

# **2015 NATIONAL BUDGET**

## **VOLUME 1 ECONOMIC AND DEVELOPMENT POLICIES**

**For the year ending 31<sup>st</sup> December, 2015**

**PRESENTED BY**

**HON. PATRICK PRUAITCH CMG, MP**

**TREASURER**

**ON THE OCCASION OF THE PRESENTATION OF 2015 NATIONAL BUDGET**



**HON. PATRICK PRUAITCH, CMG, MP**

**TREASURER**

## FOREWORD

### “Building our nation and providing opportunities for our people”

It is my great pleasure to deliver the O'Neill – Dion Government's third national budget and the second fully integrated multiyear budget, the 2015 Budget.

The 2015 Budget is not an ordinary budget. Set within the medium term frameworks, it is designed to ***build our nation and provide more opportunities for our people***. The 2015 Budget supports continued economic growth by focusing on high impact priority infrastructures, not only at the national level, but also at the provincial and district levels. More importantly, it is designed to give each Papua New Guinean a fair opportunity to participate in the development of our nation.

The 2015 Budget is accompanied by the 2014 Supplementary Budget, which reallocates expenditure to high priority expenditures. The 2015 Budget is set at a record level of K16.2 billion, equal to a budget deficit of 4.4 cent of GDP, lower than the deficit of 5.9 per cent of GDP for 2014. This is the first step in the right direction given current economic and fiscal situation. The O'Neill-Dion government is committed to building Papua New Guinea, but in a responsible manner. Given the need to adequately prepare for upcoming regional and national events including the 2015 Pacific Games, 2017 National elections and the 2018 APEC meetings, the 2015 Budget sets the foundation whilst recognising the need for macroeconomic stability by progressively returning the budget to a sustainable position in 2017.

The 2015 Budget has five key priorities:

- enhancing opportunities for our people by building the foundation of our country in 2015 whilst recognising the need for macroeconomic stability by progressively returning to a balanced budget in 2017;
- further promote the efficient and effective implementation of major projects through improved service delivery designing, scoping and implementation processes;
- increased direct funding to the provinces and districts with more emphasis on monitoring, evaluation and compliance so as to achieve improved development outcomes;
- continue to support policy priorities in the education, health, and infrastructures sectors; and
- continue to strengthen the justice sector, resource Corrections Services, modernise Police and rebuild the Defence Force.

The 2015 Budget builds on achievements of the past. It is set against a backdrop of 14 years of uninterrupted consecutive growth. Economic growth for 2015 is expected to be a strong 15.5 per cent supported by the first full year of LNG production. Growth in the non-mining sector is expected to pick up from 1.4 per cent in 2014 to 4 per cent in 2015 while inflation is expected to decrease to 5.5 per cent from 5.9 per cent in 2014 and ease over the medium term.

The 2015 Budget is about **“building our nation and providing opportunities for our people.”** This government is committed to ensuring that sufficient resources are allocated to key Medium Term Development Plan (MTDP) enablers to ensure broad-based economic growth with all Papua New Guineans sharing its benefits.

Key priority expenditure areas of the 2015 Budget are highlighted below.

There will be increased funding for major roads to better link Papua New Guinea with the objective of facilitating access to key services by the rural population and ensure their participation in economic activities. This includes building missing road links in rural areas where the majority of our people are located. In addition, investment into expanding the capacity of urban roads in the major towns and cities of Port Moresby, Lae, Goroka and Mt Hagen are also expected to complement efforts towards facilitating increased private sector investment, jobs creation and increased participation by Papua New Guineans.

The 2015 Budget also increases and streamlines funding for education. The O’Neill – Dion Government’s free education policy will continue in 2015. Additional funding is also provided to cater for increased teacher numbers and schools infrastructure. This Budget includes funding for Curriculum Development Materials covering the procurement of text and resource books for teachers in elementary and primary schools.

Additional funding is also provided for the health sector particularly, for hospitals and health staff. Improving hospital arrangements and capacity to cater for more patients including the accessibility remains a priority objective of the government. Provincial hospitals and rural health services have been allocated increased funding. Complementing efforts on this front is the increase in funding for Nursing Colleges to ensure well trained staff. Medical supplies and other health programs such as interventions for HIV/AIDs continue to remain priorities

Other MTDP enablers are allocated increased funding to ensure the momentum in these areas is maintained. Allocations to the MTDP enablers under the different sectors include K2.5 billion for Administration, K730.8 million for Economic & Agriculture, K1.8 billion for Health, K1.9 billion for Education, K2.7 billion for Infrastructure, K1.6 billion Law and Order, K3.7 billion for Provinces and K139.5 million for the Social sector.

With the increased funding, the government remains committed to enhancing the performance of the public sector to promote efficient and effective service delivery. As part of the 2015 Budget implementation, the effectiveness and efficiency of the Public Sector in designing, scoping, and implementation processes will be reviewed. There will be greater monitoring and evaluation of the programs that have received increased funding in 2015. This is to ensure there is accountability and value is received for the increased funding.

Furthermore, the Government remains committed to policy reforms that will maintain business confidence in Government policies and processes. The Fiscal (Tax and non-Tax) Regime Review is expected to conclude in mid-2015. The Review’s report is expected to inform the Government on the options for the way forward. Other

reforms include competition and dividend policies for PNG. The policy frameworks for these reforms are also expected to be completed in 2015.

The 2015 Budget is set within the Government's overarching medium term frameworks including the Medium Plan Development Plan, the Development Strategic Plan and the Vision 2050. It is set with a long term perspective and the prosperity of our people in mind. It sets the foundation for all Papua New Guineans to participate meaningfully and benefit from the economic opportunities that are being created by the Government's major public investments.

I commend the 2015 Budget to the Honourable Members and to the people of Papua New Guinea.

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**HON. PATRICK PRUAITCH, CMG, MP**

**TREASURER**

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# CHAPTER 1. BUDGET OVERVIEW

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## ***Economic Outlook***

The world economy is in the middle of a balancing act, according to the International Monetary Fund (IMF). On the one hand, the world economy continues to grow whilst it addresses the legacies of the Global Financial Crisis (GFC) ranging from debt overhangs to high unemployment. On the other hand, countries face a cloudy future and are in need of structural reforms. Downward revision of potential growth rates and uncertainty turn to affect confidence, demand, and growth prospects. According to the IMF October World Economic Outlook (WEO), the world economy is projected to grow by 3.3 per cent in 2014, which is down from the July WEO estimate of 3.4 per cent and reflects that global crisis legacies are tougher to resolve than expected. In 2015, the world economy is expected to pick up by 3.8 per cent, with growth projected to come from both advanced economies and also emerging and developing economies.

PNG economic growth continues to remain very positive in 2014. It is projected to grow at 8.4 per cent despite a slowdown in domestic economic activity as the economy descends from Liquefied Natural Gas (LNG) related peaks associated with the completion of the PNG LNG construction phase. The growth is mainly driven by early commencement of PNG LNG production and to a lesser extent favourable gold and copra production in the second half of the year.

In 2015 the PNG economy is projected to grow sharply by 15.5 per cent driven by a full calendar year of gas production. The strong growth is supported by the non-mining sectors through a rebound in the construction sector arising from preparations for the 2015 Pacific Games and the 2018 APEC meetings alongside robust growth from the agriculture, forestry and fisheries sectors.

Over the medium term the PNG economy is expected to adjust to traditional drivers in the non-mining sectors led by the agriculture, fisheries and forestry sectors supported by the continued expansion of the private sector.

In 2014, inflation is estimated to be 5.9 per cent, a downwards revision from the MYEFO estimate of 6.3 per cent. The low inflation rate is reflective of low commodity prices and the easing of aggregate demand associated with the completion of LNG construction. In 2015 inflation is expected to further ease to 5.5 per cent reflecting a strengthening of the Kina exchange rate and the second phase of the Tariff Reduction Program (TRP). Over the medium term, inflation is projected to stabilise at around 5.0 per cent based on the assumptions of effective and coordinated monetary and fiscal policy. The Bank of Papua New Guinea has maintained its monetary policy stance by keeping the Kina Facility Rate at 6.25 per cent.

PNG's trade activity with the rest of the world has improved slightly in 2014. This is in spite of the world economy struggling to recover from the legacies of the global financial crisis and low international commodity prices, particularly for PNG's mineral exports. The improvement in PNG's trade activity is driven by PNG LNG production and is expected to improve the current account balance.

## ***Fiscal Strategy***

The 2015 Budget has been framed against a backdrop of moderate strengthening in global economic growth and continued growth in the domestic economy underpinned by the commencement of LNG exports.

The 2015 Budget is consistent with *Fiscal Responsibility Act 2006* which requires that the debt to GDP ratio remains below 35 per cent in 2015. In the medium term, the Government debt to GDP will be reduced to less than 30 per cent. This Budget is guided by the Government's economic development strategy "Vision 2050"; PNG Development Strategic Plan 2010-2030 and the Medium Term Development Plan 2011-2015.

### Revenue

Total Revenue and Grants is projected to be K13,927.3 million in 2015 (Table 1). This is an increase of K1,252.5 million or 9.9 per cent from the 2014 revised estimate of K12,674.8 million. The increase in Total Revenue and Grants in 2015 is expected from Tax Revenues whilst Non Tax Revenues are projected to decline.

**Table 1: Revenue Summary (Kina million)**

	2013 Actual	2014 Budget	2014 Revised	2014 Var. Budget	2015 Budget	2015 Var. 2014 Revised
<b>Total Revenue</b>	<b>8,862.4</b>	<b>11,003.5</b>	<b>10,958.2</b>	<b>-45.3</b>	<b>12,323.4</b>	<b>1,366.4</b>
<i>Per cent of GDP</i>	<i>25.8%</i>	<i>27.8%</i>	<i>26.9%</i>	<i>-0.1%</i>	<i>24.1 %</i>	<i>2.7%</i>
<b>Tax Revenue</b>	<b>8,588.5</b>	<b>9,743.5</b>	<b>9,762.8</b>	<b>19.3</b>	<b>11,257.8</b>	<b>1,495.0</b>
<i>Per cent of GDP</i>	<i>2.5%</i>	<i>24.6%</i>	<i>23.9%</i>	<i>0.04%</i>	<i>22.0%</i>	<i>2.9%</i>
<b>Non-Tax Revenue</b>	<b>273.9</b>	<b>1,260.0</b>	<b>1,195.5</b>	<b>-64.5</b>	<b>1,065.6</b>	<b>-128.7</b>
<i>Per cent of GDP</i>	<i>0.8%</i>	<i>3.2%</i>	<i>2.9%</i>	<i>-0.1%</i>	<i>2.1%</i>	<i>-0.3%</i>
<b>Grants &amp; ITC</b>	<b>970.3</b>	<b>1,685.0</b>	<b>1,716.6</b>	<b>31.6</b>	<b>1,603.9</b>	<b>-112.7</b>
<b>Total Revenue and Grants</b>	<b>9,832.7</b>	<b>12,688.5</b>	<b>12,674.8</b>	<b>-13.7</b>	<b>13,927.3</b>	<b>1,252.5</b>
<i>Per cent of GDP</i>	<i>28.6%</i>	<i>32.0%</i>	<i>31.1%</i>	<i>-0.03%</i>	<i>27.2 %</i>	<i>2.4 %</i>

Source: Department of Treasury

The 2014 revised estimate of K12,674.8 million for Total Revenue and Grants is a reduction of K13.7 million or 0.1 per cent from the original 2014 Budget estimate of K12,688.5 million. The reduction is expected from Non Tax Revenues. Compared to 2013 actual outcome of K9,832.7 million, the 2014 revised estimate is anticipated to be higher by K2,842.1 million or 28.9 per cent.

### Expenditure

Total expenditure in 2015 is estimated to be K16,199.1 million. This represents a K1,095.3 million or 7.2 per cent increase over the 2014 Revised Budget of K15,103.8 million. As noted in Chapter 3, this level of expenditure will result in an estimated deficit of K2,272 million or (4.4 per cent of GDP). The slower rate of growth in spending and the reduced deficit as a per cent of GDP are key elements of the Government's strategy for an orderly, graduated return to a balanced Budget by 2017.

The Government's broad spending priorities for the 2015 Budget are to:

- enhance opportunities for our people by building the foundation of our country in 2015 whilst recognising the need for macroeconomic stability by progressively returning to a balanced budget in 2017;
- further promote the efficient and effective implementation of major projects through improving designing, scoping, and implementation processes;
- increase direct funding to Provinces and Districts with more emphasis on monitoring, evaluation and compliance so as to achieve improved development outcomes;

- continue to support policy priorities in the Education, Health, Infrastructure, Agriculture and SME sectors; and
- continue to strengthen the Justice sector, resource Corrections Services, modernise Police and rebuild the Defence Force.

The particular prioritisation of spending outlined in this chapter reflects the Government's focus on delivering against the current Medium Term Development Plan 2011-2015 (MTDP) through continued investment in the following key enablers, namely:

- unlocking land and providing affordable housing for development;
- improving law, order and justice;
- establishing quality national transport corridors that connect rural populations to markets and services;
- improving higher and technical education and training to redress the severe skills shortage in the labour force;
- providing universal access to primary and secondary education;
- provision of key utilities of electricity, clean water and sanitation and communications;
- improving primary and preventative health outcomes; and
- enhancing responsible sustainable development.

The 2015 total estimated expenditure of K16,199.1 million includes operational spending of K9,213.5 million (2014 Revised Budget K7,594 million) and capital expenditure is K6,985.5 million (2014 Revised Budget K7,510.0 million). While capital spending remains at historically high levels, the unprecedented growth achieved in 2014 cannot, and should not, be expected to be sustained on an ongoing basis. The Government recognises that, over time, major investment in capital infrastructure must be accompanied by growth in operational budgets to ensure those investments are sustained and the expanded capacity is fully utilised to deliver improved services.

#### *Status of Trust Accounts*

Since 2005 a total of K8,301.4 million, up to and including the 2014 Budget, has been paid into Trust Accounts for implementation of priority expenditure programs. These Trust Accounts have largely been funded from additional mineral revenue in both supplementary budgets and annual budgets. The purpose of holding funds in trusts is to provide time for agencies to properly plan and implement projects.

A total of K329.2 million has been appropriated for trust accounts in the 2014 Budget. Of this, K209.2 million has been paid into trust accounts as at 30<sup>th</sup> September 2014, with the remainder to be paid when funds become available later in 2014. A total of K778.0 million will be appropriated for budget funded trust accounts in the 2014 Supplementary Budget and the 2015 Budget.

#### ***Financing and Debt Strategy***

The Government stock of debt continued to grow in 2014 as it issued increased volumes of domestic and external debt to the market to fund its budget deficit, largely due its development needs. This coincided with an increase in interest rates and a fall in demand for its Treasury Bills and Inscribed Stock.

In 2015, the stock of debt is expected to fall slightly following the Government's decision to proceed with the sale of equity in the LNG project to landowners. Proceeds from the transaction will be used to retire debt, which should lead to a reduction in refinancing and interest rate risk within the domestic portfolio. Whilst there will be a requirement to increase debt in 2016, it is envisaged that for the following three years issuance will only be for the purpose of refinancing maturing debt. The debt to GDP ratio is expected to fall over the next 5 years to levels well below the current 30 per cent limit defined in the *Fiscal Responsibility Act 2006*.

Over the next 5 years the Government will seek to re-balance its domestic debt portfolio, by reducing the amount of Treasury Bills on issue relative to inscribed stock. This will in turn lengthen the maturity of its domestic portfolio.

Development partners' provide assistance in the form of foreign currency project loans. As expected the Government's vision is to ensure that all respective projects are implemented to meet its development needs. This is expected to continue in 2015.

### ***National Reform Agenda***

The Government recognises the importance of on-going reform to enhancing outcomes for Papua New Guineans. Accordingly, the Government will continue its ambitious reform agenda throughout 2015.

As part of this ongoing effort and commitment, the Government has commenced two reviews fundamental to these objectives: the Competition review and the Financial Sector Services Review.

Going forward, the Government will monitor existing reforms to ensure they achieve their objectives, and provide a stable investment climate by exploring areas for further reform and removing impediments to doing business and investment in PNG.

### ***Improving Public Enterprise***

The State has substantial interests in enterprises and these comprise of both public enterprises and the State's investments. Public enterprises are State Owned Enterprises (SOEs) engaged in the provision of essential services such as telecommunication, aviation, sea ports, electricity, postal services, banking and water.

The Government recognises that SOEs are critical in determining development outcomes in delivering utility and communication infrastructure and is committed to providing disciplined and transparent governance frameworks and strong guiding policies for SOEs to operate efficiently and deliver essential goods and services.

## CHAPTER 2. ECONOMIC DEVELOPMENTS AND OUTLOOK

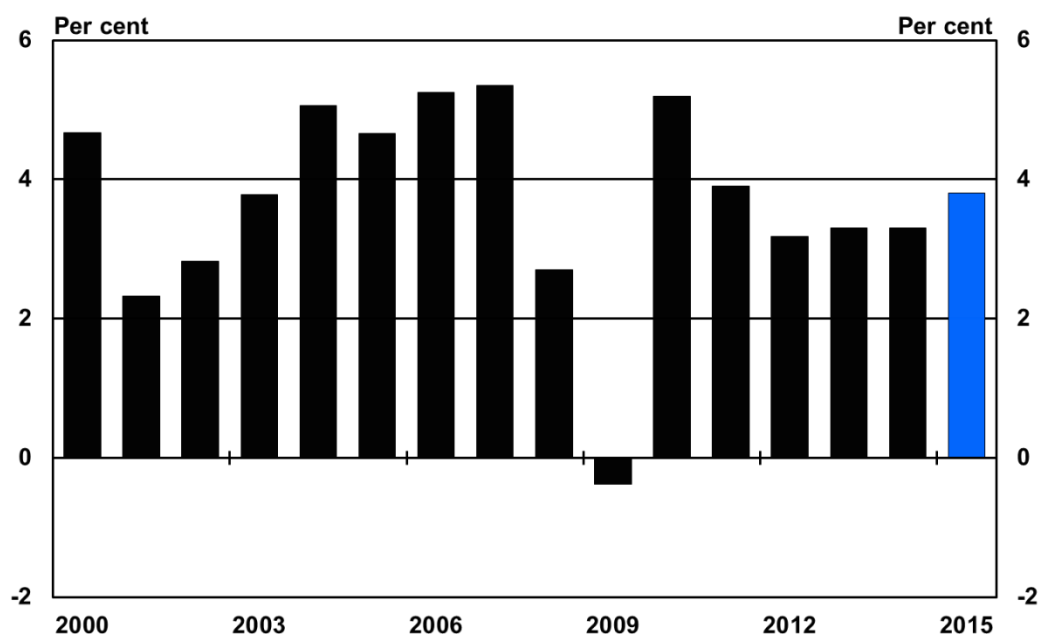
### 2.1. WORLD ECONOMIC GROWTH

#### 2.1.1 World Economic Growth Outlook

According to the International Monetary Fund (IMF), the world economy is in the middle of a balancing act. On the one hand, the world economy continues to grow whilst it addresses the legacies of the Global Financial Crisis (GFC) ranging from debt overhangs to high unemployment. On the other hand, countries face a cloudy future and are in need of structural reforms. Potential growth rates are being revised downwards and, these worsened prospects are in turn affecting confidence, demand, and growth prospects.

According to the IMF October World Economic Outlook (WEO), the world economy is projected to grow by 3.3 per cent in 2014. This is down from the July WEO estimate of 3.4 per cent, and the 2013 October WEO estimate of 3.6 per cent. The downward revision to growth reflects two forces- the global financial crisis legacies are proving tougher to resolve than expected and potential growth prospects are uncertain.

**Figure 1: World Economic Growth (2000-2015)**



Source: International Monetary Fund, World Economic Outlook (October 2014)

In 2015, the global activity is expected to pick up and grow by 3.8 per cent, 0.5 percentage points more than in 2014. The impulse is projected to come from the advanced economies, where output is projected at 2.3 per cent, 0.5 percentage points more than in 2014. It is also driven by growth in emerging and developing economies which are projected to expand by 5.0 per cent, 0.6 percentage points more than in 2014.

The United States is one of the fastest growing advanced economies projected to grow by 3.1 per cent in 2015. This is supported by an accommodative monetary policy, favourable financial conditions, much reduced fiscal drag, strengthened household balance sheets and

a healthier housing market. In the United States, employment growth is also expected to be strong in 2015.

In the Euro area, growth is expected at 1.3 per cent. The global crisis legacies are proving tougher to resolve in the Euro area. In Spain, growth has resumed supported by external demand and higher domestic demand reflective of improved financial conditions and rising confidence. In contrast, the Italian economy has contracted in 2014 and is expected on an annual base to record a modest growth in 2015. Similarly, the German economic growth has been revised down reflecting a weaker recovery in domestic demand whilst economic growth in France stalled in 2014 and is revised down in 2015.

