49	42	50	54	55	57	59
LNG (US\$ per thousand cubic feet)	8	7	8	9	9	9	9
Condensate (US\$/barrel)	49	42	50	54	55	57	59
Nickel (US\$/tonne)	11831	9351	10459	11374	12148	12683	14250
Cobalt (US\$/tonne)	29255	24212	25243	25865	27046	27861	28784

Source: Actuals from BPNG. Projections from Consensus forecasts and Dept. of Treasury.

TABLE 4: VOLUME OF MAIN EXPORT COMMODITIES
('000 tonnes, unless otherwise specified)

	2015 Actual	2016 Est	2017 Proj	2018 Proj	2019 Proj	2020 Proj	2021 Proj
AGRICULTURE							
Copra	33.6	32.1	29.3	31.8	31.0	30.3	31.0
Cocoa	30.9	38.3	39.4	44.5	50.9	58.8	60.6
Coffee	42.8	57.1	54.2	56.1	60.0	60.0	60.0
Palm Oil	486.9	518.2	637.6	684.6	713.3	748.5	776.1
Rubber	2.2	2.3	2.5	2.6	2.8	2.9	3.2
Tea	1.3	1.9	1.9	1.9	1.9	1.9	1.9
Copra Oil	14.6	14.9	11.6	11.9	12.7	12.2	12.1
Logs	3869.0	3800.0	3800.0	3800.0	3800.0	3800.0	3800.0
Marine products	77.7	80.0	82.4	84.9	87.4	90.1	93.7
MINERAL							
Gold (tonnes)	52.3	57.0	60.3	59.6	60.5	59.7	60.2
Silver (tonnes)							
Copper (tonnes)	46.4	75.2	106.0	105.5	104.2	101.6	99.5
Oil (million barrels)	6.6	6.4	6.0	5.7	5.3	5.0	4.8
Nickel							
Cobalt							
LNG (Tbtu)	377.8	372.0	371.0	371.0	371.0	371.0	371.0
Condensate (MB)	10.4	11.0	11.0	11.0	11.0	11.0	11.0
Nickle (000' tonnes)	21.6	24.8	30.0	32.6	32.6	32.6	32.6
Cobalt (000' tonnes)	2.1	2.5	2.9	3.3	3.3	3.3	3.3

Source: Actuals from BPNG. Projections from Dept. of Treasury.

TABLE 5: VALUE OF MAIN EXPORT COMMODITIES
(Kina Million)

	2015 Actual	2016 Est	2017 Proj	2018 Proj	2019 Proj	2020 Proj	2021 Proj
AGRICULTURE, FORESTRY, FISHERIES							
Copra	36.8	39.9	36.9	40.0	39.0	38.1	39.0
Copra Oil	34.8	40.3	31.8	32.5	34.6	33.3	33.1
Cocoa	261.1	364.3	376.9	418.6	479.3	553.8	570.5
Coffee	417.5	636.3	659.7	735.4	815.3	815.3	815.3
Palm Oil	824.7	1117.7	1380.8	1480.5	1542.5	1618.6	1678.5
Rubber	8.7	10.4	11.5	12.1	12.8	13.6	14.5
Tea	7.4	9.9	10.2	10.2	10.2	10.2	10.2
Other Agriculture (a)	215.7	283.1	284.2	290.1	296.5	303.0	312.7
Forest Products	812.4	925.2	936.4	936.4	936.4	936.4	936.4
Marine Products	366.0	401.8	442.6	486.0	528.7	572.9	625.8
Total Agricultural, Forestry, Fishing Exports	2985.1	3829.0	4171.1	4441.9	4695.4	4895.3	4410.2
MINERAL							
Gold	5391.4	7274.3	7997.7	7981.4	8208.1	8236.3	8407.8
Copper	685.2	1079.8	1577.1	1650.2	1643.6	1656.5	1683.4
Silver	61.2	66.3	76.9	85.0	74.6	63.6	63.6
Oil	943.2	893.2	1008.3	1022.6	979.6	960.7	946.4
LNG	8206.6	8013.2	9281.0	10033.4	10311.0	10685.8	10942.8
Condensate	1412.5	1461.8	1751.3	1869.6	1926.1	2002.4	2054.7
Nickel	705.2	727.2	994.5	1175.2	1255.2	1310.5	1472.4
Cobalt	169.0	187.2	232.0	270.5	282.9	291.4	301.1
Refined Petroleum Products	283.0	283.3	346.2	377.0	396.2	420.1	439.7
Total Mineral Exports	17857.4	19986.3	23265.1	24464.9	25077.2	25627.4	26311.9
TOTAL EXPORT VALUE	20842.5	23815.3	27436.2	28906.7	29772.6	30522.8	30722.1

Source: Actuals from BPNG. Projections from Dept. of Treasury.

(a) Includes Oil Palm by-products, canned tuna and vanilla.

TABLE 6: SUMMARY OF THE BALANCE OF PAYMENTS
(Kina Million)

	2015 Actual	2016 Est	2017 Proj	2018 Proj	2019 Proj	2020 Proj	2021 Proj
CURRENT ACCOUNT BALANCE	11091.5	11449.8	15317.3	17090.8	19822.3	20121.9	21854.2
Balance of Trade in Goods and Services	11620.5	12989.6	17028.1	18933.9	21768.6	22191.8	22993.0
Goods Balance	14565.5	17467.5	21456.9	23303.5	24553.8	25612.9	26050.5
Credit (Exports)	20842.5	23815.3	27436.2	28906.7	29772.6	30522.8	30722.1
Debit (Imports)	-6277.0	-6347.8	-5979.2	-5603.2	-5218.8	-4909.9	-4671.6
Services Balance	-2945.0	-4477.8	-4428.8	-4369.6	-2785.2	-3421.1	-3057.5
Services Credit	317.0	356.2	395.3	430.6	462.1	497.4	536.3
Services Debit	-3262.0	-4834.0	-4824.1	-4800.2	-3247.3	-3918.6	-3593.8
Income Balance	-974.0	-1055.5	-1173.4	-1246.4	-1281.8	-1334.2	-1389.6
Income Credit	11.0	14.0	30.9	31.8	32.2	33.0	34.1
Income Debit	-985.0	-1069.5	-1204.3	-1278.2	-1314.0	-1367.2	-1423.7
Transfers Balance	445.0	-484.4	-537.4	-596.7	-664.4	-735.7	250.9
Transfers Credit	1029.0	157.0	166.4	176.3	176.3	176.3	1238.6
Transfers Debit	-584.0	-641.4	-703.8	-773.1	-840.8	-912.0	-987.7
CAPITAL AND FINANCIAL ACCOUNT(a)	-14083.0	-8472.9	-15317.3	-17090.8	-19822.3	-20121.9	-21854.2
NET ERRORS AND OMISSIONS	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current account balance as percentage of Gross Domestic Product (GDP)	23.5	22.3	26.7	27.4	29.9	28.3	28.8

Source: Actuals from BPNG. Projections from Dept. of Treasury.

(a) Capital and Financial Account includes changes in reserves.

