



THE INDEPENDENT STATE OF PAPUA NEW GUINEA

2014 BUDGET SPEECH

***“Consolidate Gains for Sustained Growth
Through Prudent Investments”***

DELIVERED BY

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TREASURER**

On the Occasion of the Presentation of the 2014 National Budget to Parliament

Tuesday, 19th November 2013



**HON.DON POMB POLYE, CMG, BE (CIVIL), MBA, MIEPNG [Reg.],MP
TREASURER**

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Mr. Speaker, I move that the Bill now be read a second time.

Mr. Speaker, Honourable Members, my fellow citizens of Papua New Guinea,

A budget is a roadmap for our economic future.

Its success depends upon the determination and discipline of your government – the O'Neill – Dion Government.

And Mr. Speaker, I can tell you that this Government is absolutely determined to build our future and to grow our economy because by doing that we lift the opportunities for all of our people.

We are a young nation, but an ancient people. Our founding was less than four decades ago, but our customs and traditions stretch back for countless millennia.

The O'Neill-Dion Government's 2014 National Budget, that I have the great honour of presenting to this honourable house today, looks firmly to the future needs and aspirations, of our people while continuing to draw strength from our rich customs and history.

Importantly this Budget embraces our national goals by ensuring:

- That our people can live with dignity, through the establishment of a free and open society that is governed by the rule of law, and respect for our fellow citizen; that is responsible in terms of use of our vast national resources and rewards the personal endeavours of our people and our businesses;
- That primary needs of our citizens, shared by all of humanity, are met as a result of prudent and responsible financial management and the continuation of the consolidation of fiscal and monetary

policies that will create a sustained period of economic growth and prosperity;

- That we continue to create a society that demonstrates its compassion for the most disadvantaged through the ongoing investment in social services, health and education; and
- That our country fully grasps its place amongst the global family of nations that are democratic, stable and prosperous, thereby allowing each of our citizens and our businesses to reach their full potential.

It is for these reasons that we must all come together and be empowered as a Nation to consolidate our gains for sustained growth, whether you are

a Government Minister,

a public servant,

a businessman or woman,

a Church or community leader, or

a villager in a remote part of our country,

This Budget builds on a platform of microeconomic reforms and investment initiatives in key growth sectors from the 2013 Budget.

It is all about consolidating to build PNG's bright future through broad based diversified and sustainable economic growth.

It is about creating jobs for those who don't have one, so that our people can be and feel valued so we are in a better fiscal position to fund the basic services that all of our citizens deserve, but unfortunately too many do not enjoy.

Mr. Speaker, I am proud to advise that this will be the **most modern and the most transparent budget that Papua New Guinea has ever produced.**

This is the first budget in the history of Papua New Guinea to reach over K15 billion, up by K1.8 billion or 13.8 per cent from K13.2 billion in the 2013 revised Budget.

For Government, this is a lot of money that needs to be spent wisely to improve the lives of the 7 million people of Papua New Guinea.

The 2014 Budget is a single fully integrated multi-year Budget.

For the first time agencies and the public will have a clear idea of the appropriated 2014 expenditure and future year expenditure estimates over the period 2015 to 2017 for each Government Department, Agency and Authority.

There will also be an improved understanding of what each agencies' funding is being spent on in terms of personal emoluments; goods and services; utilities and rentals, grants and capital formation.

This Budget is presented on a sectoral approach, comprising Administration (which includes interest payments); Economic and Agriculture, Education; Health; Infrastructure; Law & Order; Provinces; and Social.

This gives the Government and the people of Papua New Guinea the clearest picture yet of where it is allocating its funds and which sectors are receiving increased funding overtime.

This Government will continue to strive for a stronger economy through diversification by translating the past, present and anticipated future gains

from the mining and resources sector into prudent and sustainable investments in other sectors such as education, health, law and order, energy, transport, tourism, and agriculture.

Hence, the theme of the 2014 national budget is ***“Consolidate Gains for Sustained Growth Through Prudent Investments”***.

To achieve this outcome a culture of fiscal discipline must be developed, entrenched and enhanced.

We cannot allow the hard earned macroeconomic stability and discipline from the past to be eroded.

We are also making historic investment decisions from a position of economic strength. The facts are, under the O’Neill-Dion leadership we have introduced;

- Tuition Fee Free education;
- Investment in quality higher education
- Free Health Care;
- Significant Infrastructure funding;
- Transfer of funds to sub national governments under the decentralisation strategy; and
- Policy to support growth in agriculture, tourism and SME

In addition to the 2014 National Budget I have the honour of presenting to the House the 2013 Supplementary Budget.