In China, although the economy is expected to sustain a high growth of 7.1 per cent in 2015, this is 0.3 percentage points less than 2014. The lower growth is seen to be a healthy sustainable development path as investments further slowdown in China. India, on the other hand, has recovered from its relative slump and is expected to grow by 6.4 per cent. In contrast, uncertain investment prospects in Russia had already lowered Russia's growth before the Ukraine crisis, and the crisis has worsened Russia's growth prospects to be 0.5 per cent in 2015.

In the Latin American countries, growth is expected to rebound to 2.2 per cent in 2015. In Brazil, uncertain growth prospects and low investment are still weighing on growth in Brazil. In Mexico, growth is projected to pick up as the effects of structural reforms begin to come into play and as the United State's growth strengthens. Elsewhere in the Latin American region, including Peru and Chile, economic growth has been revised down reflecting weaker domestic demand. In the Middle East, North Africa, Afghanistan and Pakistan region, growth is expected to increase in 2015, assuming that security improves, allowing for a recovery in oil production, particularly in Libya. Economic activity in the oil importing countries is projected to improve only gradually as they continue to deal with difficult socio-political transitions, subdued confidence, and setbacks from regional conflicts.

### **2.1.2 Inflation**

Inflation is projected to be very low at 1.8 per cent in advanced economies, an indication that many of these economies have substantial output gaps and deflation continues to be a concern for advanced economies. In contrast, inflation in emerging and developing economies is projected to remain generally close to 2014 levels at 5.6 per cent up from 5.5 per cent in 2014. This is reflective of the general softening of commodity prices, particularly of food.

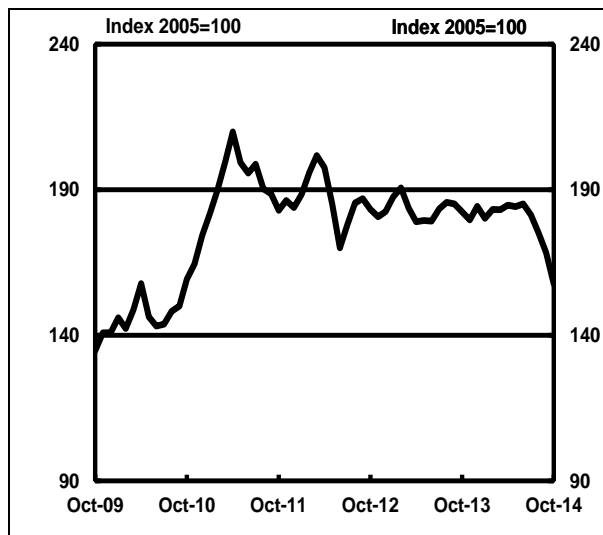
### **2.1.3 Commodity Prices**

Developments in the global economy continue to dictate the movements in commodity prices in 2014. The weak global economic growth in the first half of 2014, placed a drag on world demand resulting in substantial declines in most metal prices. In contrast, the unrelenting tensions in Europe (particularly in Ukraine) and the ongoing civil unrests in the Middle-East have maintained the appeal for oil and gold in the first half of the year. However, in the second half of the year, oil prices started to significantly decline due largely to a surge in supply from countries outside the Organisation of the Petroleum Exporting Countries (OPEC). This surge was mainly due to US shale oil deposits and continued high production from some of the OPEC producers. According to the IMF's All Commodity Price Index, prices of commodities while volatile have trended lower in 2014. In October 2014, prices have fallen by 12.5 per cent since the beginning of the year and by 13.5 per cent compared to the same period last year.

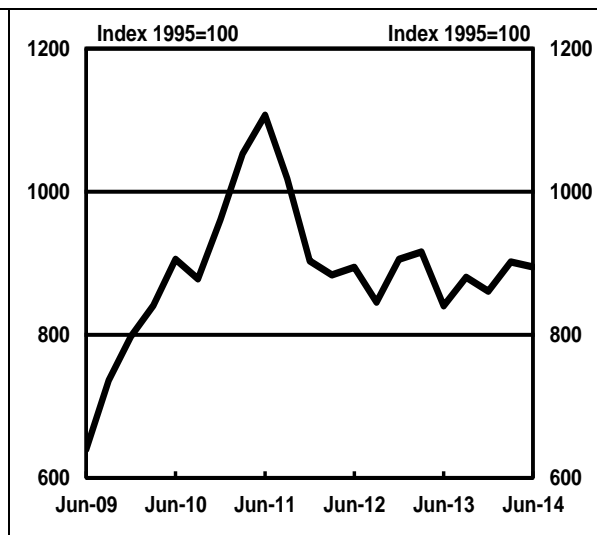


In assessing the effect of international price fluctuations on the PNG economy, the Bank of PNG All Price Index is the more relevant index. According to the June update from the quarterly economic statistics, prices of PNG's major exports are down by 0.8 per cent since the beginning of the year, and up 6.5 per cent compared to a year ago. This does not fully incorporate the recent sharp falls in the commodities especially oil and gold.

**Figure 2: IMF All Commodity Price Index**



**Figure 3: PNG All Commodity Price Index**



Source: International Monetary Fund (IMF)/Bank of PNG

The following discussion is centred on PNG's major mineral, petroleum and agricultural commodity exports.

### **2.1.4 Copper**

At the start of 2014, recovery in the global economy maintained copper prices at a high of US\$7,300 per tonne, however, by end of the first quarter, copper prices fell to average around US\$ 7,046 per tonne.

According to the IMF's April Commodity Market Report, copper prices dropped sharply by 7.0 per cent in March owing to a softening demand, ongoing supply growth and partially relating to fears of an unwinding of the large volumes of collateralized financed metal held in China's bonded warehouses. However, copper prices rose slightly in the early part of the second quarter due to some decline in stocks but the price surge did not last, prices fell again towards the end of the June quarter as it became apparent that the global economy had slowed down more than anticipated. Counteracting forces from a poor start of a rebounding US economy, against the weakening rest of the world saw prices locked in at a trading range between US\$ 6,615 per tonne and US\$ 7,184 per tonne since June. The extent of the economic slowdown in emerging and developing economies particularly China continued to plague demand leading to further price falls in September and October. From the beginning of the year to end October, copper prices have averaged around US\$ 6,920 per tonne which is 5.5 per cent lower than copper prices a year ago.

Figure 4: Copper Prices

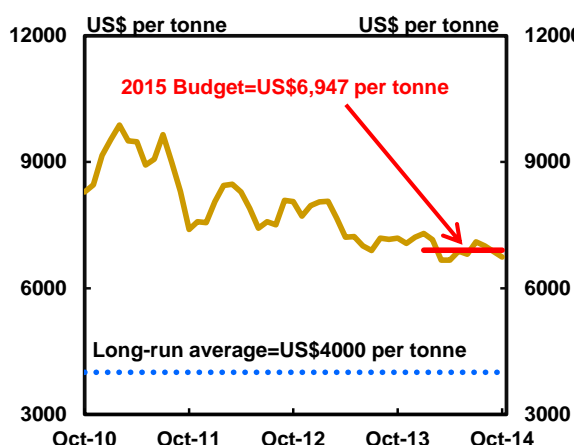
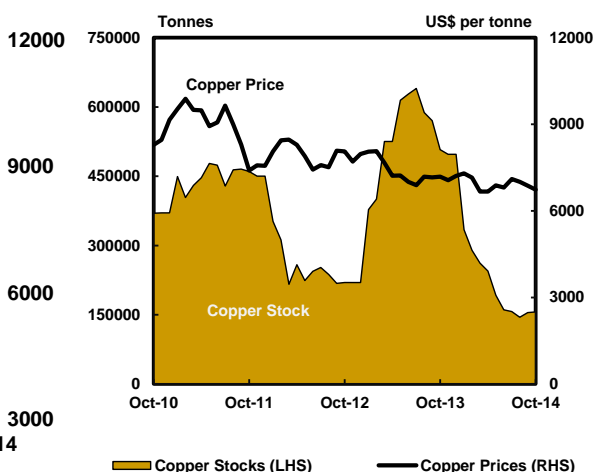


Figure 5: Copper Prices against stocks

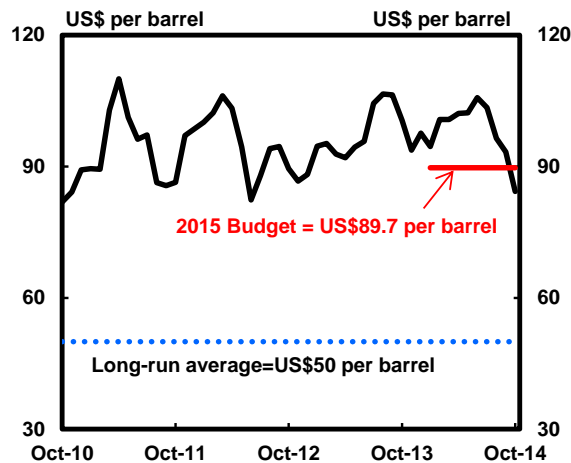
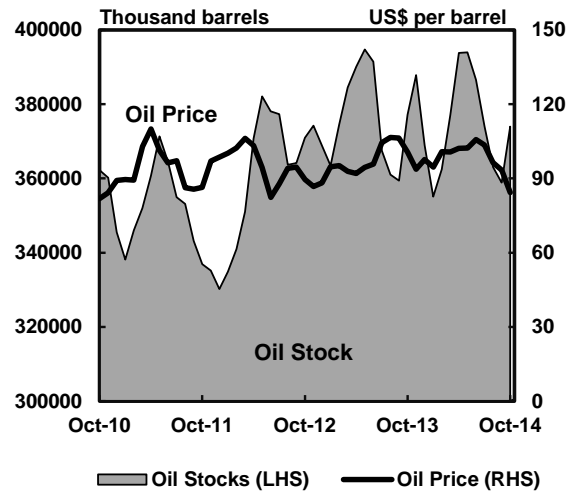


Source: International Monetary Fund (IMF) & London Metal Exchange

The 2015 Budget assumes copper prices will average around US\$6,947 per tonne in 2015. This assumes that while the robustness of the US economy in 2015 will provide upside to copper demand, the slowdown of the emerging and developing economies particularly China are likely to tilt the risks in the copper market to the downside. This is consistent with the expectation that copper supply continues to increase as mining projects deferred during the GFC make their entry into the copper market in 2014 and could continue into 2015.

### 2.1.5 Oil

Crude oil prices have been subject to weak demand, on-going supply outages and rising supply from both non-OPEC and OPEC countries. At the beginning of 2014, oil prices steadied at around US\$ 94 per barrel after trading at around US\$ 98 per barrel in the previous year. The drop in oil prices was due to demand concerns and steady increases in US production. However prices jumped briefly to a high of US\$105 per barrel at the beginning of March as news of tensions in Ukraine broke out however this did not last very long with prices pulling back to settle at around US\$ 101 per barrel at the end of the March quarter. Oil prices then increased to trade around US\$ 103 per barrel in the second quarter supported by intensifying tensions in Ukraine and supply outages in Libya as protests and strikes continued at the heart of the country's oil producing facilities and fears of disruptions to Iraqi exports due to fighting in the northern part of the country. However despite these on-going geo-political issues, the oil price started to re-treat after June as supply continued to outpace demand which - while robust in the US seemed to be sluggish elsewhere. This ensured that oil markets were well supplied since June with prices responding swiftly - falling from a peak of US\$ 107 in mid-June to average around US\$ 84 per barrel in October. From the beginning of the year to end October, prices have averaged around US\$ 98 per barrel which is 0.2 per cent lower than a year ago.

**Figure 6: Oil Prices****Figure 7: Oil Prices against Stocks**

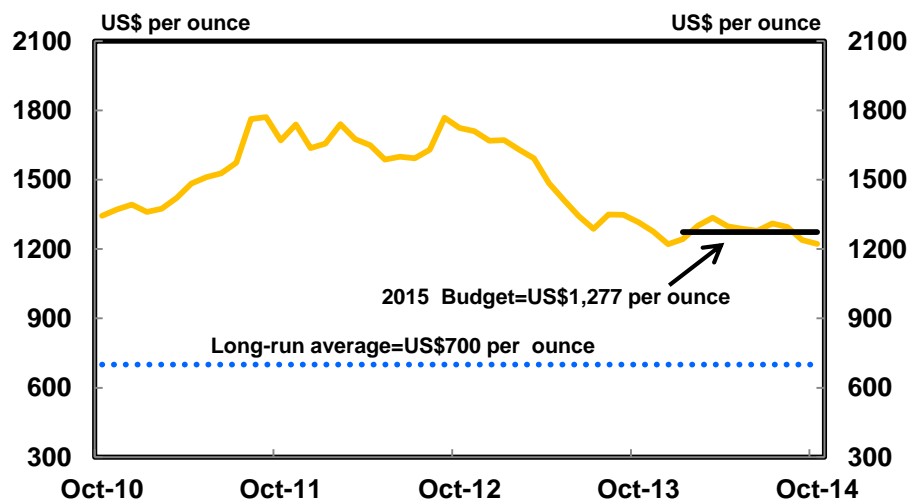
Source: International Monetary Fund (IMF) & US Energy Information Administration

Looking ahead into 2015, movements in oil prices are likely to track closely with developments in fundamentals and geo-politics. Strong oil production in the non-OPEC and OPEC oil producers is likely to persist however, demand while weaker in 2014 is anticipated to improve as the global economy continues to recover. Furthermore, geo-political tensions in a number of oil-producing regions pose a significant upside risk. Balancing these developments against the downside risks, the 2015 Budget assumes oil prices to average around US\$89.7 per barrel in 2015.

### 2.1.6 Gold

Gold's safe haven status was maintained at the start of the year, however, during the year developments in China and India - the top-consumers of gold, and the poor start of the rebounding US economy-a bright spot in the current bleak global setting, have influenced gold prices in 2014.

At the start of 2014, gold prices traded at around US\$ 1,243 per ounce. However, in early March, fears of a slowdown in China and weak economic data from the US sent prices shooting up to trade at around US\$ 1,385 per ounce-the highest price recorded since October 2013. This did not last long with price falling back to settle at US\$ 1,336 per ounce at the end of the first quarter, as news of a turnaround in the US economy was picked up with the release of strong economic indicators. The Gold price remained steadfast in much of the second quarter however, plunged to its lowest in early June as the US economy continued to strengthen, and demand waned as China and India slowed. Since June, gold prices have swung either side of US\$ 1,300 per ounce balancing the counteracting forces of strong economic data from the US and intensifying tensions in Ukraine and the Middle-East. However, with the US economy continuing to post strong economic data in the third quarter and extending into October - further amplified by the strengthening dollar, prices could not be supported any longer dropping to US\$ 1,222 per ounce at the end of October. From the beginning of the year to end October, price have averaged around US\$ 1,280 per ounce, which is 9.0 per cent lower than a year ago.

**Figure 8: Gold Price Movements**

Source: Department of Treasury, IMF, Bank of England

Looking ahead, despite the positive global economic outlook for 2015 and the risk associated with geopolitical tensions in the Middle East, risks to the downside are increasing due largely to the recovering U.S economy. This is raising the appeal for investment in U.S dollar and dollar denominated assets, the perceived haven at this point. However, should global conditions deteriorate in 2015 and the US economy stall unexpectedly, gold's safe haven appeal could come to the fore once again increasing prices. Balancing these against the downside risks, gold price is assumed in the 2015 Budget to average US\$1,277 per ounce in 2015.

### **2.1.7 Agriculture Commodities**

The weakening of global demand in the early part of 2014, supply-side issue driven by weather related concerns in the middle-part of the year and fears of Ebola in recent times have all had an impact on Agricultural commodity prices in particular major PNG exports-Coffee, Cocoa, Palm Oil and Copra oil.

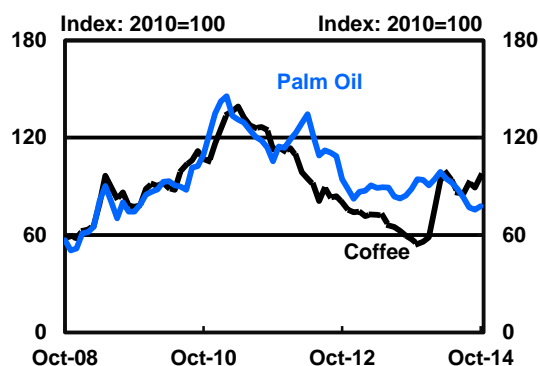
At the beginning of 2014, the world economy slowed down unexpectedly and this had a noticeable impact on overall demand which was mirrored in the declines in consumption of energy and metals. Appetite for agricultural commodities was no different appearing mediocre at the beginning due to lack of demand however, price increases were triggered by supply issues which emerged in the middle of the year particularly with respect to coffee. A long spell of dry weather hit Brazil - world's largest producer of Arabica coffee. The dry weather in Brazil which started in February continued until June. This lengthy spell of unfavourable weather greatly reduced the size of crop for this year leading to the sharp increase in coffee prices. From this development, expectations are for a reduced crop in the following year as well.

Global demand improved in the second half of the year however, the US economy turned the corner ahead of most economies in the second quarter of the year. This turnaround had some impact on cocoa prices which started to increase around the same time as chocolate consumption started to increase.

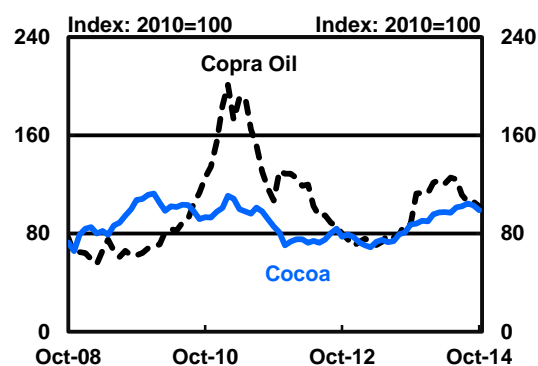
PNG's other cash crops including palm oil and copra were largely influenced by developments in Philippines, Indonesia and Malaysia. The latter two being top producers of palm oil. Dry weather across Southeast Asia in the first half of the year affected supply

increasing palm oil prices however this did not last, as prices started to re-treat soon after on the back of rising output from Indonesia and Malaysia.

**Figure 9: Price Index of Palm Oil & Coffee Prices**



**Figure 10: Price Index of Copra Oil & Cocoa Prices**



Source: International Monetary Fund (IMF) and Reuters

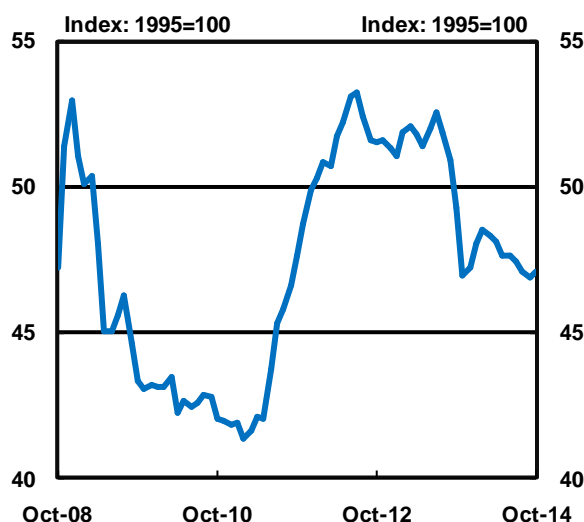
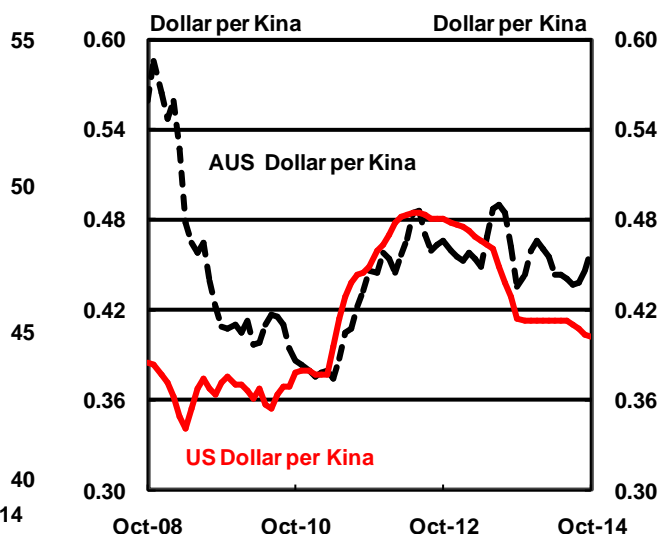
Departing from fundamentals and weather related disruptions and looking at other factors, the recent news on the spread of the deadly Ebola virus in West Africa set off a panic in the cocoa markets sending prices shooting in September. Ivory Coast and Ghana which supply more than half of the world's cocoa are next door to Ebola affected Liberia and Guinea. The fear that drove prices up was not from consumers getting Ebola from eating chocolates but that if Ebola jumped the borders to Ivory Coast, cocoa farmers could scatter to avoid exposure to the virus. This would mean that cocoa fruits would remain unpicked and that would mean no shipment of cocoa from West Africa to the US and elsewhere. Fortunately after September, the markets realised that Ebola was not spreading beyond the affected countries and this quelled fears thus seeing cocoa prices easing.