TABLE 7: EMPLOYMENT CLASSIFIED BY INDUSTRY
(March 2002 = 100)

	2010 Annual	2011 Annual	2012 Annual	2013 Annual	2014 Annual	2015 Annual	2016 June Qtr
Retail	129.5	134.2	154.1	168.0	163.2	159.6	145.6
Wholesale	172.6	192.6	197.7	217.3	215.5	207.5	202.8
Manufacturing	163.8	176.0	185.4	198.7	188.3	180.2	178.4
Building and Construction	187.5	172.0	188.2	214.3	266.9	263.9	242.7
Transportation	122.1	151.1	165.3	177.1	174.5	172.6	175.8
Agriculture, Forestry, Fisheries	156.5	168.8	173.7	168.3	170.5	168.1	173.6
Financial and Business	132.6	136.6	139.9	133.0	124.4	123.7	119.3
TOTAL NON-MINERAL	149.7	159.1	168.2	171.8	173.6	169.1	167.9
MINERAL	150.1	162.3	177.9	267.7	240.2	241.2	242.1

Source: BPNG.

TABLE 8: CENTRAL GOVERNMENT REVENUE ECONOMIC CLASSIFICATION

(Kina Million)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
REVENUE¹	9,418.8	9,906.4	11,843.2	11,003.1	11,082.3	11,473.1	11,138.8	11,645.8	12,210.3	12,907.4
TAXES	8,218.9	8,888.6	10,200.4	9,157.6	8,453.2	9,182.2	9,729.9	10,316.7	10,918.2	11,592.2
Taxes on Income, Profits and Capital Gains	5,629.1	5,857.4	6,857.0	5,894.2	5,375.1	5,818.9	6,168.6	6,525.4	6,887.3	7,317.3
Payable by individuals	2,645.1	2,818.1	3,203.4	3,037.1	2,849.1	3,035.7	3,091.3	3,199.8	3,328.2	3,460.3
Personal Income Tax	2,645.1	2,818.1	3,203.4	3,037.1	2,849.1	3,035.7	3,091.3	3,199.8	3,328.2	3,460.3
Salaries/Wages (Group Tax)	-	-	-	-	-	-	-	-	-	-
Individual Income Tax (Assessed)	-	-	-	-	-	-	-	-	-	-
Payable by corporations and other enterprises	2,739.2	2,754.3	3,423.7	2,621.6	2,305.5	2,565.9	2,846.2	3,080.5	3,299.5	3,582.0
Company Tax	1,740.5	2,060.5	2,522.4	2,374.8	2,230.1	2,433.9	2,602.3	2,829.7	3,069.1	3,322.6
Mining and Petroleum Taxes	981.0	666.0	864.0	195.4	21.9	77.1	183.6	185.2	159.3	182.3
Royalties Tax	11.4	18.6	22.4	30.8	43.2	44.0	48.3	52.6	57.0	61.7
Management Tax	6.3	9.2	14.9	20.5	10.3	10.9	12.0	13.0	14.1	15.3
Other taxes on income, profits and capital gains	244.8	285.0	229.9	235.6	220.5	217.2	231.1	245.0	259.6	275.1
Dividend Withholding Tax Mining	13.3	-	-	-	-	-	-	-	-	-
Dividend Withholding Tax Non Mining	163.2	244.5	186.1	168.9	133.7	138.8	152.5	165.9	179.9	194.9
Interest Withholding Tax	67.4	38.5	43.1	66.0	86.4	77.8	77.8	77.8	77.8	77.8
Tax Related Court Fines	-	-	-	-	-	-	-	-	-	-
Sundry IRC Taxes & Income	0.9	2.0	0.7	0.6	0.4	0.5	0.8	1.3	1.8	2.4
Taxes on Payroll and Workforce	3.7	6.4	14.6	18.0	17.0	17.6	19.3	21.0	22.8	24.7
Training Levy	3.7	6.4	14.6	18.0	17.0	17.6	19.3	21.0	22.8	24.7
Taxes on Property	-	-	-	-	-	-	-	-	-	-
Taxes on Goods and Services	2,183.1	2,549.2	2,773.8	2,680.2	2,513.6	2,762.2	2,959.5	3,165.8	3,380.3	3,597.7
General taxes on goods and services	1,162.2	1,563.4	1,696.3	1,693.2	1,514.9	1,527.7	1,617.0	1,716.2	1,817.2	1,913.1
Value Added Tax	1,092.1	1,486.1	1,559.0	1,567.0	1,459.0	1,484.7	1,573.6	1,672.3	1,772.8	1,868.1
GST ²	1,092.1	1,486.1	1,559.0	1,567.0	1,459.0	1,484.7	1,573.6	1,672.3	1,772.8	1,868.1
Sales taxes	-	-	-	-	-	-	-	-	-	-
Turnover & other general taxes on goods and services	-	-	-	-	-	-	-	-	-	-
Taxes on financial and capital transactions	70.2	67.3	137.3	126.1	55.8	42.9	43.4	43.9	44.4	44.9
Bank Account Debit Fees	-	-	-	-	-	-	-	-	-	-
Stamp Duties	70.2	67.3	137.3	126.1	55.8	42.9	43.4	43.9	44.4	44.9
Excise	855.3	814.4	888.1	802.0	844.8	991.4	1,089.1	1,184.4	1,284.8	1,391.5
Excise Duty	560.5	541.9	638.6	503.3	571.2	691.1	759.2	825.7	895.6	970.0
Import Excise	294.8	272.5	250.6	298.7	273.7	300.3	329.9	358.8	389.2	421.5
Profits of fiscal monopolies	-	-	-	-	-	-	-	-	-	-
Taxes on specific services	149.9	159.2	176.7	177.7	144.2	234.2	244.8	256.5	269.6	284.4
Bookmakers' Turnover Tax	9.5	8.8	12.8	9.4	8.9	42.4	46.6	50.6	54.9	59.5
Gaming Machine Turnover Tax	133.9	144.6	158.1	162.1	131.5	180.5	185.9	192.4	200.1	209.1
Departure Tax	6.5	5.9	5.8	6.2	3.9	11.3	12.4	13.5	14.6	15.8
Taxes on use of goods and on permission to use goods or perform activities	10.7	12.3	8.2	6.9	8.1	8.0	8.0	8.0	8.0	8.0
Motor vehicles taxes	6.7	7.3	8.2	5.7	7.2	7.2	7.2	7.2	7.2	7.2
Other taxes on use of goods and on permission to use goods or perform activities	3.9	5.0	1.0	1.1	0.9	0.8	0.8	0.8	0.8	0.8
