

CONTENTS

CHAPTER 1.	ECONOMIC AND FISCAL DEVELOPMENTS	1
1.1	OVERVIEW	1
1.2	GROSS DOMESTIC PRODUCT	5
1.3	LABOUR MARKET	10
1.4	PRICES	12
1.5	MONETARY DEVELOPMENTS	14
1.6	BALANCE OF PAYMENTS AND INTERNATIONAL PRICES	14
1.7	EXCHANGE RATE DEVELOPMENTS	16
1.8	PUBLIC DEBT	17
1.9	CENTRAL GOVERNMENT FISCAL OPERATIONS	18
1.9.1	Total Revenue and Grants	19
1.9.2	Total Expenditure and Net Lending	21
1.9.2.1	Recurrent Expenditure	22
1.9.2.2	Development Expenditure	24
1.9.2.3	Additional Priority Appropriation: 2008 Supplementary Budget	24
1.9.3	Financing	24
CHAPTER 2.	2009 BUDGET	25
2.1	OVERVIEW	25
2.2	FISCAL STRATEGY	26
2.3	REVENUE AND GRANTS	27
2.3.1	Tax Revenue	28
2.3.2	Non-Tax Revenue	30
2.3.3	Infrastructure Tax Credits	30
2.3.4	Grants	30
2.4	EXPENDITURE	31
2.4.1	Additions to recurrent expenditure	31
2.4.2	Recurrent Expenditure	32
2.4.2.1	Personnel Emoluments	32
2.4.2.2	Goods and Services	33
2.4.2.2.1	Goods and Services – National Departments	34
2.4.2.2.2	Goods and Services – Provincial Departments	35
2.4.2.3	Transfers to Autonomous Bougainville Government	36
2.4.2.4	Transfers to Statutory Authorities	36
2.4.2.5	Interest and Other Fees	37
2.4.3	Development Expenditure	38
2.5	FINANCING	40
CHAPTER 3.	STATUS of trust accounts	41
3.1	OVERVIEW	41
3.2	HEALTH SECTOR	44
3.3	EDUCATION	45
3.4	LAW AND JUSTICE SECTOR	46
3.5	TRANSPORT SECTOR	47
3.6	INCOME EARNING OPPORTUNITY SECTOR	49
3.7	GAS EQUITY	50
3.8	DEBT REPAYMENT	50

3.9	OTHER EXPENDITURE	51
3.10	TRUST ACCOUNTS TRANSACTIONS	55
3.11	DISTRICT SERVICE IMPROVEMENT PROGRAM TRUST ACCOUNTS	59
CHAPTER 4.	2009 BUDGET TAXATION MEASURES	63
4.1	OVERVIEW	63
4.2	2009 TARIFF REDUCTIONS PROGRAM	63
4.3	ENHANCEMENT OF EXISTING INCENTIVES TO THE TOURSIM SECTOR	63
4.4	TAX CONCESSIONS	64
4.4.1	Existing tax concessions	64
4.4.2	Maintain the integrity of the Tax Base	64
4.5	MINOR POLICY AND TECHNICAL AMENDMENTS	65
4.5.1	Minor Tax Policy Changes	65
4.5.2	Minor Technical Amendments	65
CHAPTER 5.	BUILDING THE ECONOMY THROUGH SUSTAINED REFORM	67
5.1	OVERVIEW	67
5.2	STABLE INVESTMENT CLIMATE	67
5.2.1	Fiscal Responsibility Act	68
5.2.2	Affordable and Sustainable Wages Policy	68
5.3	A COMPETITIVE AND DYNAMIC PRIVATE SECTOR	69
5.3.1	Enhancing Competition	69
5.3.1.1	Telecommunications	69
5.3.1.2	Aviation	70
5.3.1.3	Electricity	70
5.3.1.4	Tourism	71
5.3.1.5	New Reviews	71
5.3.2	Improving Public Infrastructure	72
5.3.3	Removing Impediments to Business and Investment	72
5.3.4	Public Private Partnerships (PPPs)	73
5.4	PUBLIC SECTOR REFORMS	74
5.4.1	Streamlining Public Sector Resource Allocations	74
5.4.2	Public Sector Reform Strategy	74
5.4.3	Equitable Resource Allocations to Provincial Governments	75
5.4.4	District Services Improvement Program (DSIP)	75
5.4.5	Improving Governance and Accountability	76
5.4.6	Improving Governance and Accountability of Resource Rich Provinces	76
5.4.7	Civil Service Size and Payroll Reform	77
5.4.8	Improving Financial Management through Integrated Financial Management System	77
5.4.9	Strongim Gavman Program (SGP)	79
5.4.10	Statutory Authorities	80
5.4.11	Land Reforms	80
CHAPTER 6.	DEVELOPMENT STRATEGY	81
6.1	MEDIUM TERM DEVELOPMENT STRATEGY	81
6.2	2009 DEVELOPMENT BUDGET STRATEGY	81
6.2.1	Aligning the Budget with the MTDS	82
6.2.2	Balancing Spending Across the Expenditure Priority Areas	83
6.2.3	Relationship between Government and Donor Expenditure	84
6.2.4	Medium Term Resource Framework	84