Since the beginning of the year, coffee prices have increased by 64.5 per cent, cocoa by 10 per cent, while copra oil prices decreased by 9.5 per cent and palm oil decreased by 14.2 per cent. From the beginning of the year to the end of October, coffee prices have averaged around US\$ 4,368 per tonne, cocoa prices US\$ 3,090 per tonne, copra oil prices US\$ 1,298 per tonne and palm oil prices US\$ 747 per tonne

## 2.2. EXCHANGE RATE DEVELOPMENTS

PNG's Trade Weighted Index (TWI)<sup>1</sup> continues to decline throughout the year from January to October 2014 reflective of the weak performance of the Kina against PNG's major trading currencies. As shown in Figure 11, PNG's TWI depreciated by 5.8 per cent over the first 10 months of 2014. Against the US dollar, the Kina depreciated by 8.3 per cent and against the Australian dollar, the Kina depreciated by 3.0 per cent. The Kina exchange rate against the US dollar was stable at 0.4130 between November 2013 and mid-June 2014 due to the intervention by the Bank of PNG in the foreign exchange market to ease the pace of depreciation (Figure 12).

<sup>1</sup> The Trade Weighted Index (TWI) measures the value of the Kina against a basket of currencies of PNG's major trading partners.

**Figure 11: Trade Weighted Index****Figure 12: Exchange Rate Development**

Source: Bank of PNG

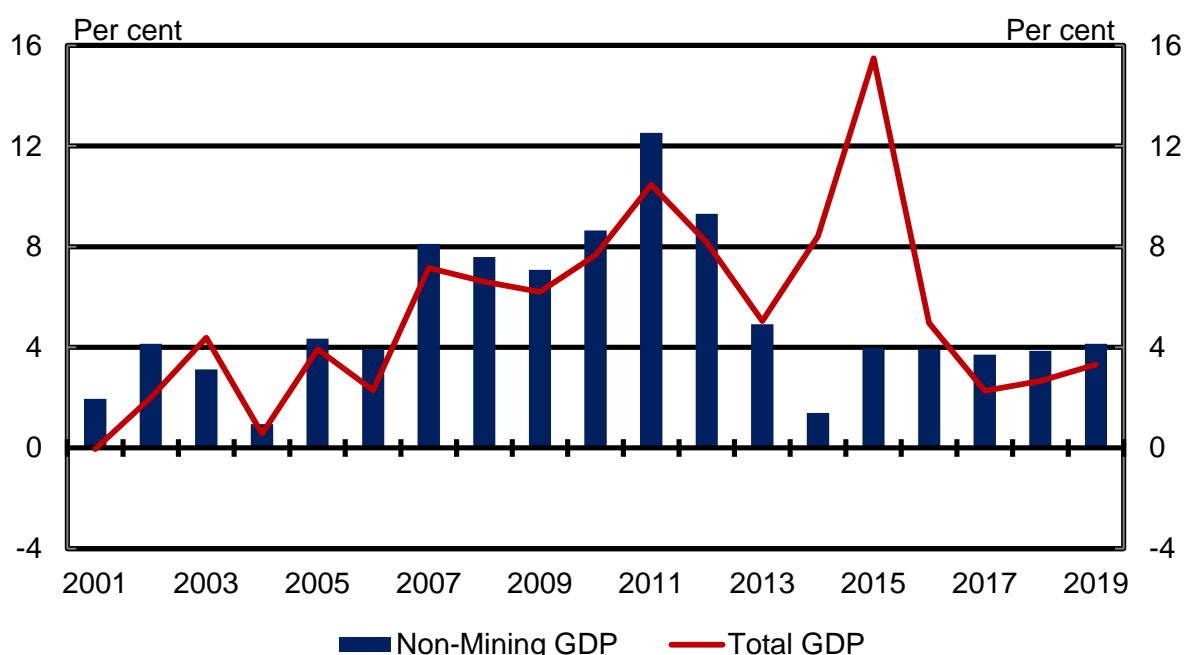
The PNG Kina also depreciated against all other key trading currencies including: the Japanese Yen (2.7 per cent), New Zealand Dollar (10.4 per cent), Malaysian Ringgit (5.4 per cent), Pound Sterling (13.9 per cent), Singapore Dollar (7.7 per cent), Chinese Renminbi (8.3 per cent) and the Euro (9.7 per cent).

The depreciation of the Kina against PNG's major trading currencies is due to the effects of the US Dollar strengthening globally over the first 10 months of 2014. In addition, the size of foreign direct investments has shrunk considerably since the completion of LNG construction phase while foreign exchange outflows have increased due to import demand. This has triggered a shortage in the supply of foreign exchange leading to the depreciation of the Kina in 2014. The depreciation of the Kina against the Australian Dollar was attributed to cross currency movements as the Australian Dollar appreciated against the US Dollar on the back of positive manufacturing data from China and lower inflation in Australia. The depreciation of the Kina is expected to lead to higher import prices.

## **2.3. DOMESTIC ECONOMIC DEVELOPMENTS & OUTLOOK**

### **2.3.1 2014 Economic Growth**

In 2014 the PNG economy is expected to grow at 8.4 per cent, an upward revision from the MYEFO estimate of 5.4 per cent and the 2014 Budget estimate of 6.2 per cent. The downgrade at MYEFO was due largely to the slowdown in mining activity and to a lesser extent the agriculture forestry and fisheries sector. This masked the impact of the early commencement of LNG production as the MYEFO forecasts preserved the original PNG LNG production schedule. The Budget forecasts include an updated PNG LNG production schedule reflecting the early commencement of production and this has been the main driver to the upgrade in forecast since MYEFO. Other contributing factors include favourable gold production from one of the major mines and the rebound in copra production due to abnormally high copra prices maintained in the second half of the year. Despite these positive developments, non-mining GDP is expected to only grow at 1.4 per cent and this is due to the slowdown in domestic economic activity as the economy descends from LNG related peaks associated with the completion of the PNG LNG construction phase.

**Figure 13: Economic Growth 2001-2019**

Source: Department of Treasury

Developments in the mining sector remained mixed throughout the year with weather-related disruptions, quality of ore mined and rising inputs costs affecting mine output. Commodity prices have also been lower than 2014 Budget assumptions especially for copper and gold further complicating the operating environment for most mines. These adversities have resulted in the growth forecast being downgraded from 13.8 per cent at 2014 Budget to 5.9 per cent in the current forecasts. Despite these negative developments, a key mine reported an increase in production, as a result of improved security at the mine.

The delivery of first gas by PNG LNG project in May was well ahead of original production time-line and was a unique achievement for the country. The commencement of gas production is expected to contribute significantly to the growth in the oil and gas sector. LNG production was initially modelled to run for six months in 2014 however, this has been extended to nine months as a result of production commencing one quarter ahead of schedule. The oil and gas sector is expected to grow at 611.9 per cent in 2014, depicting the substantial value added created in 2014 with the flow of gas for the first time. It is also understood that a full calendar year of production is expected in 2015 where production will ramp up to be well over three quarters of peak capacity and at around peak rate of production in 2016. Previously Treasury had expected peak production in 2015.

Total non-mining GDP is expected to grow at 1.4 per cent in 2014 down from 4.9 per cent in 2013. The downgrade is largely due to the construction sector contracting due to the completion of the PNG LNG construction phase. With the project now into production, activity in the non-mining sectors appears to have slowed down with sectors including electricity gas and water, community, social and personal services and finance, real estate and business services in the middle of a transition phase as the economy re-aligns to find middle ground after the hype of LNG construction phase.

The construction sector is expected to contract by 6.4 per cent in 2014 down from the strong growth of 11.9 per cent in 2013. Having borne the bulk of the direct impacts of the construction spending from the PNG LNG project, this sector is anticipated to descend into

negative territory in 2014 as the economy is unable to sustain the levels of activity the sector was operating at during the construction of the LNG plant. It is observed that some spare capacity is expected to be released to other parts of the economy during this transition.

Electricity, gas and water is expected to grow at 6.0 per cent in 2014. This is slower than 9.0 per cent recorded in 2013. The sector continues to face capacity issues with domestic demand already exceeding the capacity of utility providers. This mismatch is a concern for the Government and is placing pressure on prices and is also triggering illegal connections in the urban centres especially Lae and Port Moresby.

Community, social and personal services is expected to slow down to 4.0 per cent from 6.0 per cent in 2013 while finance, real estate and business services is expected to grow at 3.0 per cent in 2014 same as 2013.

However despite the transitions in these sectors, the expansionary fiscal policy of the Government is expected to have an indirect impact on other sectors including manufacturing, wholesale and retail, and transport, storage and communication with some spending expected to trickle down through the goods and service spending of the government. This is expected to cushion the overall post LNG construction effect on the non-mining economy.

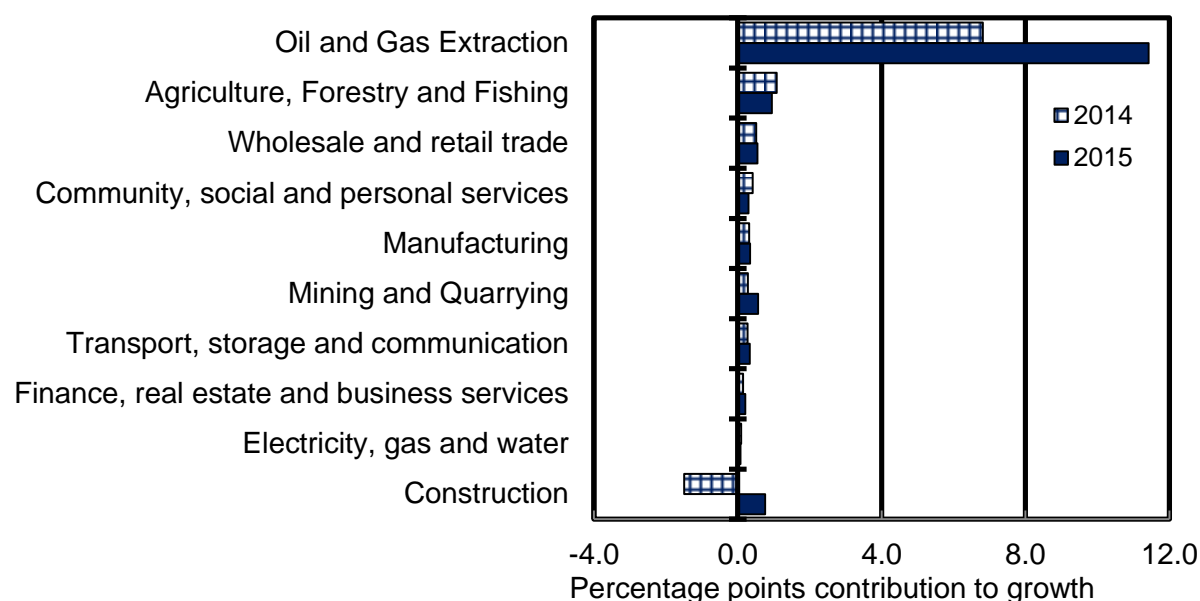
The agriculture, forestry and fisheries sector is expected to grow at 3.9 per cent in 2014. This is due to an increase in copra, cocoa and palm oil production which offset the low copra oil production and a downgrade in coffee production. Prices of PNG's key agricultural exports have increased mid-way through the year. As a result of better prices, supply response has been mainly from copra with farmers taking full advantage of the abnormally high prices while cocoa and coffee were handicapped by on-going industry concerns including the cocoa pod borer, aging trees, security concerns and poor export documentation processes which persists in the export industry.

A notable decline in agriculture production has been coconut oil. This industry has suffered over the past year due to burning down of the major coconut oil processing mill in East New Britain in 2013. However this trend should reverse when the mill re-opens for production in the coming year.

### **2.3.2 2015 Economic Growth**

In 2015, the economy is projected to grow sharply at 15.5 per cent driven by a full calendar year of gas production and supported by a rebound in the non-mining sectors. While this marks a record growth for PNG, it is a downward revision from the 2014 Budget forecast of 21.2 per cent due to the impact of increased PNG LNG production in 2014 and the delaying of peak production to 2016 that has lowered production in 2015. The oil & gas sector is expected to grow at 156.3 per cent during the year as gas production steadies after increasing sharply in the previous year. Total non-mining GDP is expected to grow at 4 per cent rebounding from the slower 1.4 per cent in 2014. The pick-up in the non-mining sector is due to the rebound in the construction sector and expectations of renewed confidence in the growing environment of key cash crops. This is also supported by gradual improvements in global demand. Other factors also considered to boost activity in the non-mining sectors include the 2015 Pacific Games and the preparations for the 2018 Asia Pacific Economic Co-operation (APEC) meetings.



**Figure 14: Contribution to Growth by Sectors 2014-2015**

Source: Department of Treasury

The rebound in the non-mining sector in 2015 is expected to be driven by a rebounding construction sector and a robust agriculture, forestry and fisheries sector. Whilst the rebound in construction is expected, the agriculture sector is projected to expand by 3.6 per cent in 2015. This is due to the improvements expected in the growing environment for coffee and cocoa supported by copra oil production as bottlenecks in this industry are addressed. On-going efforts to boost coffee and cocoa production including the Productive Partnership in Agriculture project (PPAP), whilst not yet at the stage of delivering significant impacts to the cocoa and coffee industry is expected to slowly address some of the issues affecting the cocoa and coffee industry as farmers involved start to benefit from the partnerships developed with agribusinesses, processors and exporters. With this unfolding alongside expectations of improved world demand and growing conditions, an improved outcome is expected for both crops in 2015. Furthermore, copra oil production is expected to increase substantially during the year and this is due to the recommencement of oil processing mills in East New Britain after the destruction done by fires in 2013. These positive developments are expected to be supported by the continuous strong expansion in the palm oil industry.

The post LNG construction effect – slowdown (with the exception of a contraction in construction sector) of activity in 2014 and rebound in 2015 is expected to be the trend depicted in the non-mining sectors including finance, real estate and business services and community social and personal services.

However other sectors like manufacturing, wholesale and retail trade and transport, storage and communication continued to grow in 2014 and are expected to do the same in 2015 while electricity, gas and water is expected to slow down. This reflects the strength of the domestic economy after a long period of sustained economic growth as well as the accompanying capacity constraints the economy continues to deal with.

Overall the discussed non-mining sectors are expected to support the agriculture, forestry, and fisheries with solid growth rates in 2015.

The mining and quarrying sector is expected to rebound and grow sharply at 12.0 per cent in 2015 driven by better mining plans adopted after the problems encountered in the recent past. Over the last two years mining operations have been battling with rising input costs and

a weaker Kina. It appeared that in trying to deal with these situations, key projects have been able to calibrate production to achieve optimal mining plans over the past year. Further assisting this process has been some positive assistance provided by the Government through improved security at some of the mines. This has seen a reduction in disruptions hence assisted mines to meet production targets in 2014 and ones expected in 2015.

The oil and gas sector is expected grow at 156 per cent in 2015 and this is due to the first full calendar year of gas production. While peak production has been delayed to 2016, gas production is expected to be well over  $\frac{3}{4}$  of capacity providing a substantial boost to the sector and also the economy in general.

### **2.3.3 Medium Term Economic and Fiscal Outlook**

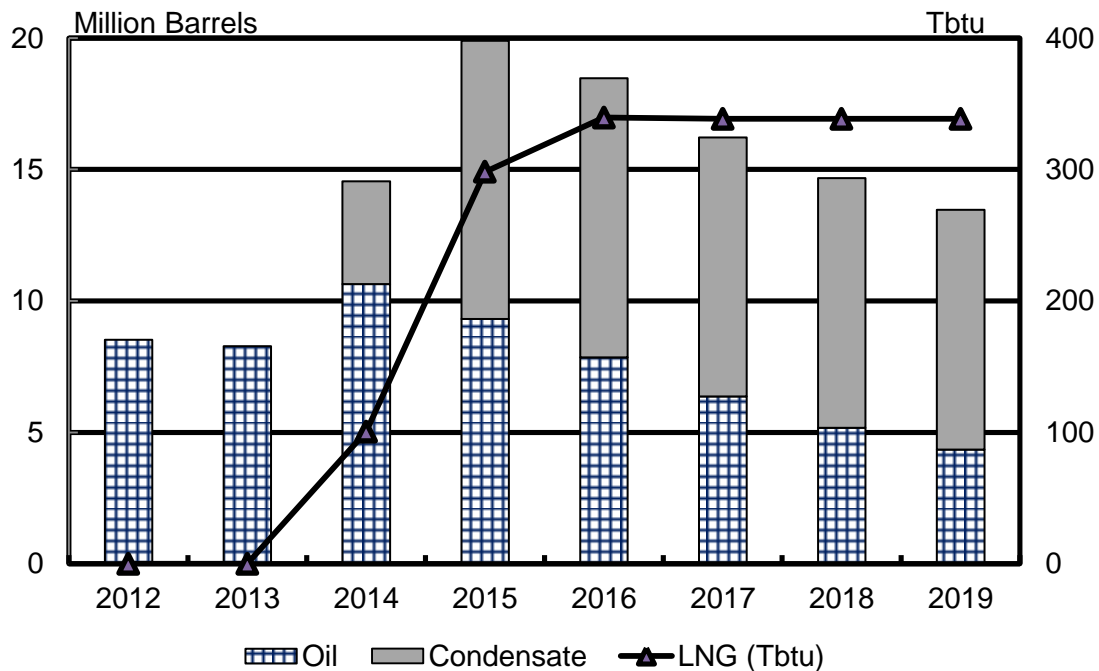
Over the medium term (2016 to 2019) the PNG economy is expected to adjust to traditional drivers of the economy in the non-mining sectors, an aftermath of the boom and bust periods of the construction and production phase of the LNG project. This adjustment is expected to set in after the economy absorbs peak levels of LNG production in 2016.

It has been widely documented in previous Budget papers that the growth profile of the domestic economy continues to be closely linked to the developments of the LNG project. This has been observed since the onset of the project, with the economy expanding considerably during the construction phase, and slowing down in the years when construction wound down to completion. This boom and bust cycle is expected to be repeated again during the rise to peak and plateauing stages of the production phase. Beyond this stage, the economy is expected to re-adjust to its traditional drivers and grow at trend pace. The non-mining sectors are expected to drive this growth led by the agriculture, fisheries & forestry and supported by the continued expansion of the private sector.

The agriculture, forestry and fisheries sector is expected to be a major driver of growth over the medium term. While the recovery in global demand will have an impact on demand and prices of PNG's commodities, the rolling out of key projects in the sector remain key to driving some of the growth going forward. This includes the Productive Partnership in Agriculture Project (PPAP) which is aimed at growing the cocoa and coffee industry. Further support is expected to continue from the palm oil industry, which is also expected to expand over the medium term as new areas become feasible including in East New Britain and the continued expansion of existing operations. While most milling companies are expected to continue to grow their business availability of land could hold back on further developments. Copra production on the other hand will depend on prices however any rehabilitation pursued by government will revive the industry which has been stagnant in recent times. The medium term prospects for the forestry sector continues to remain uncertain due to data limitations however the fisheries sector is expected to expand provided that it continues to implement initiatives aimed at supporting local business.

On the other hand the minerals sector is expected to slow down over the medium term, as the Ok Tedi mine undergoes mine life extension activities, however, the sector is expected to rebound towards the end of the projection period when Ok Tedi re-commences higher production. However, the oil and gas sector is expected to return to negative growth over the medium term depicting the continued natural decline of the oil fields (Figure 15).

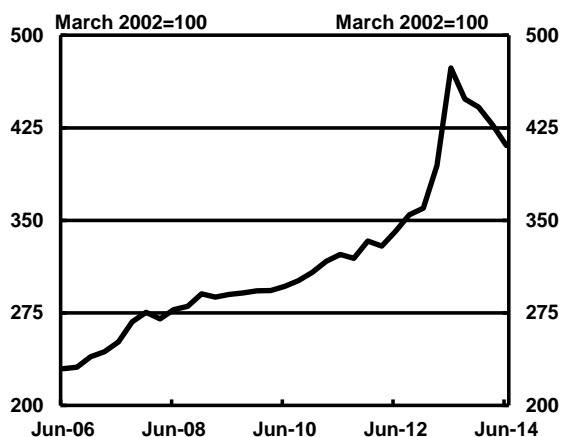
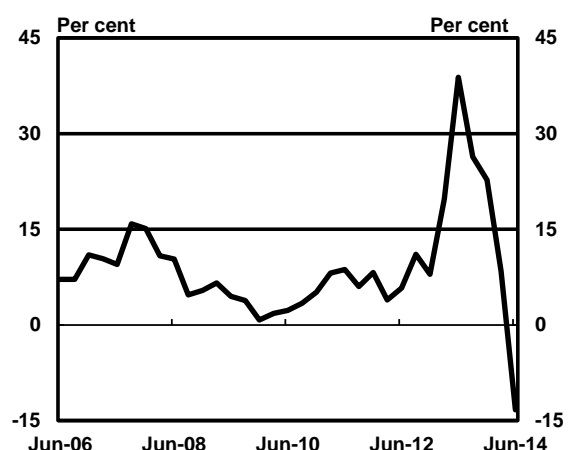
The oil and gas sector is expected to return to negative growth over the medium term depicting the continued natural decline of the oil fields. This is expected to set in around 2017 after peak LNG production is absorbed in 2016. LNG and condensate production after ramping up to full capacities in 2016 is expected to occur at steady rates from 2017 onwards.