Other taxes on goods and services	5.0	0.0	2.5	0.4	1.6	0.9	0.6	0.6	0.6	0.7
Sundry Taxes (Customs)	5.0	0.0	2.5	0.4	1.6	0.9	0.6	0.6	0.6	0.7
Taxes on International Trade and Transactions	402.9	475.5	555.0	565.2	547.6	559.5	582.5	604.6	627.8	652.5
Customs and other import duties	223.0	263.9	289.5	249.1	220.8	232.9	249.0	270.6	281.2	326.9
Import Duty	223.0	267.2	273.2	243.4	218.6	230.0	252.6	274.9	298.0	322.8
Other Import Taxes	-	6.7	7.3	5.7	2.2	2.9	3.3	3.2	3.2	3.1
Taxes on exports	179.9	211.7	274.5	316.2	326.8	326.6	326.6	326.6	326.6	326.6
Export Tax	179.9	211.7	274.5	316.2	326.8	326.6	326.6	326.6	326.6	326.6
Profits of export or import monopolies	-	-	-	-	-	-	-	-	-	-
Exchange profits	-	-	-	-	-	-	-	-	-	-
Exchange taxes	-	-	-	-	-	-	-	-	-	-
Other taxes on international trade and transactions	-	-	-	-	-	-	-	-	-	-
Other Taxes	0.0	-	-	-	-	24.0	-	-	-	-
Payable solely by business	-	-	-	-	-	-	-	-	-	-
Payable by other than business or unidentifiable	0.0	-	-	-	-	24.0	-	-	-	-
SOCIAL CONTRIBUTION	-	-	-	-	-	-	-	-	-	-
Social security contributions	-	-	-	-	-	-	-	-	-	-
Other social contributions	-	-	-	-	-	-	-	-	-	-
GRANTS	930.8	877.5	867.5	819.5	1,881.4	1,045.3	1,208.3	1,128.4	1,091.4	1,114.5
From Foreign Governments	823.3	776.2	767.3	778.8	998.8	968.1	961.1	922.6	922.6	922.6
Current	453.2	427.2	422.3	505.0	549.8	968.1	530.0	504.1	498.6	498.6
Cash	10.2	9.6	9.5	12.4	14.1	-	-	-	-	-
In-Kind	442.9	417.6	412.8	505.0	537.3	968.1	515.9	504.1	498.6	498.6
Capital	370.2	349.0	345.0	273.8	449.0	-	431.1	423.9	423.9	423.9
Cash	20.7	19.5	19.3	-	25.1	-	7.2	-	-	-
In-Kind	349.5	329.5	325.7	273.8	423.9	-	423.9	423.9	423.9	423.9
From International Organizations	107.5	101.3	100.2	40.7	135.3	-	63.5	15.1	9.5	9.5
Current	98.6	82.9	91.9	22.4	124.5	-	62.7	15.1	9.5	9.5
Cash	43.5	41.0	40.6	0.9	53.1	-	26.9	8.6	9.1	9.1
In-Kind	55.0	51.9	51.3	21.5	71.5	-	35.8	6.5	0.4	0.4
Capital	8.9	8.4	8.3	18.3	10.8	-	0.8	-	-	-
Cash	-	-	-	18.3	-	-	-	-	-	-
In-Kind	8.9	8.4	8.3	-	10.8	-	0.8	-	-	-
From Other General Government Units	-	-	-	-	747.3	77.2	183.7	185.3	159.3	182.4
Current	-	-	-	-	747.3	77.2	183.7	185.3	159.3	182.4
Cash	-	-	-	-	747.3	77.2	183.7	185.3	159.3	182.4
In-Kind	-	-	-	-	-	-	-	-	-	-
Capital	-	-	-	-	-	-	-	-	-	-
Cash	-	-	-	-	-	-	-	-	-	-
In-Kind	-	-	-	-	-	-	-	-	-	-
OTHER REVENUE	269.1	140.3	775.3	1,026.0	747.7	1,245.7	200.7	200.7	200.7	200.7
Property Income	196.0	75.4	686.0	943.1	653.3	1,130.1	115.1	115.1	115.1	115.1
Interest	0.1	-	-	-	4.0	4.0	4.0	4.0	4.0	4.0
Interest from non-residents	-	-	-	-	-	-	-	-	-	-
Interest from Loans Abroad	-	-	-	-	-	-	-	-	-	-
Interest from residents other than general government	0.1	-	-	-	4.0	4.0	4.0	4.0	4.0	4.0
Interest on Loans to Ind & Non Profit Organisation	-	-	-	-	-	-	-	-	-	-
Interest Received on Treasury Bills	0.1	-	-	-	-	-	-	-	-	-
Interest from On Lending	-	-	-	-	4.0	4.0	4.0	4.0	4.0	4.0
Interest and Commitment Fees	-	-	-	-	-	-	-	-	-	-
Interest from Trust Accounts	-	-	-	-	-	-	-	-	-	-
Interest from WPA	-	-	-	-	-	-	-	-	-	-
Dividends	172.3	55.0	665.8	911.4	616.4	1,075.0	80.0	80.0	80.0	80.0
Mining Petroleum and Gas Dividends	122.3	50.0	507.2	456.4	300.0	500.0	-	-	-	-
Dividends from Statutory Authorities	50.0	55.0	152.0	85.0	178.0	375.0	45.0	45.0	45.0	45.0
Shares in Private Enterprise	-	-	6.6	-	-	-	-	-	-	-
Dividends from State Owned Enterprises	-	-	-	370.0	138.4	125.0	35.0	35.0	35.0	35.0
Other Dividends	-	-	-	-	-	75.0	-	-	-	-
Withdrawals from income of quasi-corporations	-	-	-	-	-	-	-	-	-	-
Property income from investment income disbursements	-	-	-	-	-	-	-	-	-	-
Rent	23.6	20.4	30.2	31.7	32.9	51.1	31.1	31.1	31.1	31.1
Reinvested earnings on foreign direct investment	-	-	-	-	-	-	-	-	-	-
Sales of goods and services	50.8	41.6	75.0	65.6	85.4	91.2	76.2	76.2	76.2	76.2
Sales by market establishments	-	-	-	-	-	-	-	-	-	-
Administrative fees	31.4	32.8	31.0	25.3	31.1	38.8	28.8	28.8	28.8	28.8
Incidental sales by nonmarket establishments	19.5	8.8	44.1	40.3	54.3	52.4	47.4	47.4	47.4	47.4
Imputed sales of goods and services	-	-	-	-	-	-	-	-	-	-
Fines, penalties, and forfeits	0.3	2.4	1.9	2.8						