6.3	DEVELOPMENT BUDGET 2009	85
6.3.1	Expenditure Priority Areas	87
6.4	MONITORING DEVELOPMENT	90
6.4.1	MTDS Performance Management Framework	90
6.4.2	PNGInfo	91
6.4.3	Results-Based Monitoring System	91
6.5	FUTURE DEVELOPMENT BUDGETS AND STRATEGIES	91
CHAPTER 7.	SECTORAL POLICIES	94
7.1	OVERVIEW	94
7.2	MTDS EXPENDITURE PRIORITY AREAS	94
7.2.1	Primary and Preventive Health care	94
7.2.2	HIV/AIDS Prevention	96
7.2.3	Basic Education	98
7.2.4	Development Oriented Adult Education	100
7.2.5	Transport Rehabilitation and Maintenance	102
7.2.6	Promotion of Income Earning Opportunities	104
7.2.7	Law and Justice	106
7.3	ECONOMIC SECTORS	108
7.3.1	Agriculture	108
7.3.2	Fisheries	109
7.3.3	Forestry	110
7.3.4	Tourism	112
7.3.5	Oil and Gas	113
7.3.6	Mining	115
7.3.7	Manufacturing	116
7.4	ENVIRONMENT	117
CHAPTER 8.	MEDIUM TERM OUTLOOK	119
8.1	OVERVIEW	119
8.2	WORLD ECONOMIC OUTLOOK	120
8.2.1	World Economic Growth	120
8.2.2	Inflation	121
8.3	GROSS DOMESTIC PRODUCT	121
8.3.1	Overview	121
8.3.2	Agriculture, Forestry and Fisheries	122
8.3.3	Mining and Petroleum	123
8.4	The Potential Economic Impact of the LNG Project on the PNG Economy	124
8.5	PRICES	129
8.6	EMPLOYMENT AND WAGES	130
8.7	BALANCE OF PAYMENTS	130
8.8	MONETARY POLICY	131
8.9	MEDIUM TERM FISCAL OUTLOOK	132
8.9.1	Overview	132
8.9.2	Revenue and Grants	133
8.9.3	Expenditure and Net Lending	135
8.9.4	Financing	137
8.9.5	Public Debt	137
CHAPTER 9.	MEDIUM TERM FISCAL STRATEGY	138

9.1	OVERVIEW	138
9.2	RATIONALE	138
9.3	BACKGROUND	138
9.4	MINERAL REVENUE- HOW MUCH IS RELIABLE?	138
9.5	IMPLICATIONS FOR ONGOING EXPENDITURE	139
9.6	PRINCIPLES FOR ALLOCATION OF ADDITIONAL REVENUE	140
9.7	PREFERRED AREAS FOR ALLOCATION OF ADDITIONAL REVENUE	140
9.8	IMPLICATION FOR OVERALL BUDGET BALANCE & PUBLIC DEBT	142
9.9	DEMAND MANAGEMENT	143
9.10	PREPARING FOR LONG-TERM CHALLENGES	143
9.11	FUNDING OF INVESTMENT PROJECTS	143
9.12	MAINTAINING THE TAX BASE	144
CHAPTER 10.	MEDIUM TERM DEBT STRATEGY	145
10.1	OVERVIEW	145
10.1.1	Objective and Context	145
10.1.2	The Updated Debt Strategy	145
10.2	REDUCING DEBT TO SUSTAINABLE LEVELS	146
10.3	REDUCING FINANCIAL RISKS	146
10.3.1	Introduction	146
10.3.2	Foreign Currency Risk	147
10.3.3	Interest rate Risk	148
10.3.4	Refinancing Risk	149
10.3.5	Operational Risk	149
10.4	DEVELOPING GOVERNMENT INSCRIBED STOCKS, BILL AND LOAN MARKETS ...	150
10.5	LONGER-TERM IMPROVEMENTS	150