The 2013 Supplementary Budget contains a number of saving measures realised from project underspends totalling K386 million that will be brought forward for investment in the 2015 South Pacific Games.

It is of regional significance that these sporting facilities meet world standards and are completed on time by March 2015 , to cater for more

than 3,000 visiting athletes from 22 Pacific nations from 28 different sports from July 4th to 18th 2015.

The 2013 Supplementary Budget is a demonstration of the Government's commitment to ensuring that the 2015 South Pacific Games is a memorable event for our visitors and the people of Papua New Guinea.

The results are and will be out there for everyone to see.

Mr. Speaker, no government gets to choose both the global and domestic economic circumstances in which the budget is framed.

Both international and domestic economic growth plays a pivotal role in the formulation of the budget.

However, what a government can and must do is to set the priorities for the nation.

So Mr. Speaker let me set the scene by discussing the international economic outlook.

- ***The World Economy is going through transition and tensions***

The world economy has again undergone transition in 2013. Advanced economies are gradually strengthening while emerging market economies have slowed down.

This led to tensions, with emerging market economies facing dual challenges of slowing growth and tighter global financial conditions.

According to the International Monetary Fund (IMF) World Economic Outlook (WEO), the world economy is projected to grow by 2.9 per cent in 2013.

This is down from July WEO estimate of 3.1 per cent, April WEO estimate of 3.3 per cent and the 2012 October WEO estimate of 3.6 per cent.

The moderation in growth in emerging market and developing economies relative to the July WEO reflects both, albeit to different degrees cyclical factors and a decrease in potential output growth.

Looking ahead to 2014, the World Economy is projected to improve slightly from 2013 and is anticipated to grow by 3.6 per cent due to stronger growth forecast projected for the US economy, the emerging market and developing economies.

Mr. Speaker, let me now turn to the Domestic Economic Outlook and report on how our economy has been performing under the stewardship of the O'Neill – Dion Government.

In contrast to the international scene, the Papua New Guinea economy remains strong and businesses continue to draw confidence from the stable domestic political landscape and the continuing construction phase of the PNG LNG project as well as, the Government's fiscal stimulus.

Mr. Speaker, the Papua New Guinea economy is expected to grow by 5.1 per cent in 2013. This is higher than the 4 per cent projected at the time of 2013 Budget but lower than the Mid-Year Economic and Fiscal Outlook (MYEFO) of 6.1 per cent.

The downgrade in the forecast since MYEFO is due largely to a sharper slowdown than expected in the agriculture, forestry and fisheries and the mining and quarrying sectors.

In addition, the anticipated flow on impacts of the fiscal stimulus expected from the 2013 Budget did not materialise fully as expected due to the delays associated with the implementation of some projects.

In this regard, non-mining GDP has also been revised down to 4.7 per cent from the 5.5 per cent at the time of the MYEFO.

Therein lies the challenge for implementing agencies.

Mr. Speaker, the domestic outlook for 2014 is exciting as the economy is anticipated to grow very strongly and at the same time the much anticipated PNG LNG project is expected to achieve the first gas to its overseas customers. This is an important milestone achievement for Papua New Guinea.

The PNG economy is expected to grow at the strong rate of 6.2 per cent in 2014.

This growth is mainly attributed to the anticipated rebound in growth in agriculture, forestry and the fisheries sector and the very sharp increase in the oil and gas sector with the commencement of the gas production in 2014.

Total non-mining GDP is expected to only grow by 1.6 per cent in 2014. This is slower than the preceding year's growth of 4.7 per cent.

The slowdown in the non-mining sectors reflects the contraction in the construction sector coming mainly from the completion of the PNG LNG project.

Growth in the construction sector is expected to fall from 11.9 per cent in 2013 to negative 6.4 per cent in 2014.

Other non-mining sectors such as transport, storage and communication, manufacturing, wholesale and retail trade are expected to revert back to trend growth in 2014.

This trend is also expected to be displayed across the other non-mining sectors including, electricity gas and water, finance and real estate and community, social and personal services.

- ***The depreciation in the Kina exchange rate is being managed; there is no need to panic.***

Mr. Speaker, turning now to the exchange rate.

There has been a lot of concerns and criticisms raised by the public regarding the recent depreciation in the Kina exchange rate.

The facts are that the Kina has depreciated against its major trading partners, with falls against the US and Australian dollars of 13 per cent and 5 per cent respectively between December 2012 and October 2013.

The depreciation is attributed mainly to higher foreign exchange outflows for import payments, repayment of foreign loans and dividends and also reflects developments in the currencies of our major trading partners.

Currently the US dollar is recovering as the US economy improves, which results in the Kina falling. Also if the Australian dollar appreciates against the US dollar due to improvements in the Australian economy, the Kina would fall as a result.