TABLE 9A BUDGETARY GOVERNMENT EXPENDITURE AND ECONOMIC CLASIFICATION

	2015 Actuals	2016 Revised	2017 Budget	2018 Projection	2019 Projection	2020 Projection	2021 projection
2 Expense	13,788.80	13,834.54	13,349.59	12,978.39	13,216.02	13,425.37	13,607.16
21 Compensation of Employees	4,053.1	3,523.4	3,832.2	3,789.8	3,575.6	3,472.7	3,427.6
211 Wages and Salaries	1,745.0	1,786.1	321.0	317.43	299.49	290.88	287.09
2111 Wages and salaries in cash	1,863.7	1,249.5	25.9	25.61	24.17	23.47	23.17
2112 Wages and salaries in kind	107.2	123.6	3,387.3	3,349.83	3,160.47	3,069.57	3,029.67
2121 Actual social contributions	337.2	364.1	98.0	96.93	91.45	88.82	87.66
22 Use of goods and services	3,171.1	4,538.7	4,065.8	4,020.8	3,793.5	3,684.4	3,636.5
22 Use of goods and services	3,171.1	4,538.7	4,065.8	4,020.81	3,793.51	3,684.41	3,636.51
24 Interest [GFS]	1,077.3	1,443.7	1,465.7	1,449.5	1,367.5	1,328.2	1,310.9
241 Interest to Non residents	65.5	267.2	167.9	166.06	156.68	152.17	150.19
242 Interest to residents other than general governments	1,011.8	1,176.5	1,297.8	1,283.42	1,210.87	1,176.04	1,160.75
26 Grants	4,041.4	2,342.7	2,209.7	1,961.7	2,822.1	3,330.4	3,643.4
2631 Grants to other general governments current	1,290.6	1,395.6	873.1	863.44	814.63	791.20	780.92
2632 Grants to other general governments capital	2,750.8	947.1	1,336.6	1,098.23	2,007.44	2,539.15	2,862.46
27 Social Benefits	0.0	-	37.4	37.01	34.92	33.91	33.47
2721 Social assistance benefits in cash	0.0	-	37.4	37.01	34.92	33.91	33.47
28 Other expenses	129.9	404.0	456.5	451.5	426.0	413.7	408.3
2821 Other expense - Current transfers not elsewhere classified	129.9	404.0	454.6	449.59	424.17	411.97	406.62
28311 Other expense - Premiums	-	-	1.9	1.89	1.78	1.73	1.71
31 Net Acquisition Nonfinancial assets	1,316.1	1,582.0	1,241.9	1,228.2	1,158.8	1,125.4	1,110.8
311 NFA:Fixed assets	1,265.7	1,522.0	107.5	106.27	100.26	97.38	96.12
3111 NFA:Buildings and structures	-	-	1.1	1.04	0.98	0.96	0.94
31111 NFA:Dwellings	-	-	6.8	6.74	6.36	6.18	6.10
31112 NFA:Buildings other than dwellings	-	-	1,060.1	1,048.34	989.08	960.63	948.15
31113 NFA:Other structures	-	-	13.2	13.10	12.36	12.01	11.85
31121 NFA:Transport equipment	15.7	27.3	3.5	3.41	3.22	3.13	3.09
31122 NFA:Machinery & equipment other than transport equipment	24.1	21.8	12.8	12.61	11.90	11.56	11.41
311221 NFA:Information, computer, & telecommunications equipment	10.6	10.8	16.3	16.14	15.22	14.79	14.59
3141 NFA:Land	-	-	16.4	16.26	15.34	14.90	14.71
3144 NFA:Intangible nonproduced assets	-	-	4.3	4.26	4.02	3.90	3.85
9 Out of scope for GFS coding purposes	- 227.0	-	40.4	39.96	37.70	36.62	36.14
9 Out of scope for GFS coding purposes	- 227.0	-	40.4	39.96	37.70	36.62	36.14