FIGURES

Figure 1: Economic Growth: 1995 – 2013.....	6
Figure 2: Contribution to Growth by Industry in 2007 and 2008.	7
Figure 3: Employment Index.....	11
Figure 4: Employment Growth by Sector – June 2008 (through the year).....	11
Figure 5: Headline and Underlying 1990-2008	13
Figure 6: Money Supply& Credit Growth.....	14
Figure 7: Nominal Vs Real interest Rates.....	14
Figure 8: Foreign Reserves US Dollar Millions	15
Figure 9: Exchange Rate Developments.....	17
Figure 10: Import Weighted Trade Weighted Index.....	17
Figure 11: Public Debt 1994-2013 (Per cent of GDP)	17
Figure 12: Government Contribution to Development Budget (Kina Millions)	39
Figure 13: Breakdown of Total Appropriations as at 30 th September 2008	42
Figure 14: Sectoral allocations of Supplementary Budgets and Additional Priority Expenditure Appropriations as at 30 th September 2008.....	43
Figure 15: Real Economic Growth 2003 – 2013.....	122
Figure 16: Total Direct Activity from Different Stages of the LNG Project.....	125
Figure 17: Oil and gas production in PNG.....	125
Figure 18: Direct Economic Activity – Domestic vs External.....	126
Figure 19: Direct and Indirect Impact on GDP	126
Figure 20: Total Direct and Indirect Impact on GNI	127
Figure 21: Impact on the Current Account Balance.....	127
Figure 22: Inflation Outcome and projections (1995 – 2013).....	129
Figure 23: Current Account Balance (Per cent of GDP))	131
Figure 24: Medium Term Fiscal Outlook.....	132
Figure 25: Total revenue and Grants 2002 – 2013 (Kina Millions)	133
Figure 26: Mineral and Non-Mineral Revenue.....	134
Figure 27: Total Expenditure and Net Lending 2002 – 2013 (Kina Millions).....	135
Figure 28: Currency Composition of Government Debt 2003-2013 (Kina Millions)	148
Figure 29: Composition of Domestic Debt 2003 – 2013 (Kina Millions)	149