Mr. Speaker, I would like to rest assure all stakeholders: including Government, business houses, investors, financial institutions, donor partners, individuals both citizens and foreigners that the Government through the Bank of PNG in consultation with commercial banks have put measures in place which have seen the Kina's value stabilised.

In particular, the Central Bank has intervened through currency transactions that have resulted in a decrease of K2.2 billion in foreign reserves. The Central Bank's current level of foreign reserves is sufficient to cover future import payments and the Bank of PNG will continue to manage the valuation of Kina as part of its monetary policy operations.

Therefore, there should not be any cause for concerns as the key fundamentals such as underlying economic growth continue to be strong and are supported by buoyant private sector business activities.

In addition the recent depreciation of the Kina has delivered benefits to PNG exporters by making the price of their goods more internationally competitive.

Going forward the Bank of PNG will continue to assess the developments in the foreign exchange market and work closely with the Government to manage the situation until the first LNG export proceeds enter the domestic foreign exchange market, any new investments in other major resource projects start and a rebound in the international commodity prices.

- ***Strong economic growth always translates to strong employment***

Mr. Speaker, turning now to employment, a strong economic growth always translates to total strong employment growth. I wish I could be specific, and talk about the actual number of jobs created.

These types of economic statistics are not readily available and this makes my job as the Treasurer harder.

This is a challenge that we are addressing.

I can report that there is very good news foremployment inboth the mining and the non-mining sectors. Based on through-the-year growth figures, non-mining sector employment grew by 3.2 per cent and mining by 3.5 per cent through to the end of the June quarter 2013.

The growth in the non-mining sector is underpinned by sustained demand for skilled labour mainly attributed to increased business activities while the mining sector is primarily driven by increased level of employment from the Ramu Nickel project.

Mr. Speaker, employment in the mining sectoris expected to pick up again in the near future as new mines come on stream.

- ***Maintaining a low and stable level of inflation is our priority***

Turning toinflation, at the last Budget, Treasury projected inflation in 2013 to be around 8 per cent reflective of the Government's stimulus spending.

The positive news is that this has been revised down to 4 per cent taking into account the low 2012 inflation outcome of 2.2 per cent, weak global economic activities, falling commodity prices, low and stable inflation in major trading partner countries and the lagged impact of the appreciation of the Kina exchange rate.

However, if the recent pattern of the Kina's depreciation continues and foreign reserves continue to be reduced, we will need to be very careful that inflationary pressures do not re-emerge in the economy.

Mr. Speaker, the Government is very mindful on the impacts of high inflation on the lives of all Papua New Guineans and will ensure it is kept under control so that Papua New Guineans can have more to spend from their pockets.

Over the medium term from 2015 to 2018, inflation is expected to average around 5 per cent reflective of prudent Government management of fiscal and monetary policies.

- ***Papua New Guinea trade balance deficit narrowing***

Mr. Speaker, the disappointing outcome on the balance of payments is that, PNG's trade activity with the rest of the world remain subdued in 2013 reflective of weak demand and slow growth in several key emerging market economies as well as a more prolonged recession in the euro zone.

The slowdown in trade activity has resulted in the current account balance widening to a deficit of K3.6 billion (or 10.3 per cent of GDP) in the first half of 2013 compared to a low deficit of K2 billion in the corresponding period of 2012. This reflected deficits in the services and income accounts, which more than offset surpluses in the goods and transfers accounts.

Mr. Speaker, as a result of these developments in PNG's trade activities, international reserves were K8.4 billion at end of December 2012 and have decreased by 17.9 per cent to K6.9 billion (US\$3.1 billion) at the end of the June quarter 2013 reflecting in part high import demand, which means more foreign currencies are used in paying for imports. This level of international reserves is sufficient for 10.9 months of total imports and 17 months of non-mineral imports cover.

In 2014, the current account deficit is expected to narrow down from the revised K4.7 billion for 2013 to K2.8 billion or 7 per cent of GDP.

The decline in the current account deficit will be largely driven by the completion of construction related to the PNG LNG project and commencement of first LNG exports in late 2014.

In addition, a rebound in production is expected from the major mines following the disruptions such as breakdown in mills, cost cutting measures, power disruptions and bad weather encountered in 2013. Nickel and Cobalt production are also expected to ramp up to 80 per cent of full capacity lifting total output from the sector in 2014.

Mr. Speaker, it is very important for this honourable house and the people of Papua New Guinea to know the strategy contained in this historic budget. I will now take you all through the strategy.

The proposed 2014 Budget is guided by the Government's economic development strategy:

- Vision 2050;
- PNG Development Strategic Plan 2010-2030;
- the Medium Term Development Plan 2011-2015;
- the Medium Term Fiscal Strategy 2013-2017 (MTFS); and
- the Medium Term Debt Strategy.