**Figure 15: Declining Oil Production over the Medium Term**

Source: Department of Treasury and Department of Petroleum and Energy

## 2.4. LABOUR MARKET

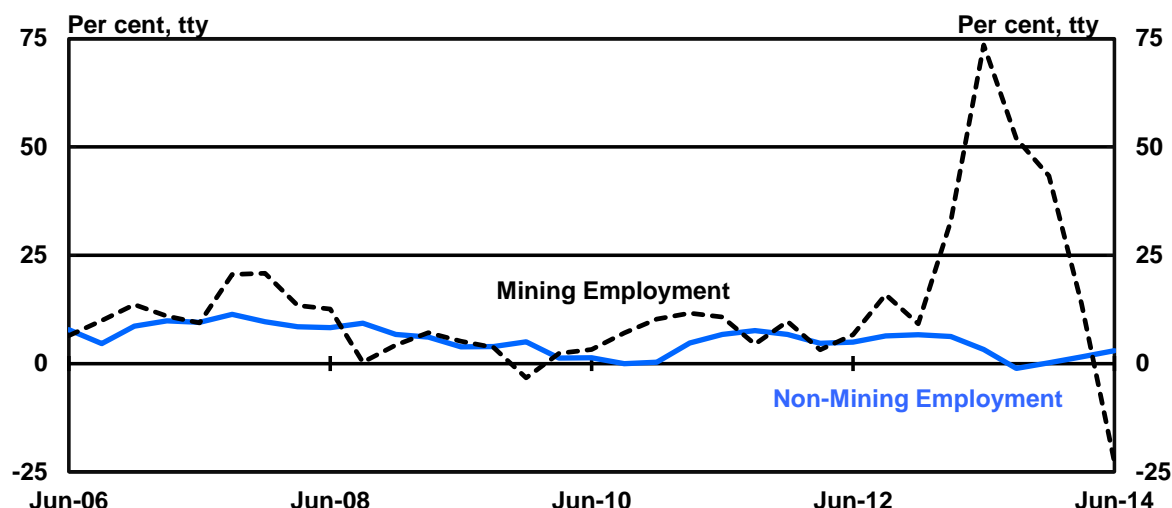
PNG's total employment has fallen sharply over the past year and this is due largely to the slowdown in mining sector activity following from the impact of a difficult period where the sector's input costs were abnormally high due to low commodity prices and a weaker exchange rate. In the June quarter of 2014, the Bank of PNG's (BPNG) Employment Index showed that the total level of employment in the non-mining sector only increased by 1.9 per cent depicting a period of re-alignment in the economy after the absorptive impact of the completed LNG construction phase. It is also observed that while some spare capacity has been released from the LNG project it could take a while for these resources to be absorbed in the domestic economy.

**Figure 16: Employment Index****Figure 17: Employment Growth**

Source: Department of Treasury and Bank of PNG

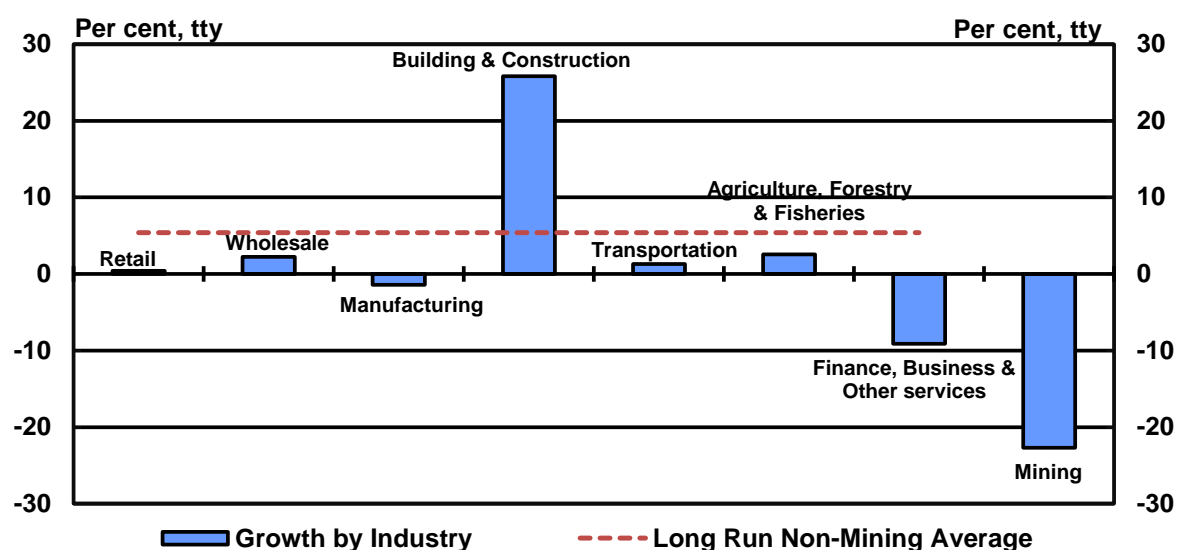
On a quarterly basis, employment growth in the Mining sector declined by 8.1 per cent in the June quarter of 2014, compared to a decline of 6.6 per cent in the March quarter. According to information from the BPNG's Quarterly Economic Bulletin (QEB) reports, the decline was associated with the restructuring done by the OK Tedi and Tolukuma mines, and the termination of a number of workers by a mining company in Morobe following an industrial dispute earlier in the year. Through the year to June quarter 2014, the mining sector declined by 22.7 per cent (Figure 18) reflecting the deep re-adjustments that mines have to make to address the difficult operating environment faced over the past year.

**Figure 18: Mining and Non-Mining Employment Growth**



Source: Department of Treasury and Bank of PNG

Looking at non-mining employment and on a quarterly basis, employment increased by 1.9 per cent in the June quarter of 2014, compared to a decline of 0.2 per cent in the March quarter. This growth was largely due to increased employment in the Agriculture, Forestry and Fisheries (4.5 per cent), Retail (2.1 per cent), and the Manufacturing sector (1.4 per cent). Partially offsetting this growth were the declines in employment in the Wholesale and Transportation sectors which decreased by 4.0 per cent and 3.6 per cent respectively. Through the year to June quarter 2014, the non-mining sector employment growth increased by 3.0 per cent (Figure 19).

**Figure 19: Industrial Employment Growth – June Quarter 2014 Through the Year (tty)**

Source Department of Treasury and Bank of PNG

#### **2.4.1 Nominal Salary and Wages**

Nominal salary and wages continue to grow and this is in line with the uninterrupted growth witnessed in the PNG economy over the last decade. Much of this growth has been led by the boom in the mining sector however, the associated spin-offs from this boom have also translated into strong wage pressures in the non-mining sector.

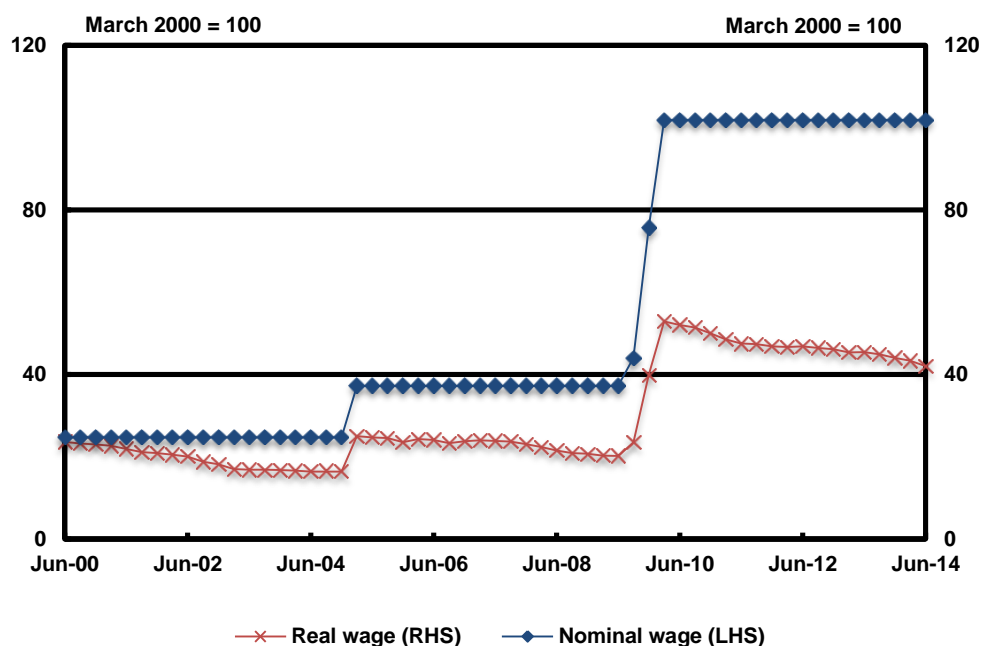
The initial rise in nominal salary and wages experienced in 2004 was mainly due to external factors including the commodity price boom. This increased business activities hence translating into a sharp increase in nominal wages. Real wages also increased during this period owing to the generous increase in nominal wages - this appeared to offset the impact of inflation on the purchasing power of real incomes during this period (Figure 20).

However, the spike in nominal wages in March quarter 2010 was more pronounced than the initial increase in 2004 and this was due largely to the economy not being able to supply the skilled labour demanded by the PNG LNG project. The strong demand for skilled labour together with the exorbitant nominal wages offered by the PNG LNG project saw nominal wages shoot up during this period-employers across the economy were triggered by this development to take rear guard, offering very generous increases in nominal wages to keep their prized employees.

The nominal salary and wages per week has remained constant at K101.8 per week since March quarter 2010. While this is based on the 2008 Minimum Wages Board (MWB) determination, the Government approved a new determination by MWB in June this year for minimum wages to be increased from K2.29 per hour to K3.20 per hour. This increase took effect in July and will be captured in the September report of the Quarterly Economic Bulletin (QEB). The current report is based on the available data up to June quarter

On a real basis, minimum wages have decreased slightly from March 2010 and this is due to the impact of inflation on real incomes.

Figure 20: Wages Growth



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

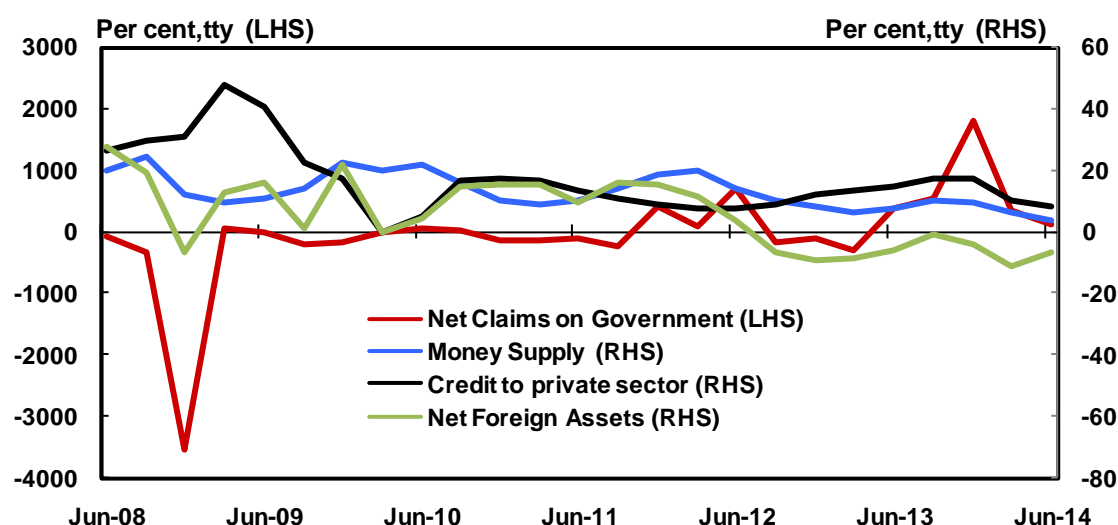
## 2.5. MONETARY DEVELOPMENTS

### 2.5.1 2014 Monetary Developments

The Bank of Papua New Guinea has maintained its monetary policy stance by keeping the Kina Facility Rate at 6.25 per cent in line with inflation in the economy while increasing its Central Bank Bill (CBB) and the Cash Reserve Requirement (CRR) to 10.0 per cent to diffuse some of the excess liquidity in the banking system.

The broad money supply over the twelve months to June quarter 2014 rose on average by 4.1 per cent, a moderate increase compared to 8.2 per cent growth in the June quarter of 2013<sup>2</sup> (Figure 21). The slow growth in Money Supply is primarily due to net credit growth to the Central Government growing by 142.8 per cent, compared to 380.3 per cent growth in the corresponding period of 2013. Credit to the Private Sector also grew moderately over the twelve months to June quarter 2014, on average by 8.1 per cent, compared to 14.9 per cent growth in the corresponding period of 2013. Meanwhile, Net Foreign Assets (NFA) continued to decline on average by 6.7 per cent, compared to the decline of 6.0 per cent in the corresponding period of 2013.

<sup>2</sup> Central Bank June quarter Quarterly Statistics

**Figure 21: Development in Monetary Aggregates**

Source: Bank of Papua New Guinea

In total for 2014, the Central Bank has projected broad money supply to increase by 6.6 per cent, mainly from the Net Domestic Assets (NDA) of the banking system and is due to the projected increase in net credit to the Central Government of 35.5 per cent. Credit to Private Sector is projected to increase by 6.7 per cent whilst Net Foreign Assets is projected to increase by 2.6 per cent.

## 2.5.2 2015 Monetary Outlook

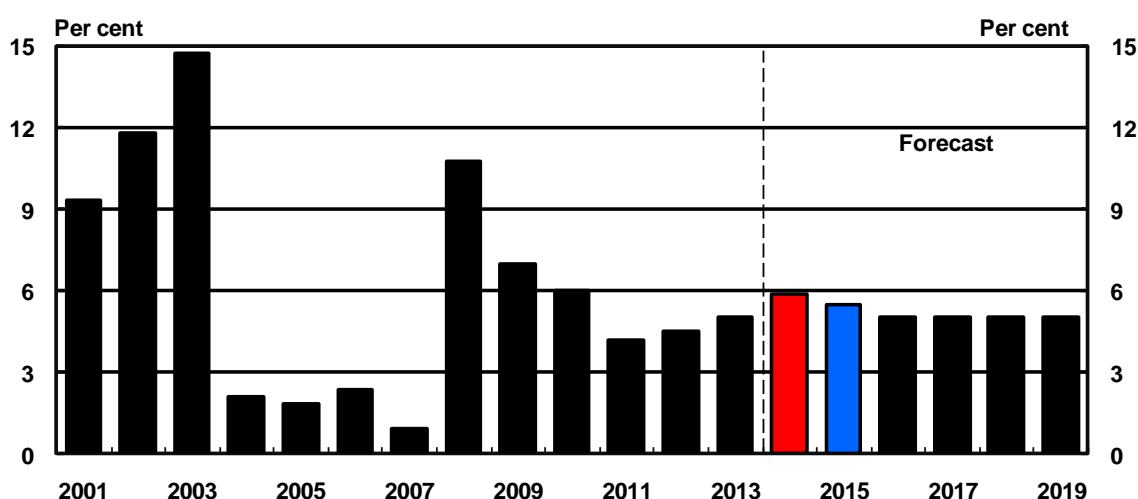
In 2015, the Central Bank projected Broad Money Supply to increase slightly by 6.7 per cent, due to Credit to Private Sector increasing by 6.3 per cent, whilst net claims by Government and Net Foreign Assets projected to decline by 4.3 per cent and 8.2 per cent respectively.

## 2.6. CONSUMER PRICE INDEX

### 2.6.1 2014 Inflation

Headline inflation is estimated to be 5.9 per cent in 2014 based on the new Consumer Price Index (CPI) released by the National Statistical Office (NSO). This is a downward revision from the 2014 MYEFO estimate of 6.3 per cent and the 2014 Budget estimate of 6.5 per cent. The downgrade in forecast is due to low commodity prices<sup>3</sup> and the easing of aggregate demand associated with the completion of the LNG construction. However it is observed that, the ongoing depreciation of the exchange rate and its lagged effect over the previous quarters appears to be putting pressure on prices to rise given the consequences this has on imports. However according to the September Monetary Policy statement of the Bank of PNG, the impact on inflation could be lower if businesses do not fully pass on these higher import prices to customers but instead reduce their margins.

<sup>3</sup> According the Bank of PNG Working Paper 2009/01 on the Determinants of Exchange Rates in PNG, a 10 percent increase in commodity prices is estimated to cause the kina to appreciate by 4 percent immediately and by a further 6 percent in two quarters time. The opposite happens when commodity prices fall. These results supports the view that commodity price has a strong impact on exchange rate

**Figure 22: Inflation Outlook 2001-2019**

Source: National Statistical Office/Department of Treasury

In 2015, inflation is expected to ease to around 5.5 per cent reflecting the expected inflows from the PNG LNG exports in the latter half of 2015 which are expected to translate into a strong Kina exchange rate reducing imported (tradeable) inflation. Other developments also expected to reduce prices include the second phase of the Tariff Reduction Program (TRP) expected in 2015 which is expected to assist reduce the cost of imports. Under the TRP, a number of items will receive a 2.5 per cent reduction in their tariff rates. These are expected to cushion the effect of the on-going Government stimulus spending in the economy. Over the medium term, inflation is projected to ease to around 5.0 per cent from 2016 to 2019 on the assumptions of effective and coordinated monetary and fiscal policy.

The Government is mindful of possible inflationary pressures stemming from high costs of doing business in PNG, supply constraints, expansionary fiscal policies, and exchange rate depreciations. These will be monitored closely to ensure price stability and economic growth is maintained in the domestic economy.

## **2.7. BALANCE OF PAYMENTS AND INTERNATIONAL RESERVES**

### **2.7.1 2014 Balance of Payments**

PNG's trade activity with the rest of the world has improved slightly in 2014. This is in spite of the world economy continuing to address the legacies of the recent global financial crisis in a number of advance economies and the need for structural reforms in a number of major emerging countries. It is also in spite of low international commodity prices particularly for PNG's mineral exports.

PNG's international trade current account balance which recorded a huge deficit in 2013 during the LNG construction phase has improved in the first half of 2014 to a deficit of K1,392.0 million compared to the deficit of K3,879.2 million recorded over the same period in 2013. This improvement while negative reflected huge surpluses in the goods balance and transfer balance partially offsetting the deficits in the services and income balances.

The goods balance recorded a huge surplus of K2,093.0 million in the first half of 2014, an increase of 571.0 per cent compared to a smaller surplus of K312.1 million recorded over the same period in 2013. The reason behind this huge improvement is two-fold. First, is the general decline in imports by 16.8 per cent associated with the completion of LNG construction phase, and second, is the improvement in exports by 11.7 per cent due to



increased export volume of gold and copra, as well as, increased nickel and cobalt export with the ramp-up of production from the Ramu Nickel and Cobalt mine over the first half of 2014. However, the data above do not capture the exports from the LNG project due to the non-availability of data at the time of reporting. Adjusting for this should greatly boost export for 2014. In addition, the transfer balance recorded a surplus of K202.0 million in the first half of 2014, down by 12.3 per cent compared to the same period in 2013. The outcome was mainly due to higher receipts from gifts and grants which more than offsets lower transfer payments.

In contrast, the services and income balances recorded deficits of K3,209.0 million and K478.0 million respectively in the first half of 2014. Services deficit was down by 19.0 per cent while income deficit was slightly up by 4.2 per cent from the corresponding period of 2013. The narrowing of the services deficit was due to lower payments for services associated with the general decline in imports while the somewhat high net income payments was due largely to high dividend payments albeit the low compensation of employees payments associated with the completion of LNG project construction<sup>4</sup> phase.

The improvement in PNG's trade activity was cushioned to an extent by the slow-down in the financial and capital account balance of K1,345.0 million reflective of net inflows in both financial and capital accounts.