Source: Department of Treasury

TABLE 9B BUDGETARY GOVERNMENT EXPENDITURE AND ECONOMIC CLASSIFICATION							
	2015 Actual	2016 Revised	2017 Budget	2018 Projection	2019 Projection	2020 Projection	2021 Projection
Total Expenditure and Net Lending	13,788.84	13,834.24	13,349.63	12,978.39	13,216.12	13,425.37	13,607.16
National Departments	6,330.4	5,745.9	5,910.0	5,845.5	5,515.0	5,356.4	5,286.8
21 Compensation of Employees	2,164.8	2,131.1	2,052.1	2,029.4	1,914.7	1,859.6	1,835.5
Actual social contributions	301.0	317.7	319.3	315.74	297.90	289.33	285.57
Wages and Salaries	1,489.4	1,516.1	25.9	25.61	24.17	23.47	23.17
Wages and salaries in cash	317.5	206.2	1,655.5	1,637.16	1,544.62	1,500.19	1,480.69
Wages and salaries in kind	56.9	71.1	51.5	50.90	48.02	46.64	46.03
22 Use of goods and services	2,174.0	1,963.8	2,434.6	2,407.7	2,271.6	2,206.3	2,177.6
Use of goods and services	2,174.0	1,963.8	2,434.6	2,407.69	2,271.58	2,206.25	2,177.57
26 Grants	893.0	794.6	692.8	685.2	646.4	627.8	619.7
Grants to other general governments current	893.0	794.6	692.8	685.15	646.42	627.83	619.67
27 Social Benefits	151.7	-	23.8	23.6	22.2	21.6	21.3
Social assistance benefits in cash	151.7	-	23.8	23.58	22.25	21.61	21.33
28 Other expenses	120.8	68.9	70.6	69.8	65.9	64.0	63.2
Other expense - Current transfers not elsewhere classified	120.8	68.9	68.9	68.12	64.27	62.42	61.61
Other expense - Premiums	-	-	1.7	1.72	1.62	1.58	1.56
31 Net Acquisition Nonfinancial assets	1,053.0	787.5	595.6	589.0	555.7	539.7	532.7
NFA:Buildings and structures	-	-	102.9	101.80	96.04	93.28	92.07
NFA:Buildings other than dwellings	-	-	1.1	1.04	0.98	0.96	0.94
NFA:Dwellings	-	-	6.8	6.74	6.36	6.18	6.10
NFA:Fixed assets	1,016.0	787.5	431.7	426.89	402.76	391.17	386.09
NFA:Information, computer, & telecommunications equipment	2.1	-	2.7	2.72	2.57	2.49	2.46
NFA:Intangible nonproduced assets	-	-	3.5	3.41	3.22	3.13	3.09
NFA:Land	-	-	12.8	12.61	11.90	11.56	11.41
NFA:Machinery & equipment other than transport equipment	21.5	-	14.1	13.92	13.13	12.76	12.59
NFA:Other structures	-	-	16.2	16.06	15.16	14.72	14.53
NFA:Transport equipment	13.4	-	3.8	3.81	3.59	3.49	3.44
9 Out of scope for GFS coding purposes	227.0	-	40.4	40.8	38.5	37.4	36.9
Out of scope for GFS coding purposes	227.0	-	40.4	40.80	38.50	37.39	36.90
Provincial Governments	3,949.8	3,706.6	3,800.5	3,612.1	4,379.3	4,842.7	5,136.1
21 Compensation of Employees	1,457.9	1,405.1	1,406.3	1,421.8	1,341.4	1,302.9	1,285.9
Actual social contributions	3.0	-	-	-	-	-	-
Wages and Salaries	0.1	-	-	-	-	-	-
Wages and salaries in cash	1,435.8	1,405.1	1,365.8	1,380.95	1,302.89	1,265.42	1,248.97
Wages and salaries in kind	19.0	-	40.4	40.85	38.54	37.43	36.95
22 Use of goods and services	568.6	832.8	818.9	809.8	764.1	742.1	732.4
Use of goods and services	568.6	832.8	818.9	809.83	764.05	742.08	732.43
24 Interest [GFS]	-	-	100.0	98.89	93.30	90.62	89.44
Interest to residents other than general governments	-	-	100.0	98.89	93.30	90.62	89.44
26 Grants	1,883.9	1,445.7	1,420.4	1,227.2	2,129.2	2,657.3	2,979.1
Grants to other general governments capital	741.9	670.8	766.1	757.63	714.80	1,148.85	1,133.92
Grants to other general governments current*	1,142.0	774.9	654.3	469.57	1,414.43	1,508.49	1,845.19
31 Net Acquisition Nonfinancial assets	39.5	23.0	55.0	54.4	51.3	49.8	49.2
NFA:Fixed assets	39.5	23.0	55.0	54.39	51.32	49.84	49.19
9 Out of scope for GFS coding purposes	0.0	-	-	-	-	-	-
Out of scope for GFS coding purposes	0.0	-	-	-	-	-	-
Autonomous Bougainville Government	232.3	206.4	248.5	245.7	231.8	225.2	222.2
21 Compensation of Employees	103.5	66.0	106.0	104.8	98.9	96.1	94.8
Actual social contributions	0.3	-	-	-	-	-	-
Wages and Salaries	-	-	-	-	-	-	-
Wages and salaries in cash	100.6	52.3	103.6	102.45	96.66	93.88	92.66
Wages and salaries in kind	2.5	13.7	2.4	2.37	2.24	2.17	2.15
22 Use of goods and services	26.8	65.0	24.8	24.5	23.1	22.4	22.2
Use of goods and services	26.8	65.0	24.8	24.49	23.11	22.44	22.15
26 Grants	102.0	75.3	117.7	116.4	109.8	106.7	105.3
Grants to other general governments capital	82.0	67.0	107.0	105.82	99.83	96.96	95.70
Grants to other general governments current	20.0	8.3	10.7	10.59	9.99	9.71	9.58
Commercial & Statutory Authorities	667.5	631.6	665.8	658.4	621.2	603.3	595.5
21 Compensation of Employees	298.0	312.8	267.8	264.9	249.9	242.7	239.5
Actual social contributions	24.6	26.5	1.7	1.69	1.59	1.55	1.53
Wages and Salaries	255.6	270.0	0.0	0.00	0.00	0.00	0.00
Wages and salaries in cash	9.8	6.7	262.4	259.47	244.81	237.77	234.67
Wages and salaries in kind	8.1	9.6	3.7	3.49	3.39	3.35	3.35
22 Use of goods and services	185.5	179.5	175.3	173.3	163.5	158.8	156.8
Use of goods and services	185.5	179.5	175.3	173.32	163.52	158.82	156.75
26 Grants	23.5	17.7	30.7	30.3	28.6	27.8	27.4
Grants to other general governments current	23.5	17.7	30.7	30.34	28.62	27.80	27.44
27 Social Benefits	-	9.1	13.6	13.4	12.7	12.3	12.1
Social assistance benefits in cash	-	9.1	13.6	13.43	12.67	12.30	12.14
28 Other expenses	6.7	112.5	16.3	16.1	15.2	14.8	14.6
Other expense - Current transfers not elsewhere classified	6.7	112.5	16.1	15.95	15.05	14.62	14.43
Other expense - Premiums	-	-	0.2	0.17	0.16	0.15	0.15
31 Net Acquisition Nonfinancial assets	153.8	0.0	162.1	160.3	151.2	146.9	145.0
NFA:Buildings and structures	-	-	4.5	4.48	4.22	4.10	4.05
NFA:Fixed assets	140.4	0.0	154.7	152.97	144.32	140.17	138.35
NFA:Information, computer, & telecommunications equipment	8.5	-	-	-	-	-	-
NFA:Machinery & equipment other than transport equipment	2.6	0.0	2.2	2.22	2.09	2.03	2.01
NFA:Other structures	-	-	0.2	0.20	0.19	0.18	0.18
NFA:Transport equipment	2.3	0.0	0.5	0.45	0.42	0.41	0.41
9 Out of scope for GFS coding purposes	-	0.0	0.0	0.05	0.05	0.04	0.04
Out of scope for GFS coding purposes	-	0.0	0.0	0.05	0.05	0.04	0.04
Debt Servicing	1,082.1	1,479.6	1,382.9	1,367.6	1,290.3	1,253.2	1,236.9
22 Use of goods and services	4.8	35.9	17.2	17.04	16.08	15.62	15.41
Use of goods and services	4.8	35.9	17.2	17.04	16.08	15.62	15.41
24 Interest [GFS]	1,077.3	1,443.7	1,365.7	1,350.6	1,274.2	1,237.6	1,221.5
Interest to Non residents	65.5	267.2	167.9	166.06	156.68	152.17	150.19
Interest to residents other than general governments	1,011.8	1,176.5	1,197.8	1,184.52	1,117.56	1,085.42	1,071.31
Concessional Loans	707.25	930.1	475.1	469.85	443.29	430.54	424.94
Grants	819.5	1,134.1	866.9	779.1	735.1	714.0	704.7
From Foreign Governments	778.8	998.7	866.9	857.29	808.83	785.57	775.36
Current	505	549.7	945.9	935.44	882.56	857.18	846.03
Cash	0	12.4	-	-	-	-	-
In-Kind	505	537.3	945.9	935.44	882.56	857.18	846.03
Capital	273.8	449	-	-	-	-	-
Cash	0	25.1	-	-	-	-	-
In-Kind	273.8	423.9	-	-	-	-	-
From International Organizations	40.7	135.4	-	-	-	-	-
Current	22.4	124.6	-	-	-	-	-
Cash	0.9	53.1	-	-	-	-	-
In-Kind	21.5	71.5	-	-	-	-	-
Capital	18.3	10.8	-	-	-	-	-
Cash	18.3	0	-	-	-	-	-
In-Kind	0	10.8	-	-	-	-	-
From Other General Government Units	0	379.1	-	79.0	73.73	71.61	70.68
Current	0	379.1	-	79.0	73.73	71.61	70.68
Cash	0	379.1	-	79.0	73.73	71.61	70.68
In-Kind	0	0	-	-	-	-	-
Capital	0	0	-	-	-	-	-
Cash	0	0	-	-	-	-	-
In-Kind	0	0	-	-	-	-	-