These are further supported by the Papua New Guinea *Fiscal Responsibility Act, 2006* (FRA) and the 2014 Budget Strategy Paper.

These plans and strategies reflect the prudent, considered nature of the government's decision making and provide an on-going template for tomorrow's success.

The 2014 Budget deficit of around K2.3 billion, or around 5.9 per cent of GDP is largely driven by a 14 per cent increase in nominal GoPNG expenditure and results in a 20 per cent increase in debt, bringing it to K14 billion, or K16.2 billion if outstanding superannuation debts are also included.

The 2014 National Budget will be financed through a combination of loans from our development partners (K0.6 billion), which continue to provide valuable assistance to PNG and the majority through our domestic market (K1.7 billion).

Mr. Speaker, the Government has a strong preference for utilising the domestic market where possible, so that it strengthens and grows into a vibrant capital market capable of meeting PNG's future needs for capital to fund projects domestically whether they are private or public.

The proposed deficit will raise the Government's debt to GDP to 35 per cent in 2014 consistent with the MTF5 and the FRA.

The proposed deficit presents the Government with an immediate challenge to make tough decisions to maintain fiscal discipline throughout the remainder of 2013 and beyond to ensure on-going macroeconomic stability.

To repay the Stock of Debt the Government plans to return to a Budget Surplus in the medium term

Given the 2014 Budget's level of debt is approaching the current debt ceiling I am proposing some sensible amendments to the current Fiscal Responsibility Acts limit on debt on issue.

This is in order to avoid a US style debt legislative debt stand off and to allow the Government to keep functioning if the assumptions in the Budget result in an unintended debt limit breach, for example if GDP was less than forecasted.

The amendment allows debt to increase temporarily above the specified limit if required. Thereafter, debt must be returned to the limit within one year, maintaining the Government's sound record on fiscal discipline.

In addition the limit has been amended so in 2015 it allows debt levels to transition over the year from 35 per cent of GDP at the start of the year to under 30 per cent of GDP by year end.

Total expenditure is estimated to be K15 billion in 2014.

This is K1.8 billion or 13.8 per cent higher than the 2013 estimate. It will focus on seven key priorities:

- a. Maintain Papua New Guinea's macroeconomic stability through the adherence to the principles of the Medium Term Fiscal Strategy;
- b. The implementation of major infrastructure projects under construction as well as the efficient expenditure of the higher levels of Provincial Government funding;
- c. Ensure an appropriate alignment between the construction of new roads and the provision of money to maintain them. Likewise ensure funding is available for staff when new health or education buildings are constructed. The integration of the 'Recurrent' and 'Development' Budgets in 2014 will be a key step toward achieving this;
- d. Continue to expand funding in the education and health sectors. This will include the continuing expansion of fee free education policies, funding for vocational education and ensuring enough

teachers are available to meet increased demand for access to education;

- e. Establishment of the Sovereign Wealth Fund and consolidation of mineral and petroleum assets;
- f. Strengthen law and order, modernisation of police and defence and creation of ICAC; and
- g. Improve the enabling business environment for the agriculture and tourism sectors as well as small to medium enterprises.

Total Revenue and Grants in 2014 is anticipated at K12.7 billion.

This is K2.2 billion or 21 per cent higher than the 2013 revised estimates of K10.5 billion.

The higher 2014 revenue estimate is due partly to higher tax receipts on income and profits, consumption of domestic goods and services and on international trade.

It is also partly due to the sale of landowner share of the PNG LNG project.

Tax Revenue is estimated at K9.7 billion in 2014, an increase of K1.1 billion or 13 per cent from the 2013 revised estimate.

This increase tax revenue is a significant achievement by O'Neill-Dion Government's as it is built on economic growth and improved tax compliance by revenue raising agencies.

I have the pleasure to announce that this Budget contains no new taxes.

Non-Tax revenue receipts are estimated at K1.3 billion in 2014, an increase of K725.2 million or 130 per cent from the revised 2013 revenue estimated.

In terms of Property Income, expected non-mining dividends total K287 million comprising of dividends from

- the Bank of PNG (K27 million),
- IPBC (K60 million),
- National Fisheries Authority (K50 million),
- National Forestry Authority (K50 million),
- Motor Vehicle Insurance Limited (K50 million-from the car registration component) and
- the National Gaming Board (K50 million).

Mining and Petroleum Dividends are anticipated to be K133 million.

Interest and Fees from Lending in 2014 is expected to be K4 million.

Injections from Trust Accounts are estimated at K36 million.