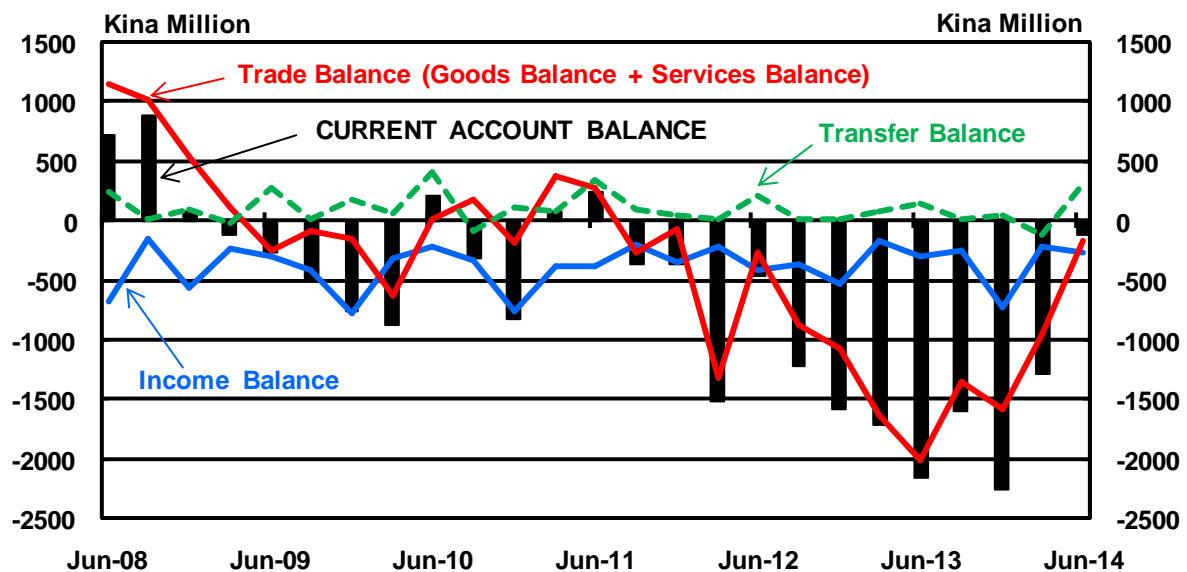
The financial balance recorded a net inflow of K1,343.0 million in the first half of 2014, compared with the net inflow of K2,398.0 million in the corresponding period of 2013. The surplus was due to net inflows from direct and portfolio investments reflecting equity inflows and drawdown of short term money market instruments by mineral companies. These combined with net inflows in other investments, associated with drawdown of net foreign currency account balances of mineral companies, more than offset net outflows in financial derivative instruments.

The capital account recorded a net inflow of K2 million in the first half of 2014, compared to K31 million in the corresponding period of 2013, reflecting lower transfers by donor agencies for project financing.

As a result of these developments, the overall balance of payments recorded a deficit of K16.0 million in the first half of 2014, compared to a deficit of K1,489.2 million in the corresponding period of 2013.

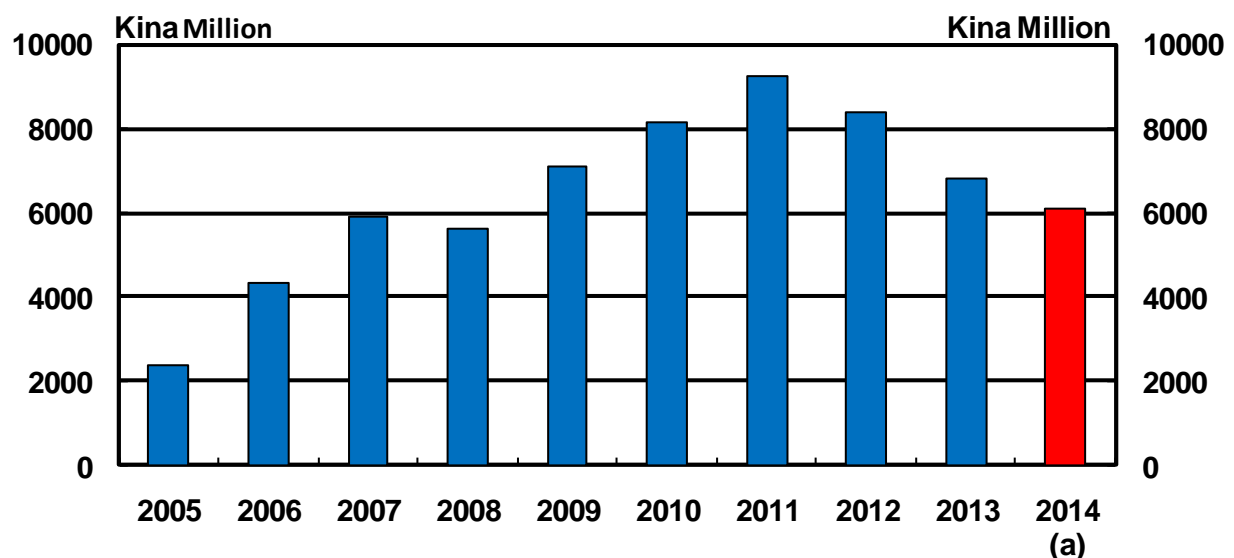
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<sup>4</sup> An estimated 15,000 workers most of which expatriates were employed during the peak PNG LNG construction period in 2012 and 2013. This has now been reduced to less than 1,000 employees in 2014 following the completion of construction.

**Figure 23: Balance of Payment**

Source: Department of Treasury and Bank of PNG

International reserves were K6,912.0 million at end of December 2013 and have fallen by 11.4 per cent to K6,117.6 million (US\$2.5 billion) as at 25<sup>th</sup> September 2014 (Chart 18). By the end of 2014, the level of gross foreign exchange reserves is projected to be K6,485.1 million (US\$2.6 billion), sufficient for 4.6 months of total and 7.8 months of non-mineral import covers. The depletion of foreign reserves reflects low mineral commodity prices, high import demand, and the intervention by the Central Bank in the foreign exchange market. It is important to note that export receipts from the LNG project will not be flowing into PNG until after 2014 pending the financial completion of the project.

**Figure 24: International Reserves**

Source: Bank of PNG

(a) Includes reserves level to end June 2014

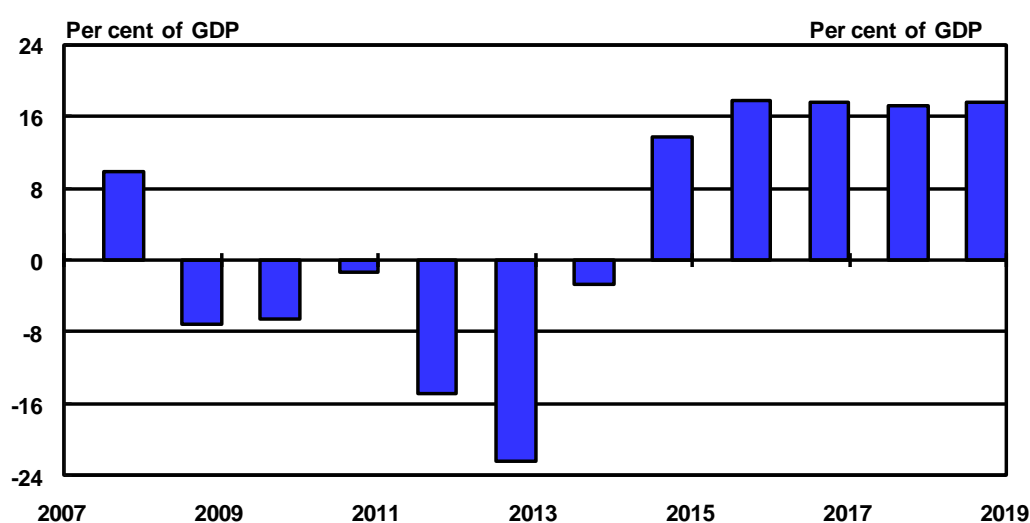
### 2.7.2 2015 Balance of Payment Outlook

In 2015, PNG's international trade current account balance which has been in deficit over the last six years is projected to improve to a surplus of K7,114.2 million from the revised deficit of K943.0 million estimated for 2014. The huge surplus in the current account balance is largely driven by the full calendar year of production from the LNG project and the ramping up to full production from the Ramu Nickel and Cobalt mine in 2015.

In addition, a rebound in production is expected from the agriculture and mining sectors following the disruptions encountered in 2014. This is expected to lift total exports in 2015.

On the other hand, income payments abroad from 2015 is expected to increase as the inflows from the sale of the PNG LNG results in income and dividend payments to shareholders. This is expected to expand the deficits in the income balance.

**Figure 25: Projected Current Account Balance 2007-2019**



Source: Department of Treasury and Bank of PNG

### 2.7.3 Medium Term Outlook

Over the medium-term, the current account balance will move into a large surplus position following the full production and exports of LNG in 2016. In addition, increased production from existing mines, as well as, the improvements in the agriculture sector, especially coffee, cocoa and palm oil are expected to boost exports leading to an improvement in the current account balance. These are expected to offset the declining oil production profile associated with the maturing oil fields.

While much of the activities is driven by the real sector growth, the emergence of the social and services sector is also worth noting given the Government's increased funding in health, education and law and order among others. This sector is deemed to have accounted for much of the import demand in PNG both direct and indirectly. Nevertheless, exports associated with real sector growth are expected to offset the rise in imports associated with the growth in the social and services sector.

The income balance on the other hand, is expected to record large deficits over the medium term with increased income payments abroad largely due to dividend payments to shareholders overseas from major investments in the country including the LNG project. This is based on the assumption that all export receipts will flow directly into PNG and then

redistributed to shareholders overseas. At this stage it is not clear where the export receipts from LNG will flow to.

## **2.8. RISKS TO THE ECONOMIC AND FISCAL OUTLOOK**

The risks to the economy in 2015 have intensified. Key risks to the 2015 Economic and Fiscal Outlook include:

- the lack of robust momentum in advanced economies and the negative growth effects of supply-side constraints in major emerging market economies resulting in lower than expected global growth, which has increased the downside risks to commodity prices. If continued in 2015, it will reduce export earnings and consequently reduce Government revenue. This poses risks to PNG's two biggest sectors: - the agriculture, forestry & fishing sector, and the mining and quarrying sector;
- disruptions to mining, petroleum and gas production processes if experienced in 2015, would decrease mining production and thus Government revenue;
- risk of crowding out private sector investment, given the demand for domestic funds to finance the deficit;
- there is a risk that additional compliance measures proposed in the 2015 Budget are not achieved. In addition, there remains a risk of increased pressure on the Government to provide ad hoc tax concessions to private interests;
- loss of fiscal discipline including the possible emergence of off-budget expenditure pressures possibly leading to a higher than expected deficit;
- the risk of capacity constraints in government agencies and departments to fully execute the 2015 Budget in accordance with the MTFS 2013 – 2017 and the Medium Term Debt Strategy, and the risk of redirecting any possible under-expenditure towards less effective expenditures; and
- natural phenomena such as El Niño and its possible impacts on agricultural commodity growing conditions, water and electricity supply in the capital city, as well as, rising sea levels in coastal and flooding in vulnerable inland areas.

## CHAPTER 3. FISCAL STRATEGY AND OUTLOOK

### 3.1 2014 BUDGET UPDATE

The PNG economy is expected to grow by 8.4 per cent in 2014. This is higher than the 2014 Budget estimate of 6.2 per cent and the Mid-Year Economic and Fiscal Outlook (MYEFO) forecast of 5.4 per cent. The improvement in forecast growth since the MYEFO is due largely to a stronger contribution from Oil and Gas extraction with remarkable growth in wholesale and retail trade. Despite the rise in the cost of production for most of the major mines during the first half of the year, the PNG LNG project continues to support the economy, delivering its first cargo in May, ahead of schedule. Other contributing factors include favourable gold production from one of the major mines and a rebound in copra production due to abnormally high copra prices experienced in the second half of the year.

Total Expenditure and Net Lending in 2014 is anticipated to be K15,103.8 million, K62.3 million higher than the 2014 MYEFO projection of K15,041.5 million.

Total Revenue and Grants for 2014 are estimated to be K12,674.8 million, a decrease of K13.7 million (or 0.1 per cent) from the 2014 Budget projection of K12,688.5 million. Tax Revenue in 2014 is now expected to be K9,762.8 million which is K19.3 million (0.2 per cent) lower than the 2014 Budget projection of K9,743.5 million.

The fall in revenue and increase in expenditure has led to a slight increase in the deficit and the debt level in 2014. These result in an expected Budget deficit of K2,429 million (5.9 per cent of GDP) in 2014, revised down from K2,725.5 million (6.9 per cent of GDP) at MYEFO. The Debt to GDP ratio is expected to be 35.5 per cent of GDP in 2014 which is above the ceiling of 35 per cent as set out in the Fiscal Responsibility Act. The Fiscal Responsibility Act directs that in circumstances where the debt limit is breached it should be returned to under the legislated limit the following year in 2015. As outlined below this Budget provides a fiscally responsible pathway for a reduction in the debt to GDP ratio to below this limit in 2015.

### 3.2 THE 2015 BUDGET STRATEGY AND OUTLOOK

The 2015 Budget has been framed against a backdrop of moderate, albeit strengthening global economic growth and continued domestic growth underpinned by the commencement of Liquefied Natural Gas (LNG) exports.

In 2015, the IMF expects the world economy to accelerate to 3.8 per cent, up from 3.4 per cent in 2014. This is mainly driven by the recovery in advanced economies supported by highly accommodative policy settings in the major advanced economies.

The domestic economy is expected to grow at 8.4 per cent in 2014 and sharply accelerate to 15.5 per cent in 2015 driven by the full year production and export of Liquefied Natural Gas (LNG), supported by a rebound in the non-resource sectors driven by a boost in construction and robust growth in the agriculture, forestry and fishing sectors.

Total revenue in 2015 is projected to be K13,927.3 million. This is K1,252.5 million higher than the 2014 Budget estimate of K12,674.8 million. This mainly reflects a significant increase in Tax Revenue by K1,495.1 million which more than offsets a decline in Non-Tax revenue of K129.9 million due to lower SOE dividends which have in turn offset increases in LNG Dividends, Mining and Petroleum Dividends, Grants & Infrastructure Tax Credits (ITC).

In 2015, Total Expenditure and Net Lending is projected to be K16,199.1 million which is K1,095.7 million higher than the 2014 Budget estimate. The 2015 Budget will seek to establish an appropriate balance between the continued need to encourage broad-based economic growth and the on-going need to support for key MTDP enablers, such as education, health, infrastructure, and law & order against a fairly weak revenue profile and the critical need for continued macroeconomic stability.

Overall, all this is expected to result in a budget deficit of K2,272.1 million or 4.4 per cent of GDP in 2015 (see table 2 below), down from 5.9 per cent for 2014.

**Table 2: Budget Balance 2013–2015 (Kina million)**

	2013 Actuals	2014 Budget	2014 Revised	2015 Budget
Total Revenue and Grants	9,833	12,688.5	12,674.8	13,927.3
Total Expenditure and Net Lending	12,505	15,041.5	15,103.8	16,199.1
Budget Balance	-2,672.4	-2,353	-2,429.0	-2,271.9
% of GDP	-7.8%	-5.9%	-5.9%	-4.4%
% of Debt to GDP	34.6%	35.2%	35.5%	27.8%

Source: Department of Treasury

The estimated 4.4 per cent deficit results in a Debt to GDP ratio of 27.8 per cent (a debt stock of K14,260.6 million in 2015).

Financing of the 2015 Budget is to be achieved through a mixture of development partner loans, asset sales, and domestic financing through the issuance of Kina denominated securities, though the foreign capital markets may also be tapped to support expenditure levels.

The 2015 Budget focuses on key principles that seek to find a balance between maintaining the required levels of funding to underpin development in Papua New Guinea and sound fiscal management. They include:

1. additional funding to the Education, Health and Infrastructure sectors and further devolution of funding and responsibilities to the lower levels of Government;
2. understanding the need to balance increased expenditure with the need to retire debt to maintain the level of general government debt below 30 per cent of GDP by 2016 in line with the *Fiscal Responsibility Act 2006*;
3. establishment of the Sovereign Wealth Fund and consolidation of mineral and petroleum assets; and
4. maintaining the integrity of the tax system; as well as promoting a competitive, dynamic and diverse economy, through developing an environment that is conducive to strengthening the private sector.

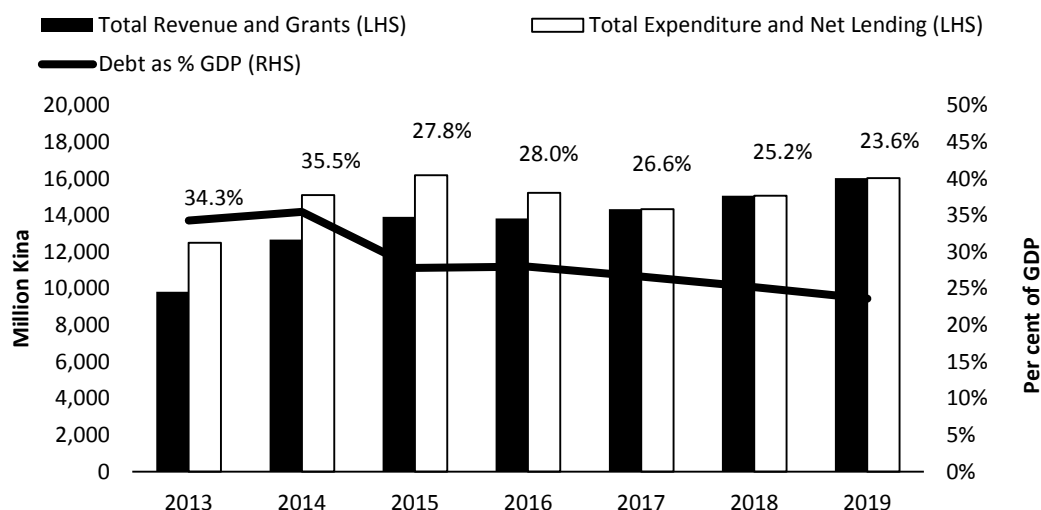
The 2015 Budget has been guided by the Government's economic development strategy "Vision 2050"; PNG Development Strategic Plan 2010-2030, the Medium Term Development Plan 2011-2015 the Medium Term Debt Strategy, the Medium Term Fiscal Strategy (MTFS) (2013-2017), and the *Fiscal Responsibility Act 2006*.

### 3.3 THE MEDIUM TERM FISCAL OUTLOOK

The 2015 Budget will be PNG's largest at K16,199.1 billion, an increase of K1,095.3 million from the revised 2014 Budget. This will lead to a forecast deficit of 4.4 per cent of GDP. Over the medium term it is expected that the size of these deficits will gradually fall, ensuring the right balance is struck between responsible fiscal settings and macroeconomic stability.

The 2015 Budget has been framed within a fiscally responsible strategy that aims to reduce Government debt from 35.5 per cent in 2014 while ensuring macroeconomic stability and supporting development. This Budget lays out a pathway to reduce debt and deficit ratios over the medium term.

**Figure 26: Medium Term Fiscal Outlook 2013-2019**



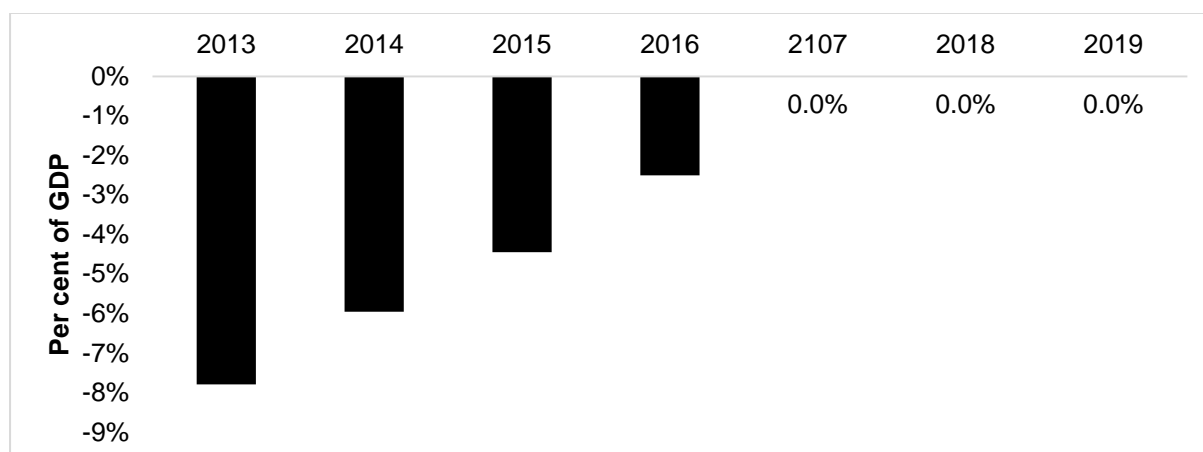
Source: Department of the Treasury

In nominal terms Total Government Revenue is projected to increase moderately from 2014 to 2015, then fall slightly in 2016, before growing modestly over the medium term driven by LNG related revenue.

The additional revenue over the medium term will be channeled to support the MTDP enablers (including education; health; infrastructure; and law & order) and the Government's fixed commitments including PNG LNG related (UBSA/LBSA/IDG) expenditures.