TABLES

Table 1: Principal Economic Indicators	1
Table 2: Budget Balance 2007 – 2008 (Kina Millions).....	18
Table 3: Tax Revenue 2007 – 2008 (Kina Millions).....	19
Table 4: Taxes on Income and Profits 2007 – 2008 (Kina Millions).....	19
Table 5: Domestic Taxes on Goods and Services 2007 – 2008 (Kina Millions).....	20
Table 6: Taxes on International Trade 2007 – 2008 (Kina Millions).....	20
Table 7: Non-Tax Revenue 2007 – 2008 (Kina Millions)	21
Table 8: Total Expenditure and Net Lending 2007 – 2008 (Kina Millions)	22
Table 9: Recurrent Expenditure 2007 – 2008 (Kina Millions).....	22
Table 10: Allocation of funds from the Secretary's Advance in 2008.....	22
Table 11: Development Expenditure 2007 – 2008 (Kina Millions).....	24
Table 12: Key Economic Assumptions 2007 – 2009	25
Table 13: Budget Balance 2007 - 2009 (Kina Millions).....	25
Table 14: Revenue and Grants 2007 – 2009 (Kina Millions)	27
Table 15: Tax Revenue 2007 – 2009 (Kina Millions)	28
Table 16: Taxes on Income and Profits 2007 – 2008 (Kina Millions).....	28
Table 17: Domestic Taxes on Goods & Services 2007–2009 (Kina Millions)	29
Table 18: Taxes on International Trade 2007 – 2009 (Kina Millions).....	29
Table 19: Non Tax Revenue 2007 – 2009 (Kina Millions)	30
Table 20: Grants by Source (Kina Millions).....	31
Table 21: Total Expenditure and Net Lending 2007 – 2009 (Kina Millions)	31
Table 22: Recurrent Expenditure 2007 – 2009 (Kina Millions).....	32
Table 23: Personnel Emoluments 2007 – 2009 (Kina Millions).....	33
Table 24: Personnel Emoluments by Items 2007 – 2009 (Kina Millions)	33
Table 25: Goods and Services 2007 – 2009 (Kina Millions)	34
Table 26: National Departments Goods and Services 2007 – 2009 (Kina Millions).....	34
Table 27: General Goods and Services by Item 2007 – 2009 (Kina Millions).....	35
Table 28: Provincial Goods and Services Grants 2007 – 2009 (Kina Millions)	36
Table 29: Transfers to Bougainville 2007 – 2009 (Kina Millions)	36
Table 30: Transfers to Statutory Authorities 2007 – 2009 (Kina Millions).....	37
Table 31: Interest and Other Fees 2007 – 2009 (Kina Millions).....	38
Table 32: Additional Priority Expenditure and Supplementary Budget.....	42
Table 33: Supplementary Budget Appropriation and Additional Priority.....	43
Table 34: Health Sector Supplementary Budget and APE Status.....	44
Table 35: Education Sector Supplementary Budget and APE Status.....	45
Table 36: Law & Justice Sector Supplementary Budget and APE Status	46
Table 37: Transport Sector Supplementary Budget & APE Status.....	47
Table 38: Income Earning Opportunity Sector Supplementary Budget and APE.....	49
Table 39: Gas Equity Funding.....	50
Table 40: Debt Repayment Status.....	51
Table 41: Other expenditure.....	51
Table 42: Trust Accounts Transaction to 30 September 2008.....	55
Table 43: Movement of District Service Improvement Program Bank Accounts Year to Date 2008 (Kina millions).....	59
Table 44: 2009 Development Budget compared to the 2008 Development Budget (Kina million).....	85

Table 45: Government Commitments (Kina million)	86
Table 46: GoPNG direct financed projects/programs over K10 million (KinaMillion).....	86
Table 47: 2009 Development Expenditure (Kina Million)	87
Table 48: 2009 GoPNG Development Expenditure on MTDS Expenditure	87
Table 49: 2009 versus 2008 GoPNG Development Expenditure Direct Financing on MTDS Expenditure Priority Areas (Kina Million)	88
Table 50: 2009 GoPNG Development Expenditure Outside of MTDS Expenditure Priority Areas (Kina Million)	89
Table 51: 2009 GoPNG Development Expenditure Versus Donor Expenditure (Kina Million)	89
Table 52: 2009 GoPNG Total Expenditure Versus Donor Expenditure (Kina Million)	90
Table 53: Development Appropriations for Primary and Preventative Health 2003-2009 (Kina Million)	96
Table 54: 2009 Development Expenditure on Primary and Preventative Health (Kina Million)	96
Table 55: 2009 Development Expenditure on HIV/AIDS Prevention (Kina Million)	98
Table 56: Development Appropriations for HIV/AIDS 2003-2009 (Kina Million)	98
Table 57: Development Appropriations for Basic Education 2003-2009	100
Table 58: 2009 Development Expenditure on Basic Education (Kina Million)	100
Table 59: Development Appropriations for Development Oriented Adult Education 2003-2009 (Kina Million)	101
Table 60: 2009 Development Expenditure on Development Oriented Adult.....	102
Table 61: Development Appropriations for Transport Maintenance and Rehabilitation 2003-2009 (Kina Million)	102
Table 62: 2009 Development Appropriations on Transport Maintenance and Rehabilitation (Kina Million)	104
Table 63: Development Appropriations for Income Earning Opportunities 2003 2009 (Kina Million)	105
Table 64: 2009 Development Appropriations on Income Earning Opportunities (Kina Million)	106
Table 65: Development Appropriations for Law and Justice 2003-2009 (Kina Million)	107
Table 66: 2009 Development Expenditure on Law and Justice (Kina Million)	108
Table 67: Approximate Composition of Domestic Debt by Instrument.....	148