Project Grants are estimated at K1.6 billion in 2014, up from an estimate of K1.2 billion in comparison to the 2013 revised estimate.

The increase in Project Grants implies more major projects to be undertaken in 2014.

I am pleased to announce that the Tax Review Committee commenced its work on 1st September 2013.

The Tax Review is the first major review of the system in over 13 years. It will ensure we have a modern tax system which will allow the Government

to develop PNG into a competitive middle income nation in the Asian Century.

It will do this by making sure that our tax system is able to grow and adapt to our changing economy, while raising the necessary revenue to allow the Government to improve essential services and build the infrastructure necessary for the growth and development of PNG.

While the Government is not undertaking major tax reform prior to consideration of the tax review, the Government has encouraged the Internal Revenue Commission and PNG Customs to improve their revenue administration in 2014. This will raise an additional K750 million.

Likewise, the Government is introducing reforms to the Research and Development and Infrastructure Tax Credit regimes to protect the revenue base from further erosion.

To increase greater transparency and accountability of revenues generated from the mineral and oil & gas sectors I announced in April 2013 the Government's decision to implement the Extractive Industries Transparency Initiative (EITI).

To implement this initiative the Government will work with the industry and CSOs through the formation of a multi stakeholder group (MSG) and development of a fully costed EITI work plan for EITI implementation.

Under the EITI the Government will report production data, licensing information, and transfers to local governments and state owned enterprise.

The Government also anticipates that EITI will set a platform for reforms in the extractive industries and other sectors as well.

Implementation of EITI will also compliment the Independent Commission Against Corruption (ICAC), an agency that has as its primary focus to improve transparency and accountability and to take the necessary action to bring to an end the corruption and misdeeds that have led to so much waste in the past.

Corruption is a cancer that eats away at society in both developing and developed nations.

The O'Neill-Dion Government is committed to the establishment of the ICAC.

As the Commission swings into action members will see significant economic benefits as well as the revitalisation of our implementation capacity.

Hopefully, the crooks will see the cell bars closing around them.

The Commission is a testament to the integrity of this government.

Mr. Speaker, turning now to the Sovereign Wealth Fund.

Given the anticipated surge in mining and petroleum projects in the country mainly the PNG LNG project with the potential of increased revenues to the government, a Sovereign Wealth Fund was developed.

It was developed to provide a possible mechanism to help insulate the PNG economy and the budget from the volatility and fluctuations in revenue.

In 2011, the Government endorsed the policy and legislated framework with the design and institutional framework of PNG SWF guided by

international best practice, the Sovereign Wealth Fund Generally Accepted Principles and Practices (the Santiago Principles), and domestic requirements.

The Organic Law was subsequently passed into Law in February 2012. Since then, the Government has undertaken a review of the Organic Law to ensure proper constitutional processes are followed.

The Government is considering modifying the design of the PNG SWF to provide a greater focus on intergenerational equity consistent with our Constitutional obligations.

In considering this, the Ministerial Committee on Economic Sector (MCES) has agreed to have a Savings Fund to replace the Development Fund.

In this regard the National Budget will take care of PNG's economic and social development needs consistent with its development priorities and objectives.

However, the internationally applauded PNG SWF structure and institutional framework will remain. The PNG SWF will continue to:

- have a single governance framework;
- be onshore managed, offshore invested and onshore spent;
- be fully integrated with the budget and fiscal framework;
- promote governance, transparency, disclosure, accountability and asset management rules based on international best practice (the Santiago Principles);
- be overseen by an Independent Board located within PNG; and
- have investments undertaken by experienced investment managers.

The next phase of work is to finalise the Organic Law and re-introducing it in the Parliament in 2014.

Mr Speaker, I am also pleased to announce that in 2014 the Government will conduct a broad ranging review of the overall operation and governance of the PNG financial services sector.

This review will identify policies and practices to assist in improving the efficient operation of this important sector.

The review will cover amongst other issues

- systemic risks in the financial sector;
- barriers to the growth in deposits and lending;
- governance of micro-financing institutions;
- access to banking services to remote areas; and
- enabling the growth and expansion of a sound debt market (financial capital market)

A Financial Inclusion and Literacy Programme to be run by the Treasury and BPNG will be an important policy initiative over the coming years to ensure greater demand for financial services

The O'Neill-Dion Government strongly considers micro-economic reform to be the engine for sustainable growth of the private sector.

Accordingly, the Government will continue to pursue a comprehensive national micro-economic reform agenda in 2014.

The Government will prioritise competition policy as well as the business regulatory environment for local and foreign business investors.

The Government will also undertake micro-economic reforms in SOEs and conduct further restructuring of the Ok Tedi Mine and the PNG Sustainable Development Programme to improve operational efficiencies and growth outcomes.