From 2012 to 2014, the Government invested heavily in infrastructure, health, education and law and order and the provinces with the increase in total Government Expenditure over this period at 18.0 per cent. This growth in expenditure has resulted in deficits of 4.4 per cent, 7.8 per cent and 5.9 per cent in 2012, 2013 and 2014 respectively.

Recognising that continued large deficits are not sustainable, the Government has adopted a plan to ease growth in expenditure to more sustainable levels. In 2015, the Government deficit will be reduced to 4.4 per cent of GDP. This will involve controlling expenditure, and be assisted by increased revenue flows and the full year impact of the PNG LNG production on GDP in 2015. Reducing the deficits to sustainable levels will also enable the Government to better respond to future external shocks such as the recent Global Financial Crisis. Debt to GDP will follow a similar profile, and is projected to remain under 30 per cent of GDP over the medium term.

**Figure 27: Deficit to GDP ratio over Medium Term**

Source: Department of Treasury

Overall this Budget seeks to provide increases in expenditure, in particular on infrastructure and rural development, while maintaining the macroeconomic stability that is required for sustainable economic growth.

The 2015 Budget has been framed under the Medium Term Fiscal Strategy 2013 – 2017. The strategy provides for a shift over time from non-priority expenditures, towards the Medium Term Development Plan enablers of infrastructure; health; education; and law and order. This shift is expected to see expenditure on these areas increase from their present 61.9 per cent share of the Budget (excluding the Provincial sector) to at least two thirds by 2017.

Table 3 shows this Budget forecasts a deficit of 4.4 per cent in 2015 and then moving to a balanced budget in 2017. This drives a reduction in the debt to GDP to well under 30 per cent by 2017.

**Table 3: Budget Balance 2014–2019 (Kina million)**

	2014	2015	2016	2017	2018	2019
2015 Budget – estimated Deficit	2,429.0	2,272.2	1,398.2	0.0	0.0	0.0
2015 Budget – Budget Balance (per cent of GDP)	-5.9	-4.4	-2.5	0.0	0.0	0.0
2015 Budget – Debt to GDP ratio	35.5	27.8	28.0	26.6	25.2	23.6
MTFS 2013–2017 Budget Balance (per cent of GDP)	-5.9	-1.6	-0.6	0.1	0.0	0.0
MTFS 2013–2017 implied Debt to GDP	34.6	28.9	27.5	25.4	23.1	23.1

Note: '-' represents a deficit

Source: Department of Treasury

### 3.4 MEDIUM TERM FISCAL STRATEGY 2013-2017

The Medium Term Fiscal Strategy 2013-2017 sets out the fiscal rules by which the Government is to abide. These rules have been designed to ensure ongoing confidence in the Government's fiscal position and the PNG economy as a whole. The key rule which provides the overall fiscal anchor for the macroeconomic stability of PNG is in relation to the debt level which states that PNG will:

*Maintain a gross Government debt to GDP ratio of less than 30 per cent, apart from in 2013, 2014 and 2015, when it will not exceed 35 per cent.*



In addition the MTFS sets out proposed maximum deficits as a share of GDP over the period of 2013-2017 in order to adhere to these fiscal anchors.

**Table 4: Performance against the MTFS 2013-2017**

<b>MTFS 2013-2017 Guiding Principles</b>	<b>Performance against the Principles</b>
<p><b>Expenditure</b></p> <ol style="list-style-type: none"> <li>1) Increase the share of the total budget allocated to the key enablers of the Medium Term Development Plan to two thirds by 2017.</li> <li>2) Improve spending agencies' focus on expenditure effectiveness and transparency in expenditure reporting and public accountability.</li> <li>3) No new infrastructure programs should be funded unless they have gone through a proper design and costing process.</li> </ol>	<p>Excluding expenditure on provinces, the share of the 2014 Budget allocated to the key enablers of health, primary and secondary education, higher and technical education, law and order, transport, utilities and ICT was 61.9 per cent, in the 2015 Budget this increases to 62.3 per cent.</p> <p>The Government has issued a number of non-financial instructions to improve agency performance, accountability and transparency. Progress has been made and agency progress was considered in determining 2015 Budget allocations.</p> <p>Progress has been made in 2014 to ensure that new infrastructure projects were screened to see if they complied with a two stage process which involves initial concept approval and final Government approval where a full business case is conducted including full justification and costs specifications.</p>
<p><b>Revenue</b></p> <ol style="list-style-type: none"> <li>4) Maintain equitable taxation regimes with a focus on compliance.</li> <li>5) Restrict taxation exemptions and special arrangements.</li> </ol>	<p>The Government had focused on revenue compliance in the 2014 Budget with an additional K750 million in compliance measures from Customs and IRC. Of this IRC are expected to reach this amount but Customs have not reported a significant increase in compliance. In 2015 the Government has continued its focus on revenue compliance with an additional K120 from the IRC.</p> <p>The Tax Review will consider the taxation regime, including exemptions and special arrangements and is due to present its final report to the Government in 2015.</p>

MTFS 2013-2017 Guiding Principles	Performance against the Principles
<p><b>Debt</b></p> <p>6) Maintain a gross Government debt to GDP ratio of less than 30 per cent, apart from in 2013, 2014, and 2015 when it will not exceed 35 per cent.</p> <p>7) Limit gross Government liabilities to less than 60.0 per cent of GDP.</p> <p>8) Greatly increase the Government's average debt maturity profile.</p>	<p>The Government is meeting its debt commitments.</p> <p>The current estimates show that the gross Government debt to GDP ratio in 2014 will be 35.5 per cent and that the limit of 35 per cent has been breached slightly. The Fiscal responsibility Act directs that in circumstances where the debt target is breached it should return to under the legislated limit the following year. This is forecast with a debt to GDP ratio of 27.8 per cent in 2015. Debt levels will be monitored closely in order to maintain the debt level under 30 per cent of GDP in 2016 and the forward years.</p> <p>Gross liabilities have been above the 60 per cent of GDP limit in 2014, due mainly to the State's share of the PNG LNG project owners' completion guarantees given to debt holders of the project. This is expected to fall below 60.0 per cent in 2015.</p> <p>The Government's average debt maturity profile has increased from 4.0 per cent to 4.4 per cent in 2014. In 2015 it is expected to increase to 4.8 per cent.</p>
<p><b>Deficits</b></p> <p>9) Limit deficits to a maximum of 2.5 per cent of GDP from 2015 onwards.</p>	<p>The Government remains committed to reducing the Budget deficit in a fiscally responsible way. The plan in this Budget is to reduce the deficit to 2.5 per cent in 2016 before balancing the Budget in 2017.</p>

### 3.5 DEVELOPMENT ON THE SOVEREIGN WEALTH FUND

There are significant development needs and challenges facing Papua New Guinea. Funding is needed to develop and maintain public infrastructure assets and to provide services such as health and education, and law and order enforcement. The Government's outlay on public investment and development programmes is affected by the amount of revenues it generates from the economy.

The key to improving development outcomes in PNG is effective Government spending and prudent management of public finances, especially the volatility of revenue flows from the mining and petroleum sector including the PNG LNG project. These will fluctuate with the movements of international commodity prices which has been evident in recent history.

The Papua New Guinea Sovereign Wealth Fund (PNG SWF) to be established by the National Government is such a mechanism to manage these revenues and help insulate the PNG economy and the budget from this volatility. The design of the PNG SWF is consistent with international best practice such as the SWF Generally Accepted Practices & Principles (Santiago Principles), the Extractive Industry Transparency Initiatives, and PNG's domestic requirements.

The current Organic Law of PNG SWF has been reviewed since its passage by Parliament in February 2012 to account for further refinements and technical issues of the constitutional

law process. The Organic Law has been re-drafted with amendments to ensure it does meet all of the underlying policy objectives of PNG SWF and also to further strengthen governance structures to ensure that the PNG SWF cannot be diverted in the future for purposes it was not intended for by Parliament.

In late 2013, the Government directed for the removal of the Development Fund and for the incorporation of a Savings Fund for the purpose of saving mineral and petroleum revenues. The establishment of the Savings Fund and removal of the Development Fund does not affect the core institutional and operational structure of the PNG SWF. However, it does require alterations to the mechanisms for the flow of funds to properly account for the changed intention.

Notwithstanding this change, there will be a single governance framework for the PNG SWF, but this incorporates two funds – a Stabilisation Fund and a Savings Fund. The Stabilisation Fund will manage the impact of fluctuating mineral and petroleum revenues on the PNG Economy and on the Budget; and the Savings Fund is to provide a means of preserving the real value of extracted mineral and petroleum resources through long-term investment for the benefit of current and future generations of PNG citizens.

The overall objectives of the PNG SWF are to:

- support macroeconomic stabilization;
- promote intergenerational equity; and
- support asset management in relation to financial assets accrued from natural resource revenue.

The PNG SWF will be integrated into the budget and fiscal policy framework. This will ensure effective government spending of mineral and petroleum revenues and facilitate fiscal transparency and oversight of public finance management by Parliament. The national budget will be accorded priority funding and will be linked by the deposit and withdrawal rules of the PNG SWF. The policy is intended to help achieve macroeconomic and financial system stability.

In August 2014, the Government approved the revised operational and institutional framework of the PNG SWF. The draft Bill to establish the PNG SWF under a new Organic Law was also endorsed by the Cabinet for gazettal. The primary aim is for this Organic Law to be introduced in the Parliament during earliest possible Parliament session, which is the session following 2015 National Budget session.

Going forward, the SWF Secretaries Committee and the Ministerial Committee on Economic Sector (MCES) will continue to oversee the implementation of the PNG SWF. The Secretaries Committee will review and revised its 'Implementation Plan of the PNG SWF' with the aim of the Organic Law to be passed in the first quarter of 2015. The Committee will identify priority actions and focus on the most critical tasks to deliver on the successful creation of the PNG SWF.

The critical tasks of the Secretaries Committee will be in areas such as drafting subordinate legislations required by the Organic Law. This work would require legal experts and legal firms with experience in matters relating to sovereign wealth funds. Service required will include expert advice for the development of subordinate legislative instruments, including Acts of Parliament and Regulations, as well as documentation for the operationalisation of the PNG SWF. The Committee through Department of Treasury will procure legal services for this required work.

## CHAPTER 4. REVENUE

### 4.1. 2014 AND 2015 REVENUE DEVELOPMENT AND OUTLOOK

Total Revenue and Grants is projected at K13,927.3 million in 2015 (Table 5). This is an increase of K1,252.5 million or 9.9 per cent from the 2014 revised estimate of K12,674.8 million. The increase in Total Revenue and Grants in 2015 is expected from Tax Revenues whilst Non Tax Revenues are projected to decline.

**Table 5: Revenue Summary 2013 -2015 (Kina million)**

	2013 Actual	2014 Budget	2014 Revised	2014 Var. Budget	2015 Budget	2015 Var. 2014 Revised
<b>Total Revenue</b>	<b>8,862.4</b>	<b>11,003.5</b>	<b>10,958.2</b>	<b>-45.3</b>	<b>12,323.4</b>	<b>1,366.4</b>
<i>Per cent of GDP</i>	<i>25.8%</i>	<i>27.8%</i>	<i>26.9%</i>	<i>-0.1%</i>	<i>24.1 %</i>	<i>2.7%</i>
<b>Tax Revenue</b>	<b>8,588.5</b>	<b>9,743.5</b>	<b>9,762.8</b>	<b>19.3</b>	<b>11,257.8</b>	<b>1,495.0</b>
<i>Per cent of GDP</i>	<i>2.5%</i>	<i>24.6%</i>	<i>23.9%</i>	<i>0.04%</i>	<i>22.0%</i>	<i>2.9%</i>
<b>Non-Tax Revenue</b>	<b>273.9</b>	<b>1,260.0</b>	<b>1,195.5</b>	<b>-64.5</b>	<b>1,065.6</b>	<b>-129.9</b>
<i>Per cent of GDP</i>	<i>0.8%</i>	<i>3.2%</i>	<i>2.9%</i>	<i>-0.1%</i>	<i>2.1%</i>	<i>-0.3%</i>
<b>Grants &amp; ITC</b>	<b>970.3</b>	<b>1,685.0</b>	<b>1,716.6</b>	<b>31.6</b>	<b>1,603.9</b>	<b>-112.7</b>
<b>Total Revenue and Grants</b>	<b>9,832.7</b>	<b>12,688.5</b>	<b>12,674.8</b>	<b>-13.7</b>	<b>13,927.3</b>	<b>1,252.5</b>
<i>Per cent of GDP</i>	<i>28.6%</i>	<i>32.0%</i>	<i>31.1%</i>	<i>-0.03%</i>	<i>27.2 %</i>	<i>2.4 %</i>

Source: Department of Treasury

The 2014 revised estimate of K12,674.8 million for Total Revenue and Grants is a reduction of K13.7 million or 0.1 per cent from the original 2014 Budget estimate of K12,688.5 million. The reduction is expected from the Non Tax Revenues. Compared to 2013 actual outcome of K9,832.7 million, the 2014 revised estimate is anticipated to be higher by K2,842.1 million or 28.9 per cent.

#### 4.1.1 Tax Revenue

Tax Revenue is projected at K11,257.8 million in 2015, an increase of K1,495.0 million or 15.3 per cent from the 2014 revised estimate of K9,762.8 million. The increase in Tax Revenue is expected from Taxes on Income and Profits, Domestic Taxes on Goods and Services and Taxes on International Trade.

**Table 6: Tax Revenue 2013-2015 (Kina million)**

	2013 Actual	2014 Budget	2014 Revised	2014 Var. Budget	2015 Budget	2015 Var. 2014 Revised
Income & Profit Tax	6,081.3	7,117.2	7,079.6	-37.6	8,352.3	1,272.7
Domestic G&S Tax	1,765.8	1,879.4	1,857.7	-21.7	2,043.4	185.7
International Trade Tax	741.3	746.9	825.4	78.5	862.2	36.8
<b>Total Tax Revenue</b>	<b>8,588.5</b>	<b>9,743.5</b>	<b>9,762.8</b>	<b>19.3</b>	<b>11,257.8</b>	<b>1,495.0</b>

Source: Department of Treasury

The 2014 revised estimate of K9,762.8 million for Tax Revenue is an increase of K19.3 million or 0.2 per cent from the original 2014 Budget estimate of K9,743.5 million. The increase is expected from Taxes on International Trade which is projected to increase by K78.5 million. This is expected to offset the projected declines of K37.6 million in Taxes on Income and Profits and K21.7 million in Taxes on Domestic Goods and Services. Compared

to 2013 outcome of K8,588.5 million, the 2014 revised estimate is anticipated to be higher by K1,174.3 million or 13.7 per cent.

#### 4.1.2 Taxes on Income and Profits

Taxes on Income and Profits are projected at K8,352.3 million in 2015. This is an increase of K1,272.7 million or 18.0 per cent from the 2014 revised estimate of K7,079.6 million and is driven by a projected increase of K982.7 million in Mining and Petroleum Taxes (MPT). The bulk of the increase in MPT is expected from the gas exports, meanwhile non gas MPT is insignificant and is due to projected decline in productions from the existing oil fields, as well as increased claims for Infrastructure Tax Credits (ITC) by companies operating in the mining and petroleum sector. For 2015, a total ITC of K207.8 million has been deducted from the Mining and Petroleum Tax reflecting the lost revenue as a result of the refurbishment of Marea Haus, Lloyd Robson Oval and other ITC funded projects.

Personal Income Tax, Company Tax, Dividend Withholding Tax and Gaming Tax are also projected to increase by K226.6 million, K53.4 million, K33.9 million and K10.3 million respectively. The projection for these revenue heads include additional compliance measures outlined in Section 4.3 - Revenue Measures and Developments.

**Table 7: Taxes on Income and Profits 2013-2015 (Kina million)**

	2013 Actual	2014 Budget	2014 Revised	2014 Var Budget	2015 Budget	2015 Var. 2014 Revised
Personal Income Tax	2,808.4	2,852.0	3,076.5	224.5	3,303.1	226.6
Company Tax	2,060.5	2,647.4	2,692.7	45.3	2,746.1	53.4
Dividend With. Tax	244.5	261.3	204.8	-56.5	238.7	33.9
Mining & Petroleum Tax	666.7	1,001.8	766.5	-235.3	1,749.2	982.7
Interest Withholding Tax	38.5	49.0	38.9	-10.1	38.9	0.0
Other Direct Tax	118.1	125.0	162.5	37.5	128.3	-34.2
Gaming Tax	144.6	180.8	137.8	-43.0	148.1	10.3
<b>Income &amp; Profit Tax</b>	<b>6,081.3</b>	<b>7,117.2</b>	<b>7,079.6</b>	<b>-37.6</b>	<b>8,352.3</b>	<b>1,272.7</b>

Source: Department of Treasury

The 2014 revised estimate of K7,079.6 million for Taxes on Income Profits is a reduction of K37.6 million or 0.5 per cent from the 2014 Budget forecast of K7,117.2 million. The reduction is due to anticipated decline in Mining and Petroleum Tax, Dividend Withholding Tax, Interest Withholding Tax and Gaming Tax totalling K344.9 million. This will be offset by increases in Personal Income Tax, Company Tax and Other Direct Tax totalling K307.3 million. Mining and Petroleum Tax is anticipated to decline by K235.3 million and is reflective of weaker commodity prices, lower production expected from most major mines and expected increase in Infrastructure Tax Credits claims. A total ITC of K161.6 million is factored in the 2014 revised estimate.

Compared to the 2013 actual outcome of K6,081.3 million, the 2014 revised estimate is anticipated to be higher by K998.3 million or 16.4 per cent.

#### 4.1.3 Domestic Taxes on Goods and Services

Domestic Taxes on Goods and Services is projected at K2,043.4 million in 2015. This is an increase of K185.7 million or 10.0 per cent from the 2014 revised estimate of K1,857.7 million. The increase in Domestic Taxes on Goods and Services is expected to be driven by Goods and Services Tax (GST), increasing by K172.7 million. Other Domestic taxes of Excise Duty and Other Indirect taxes are projected to increase slightly by K11.9 million and K1.1 million respectively. This projection also includes revenue from

additional compliance measures outlined in Section 4.3 Revenue Measures and Developments.

**Table 8: Taxes on Domestic Goods and Services 2013-2015 (Kina, million)**

	2013 Actual	2014 Budget	2014 Revised	2014 Var. Budget	2015 Budget	2015 Var. 2014 Revised
Excise Duty	541.9	689.3	651.9	-37.4	663.8	11.9
Goods & Services Tax	1,217.2	1181.4	1,194.1	12.7	1,366.8	172.7
Other Indirect Tax	6.7	8.7	11.7	3.0	12.8	1.1
<b>Dom. Taxes on G/S</b>	<b>1,765.8</b>	<b>1,879.4</b>	<b>1,857.7</b>	<b>-21.7</b>	<b>2,043.4</b>	<b>185.7</b>

Source: Department of Treasury

The 2014 revised estimate of K1,857.7 million for Domestic Taxes on Goods and Services is a reduction of K21.7 million or 1.1 per cent compared to the initial 2014 Budget estimate of K1,879.4 million. The reduction reflects a downward revision of K37.4 million in Excise Duty being partially offset by the upward revisions to GST and Other Indirect Taxes of K12.7 million and K3.0 million respectively. Compared to 2013 actual outcome of K1,765.8 million, the 2014 revised estimate is anticipated to be higher by K91.9 million or 5.2 per cent.

#### **4.1.4 Taxes on International Trade**

Taxes on International Trade is projected at K862.2 million in 2015, an increase of K36.8 million or 4.4 per cent from the 2014 revised estimate of K825.4 million. The increase is due to projected increases in Excise Duty on Imports and Import Duty of K25.1 million and K11.6 million respectively.

**Table 9: Taxes on International Trade 2013-2015 (Kina million)**

	2013 Actual	2014 Budget	2014 Revised	2014 Var. Budget	2015 Budget	2015 Var. 2014 Revised
Import Duty	257.2	288.8	284.8	-4.0	296.4	11.6
Export Duty	211.7	176.5	268.4	91.9	268.4	0.0
Excise Duty on Imports	272.5	281.6	272.2	-9.4	297.3	25.1
<b>International Trade Tax</b>	<b>741.3</b>	<b>746.9</b>	<b>825.4</b>	<b>78.5</b>	<b>862.2</b>	<b>36.8</b>

Source: Department of Treasury

The 2014 revised estimate of K825.4 million for Taxes on International Trade is an increase of K78.5 million, or 10.5 per cent, compared to the initial Budget estimate of K746.9 million. The increase is expected to be driven by Export Duty which is estimated to increase by K91.9 million. The increase in Export Duty is due to high export volumes. Compared to 2013 outcome of K741.3 million, the 2014 revised estimate is anticipated to be higher by K84.1 million or 11.3 per cent.