Source: Department of Treasury

TABLE 10 (I) : TRANSACTIONS IN ASSETS AND LIABILITIES FOR CENTRAL GOVERNMENT

	2015 Actuals	2016 Revised	2017 Budget	2018 Projection	2019 projection	2020 Projection	2021 Projection
Net acquisition of financial assets							
Domestic	-192.0	-1,847.2	-1,937.4	-2,351.1	-2,061.7	-1,959.2	-1,959.2
Monetary gold and special drawing rights (SDR's)		0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	-124.1	-1,784.6	-1873.6	-2283.7	-1991.9	-1888.8	-1888.8
Debt securities		0.0	0.0	0.0	0.0	0.0	0.0
Loans		0.0	0.0	0.0	0.0	0.0	0.0
Equity and investment fund shares		0.0	0.0	0.0	0.0	0.0	0.0
Insurance, pension, and standardized guarantee schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives and employee stock options		0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	-68.0	-62.6	-63.8	-67.4	-69.8	-70.4	-70.4
External	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Monetary gold and special drawing rights (SDR's)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable							
Net incurrence of liabilities	2,299.8	2,029.6	1,838.6	1,839.6	1,570.3	1,215.1	699.8
Domestic	1,984.8	-1,502.0	155.6	1,246.4	990.5	1,564.4	2,836.7
Monetary gold and special drawing rights (SDR's)							
Currency and deposits							
Debt securities	1,984.8	-1,502.0	155.6	1,246.4	990.5	1,564.4	2,836.7
New instruments	11,103.8	8,150.0	8,323.5	9,085.0	5,490.2	5,543.2	5,098.8
Amortisation	9,119.0	9,652.0	8,167.9	7,838.6	4,499.7	3,978.8	2,262.2
<i>Treasury Bills</i>	<i>1,046.5</i>	<i>-1,938.0</i>	<i>-62.1</i>	<i>602.9</i>	<i>-9.8</i>	<i>521.5</i>	<i>898.8</i>
New instruments	9,674.4	7,250.0	7,423.5	7,785.01	3,990.2	3,493.2	2,898.8
Amortisation	8,627.9	9,188.0	7,485.5	7,182.1	4,000.0	2,971.8	2,000.0
<i>Treasury Bonds</i>	<i>938.3</i>	<i>436.0</i>	<i>217.7</i>	<i>643.6</i>	<i>1,000.3</i>	<i>1,042.9</i>	<i>1,937.9</i>
New instruments	1,429.4	900.0	900.0	1,300.0	1,500.0	2,050.0	2,200.0
Amortisation	491.1	464.0	682.3	656.4	499.7	1,007.1	262.2
Other accounts payable			38				
External	315.0	3,531.6	1,683.0	593.1	579.8	-349.3	-2,136.9
Monetary gold and special drawing rights (SDR's)	0.0	0.0					
Currency and deposits	0.0	0.0					
Debt securities	0.0	2,800.0	1,500.0	0.0	0.0	0.0	-1,499.2
New instruments	0.0	2,800.0	1,500.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0					1499.2
<i>Concessional financing</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
New instruments	0.0	0.0					
Amortisation	0.0	0.0					
<i>Commercial financing</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
New instruments	0.0	0.0					
Amortisation	0.0	0.0					
<i>Extraordinary financing</i>	<i>0.0</i>	<i>2,800.0</i>	<i>1,500.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>-1,499.2</i>
New instruments	0.0	2,800.0	1,500.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0	0.0	1,499.2
Loans	315.0	731.6	183.0	593.1	579.8	-349.3	-637.7
New borrowing	500.0	930.1	452.8	890.4	971.7	842.0	605.6
Amortisation	185.0	198.5	269.8	297.2	391.9	1,191.3	1,243.2
<i>Concessional financing</i>	<i>360.3</i>	<i>765.5</i>	<i>128.6</i>	<i>552.4</i>	<i>596.5</i>	<i>459.7</i>	<i>171.4</i>
New borrowing	500.0	930.1	398.4	849.6	971.7	842.0	605.6
Amortisation	139.7	164.6	269.8	297.2	375.2	382.3	434.2
<i>Commercial financing</i>	<i>0.0</i>	<i>0.0</i>	<i>54.4</i>	<i>40.8</i>	<i>-16.6</i>	<i>-809.0</i>	<i>-809.0</i>
New borrowing	0.0	0.0	54.4	40.8	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	16.6	809.0	809.0
<i>Extraordinary financing</i>	<i>-45.3</i>	<i>-33.9</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
New borrowing	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation	45.3	33.9	0.0	0.0	0.0	0.0	0.0
Insurance, pension, and standardized guarantee schemes	0.0	0.0					
Financial derivatives and employee stock options	0.0	0.0					
Other accounts payable	0.0	0.0					

1. Central government representing National, Provincial and Local Level Governments, Autonomous Bougainville Government and Commercial and Statutory Authorities

Source: Department of Treasury

TABLE 10 (II): STATEMENT OF OPERATIONS FOR THE CENTRAL GOVERNMENT OF PAPUA NEW GUINEA¹

(Kina Million)	2015 Actuals	2016 Revised	2017 Budget	2018 Projection	2019 projection	2020 Projection	2021 projection
TRANSACTIONS AFFECTING NET WORTH:							
Revenue	10,776.4	11,082.4	11,473.1	11,138.8	11,645.8	12,210.3	12,907.4
Taxes	8,931.0	8,453.3	9,182.2	9,729.9	10,316.7	10,918.2	11,592.2
Grants	819.5	1,881.4	1,045.3	1,208.3	1,128.4	1,091.4	1,114.5
Other revenue	1,026.0	747.7	1,245.7	200.7	200.7	200.7	200.7
<i>Revenue as percentage of GDP</i>	<i>16.8%</i>	<i>16.5%</i>	<i>15.3%</i>	<i>13.7%</i>	<i>13.3%</i>	<i>13.1%</i>	<i>12.9%</i>
Expense²	12,271.3	12,919.6	12,537.0	12,174.2	12,457.8	12,688.8	12,879.8
Compensation of employees	2,133.8	3,955.4	3,832.2	3,820.9	3,604.9	3,501.2	3,455.7
Use of goods and services	2,766.6	3,036.7	3,470.8	3,415.3	3,222.3	3,129.6	3,088.9
Interest	1,067.1	1,443.7	1,365.7	1,350.6	1,274.2	1,237.6	1,221.5
Grants	6,183.0	4,405.8	3,744.1	3,464.4	4,240.3	4,707.7	5,002.5
Social benefits	0.0	0.0	37.4	37.0	34.9	33.9	33.5
Other expense	120.8	78.0	86.9	86.0	81.1	78.8	77.7
<i>Expense as percentage of GDP</i>	<i>0.2</i>	<i>0.2</i>	<i>0.2</i>	<i>0.1</i>	<i>0.1</i>	<i>0.1</i>	<i>0.1</i>
Gross operating balance	-1,494.9	-1,837.3	-1,063.9	-1,035.4	-812.0	-478.6	27.5
TRANSACTIONS IN NONFINANCIAL ASSETS:							
Net/gross investment in nonfinancial assets	1,517.5	923.0	812.7	803.7	758.3	736.5	726.9
Fixed assets	1,517.5	923.0	812.7	803.7	758.3	736.5	726.9
Nonproduced assets	-	-	-	-	-	-	-
Expenditure	13,788.8	13,834.6	13,349.7	12,977.9	13,216.1	13,425.3	13,606.7
Net lending (+) / Net borrowing (-)	-2,950.7	-2,120.4	-1,876.6	-1,839.1	-1,570.3	-1,215.1	-699.3
<i>Net lending/borrowing as percentage of GDP</i>	<i>-4.6%</i>	<i>-3.2%</i>	<i>-2.5%</i>	<i>-2.3%</i>	<i>-1.8%</i>	<i>-1.3%</i>	<i>-0.7%</i>
TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES (FINANCING):							
Net acquisition of financial assets	-348.9	-1,847.2	-1,937.4	-2,351.1	-2,061.7	-1,959.2	3,959.1
Domestic	-348.9	-1,847.2	-1,937.4	-2,351.1	-2,061.7	-1,959.2	3,959.1
External	-	-	-	-	-	-	-
Net incurrence of liabilities	2,601.8	2,029.6	1,838.6	1,839.6	1,570.3	1,215.1	699.8
Domestic	2,080.8	-1,502.0	155.6	1,246.4	990.5	1,564.4	2,836.7
External	521.0	3,531.6	1,683.0	593.1	579.8	-349.3	-2,136.9
Gross Domestic Product³	64,161.7	67,300.1	74,986.9	81,396.0	87,240.0	93,469.5	99,969.9

Source: Department of Treasury

1. Central government representing National, Provincial and Local Level Governments, Autonomous Bougainville Government and Commercial and Statutory Authorities. The statement is produced to

2. Include items that may require reclassification due to interfaces from the legacy systems, (The Provincial Government Accounting System, ALESCO payroll and the Department of Public Works and