These reform processes are essential so as to allow the PNG economy to continue to grow at a high rate.

The Government's reform efforts will also address the underlying issues that impinge on public sector service delivery and private sector led market development.

The Government is also committed to public sector reform that will enhance the efficiency and effectiveness of the public sector.

One of the planned reforms is that the Government is to undertake an amalgamation of Government Agencies with duplicate functions in 2014.

In addition, efforts will also be needed to implement the 'one person, one position, one pay principle', so as to eliminate an estimated several thousand 'ghost' employees in the public sector.

This fraudulent activity steals from every Papua New Guinean and must be stamped out.

The Government recognises the important role the private sector can play in expanding service provision in PNG, including working with the State through public private partnerships (PPPs).

PPPs are a way to increase private sector involvement in the supply of public services.

To harness this potential, the Government is examining the feasibility of a number of PPPs in the power and transport sectors.

It is important to emphasise that a PPP is simply a method to competitively procure, deliver and maintain infrastructure and services through cooperation between a public institution and one or more private enterprises via a long term contractual agreement e.g. to build and maintain a highway, or to plan and develop a large scale commercial agriculture project.

The Government has developed specific PPP legislation to complement existing and planned PPP arrangements.

This legislation will lead to additional expertise in Government via the creation of a PPP Centre.

This additional PPP transaction expertise, combined with legislative that requires transparent processes to execute PPP arrangements be followed, should provide the private sector enhanced confidence to invest in PNG PPPs.

Treasury has prepared a PPP bill that is now before the Legislative Counsel to bring it to Parliament towards the end of 2013.

Good statistics are necessary for sound decision making, as defensible data are at the core of all planning, budgeting, accountability and transparency processes.

Reliable statistics are also needed for effective program design and management.

Statistics provide the basis for measuring progress towards the Millennium Development Goals (MDGs), and are an integral component of all donor interactions with the GoPNG.

In Papua New Guinea in the last fifteen years, the administrative disciplines surrounding the production of Government statistics have fallen into decline.

There have been several attempts to address specific statistical problems eg the proposed introduction of identity cards, the reform of the national accounts, and donor supported surveys such as Household Income and expenditure Survey.

While important, these initiatives have done little to address the systemic problems facing statistical systems.

Recognising this serious decline in national economic and social data, in 2014 the Government, with the support of technical resources from the Australian Government and IMF, will complete the preparation and commence the implementation of the National Statistics Development Strategy and conduct an organisational wide Capabilities Review of the National Statistics Office in 2014.

A key outcome is the planned establishment of an oversight committee for PNG statistical products, incorporating Government, community and private sector members to monitor the strategy to improve NSO accountability.

Mr. Speaker, future Budgets will focus on high impact national investment that will be subject to improved scoping, design, costing and monitoring requirements.

From 2015 all new investment initiatives will need to be fully costed and have clear milestones identified to enable effective monitoring.

The largest National projects will also be subject to an economic feasibility study, including environmental assessments, to ensure that the economic benefits are greater than the costs, based on best international practice and rates of return.

In respect to Public Servant wages the budget makes allowances for anticipated new awards which are expected to commence in 2014. The first of these, a 10 per cent increase for teacher's salaries, was announced last month.

The Government welcomes increased salaries for our hard working public servants. But in return we expect greater discipline and an end to the 'leakages' in the payroll costs resulting from overpayment of allowances, chronic absenteeism and ghost staff. As a partial offset for increased salary awards, long overdue reforms to the public service payroll will be implemented immediately. These reforms include: the removal from the payroll of duplicate accounts and terminated employees; stronger supervision and monitoring of attendance; and implementation of the "*one person – one position – one pay*" principle. Collectively, these administrative HR changes will deliver K100 million in savings in the first year.

The budget will phase in over three years increased allowances for local government officials, starting in 2014. K38.4 million has been allocated for increased costs for village court officials. This will be the first increase for village court officials since 1990 and will impact over 1600 village courts.

Total funding for the Provincial Sector in 2014 is over K3.6 billion, with further significant LLG specific funding included in other sectors such as roads infrastructure.

To empower all Papua New Guineans at all levels of government, the direct funding for the provinces, districts and local level governments of K1.5 billion is maintained. These direct funds provide each province with K5 million per district under the Provincial Services Improvement Program (PSIP); each district will receive K10 million under the District Services Improvement Program (DSIP) and K0.5 million for each local level government to be administered at the district level. These funds are to be used for the priorities identified in the relevant provincial and district five year development plan.

During 2014 the functions of all Three-Tiers of Government will be defined appropriately for efficient performance and to ensure that the duplication of functions is avoided.