#### **4.1.5 Non-Tax Revenue**

Non-Tax Revenue is projected at K1,065.6 million for 2015, a decline of K129.9 million or 10.9 per cent from the 2014 revised estimate of K1,195.5 million. The projected decline is mainly from State Owned Enterprises (SOE) dividends which are projected to decline by K257.9 million. SOE Dividends is projected at K80 million and is expected from Bank of Papua New Guinea (K20.0 million), National Fishery Authority (K25 million), IPBC (K10.0 million) and Motor Vehicle Insurance Limited (K25 million). Interest and Fees from Lending is projected at K4.0 million and Other Non Tax Revenues (Departmental fees and charges) are projected at K283.1 million. The projection on non tax revenue includes the

update of Departments' fees and charges outlined in Section 4.3 Revenue Measures and Developments.

**Table 10: Non Tax Revenue 2013-2015 (Kina million)**

	2013 Actual	2014 Budget	2014 Revised	2014 Var. Budget	2015 Budget	2015 Var. 2014 Revised
Property Income	55.0	287.0	337.9	50.9	80.0	-257.9
Mining Petr. & Gas Dividends	0.0	133.0	605.5	472.5	698.5	93.0
Interest & Fees from Lending	0.0	4.0	4.0	0.0	4.0	0.0
Other Non Tax Revenue	218.9	200.0	248.1	48.1	283.1	-35.0
Injection from Trust	0.0	36.0	0.0	-36.0	0.0	0.0
Asset Sales	0.0	600.0	0.0	-600.0	0.0	0.0
<b>Non Tax Revenue</b>	<b>273.9</b>	<b>1,260.0</b>	<b>1,195.5</b>	<b>-64.5</b>	<b>1,065.6</b>	<b>-129.9</b>

Source: Department of Treasury

The 2014 revised estimate of K1,195.5 million for Non Tax Revenue is a reduction of K64.5 million or 5.1 per cent from the original Budget estimate of K1,260.0. This is mainly due to removal of the K600 million Asset Sale and K36.0 million in Injections from Trust Accounts being offset partially by a total increase of K571.5 million in Mining, Petroleum and Gas dividends and Other Non-Tax Revenue (Departmental Fees and Charges). Dividends from State Owned Enterprises have been revised up by K50.9 million to K337.9 million from K287.0 million at Budget. Of the total revised dividend estimate, BPNG is expected to pay K120.0 million, National Fishery Authority K50.0 million, IPBC K10.0 million, Motor Vehicle Insurance Limited K100 million, National Gaming Board K50.0 million and Oil Search Limited K7.9 million. Compared to 2013 outcome of K237.9 million, Non Tax Revenue is anticipated to be higher by K921.6 million or 336.4 per cent.

#### **4.1.6 Grants and Infrastructure Tax Credits (ITC)**

Project Grants is estimated at K1,396.1 million in 2015, down by K158.9 million from the 2014 revised and original estimate of K1,555.0 million. Project Grants are subject to discretion of Donors and exchange rate fluctuations. Infrastructure Tax Credit is projected at K207.8 million in 2015, increasing by K46.2 million from the 2014 revised estimate of K161.6 million.

## **4.2 MEDIUM TERM REVENUE OUTLOOK**

### **4.2.1 Revenue and Grants**

Total Revenue and Grants is projected to decline from K13,927.3 million in 2015 to K13,829.2 million in 2016, before picking up to K14,341.3 million in 2017, K15,076.4 million in 2018 and K16,034.4 million in 2019.

The projected Total Revenue and Grants decline in 2016 is reflective partly of a change in reporting of mineral revenues in which mining and petroleum tax is recorded as zeros under tax revenue and drawn down under Non-Tax Revenue from the Sovereign Wealth Fund (SWF) using the SWF drawdown rules. The Total Revenue and Grants decline in 2016 is also partly due to mining and petroleum dividends being diverted away from the Budget for mine life expansion plans of a major mine in PNG.

### **4.2.2 Tax Revenue**

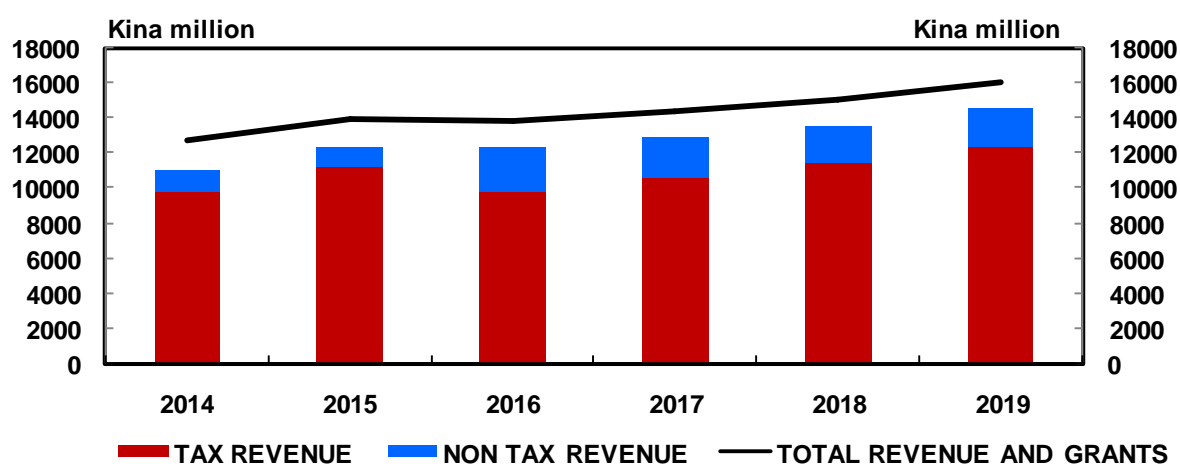
Over the medium term, Tax revenue is expected to move broadly in line with Total Nominal Non-mining GDP growth of the domestic economy, with the exception of 2016 when Tax

revenue is expected to decline from K11,257.8 million in 2015 to K9,809.4 million in 2016 before picking up to K10,565.6 million in 2017, K11,429.6 million in 2018 and K12,343.8 million in 2019.

The projected decline in Tax Revenue in 2016 is reflective of a change in the reporting of mining and petroleum tax which will be recorded as zeros. From 2016 onwards, all mining and petroleum tax will be deposited into the Sovereign Wealth Fund instead of flowing directly to Waigani Public Accounts. Other taxes, although, are projected to increase in 2016, the increase is insignificant to offset the impact of the change in reporting mining and petroleum tax as zeros under tax revenue.

The pickup in Tax Revenue from 2017 onwards is due to projected increases in other Tax Revenues mainly from stronger Personal Income Tax, Company Tax, Excise Tax and Goods and Services Tax.

**Figure 28: Total Revenue and Grants 2014-2019**



Source: Department of Treasury

#### **4.2.3 Non-Tax Revenue**

Non-Tax Revenue is projected to rise to K2,508.6 million in 2016, from K1,065.6 million in 2015, driven mainly by mineral revenues flowing to Budget from the Sovereign Wealth Fund (SWF) using the SWF drawdown rules. From 2016 to 2019, there will be no mining and petroleum dividends as these are expected to be diverted away from the Budget for mine life expansion plans of a major mine in PNG whilst dividends from State Owned Enterprises (BPNG K20.0 million, IPBC K10.0 million, MVIL K25.0 million and NFA K25.0 million) and other non-tax revenue are expected to remain constant over the medium term.

#### **4.2.4 Grants and Infrastructure Tax Credit**

Grants are provided at the discretion of donors in accordance with their internal budget policies and informed by the successful delivery of outcomes from existing projects as well as exchange rate fluctuations. The current Grants projections for the medium term are projected to remain below the 2015 projection of K1,396.1 million. Infrastructure Tax Credit is projected to also remain below the 2015 projection of K207.8 million over the medium term.

#### **4.2.5 SWF Revenue Flows**

PNG's offshore Sovereign Wealth Fund (SWF) is expected to commence operations by 2016. The projected operations of the SWF's Stabilisation and Savings Fund are based on



Treasury's revenue forecasts. The drawdown from the SWF to Budget is reflected in Fiscal Table 8 in the Appendix for the years 2016 to 2019.

#### **4.2.5.1      *Stabilisation Fund***

In 2016, the Stabilisation Fund is projected to receive a total revenue of K2,141.9 million. The bulk of this revenue is from mineral, petroleum and gas taxes projected at K1,928.2 million whilst the rest is from gas dividends totalling K212.2 million. The K212.2 million dividends is a portion of the project dividend split between National Petroleum Company (NPCP), the Holding Company and the SWF Stabilisation Fund. This is also the case for 2017 to 2019.

Using the SWF Budget drawdown rule, a total of K2,141.5 million is expected to be transferred to the Budget in 2016, after the SWF pays its fund managers. No revenues are expected to remain in the Stabilisation Fund following the drawdown in 2016.

From 2017 to 2019, total revenue deposited into the Stabilization Fund is projected to remain below 2016 levels at K1,902.1 million, K1,758.0 million and K1,803.7 million respectively. The bulk of the revenue is from the mineral, petroleum and gas taxes and the rest from the gas dividends

Using the SWF Budget drawdown rule, the Budget is expected to receive K1,901.7 million in 2017, K1,757.7 million in 2018 and K1,803.4 million in 2019 after the SWF pays its fund managers. The closing balance from 2016 to 2019 is projected to be zero, with accumulation in the Fund projected in the longer term.

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

#### **4.2.5.2      *Savings Fund***

In 2016, the Savings Fund is projected to receive K81.7 million, mainly from gas dividends. Similarly, the projected gas dividends deposit into the Savings Fund is a portion of the project dividend split between the NPCP, the Holding Company and the SWF Savings Fund. The closing balance is projected to be K81.7 million after accounting for fund managers' expense.

From 2017 to 2019, total revenue deposited into the Savings Fund is projected to remain below 2016 levels at K78.1 million, K76.2 million and K70.4 million respectively. The closing balance is projected to be K158.9 million in 2017, K233.5 million in 2018 and K301.6 million in 2019.

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

### **4.3      REVENUE MEASURES AND DEVELOPMENTS**

This section outlines five major taxation policy measures including the update on non-tax fees and charges; and a number of minor taxation policy measures including technical amendments, as part of the Government's ongoing effort to enhance compliance and strengthen revenue base.

The 2015 Budget introduces the update to the non-taxation fees and charges for the Departments of Health, Police, Lands and Physical Planning, Labour and Industrial Relation and Community Welfare Development.

The budget also introduces measures to enhance tax compliance for Goods and Services obligations. This measure will make directors of companies, which fail to comply with GST obligations, personally liable for a penalty equal to the amount that the company ought to have remitted to IRC.

Also in this budget, the Government introduces the implementation of a major compliance measure in relation to rental income. This measure involves an amendment to the Stamp Duties Act 1952 to make it mandatory for owners of rental property or landlords to provide their Taxation Identification Number (TIN) on lease documentation so that the Internal Revenue Commission (IRC) can more easily identify the landlords and their likely liabilities when stamp duty processing is undertaken.

The Government has further announced in this budget a change to the indexation arrangements applying to tobacco excise so that it is increased by a set 5 per cent biannually (10 per cent annually). The Government has recognized the high health risk and increased treatment costs of tobacco related diseases and it has therefore chosen to recover part of the health cost through an increase to the excise duty on tobacco

This Budget also introduces measures to enhance compliance for legally issued court orders. This measure will ensure that taxpayers are held accountable for their non-compliance to lawfully issued court orders.

Further, this Budget introduces minor taxation policy measures aimed at improving compliance and administration. These include:

1. Royalty Withholding Tax (RWT) is now a final tax. This amendment will now reduce the administrative burden of the IRC and will not require individual recipients of royalties to lodge their income tax returns;
2. a director of a company is now prevented from obtaining a remission of their director penalty by winding up a company in the instance the company fails to report Salary and Wages amounts within 3 months of their due date;
3. clarification to the unintended consequence of having the definitions of debt, equity and interest applying to the ITA as a whole to apply specifically for purposes of thin capitalization rules;
4. an amendment to the Secrecy provisions allowing the IRC to provide relevant information to Treasury for the purposes of estimating or analysing taxation revenue or estimating the costs of policy proposals , and to the National Statistics Office for the production of the National Accounts and other statistics;
5. an amendment to the ITA to correct inconsistencies with the previous amendment, clarifying the eligibility of the 150 per cent deduction incentive to gifts and sponsorship of money or property for the Pacific Games and to clarify the role of the Commissioner General in valuing these gifts and sponsorships;
6. an amendment to ensure the Commissioner General administers the GST distribution in accordance with the Intergovernmental Relations (Functions and Funding) Act 2009 and not withstanding any other Acts of Parliament;
7. an amendment to the Customs Tariff Act creating a description for other meats and edible offal that didn't fall in the mechanically deboned meat (MDM) description;
8. a further amendment to the Customs Tariff Act 1992 and Excise Tariff Act 1956 introduces two new tariff items to cater for misclassified cigarettes; and
9. finally, the Government will support PNG's membership to the Global Forum on Transparency Exchange of Information in Tax Matters. This is a Global Forum that

provides support to countries with limited administrative capacity, particularly in building their capacity to engage in exchange of information with other jurisdictions.

There are also a number of minor technical amendments to clarify the law and administrative procedures, increase administrative efficiency and correct technical errors.

#### **4.3.1 Major Tax Policy Measures**

##### **4.3.1.1 Update to fees and charges for Departments of Health, Police, Lands and Physical Planning, Labour and Industrial Relation, and Community Welfare Development**

The Government has a mandate to collect fees and charges for the services it renders to the public through the various agencies. However, it has been found that many of these fees and charges have not been reviewed and updated for some time.

As part of the broader efforts to modernize the non-tax revenue system, the fees and charges of the Departments of Health, Police Lands and Physical Planning, Labour and Industrial Relations and Community Welfare Development will be updated from 1<sup>st</sup> January 2015.

These departments (consistent with their obligations under the PFMA) have taken the lead in updating the fees and charges, in close consultation with the Department of Finance. The fees will be updated to reflect inflation over time. Of note, the last review of the fees/charges administered by the Departments of Land and Department of Labour were undertaken in 2003.

Fees and charges for other services provided by other government departments are expected to be updated from 2016 onwards to reflect the cost of service provision and other government policies. The Tax Review Committee is also reviewing the policy framework associated with non-tax revenues. This measure will raise K35 million in 2015.

##### **4.3.1.2 Enhancement of tax compliance for Goods and Services Tax Obligations**

Goods and Services Tax (GST) is payable in relation to the transfer of certain goods and services between one party and another. The GST is an amount that the transferor collects from the transferee and should subsequently remit to the IRC.

The Companies Act 1997 imposes legal obligations upon company directors to ensure good corporate governance practices are maintained. A director is required to act in good faith and not contrary to the interest of the company. When a company collects GST as a consequence of a 'taxable supply', and then fails to remit any amount payable to the IRC, it may be argued that the director has not discharged their obligations diligently by allowing the company to incur a debt needlessly – the company having been in possession of the GST at the time taxable supply occurred.

Currently, there are no provisions in the Goods and Services Tax Act to hold company directors liable for failing to ensure their company complies with the GST obligations. Hence, the measure extends the current director penalty regime for Salaries and Wages Tax obligation to GST obligations.

The director penalty regime will make directors of companies, which fail to comply with GST obligations, personally liable for a penalty equal to the amount that the company ought to have remitted to IRC.

The measure is set to 'level the playing field' in terms of sole traders, partners and company directors who use collected GST to fund their business or private activities rather than remitting the amounts as required. A sole trader, who applies GST to pay other creditors instead of remitting the amount collected to the IRC, will be required to pay the GST out of their own funds – along with late payment penalties.

The implementation of the measure will encourage directors to ensure that their company fulfils its obligations to remit amounts payable under the GST obligations.

This amendment is expected to increase Government revenue by K20 million in 2015. The amendment will be effective from 1<sup>st</sup> January 2015.

#### **4.3.1.3 Increased Compliance for Tax arising from Rental Income**

Rental income derived by an owner of a property in PNG is assessable income under PNG's Income Tax Act 1959 (ITA). An individual landlord is required to pay tax on his or her income at the marginal rate of PIT and corporate landlords are required to pay tax on their rental income at the corporate tax rate (30 per cent).

There is concern that many landlords are currently leasing out their commercial and residential properties and not declaring this income to the Internal Revenue Commission. All lease documentation is required to be provided to the IRC to be registered for stamp duty purposes.

This measure introduces an amendment to the Stamp Duties Act 1952 to make it mandatory for landlords to provide their Taxation Identification Number (TIN) on lease documentation so that the IRC can more easily identify the landlords and their likely taxation liabilities when stamp duty processing is undertaken.

The information obtained by the IRC will be used to match the stamp duty lease information with IRC's lodgement and assessment information to enable improved identification of non-compliant landlords.

Where landlords are not currently registered with the IRC, this measure will require them to register with a TIN by the IRC in order to have their property leases recognised as valid leases.

The measure is expected to deliver K15.0 million additional revenue in 2015. This measure comes into effect from 1<sup>st</sup> July 2015.

#### **4.3.1.4 Tobacco Excise increase by 5 per cent Bi-annually (10 per cent annually)**

The Government will increase excise indexation by a set 5 per cent biannually (10 per cent annually) from 1st December 2014.

Excise duty is applied on the import or production of specific goods for sale. These goods are usually deemed to be "sin" goods for which consumption is discouraged due to their negative externalities.

The current excise regime on tobacco excise is adjusted six monthly in line with the Consumer Price Index (CPI). The increase in the excise is capped at 2.5 per cent. This means that if the CPI is above 2.5 per cent then a maximum of 2.5 per cent is applied. However, if the CPI is less than 2.5 per cent, then excise is adjusted to the CPI inflation rate.

The change to the indexation arrangements applying to tobacco excise to a set 5 per cent bi-annually is necessary given the high health risks tobacco poses on the people and the cost of treating tobacco related common diseases such as cancers, heart diseases, asthma and lung cancers is around K9.0 million per year. As such, the Government has chosen to recover part of the health cost through the increase of the excise duty on tobacco.

This measure to index excise by 5 per cent every six months will raise about K6.8 million in 2015 and K145.0 million over the next five years after accounting for the behavioural effects related to reduction in smoking and substitution to illicit tobacco usage driven by this tax increase.

#### **4.3.1.5 Enhancement of Compliance measures for convicted taxpayers who fail to comply with Court Orders**

The Government will introduce tougher measures from 1<sup>st</sup> January 2015 to deal with convicted tax offenders who fail to comply with legally issued court orders.

The current penalty for non-compliance with court order ranges from K500 to K5000 which is the same as the penalty applying to the tax offense committed at the time of offence. This does not provide a stronger enforcement action to IRC if taxpayers refuse to comply with the court orders served on them and refuse to pay the court fines levied. This results in a significant number of disobedient taxpayers who continue to operate business without complying with their tax obligations.

The Government will introduce a jail term penalty to a convicted tax offender and to increase the monetary fines and to provide different levels of fines for an individual and corporate taxpayer.

The imposition of a jail term is envisaged to be a more deterring factor than the same range of monetary fine in the event that a person fails to comply with a court order.

The increase in the amount of court order fines and the different levels of fines for natural and corporate persons would range from K1,000-K10,000 and K5,000-K50,000 for natural person and corporate person respectively.

This measure will ensure that taxpayers are held accountable for their non-compliance to lawfully issued court orders. This measure is also intended to enhance compliance

This measure is expected to raise K5 million in 2015.

### **4.3.2 Minor Tax Policy Measures**

#### **4.3.2.1 Make Royalty Withholding Tax (RWT) a final tax**

The 5 per cent RWT will be deemed a final withholding tax from 1st January 2015.

Under the current practice the individual recipients of prescribed royalty payments are required to lodge tax returns declaring income in the nature of royalty and any other income they may derive in a year of tax. The individual taxpayer is assessed on that income and the RWT would be allowed as a credit against the tax liability established.

The need to identify all recipients of the royalty payments and to break up the RWT to allow a credit to the individual recipients is not easy and the cost of administering this outweighs the benefits. IRC does not have the capacity to get the recipients of the royalties to lodge tax returns, and be assessed on that income to be eligible for credit or refund on the RWT.

Further, this also presents some issues relating to the treatment of such credit in the IRC computing system (RAS II). The RWT would normally be recorded as credit and in cases where the landowners cannot be identified to lodge tax returns, amounts would be held as credit with no offsetting debits.

In addition most individual recipients of the prescribed royalty payments may require help to lodge their tax returns which may also be costly for them.

Under this amendment the recipients of prescribed royalty income will not need to lodge income tax returns. This will reduce the administrative burden on IRC and will free up resources for other critical revenue raising activities.

This measure is not expected to raise revenue for the government in 2015.

#### **4.3.2.2      Enhancement of Tax Compliance for Salary and Wages Tax (SWT) Obligations**

The current law holds directors of companies personally liable for failing to ensure their companies comply with their obligations under the SWT provisions.

The process involved in identifying the SWT liabilities and consequent issuance of the DPN may take months or even years depending on the availability of information. The director will then have 30 days from the date of the notice to extinguish the personal liability by paying the debt or winding up the company. It is possible that directors may wind up their company and incorporate a new company under a different name. This undermines the intent of the current policy to encourage directors to ensure compliance with the SWT obligations.