3. Total nominal GDP by economic activity, Actual: *National Statistics Office* and Projections: *Treasury Department*.

TABLE 10 (III): STATEMENT OF SOURCES AND USES OF CASH FOR THE CENTRAL GOVERNMENT OF PAPUA NEW GUINEA¹

(Kina Million)	2015 Actuals	2016 Revised	2017 Budget	2018 Projection	2019 Projection	2020 projection	2021 Projection
CASH FLOWS FROM OPERATING ACTIVITIES							
Revenue Cash Flows	10,037.8	11,082.3	11,473.1	11,138.8	11,645.8	12,210.3	12,907.4
Taxes	8,992.6	8,453.2	9,182.2	9,729.9	10,316.7	10,918.2	11,592.2
Social Contribution	-	-	-	-	-	-	-
Grants	19.2	1,881.4	1,045.3	1,208.3	1,128.4	1,091.4	1,114.5
other Receipts	1,026.0	747.7	1,245.7	200.7	200.7	200.7	200.7
<i>Revenue as percentage of GDP</i>	<i>0.2</i>	<i>0.2</i>	<i>0.2</i>	<i>0.1</i>	<i>0.1</i>	<i>0.1</i>	<i>0.1</i>
Expense cash flows²	11,668.4	10,358.4	11,084.5	10,658.4	11,123.0	11,453.4	11,584.9
Compensation of employees	2,077.7	3,466.5	3,483.3	3,396.8	3,300.6	3,266.5	3,148.2
Purchases of goods and services	2,287.2	3,000.9	3,453.5	3,415.3	3,222.3	3,129.6	3,088.9
Interest	1,067.1	1,479.6	1,365.7	1,350.6	1,274.2	1,237.6	1,221.5
Subsidies	-	-	-	-	-	-	-
Grants	6,115.7	2,333.4	2,657.6	2,372.7	3,209.9	3,707.0	4,015.1
Social benefits	-	-	37.4	37.0	34.9	33.9	33.5
Other payments	120.8	78.1	86.9	86.0	81.1	78.8	77.7
<i>Expense as percentage of GDP</i>	<i>0.2</i>	<i>0.2</i>	<i>0.1</i>	<i>0.1</i>	<i>0.1</i>	<i>0.1</i>	<i>0.1</i>
Net cash inflow from operating activities	-1,630.6	723.9	388.6	480.5	522.7	756.9	1,322.4
CASH FLOWS FROM TRANSACTIONS IN NONFINANCIAL ASSETS:							
Net cash outflow from investment in nonfinancial assets	1,263.9	923.0	812.7	803.7	758.3	736.5	726.9
Fixed assets	1,263.9	923.0	812.7	803.7	758.3	736.5	726.9
Inventories	-	-	-	-	-	-	-
Valuables	-	-	-	-	-	-	-
Nonproduced assets	-	-	-	-	-	-	-
Expenditure cash flows	12,932.3	11,281.5	11,897.2	11,462.1	11,881.3	12,189.8	12,311.8
Cash surplus (+) / Cash deficit (-)	-2,894.5	-199.1	-424.1	-323.2	-235.6	20.4	595.5
<i>Surplus/Deficit as percentage of GDP</i>	<i>-4.7%</i>	<i>-0.3%</i>	<i>-0.6%</i>	<i>-0.4%</i>	<i>-0.3%</i>	<i>0.0%</i>	<i>0.6%</i>
CASH FLOWS FROM TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES (FINANCING):							
Net acquisition of financial assets other than cash	-	-82.9	-1,937.4	-2,351.1	-2,061.7	-1,959.2	-1,959.2
Domestic	-	-82.9	-1,937.4	-2,351.1	-2,061.7	-1,959.2	-1,959.2
External	-	-	-	-	-	-	-
Net incurrence of liabilities	2,601.8	2,029.6	1,838.6	1,839.6	1,570.3	1,215.1	699.8
Domestic	2,080.8	-1,502.0	155.6	1,246.4	990.5	1,564.4	2,836.7
External	521.0	3,531.6	1,683.0	593.1	579.8	-349.3	-2,136.9
Net cash inflow from financing activities	2,601.8	2,112.5	3,776.0	4,190.7	3,632.0	3,174.3	2,659.0
<i>Net cash inflow as percentage of GDP</i>	<i>0.04</i>	<i>0.03</i>	<i>0.1</i>	<i>0.1</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
Net change in the stock of cash	-292.8	1,913.4	3,351.9	3,867.4	3,396.4	3,194.7	3,254.5
Gross Domestic Product	61,741.9	67,300.1	74,986.9	81,396.0	87,240.0	93,469.5	99,969.9

Source: Department of Treasury

1. Central government representing National, Provincial and Local Level Governments, Autonomous Bougainville Government and Commercial and Statutory Authorities. The statement is produced to reflect transactions on a modified cash basis of accounting where information is available.

2. Include items that may require reclassification due to interfaces from the legacy systems, (The Provincial Government Accounting System, ALESCO payroll and the Department of Public Works and Implementation, Oracle system).

3. Total nominal GDP by economic activity, Actual: *National Statistics Office* and Projections: *Treasury Department*.

TABLE 11: MONETARY AGGREGATES
(Kina Million, unless otherwise stated)

	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 June Qtr**
Domestic Credit	7703.8	8833.6	10103.8	11724.1	13054.7	13112.8
% Change	7.5	14.7	14.4	16.0	11.3	0.4
Net Credit to Central Government	-1076.8	297.0	2755.5	4163.8	5345.3	6032.3
% Change	431.0	-127.6	827.8	51.1	28.4	12.9
Credit to Private Sector	7519.0	8434.3	9910.6	10263.9	10611.9	10683.2
% Change	8.3	12.2	17.5	3.6	3.4	0.7
Money Supply	15292.2	16966.8	18105.6	18716.3	20218.6	20284.8
% Change	16.1	11.0	6.7	3.4	8.0	0.3
Money Velocity (M3*) (average)	1.9	1.9	1.9	2.3	2.3	2.5