The 2015 Budget will only address National Impact Projects, whilst Provincial and Local Level Government will fund the smaller projects in their regions.

The Government will pass the District Authority Bill this year to strengthen the local level government system by enabling funds to be directly provided to Districts and LLGs rather than the current system where Provincial Governments have a transfer and oversight function.

Total infrastructure sector funding is K2.7 billion including K769 million in donor funding. Construction and maintenance of roads and bridges infrastructure is a critical area for which Department of Works will receive over K1.6 billion (including K339 million from donors).

The Independent Public Business Corporation will have funding of K514.5 million; including K55 million for the PNG LNG Fibre Cable; K411.3 million (including K141.3 million from ADB) for the Lae Port Development Project and K47.8 million (K27.8 million from JICA) for the Port Moresby Sewerage Project.

PNG Power will have an allocation of K425.2 million including K75.8 million (K49.8 million from ADB) for the PNG Town Electricity Investment Project and K28 million from JICA for the Ramu Transmission System Reinforcement Project.

- ***Education –Our Future***

Total funding for the Education sector in 2014 will be K1.5 billion, an increase of K160 million from 2013 Budget appropriation levels. The Department of Education will receive K1,082 million which demonstrates the Government's commitment to education. Our key policy is tuition fee-free education for Elementary level to National High Schools (costing K605 million with a further K43 million in trust). Students from over 18,000 schools in PNG will benefit from this policy. In addition the department delivers flexible open distance education which support students from years eight to ten to complete their studies away from the class room); special education; and accreditation of high quality tertiary and vocational institutions.

A total of K23 million will be provided for Curriculum Development Materials which includes the procurement of text and resource books for teachers in elementary and primary schools. K11 million will be provided for National Examinations to cater for grade 8, grade 10 and grade 12 examinations in 2014.

The Government is also committed to rehabilitating the higher education institutions of PNG and will provide K414.4 million for the sub-sector including K210.7 million for the Office of Higher Education and a further K192 million for targeted infrastructure projects at a number of universities including K15 million for the Law School at the University of Papua New Guinea and K5 million for the Open Campus University

The O'Neill-Dion Government is keen on improving the quality of higher education in PNG commencing at the higher institutions to international standards through accreditation of courses offered by the university.

The raising of the quality education at university level will guide the lower levels of education to upgrade themselves to meet the requirements of entry into higher institutions.

- ***Improving Health Outcomes***

In 2014 total funding for all agencies in the Health sector will be K1.4 billion. The Department of Health (K666.4 million) and Hospital Management Services (K516.2 million) have the majority of funding in the Health Sector.

Funding in this sector will support the upgrade and redevelopment of 16 existing hospitals. This includes K65.2 million for Angau Memorial Hospital (including K45.2 million from the Australian Government under the 2013 Joint Understanding), K50 million for Enga Hospital, K30 million for Port Moresby General Hospital. K114 million is provided for the following provincial and district hospitals: Boram, Daru, Kerema, Kundiawa, Manus, Mendi, Modilon, Mt Hagen, Nonga, Popondetta and Vanimo. The Government also provided a further K8 million for the design of two new hospitals in Central and Hela Provinces.

- ***Law and Order***

The Law and Order sector will receive funding of K1.3 billion in 2014. The Police Department will continue to receive funding through its Police Modernization Program (K69 million in 2014). K6.5 million is specifically for the recruitment of 480 new Officers and K62.5 million is for the facelift of the Police training college and other Police facilities. Police will continue to receive the K15 million in the 2014 Budget for the construction of Police patrol stations along the PNG LNG corridor and Site.

The Department of Defence in 2014 will also continue to receive funding for the rebuild program. K30 million will be specifically for the rebuild of the PNG Defence Force and K25 million for the purchase of land to allow the relocation of Murray Barracks and Lancron Naval Base.

As part of the Government's Commitment, Defence will continue to recruit an additional 400 uniformed personnel at a cost of K3 million in 2014. Correctional Services in 2014 is also recruiting additional uniformed personnel of 150 at a cost of K1.9 million to ensure the number of warders is maintained to substitute for the ageing of the current force. This Government has awarded an increase in Village Court Officials allowances amounting to K38.4 million per annum, commencing in 2014 Budget.

- ***Agriculture and Small Business***

Total funding for the Economic and Agriculture sector is K777.9 million in 2014, of which K302 million is set aside for the Agriculture/Small to Medium Enterprises (SMEs) Package.

Government Departments with major funding in this sector include the Department of Commerce and Industry (K140 million) and the National

Development Bank (K85 million) to facilitate the Bank's Small & Medium Enterprise Credit Fund.