Source: BPNG

*through -the -year change

**estimate based on 2016 June QEB

TABLE 12: STOCKS IN CENTRAL GOVERNMENT DEBT¹

(Kina, Million, unless otherwise stated)	Actual	Actual	Actual	Estimate	Projection					
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Domestic	6,118.2	8,845.2	11,827.9	13,863.5	13,369.4	13,525.0	14,771.4	15,761.9	17,326.3	20,163.0
Debt securities	6,118.2	8,845.2	11,827.9	13,863.5	13,369.4	13,525.0	14,771.4	15,761.9	17,326.3	20,163.0
<i>Treasury Bills</i>	2,751.6	4,200.7	5,620.6	6,667.2	5,720.7	5,658.7	6,261.5	6,251.7	6,773.2	7,672.0
<i>Treasury Bonds</i>	3,366.6	4,644.5	6,207.3	7,196.3	7,648.6	7,866.3	8,509.9	9,510.2	10,553.1	12,491.0
Loans	-	-	-	-	-	-	-	-	-	-
External	2,367.4	3,032.5	3,537.2	3,852.1	6,415.3	8,098.3	8,691.5	9,271.3	8,922.0	6,785.1
Debt securities	-	-	-	-	-	1,500.0	1,500.0	1,500.0	1,500.0	0.8
<i>Concessional financing</i>	-	-	-	-	-	-	-	-	-	-
<i>Commercial financing</i>	-	-	-	-	-	-	-	-	-	-
<i>Extraordinary financing</i>	-	-	-	-	-	1,500.0	1,500.0	1,500.0	1,500.0	0.8
Loans	2,367.4	3,032.5	3,537.2	3,852.1	6,415.3	6,598.3	7,191.5	7,771.3	7,422.0	6,784.3
<i>Concessional financing</i>	2,337.5	3,018.4	3,537.2	3,852.1	4,540.4	4,735.0	5,313.6	5,940.1	6,423.4	6,608.2
<i>Commercial financing</i>	29.9	14.1	-	-	1,655.8	1,710.2	1,751.0	1,734.3	925.3	116.2
<i>Extraordinary financing</i>	-	-	-	-	219.1	153.1	126.9	96.9	73.3	59.9
Total Central Government Debt	8,485.6	11,877.7	15,365.1	17,715.6	19,784.7	21,623.3	23,462.9	25,033.2	26,248.3	26,948.1
<i>Total debt as percentage of GDP</i>	<i>26.9%</i>	<i>34.7%</i>	<i>35.5%</i>	<i>34.7%</i>	<i>29.4%</i>	<i>28.8%</i>	<i>28.8%</i>	<i>28.7%</i>	<i>28.1%</i>	<i>27.0%</i>
Gross Domestic Product²	31,593.1	34,275.9	43,279.2	51,024.3	67,300.1	74,986.9	81,396.0	87,240.0	93,469.5	99,969.9

1. Central government representing National, Provincial and Local Level Governments, Autonomous Bougainville Government and Commercial and Statutory Authorities.

2. Total nominal GDP by economic activity, Actual: *National Statistics Office* and Projections: *Treasury Department*.

Source: Department of Treasury

TABLE 13: MAJOR ASSUMPTIONS UNDERLYING THE BUDGET

	2015 Est	2016 Proj	2017 Proj	2018 Proj	2019 Proj	2020 Proj	2021 Proj
Economic Growth							
Total Real GDP (%)	11.8	2.0	2.8	2.7	2.7	2.6	2.7
Non-mining Real GDP (%)	2.0	2.5	3.0	3.5	3.5	3.5	3.4
Inflation							
Average on Average (%)	6.0	6.6	7.0	6.6	5.6	5.2	5.0
Dec on Dec (%)	6.4	6.4	6.5	6.3	6.0	6.0	6.0
Exchange rate							
Real Exchange Rate Index (2007 = 100)	141.0	129.4	133.2	137.8	141.8	145.6	149.1
Interest rate							
Kina Rate Facility (KFR)	6.25	6.25	6.25	6.25	6.25	6.25	6.25
Inscribed Stock (3 year yield)	9.7	9.7	9.7	9.7	9.7	9.7	9.7
Mineral Prices							
Gold (US\$/oz)	1160	1267	1301	1315	1331	1354	1370
Copper (US\$/ton)	5502	4724	4832	5084	5123	5294	5498
Oil (Kutubu Crude: US\$/barrel)	49	42	50	54	55	57	59
LNG (US\$ per thousand cubic feet)	8	7	8	9	9	9	9
Condensate (US\$/barrel)	49	42	50	54	55	57	59
Nickel (US\$/tonne)	11831	9351	10459	11374	12148	12683	14250
Cobalt (US\$/tonne)	29255	24212	25243	25865	27046	27861	28784

Source: Department of Treasury.

TABLE 14: SOVEREIGN WEALTH FUND - STABILISATION FUND
(Kina Million)

	2016	2017	2018	2019	2020	2021
REVENUE						
TAXES	21.9	77.1	183.6	185.2	159.3	173.6
Taxes on Income, Profits and Capital Gains						
Mining and Petroleum Taxes	21.9	77.1	183.6	185.2	159.3	173.6
Other taxes on income, profits and capital gains						
Dividend Withholding Tax						
Dividend Withholding Tax Mining	0.0	0.0	0.0	0.0	0.0	0.0
OTHER REVENUE	725.5	0.1	0.1	0.1	0.1	0.1
Property Income	725.5	0.1	0.1	0.1	0.1	0.1
Interest	0.5	0.1	0.1	0.1	0.1	0.1
Dividends	725.0	0.0	0.0	0.0	0.0	0.0
Mining Petroleum and Gas Dividends	0.0	0.0	0.0	0.0	0.0	0.0
Other Dividends (eg money paid into SWF from sale of shares)	725.0	0.0	0.0	0.0	0.0	0.0
Current Transfers n.e.c.	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL REVENUE	747.4	77.2	183.7	185.4	159.4	173.7
EXPENSES						
Use of Goods and Services	0.1	0.0	0.0	0.0	0.0	0.0
Transfers n.e.c.	747.3	77.2	183.7	185.3	159.3	173.7
Current (Transfer to Budget)	747.3	77.2	183.7	185.3	159.3	173.7
Current (Transfer to Savings Fund)	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL EXPENSES	747.4	77.2	183.7	185.4	159.4	173.7
GROSS/NET OPERATING BALANCE	0.0	0.0	0.0	0.0	0.0	0.0
NET ACQUISITION OF FINANCIAL ASSETS	0.0	0.0	0.0	0.0	0.0	0.0
Balance in Stabilisatio Fund at 31 December	0.0	0.0	0.0	0.0	0.0	0.0

Source: Department of Treasury

TABLE 15: SOVEREIGN WEALTH FUND - SAVINGS FUND
(Kina Million)

	2016	2017	2018	2019	2020	2021
REVENUE						
TAXES	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on Income, Profits and Capital Gains						
Mining and Petroleum Taxes	0.0	0.0	0.0	0.0	0.0	0.0
Other taxes on income, profits and capital gains						
Dividend Withholding Tax						
Dividend Withholding Tax Mining	0.0	0.0	0.0	0.0	0.0	0.0
OTHER REVENUE	0.0	0.0	0.0	0.0	0.0	0.0
Property Income	0.0	0.0	0.0	0.0	0.0	0.0
Interest	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0
Mining Petroleum and Gas Dividends	0.0	0.0	0.0	0.0	0.0	0.0
Other Dividends (eg money paid into SWF from s&c)	0.0	0.0	0.0	0.0	0.0	0.0
Current Transfers n.e.c.	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL REVENUE	0.0	0.0	0.0	0.0	0.0	0.0
EXPENSES						
Use of Goods and Services	0.0	0.0	0.0	0.0	0.0	0.0
Transfers n.e.c.	0.0	0.0	0.0	0.0	0.0	0.0
Current (Transfer to Stabilisation Fund)	0.0	0.0	0.0	0.0	0.0	0.0
Current (Transfer to Savings Fund)	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL EXPENSES	0.0	0.0	0.0	0.0	0.0	0.0
GROSS/NET OPERATING BALANCE	0.0	0.0	0.0	0.0	0.0	0.0
NET ACQUISITION OF FINANCIAL ASSETS	0.0	0.0	0.0	0.0	0.0	0.0
Balance in Savings Fund at 31 December	0.0	0.0	0.0	0.0	0.0	0.0

Source: Department of Treasury