The centrepiece of this package is K40 million for the *Agriculture Commercialisation Equity Fund* a pilot program which will identify land and seek investment parties to participate in large scale commercialisation of agricultural commodities of coffee, cocoa, oil palm, rice, rubber and livestock.

The Government also work with commodity Boards to provide price support and other measures to support investment in agriculture.

Additionally a funding of K50 million will be allocated to establish a Special Economic Zone in the Sepik Plains region. The funding will build critical infrastructure including roads, power cables and wharves to encourage agriculture commercialisation and investment in the region.

The Government will provide K838.6 million (including K73.9 million in donor grants and loans) in 2014 for the development of infrastructure in PNG's four major cities of Port Moresby, Lae, Mt Hagen and Kokopo. The infrastructure projects represent initial steps toward developing each city as a central hub in key areas of enterprise:

Port Moresby (Commerce)

The Government will provide K281.8 million in 2014 to develop Port Moresby into the commercial hub of the country. The key infrastructure projects for Port Moresby include K170 million for new and existing roads, K30 million for the upgrade of Port Moresby General Hospital and K30 million to complete the upgrade and rehabilitation of Jacksons Airport.

Lae (Industry)

The Government will provide K437.4 million in 2014 to develop Lae into the industrial base of PNG. The key infrastructure projects for Lae include K270 million for the Lae Port Development Project, K100 million for new and existing roads and K65.2 million for the rebuilding of Angau Hospital under the 2013 joint understanding with the Australian Government.

Mt Hagen (Agriculture)

The Government will provide K61.4 million in 2014 to develop Mt Hagen into the agricultural centre of PNG. The key infrastructure projects for Mt Hagen include K40 million for new and existing roads, K20 million for the redevelopment of Mt Hagen Hospital and K1.4 million for the Mt Hagen Rice Project.

Kokopo (Tourism)

The Government will provide K58 million in 2014 to develop Kokopo into the tourism hotspot of PNG. The key infrastructure projects for Kokopo include K2 million for water and sewerage upgrades, K15 million for upgrade works to Tokua Airport and the road from Kokopo to the Tokua Airport and K3 million for the implementation of the tourism midterm master plan.

Mr. Speaker, on any journey, it is important to have friends who will walk alongside you. PNG is lucky enough to have a number of friends who have joined us on the path to greater economic prosperity that we are currently treading.

For example in terms of grants in 2014

- the Australian Government will be providing K1.2 billion in grants to PNG;
- the United Nations over K100 million;
- the Chinese Government K86 million; and
- the European Union K62 million

In addition, the World Bank contributed K102 million in grants and loans and the Asian Development Bank will be providing loans for K440 million worth of mainly infrastructure projects and the Chinese Government a further K296 million.

There are a number of other partners too of course, with one of these being the International Monetary Fund who recently completed their Article IV economic assessment of PNG that supported the continuation of the continuation of the O'Neill-Dion Government's prudent fiscal and sound monetary policies.

It is worth noting that in their economic assessment of PNG, they recommended, amongst other things, that the Government focus on strengthening the agricultural sector, which is a key feature of this Budget.

This year the O'Neill-Dion Government's commitment to sustainable budgetary reforms was acknowledged by the World Bank and the IMF through the honour of my appointment to the Chair of the Board of Governors.

I have committed to using this role on the global stage to promote the PNG Government's commitment to ongoing reform and leadership in the region.

In closing, Mr Speaker, my father once told me that afternoon he was leading me through the Karuka (Pandanas) garden “Son! I planted these nut trees knowing fully well, that I would not be enjoying the blessings from them. I have been planting, pruning and caring for them for you and your children for the future.

This Budget must create the foundation for the future benefits for all of us but particularly for our children.

Mr. Speaker, we have in the past seen spendthrift governments, implementation failures and dwindling capacity.

This Government, the O’Neill-Dion Government, is determined to turn that around.

The Government has made the choice- a clear choice to keep our economy strong and to continue to invest in our future.

This Government is known for making visionary choices that strengthen this great nation.

This includes, the tuition fee free education, free health care, investing in agriculture, infrastructure developments and law and order.

And with the number of big investments I have announced today, we will build upon that proud tradition.

We have also made some very tough but prudent decisions as we continue on the chosen path to returning to surplus while supporting jobs and growth.

This is the Papua New Guinea this current Government choose for all its people.

A Nation that strives to create prosperity and opportunity for all.

Having charted this course – the prudent path – we all have a responsibility to ensure full implementation, to avoid waste and to build our economy and our nation.

This is a Budget for our future – for all of us.

The Budget that will help PNG triumph over the hurdles and empower the Country to National Greatness.

I commend the 2014 Budget Bill and the 2013 Supplementary Budget Bill to the House.