Further, this also presents an unfair treatment to a company that reports the amount and fails to pay but recovery actions against its directors commences immediately whilst the companies that do not report its obligations goes unnoticed for a period of time until IRC establishes the SWT liabilities and the subsequent recovery actions. These actions involve the same process as such that is applied to the company that reported its obligation.

The amendment to the ITA will enhance the implementation of the current director penalty regime by ensuring that company directors are proactive in ensuring that amounts due by their company is reported by the due date. It will cause the directors who fail to ensure their company complies with SWT reporting obligation are after 3 months unable to obtain a remission of their director penalty by winding up the company except by causing the company to pay the amount due to IRC.

Further, the amendment will install equity in terms of ensuring that directors whose company complies with SWT reporting are not disadvantaged when compared with directors whose company does not comply.

To address these concerns, the Government will introduce an amendment that will prevent the directors of a company, which fail to report their SWT amounts within 3 months of the due date from obtaining a remission of their director penalty by winding up the company except by causing the company to pay the amount due to IRC, commencing in 1<sup>st</sup> January 2015.

This amendment is intended to increase compliance by ensuring that company directors are proactive in making sure the amounts due by their company is at least reported by the due date. The amendment is expected to be effective by 1<sup>st</sup> January 2015.

**4.3.2.3 Amend ITA to clarify an unintended consequence of having the definition of debt, equity and interest apply to the Act as a whole to apply specifically for purposes of Thin Capitalization Rules**

In the 2013 Budget, the Government introduced thin capitalization rules into the ITA for non-resource companies, following concerns that some non-resource multinational companies operating within PNG were significantly reducing the tax they pay in PNG.

As part of these reforms, the Government introduced definitions including of “Debt”, “Equity”, “Interest” into the ITA to remove uncertainty to the definition of these terms for the purpose of calculating a debt to equity ratio for Thin Capitalization Rules.

The definitions were inserted into the general definition section of the ITA and therefore apply to the whole of the ITA. This has implications on other sections of ITA and legislation. This includes issue surrounding the definition of dividend and interest whereby a transaction can be characterized as both interest and as a dividend for income tax purposes.

To limit further unforeseen implications on other legislations, the Government will move the definitions from the general provision section to section 68AF of ITA.

This amendment will be consistent with the original intent of the introductions of these definitions in the 2013 Budget. This will also align the operation of the section 68AF with the manner in which section 155 of the ITA operates for resource projects.

This measure will be retrospectively amended to be effective from 1<sup>st</sup> January 2013.

**4.3.2.4 Improvement of Data Flows, Transparency of Tax Incentives and Statistics**

Currently, the secrecy provision in *section 9* of the *Income Tax Act 1959* does not allow for information to be transferred to Treasury for the purpose of forecasting and policy formulation or to the National Statistics Office (NSO) for the production of the National Accounts and other statistics. In order to undertake their roles, Treasury requires tax aggregate data on a certain sector or sub-sector to enable it to undertake forecasting work. Where the data relates to a sector or sub-sector with few entities then the information may have the tendency to identify the affairs of a specific taxpayer and its disclosure is prevented by the secrecy provisions.

The amendments to the secrecy provisions within the *ITA* now allow the IRC to provide relevant information to Treasury for the purposes of estimating or analysing taxation revenue or estimating the cost of policy proposals. Likewise, the NSO is expected to use information provided to IRC in its production of the National Accounts and other statistics going forward.

Given the issue that the amendment is trying to address, and the importance of maintaining secrecy more generally, the amendment will expressly exclude information that includes the name, contact details or tax identification number of the taxpayer. However, the provisions ensure that information is made available for the entities to effectively perform their functions, including both where there is a risk that aggregate information may identify particular taxpayers or where taxpayer specific information is required (for example when costing a proposal to provide a particular taxpayer or project with a special tax treatment)..

**4.3.2.5 Ensuring the Commissioner General to administer the GST distribution in accordance with the Intergovernmental Relations (Functions and Funding) Act 2009.**

The Inter-Governmental Relations (Functions and Funding) Act (IGRA) 2009 will be the only law responsible for the distribution of GST from 1<sup>st</sup> January 2015, notwithstanding any other acts of parliament.

Currently IGRA is the law responsible for the distribution of GST. It specifically contains the mechanism on how the GST is distributed by the IRC. The intent of the law relating to the distribution of GST was for IRC to distribute the inland GST under the IGRA to the province in which the GST was actually collected.

The National Capital District Commission Act (NCDCA) however, provides a conflicting provision on the manner in which the GST revenue for NCDC should be distributed between NCDC, Central, Gulf and the Motu-Koitabu Authority.

Any other Acts of Parliament providing for additional GST revenue splitting but also makes IRC responsible for this is inconsistent with the IGRA.

This amendment seeks to exclude any other law from dictating the manner in which the Commissioner General administers the distribution of GST and the administration of the National GST Trust Account and the provincial Inland GST Trust Accounts.

This amendment will clarify that the Inter-Governmental Relations (Functions and Funding) Act is the only Act in relation to the distribution of GST Revenue by IRC from 1 January 2015 onwards, consistent with the existing policy intent of the Government. The measure is not expected to raise Government's revenue in 2015.

**4.3.2.6 Introduce new tariff item for other meats and edible offal that do not fall in the mechanically deboned meat (MDM) description.**

The Government will introduce new tariff item for other meats and edible offal that do not fall in the mechanically deboned meat (MDM) description from 1<sup>st</sup> January 2015.

Currently most goods in chapter two (2) of Customs Tariff Act 1990 which covers meat and edible offal under the Customs Tariff Act are attracting K2.00 per Kilogram and are scheduled to fall to K1.80 per kilogram in 2015 as per the current tariff reduction program.

This new tariff item will be inserted in Heading 0207 for meat and edible offal, of the poultry of heading 01.05, fresh, chilled or frozen. This amendment will avoid potential confusion in identification of appropriate items and rates. The import duty rate of this tariff item will be consistent with other tariff able items under heading 0207 except for MDM.

The introduction of this tariff item is not expected to raise significant revenue in 2015.

**4.3.2.7 Introduction of new tariff item to cater for misclassified cigarettes**

The Government will introduce new tariff item for the misclassified cigarettes from 1<sup>st</sup> January 2015. Currently there are no descriptions in the PNG Customs Harmonised system to cater for cigarettes:

- i. cigarettes with filter containing tobacco other than dark fired tobacco (Pall Mall and other manufactured cigarettes);



- ii. without filter containing tobacco and or other tobacco substitutes containing dark fired tobacco (spear or equivalent).

Under the current practice, these cigarettes are classified under tariff item 2402.20.10 where it is attracting an excise duty of K249.06 per 1000 sticks (excise rate as at 1st June 2014). The item code 2402.20.10 caters for cigarettes of dark fired tobacco without filter such as “spear or mutrus”.

The amendment introduces new tariff items which will ensure that cigarettes are correctly classified under the new tariff item 2402.20.40 and 2402.20.50 reflecting their descriptions. The excise rate of this tariff items will be consistent with the current practice. This means on 1<sup>st</sup> January 2015, the excise rate of cigarettes will be the K249.06 per 1000 sticks indexed to change in consumer price index (CPI) over the previous 6 months between March 2014 and September 2014, which will be further indexed to the newly introduced 5 per cent nominal increase biannually for tobacco.

In addition to ensure consistency in the descriptions contained in both Excise Tariff Act and Customs Tariff Act, these new descriptions will also be introduced in the Customs Tariff Act.

This measure will clarify the current practice.

#### **4.3.2.8 Membership to the Global Forum on Transparency and Exchange of Information on Tax Matters**

The Government has announced its support for PNG's membership to the Global Forum on Transparency and Exchange of Information on Tax Matters.

The Global Forum on Transparency and Exchange of Information in Tax Matters is the largest such organization with over 121 members countries including a number of developing countries. This Global forum provides support to countries with limited administrative capacity, particularly in building their capacity to engage in exchange of information with other jurisdictions.

Membership to the Forum could be a precursor to signing up to the Multilateral Convention on Mutual Administrative Assistance in Tax Matters which would provide the legal basis for PNG to exchange tax information with much broader range of jurisdictions and allow PNG to ask other jurisdictions to collect taxation debts on its behalf.

There will be no significant revenue implications as membership to the global forum only requires a nominal annual fee. Also, no legislative amendments would be required for the membership for the Forum.

#### **4.3.3 Minor Technical And Administrative Amendments**

The 2015 Budget also introduces minor technical and administrative amendments to correct drafting errors and ease administrative procedures in the relevant legislations administered by the Commissioner General of IRC.

#### **4.3.4 Revenue Compliances Measures**

##### **4.3.4.1 Internal Revenue Commissions' compliance measures**

The Internal Revenue Commission (IRC) has been working throughout 2014 to implement a number of compliance measures to be continued into 2015. The issue of non-compliance

relates to the registration, lodgement, correct reporting, and payment obligations and this has reduced revenue collections for the Government.

A summary of the main focus areas of additional revenue from improvements in compliance and IRC efficiencies in 2015 and 2016 is listed below. To a large extent the themes remain similar to those of 2014.

1. Taxpayers Registration Compliance – this will involve the IRC new registrations with the concurrent IRC and IPA registration and extra contemporary registrations. Part of this will also involve Anti Money Laundering (AML) Prudential Standard impacts and follow up for current non-compliant taxpayers.
2. Taxpayers Lodgement Compliance – this measure will see firmer action on late lodgement with assigned penalties plus the identification and enforcement of currently registered taxpayers whom fail to submit lodgements.
3. Taxpayers Reporting Compliance – the IRC will undertake substantially more verification and audit activities particular for GST Debit, Large and SME Business Income Tax, Foreign Contractors Withholding Tax rate and employee/contractor issues, Data Matching (including, provisional tax underestimation, Tax Identification Numbers (TIN) and rental contracts and GST credit verification.
4. Taxpayers Payment Compliance – work to be undertaken within this measure will see IRC introducing approaches to deal with additional early collection and firmer action on debt and late payment penalties, GST Director Penalty Notices (new legislation to be enforced) and finalize objections and requests for amendment.
5. Efficiencies – this involves other revenue improvement – including thorough improvements in case selection, improved data quality allowing earlier enforcement action, improved taxpayer awareness and knowledge/clarification of obligations etc.

The IRC's strategy for achieving sustainable revenue remains fairly constant and consistent with its 2013-2017 Corporate Plan Strategy. These continue to be:

- the need to get its basic tax administration operations running smoothly and sustainably. An important part of this is to have sufficient staff in place to manage all core aspects of standard taxation administration;
- attraction and retention of the right calibre of staff required for the more classified professional and knowledge work roles and have the ability to deploy them to areas of greatest risk to revenue; and
- the need to modernize its antiquated core ICT capability – IRC has taken the first steps towards this with the ongoing phased implementation of its new revenue accounting system (RASII) and other revenue raising initiative capital expenditures.

The core strategies of the IRC involve long term challenges and therefore require a long term and coherent investment approach to properly optimise revenue in a sustainable manner whilst continuing to provide ongoing additional revenue.

#### **4.3.5 Papua New Guinea Taxation Review**

##### **4.3.5.1 Importance of the Review**

The comprehensive review of PNG's revenue system is an important initiative of the O'Neill-Dion Government. It is the first major review of the revenue system in over 13 years and is timely, given the substantial economic and social changes in the country.

The Review is critical to ensure that PNG has a revenue system that enables it to effectively meet its social and economic challenges in the future, including the aspirations outlined in its development plans. It will ensure that PNG is able to raise the necessary revenue to allow the Government to improve essential services and build the infrastructure necessary for the growth and development of the country.

The development of a modern and effective tax system will also have broader benefits. Amongst other things, it can help to make PNG an attractive place to do business, supporting sustained economic growth for the benefit of all Papua New Guineans.

#### **4.3.5.2 Progress of Fiscal (Tax and non-Tax) Regime Review**

The Government is pleased with the progress that the Tax Review Committee has made since being formally launched in September 2013. The Government also welcomes the level of interest and engagement from industry, civil society and the broader community in the design of the country's tax system.

Some of the major work undertaken since the Review was launched includes:

- *Blue Sky consultation* – Over 45 submissions were received in response to the Committee's general call for submissions in December 2013. This provided stakeholders with an opportunity to raise any issue of interest to be considered as part of the Review.
- *Diagnostic Reviews*– The Review has commissioned a number of diagnostic reviews. This has included a diagnostic review of PNG's direct taxation system, as well as diagnostic reviews of PNG's two revenue collection agencies. These two tax administration reviews are expected to be concluded shortly.
- *Regional Consultations*–The Tax Review Committee has to date held open forums in Lae, Kokopo and Madang. These forums were well attended over 100 people in each event. Further regional consultations will follow.
- *Tax Symposium* – In collaboration with the National Research Institute (NRI), a tax symposium was staged in Port Moresby at the end of May this year. The symposium provided an opportunity for local and international academics to present and seek feedback on draft papers on various tax issues. The NRI's engagement in the Review process has been ongoing.
- *Release of Issues Papers*– To date three Issues Papers have been released by the Committee for public consultation – these are on Mining and Petroleum Taxation, Corporate and International Taxation as well as a Broad Directions Issues Paper. Three additional Issues Papers will be released before 31<sup>st</sup> December 2014.
- *Other Consultations*–The Committee and Secretariat has been involved in over 60 individual consultations with various industry groups, companies, individuals and civil society organisations. In addition, the Review continues to use social media as a means of reaching a wider audience. The Review has established a Facebook Page with over 1,200 followers.

The preliminary work of the Review has highlighted a number of possible areas of reform that could help to make PNG's tax system to ensure that it is relevant, efficient and effective. These areas will be further explored as the Review continues.

#### **4.3.5.3 Next Steps for the Review**

The Review will continue to consult and engage widely with stakeholders. It is anticipated that the Review will continue to release Issues Papers on various areas of taxation until the

first quarter of 2015. This will include a further three Issues Papers released by the end of 2014. These Issues Papers are intended to promote targeted discussion and debate.

This will be followed by further consultation upon release of a single final draft report, which will put forward the Committee's proposed recommendations.

In recognition of the level of interest in the Review and the value of the consultation processes to date, the Government has agreed to extend the timeline for the Review by three months, until 31st July 2015.

The O'Neill-Dion Government calls on stakeholders to remain engaged in the Review process and are looking forward to receiving the final report.

#### **4.3.6 Research And Development**

In the 2014 Budget, the Government abolished the 150 per cent deduction on Research and Development (R&D) expenditures. There remains a need for the Government to address existing claims relating to R&D. Treasury and IRC have progressed the establishment of a working group to evaluate the legislation governing this incentive and to form the R&D Committee to evaluate outstanding claims. Part of this ongoing work is in conjunction with the Tax Review.

#### **4.3.7 Non-Tax Fees And Charges**

The Government through the Department of Treasury and Finance, and in consultation with other relevant Departments, will continue to review and update the non-tax fees and charges. Further, the Government is committed to review the policy and process of hypothecation of revenues by 30<sup>th</sup> June 2015 in order to recognise these revenues in the 2016 Budget while also ensuring that agencies and statutory authorities are appropriately resourced.

## CHAPTER 5. EXPENDITURE

### 5.1 OVERVIEW

Total expenditure in 2015 is estimated to be K16,199.1 million. This represents a K1,095.3 million or 7.2 per cent increase over the 2014 Revised Budget of K15,103.8 million. As noted in Chapter 3, this level of expenditure will result in an estimated deficit of K2,272 million or 4.4 per cent of GDP. The slower rate of growth in spending and the reduced deficit as a proportion of GDP are key elements of the Government's strategy for an orderly, graduated return to a balanced Budget by 2017.

The Government's broad spending priorities for the 2015 Budget are to:

- enhance opportunities for our people by building the foundation of our country in 2015 whilst recognising the need for macroeconomic stability by progressively returning to a balanced budget in 2017;
- further promote the efficient and effective implementation of major projects through improving designing, scoping, and implementation processes;
- increase direct funding to Provinces and Districts with more emphasis on monitoring, evaluation and compliance so as to achieve improved development outcomes;
- continue to support policy priorities in the Education, Health, Infrastructure, Agriculture and SME sectors; and
- continue to strengthen the Justice sector, resource Corrections Services, modernise Police and rebuild the Defence Force.

The particular prioritisation of spending outlined in this chapter reflects the Government's focus on delivering against the Medium Term Development Plan 2011-2015 (MTDP) through continued investment in the following key enablers, namely:

- unlocking land and providing affordable housing for development;
- improving law, order and justice;
- establishing quality national transport corridors that connect rural populations to markets and services;
- improving higher and technical education and training to redress the severe skills shortage in the labour force;
- providing universal access to primary and secondary education;
- provision of key utilities of electricity, clean water and sanitation and communications;
- improving primary and preventative health outcomes; and
- enhancing responsible sustainable development.

The 2015 total estimated expenditure of K16,199.1 million includes operational spending of K9,213.5 million (2014 Revised Budget K7,594 million) and capital expenditure is K6,985.5 million (2014 Revised Budget K7,510.0 million). While capital spending remains at historically high levels, the unprecedented growth achieved in 2014 cannot, and should not, be expected to be sustained on an ongoing basis. The Government recognises that, over time, major investment in capital infrastructure must be accompanied by growth in operational budgets to ensure those investments are sustained and the expanded capacity is fully utilised to deliver improved services.

The increase in operational costs and ongoing need for critical capital investments in 2015 is attributable to a combination of key policy drivers and cost pressures including:

- fee-free education and the flow-on requirement for increased teacher numbers and improved schools infrastructure;
- improved access to an expanded higher education sector that includes upgraded university infrastructure, teachers, nursing and technical colleges and enhanced student scholarships and loans schemes;
- subsidised and improved health care and the need for increased staffing and hospital operating costs; and rehabilitated and upgraded hospital infrastructure;
- better access to justice requiring increased numbers of judges, increased court circuits conducted outside the major centres and increasing pressures on Police, Correctional Services, Public Prosecutor, Public Solicitor and the Office of Solicitor General for the required staffing, housing, courts and lock-up facilities; and
- substantial increases in awards for public servants, teachers, doctors and Leaders adding to costs across the public sector, particularly Provinces.

Table 11 provides a summary of aggregate spending by sector. The specific spending initiatives included in the 2015 Budget are identified in more detail in later sections of this chapter. Some of the largest spending commitments include:

- additional direct support for sub-national infrastructure through the new District Education Infrastructure Program of K267.0 million and the District Education Infrastructure Program of K178.0 million;
- roads and bridges funding of K1.1 billion;
- universities and colleges infrastructure funding of K182.5 million ;
- continued roll-out of Tuition Fee Free Education valued at K650.0 million (inclusive of trust funds);
- hospitals redevelopment of K308.9 million;
- agriculture/SME development of K150.0 million;
- housing and land development of K70.0 million;
- completion of facilities for the 2015 Pacific Games K360.0 million, in addition to K250.0 million advanced in the 2014 Supplementary Budget; and
- increased allowances for Local Level Government Officials of K48.0 million.

**Table 11: Total Expenditure and Net Lending (Kina million)**

Sector	2014	2015	2016	2017	2018
Administration	3,066.5	2,536.1	2,412.0	2,269.3	1,880.4
Debt Servicing (Administration)	751.3	1,130.1	1,137.3	1,163.7	1,168.4
Economic	690.0	730.8	460.8	438.4	449.5
Education	1,509.9	1,909.3	1,648.4	1,575.3	1,618.0
Health	1,303.8	1,771.5	1,372.6	1,320.9	1,342.8
Infrastructure	2,798.9	2,732.9	2,086.3	1,580.3	1,201.3
Law And Order	1,181.4	1,578.4	1,326.8	1,595.7	1,237.9
Provinces	3,582.9	3,670.5	3,437.2	3,318.9	3,379.3
Social	219.6	139.5	57.3	54.0	56.7
Unallocated Expenditure			1,288.7	1,024.8	2,742.1
<b>Grand Total</b>	<b>15,103.8</b>	<b>16,199.1</b>	<b>15,227.4</b>	<b>14,341.3</b>	<b>15,076.4</b>

Source: Department of Treasury

Note: In this chapter, funding provided to Admin Sector agencies (such as Department of National Planning) for projects related to other sectors has, where appropriate, been reallocated to that sector. Accordingly the sector totals in this section may vary from other sector totals elsewhere in these Budget papers. Also, the untied Support Improvement Program (SIP) funding is included in Provinces. Only spending already allocated to projects is included in 2016 to 2018 Sector estimates, the Unallocated Expenditure line item represents expenditure to be allocated to Sectors in future Budgets.

## **5.2 DONOR FUNDING FROM DEVELOPMENT PARTNERS**

In 2015, grants from Development Partners are K1,396.1 million or 8.6 per cent of total expenditure. As the size of the PNG economy and thus Government revenues continue to expand rapidly, Development Partner grants represent a decreasing share of overall expenditures. This trend is forecast to continue in the forward estimates. However, Development Partner grants remain an important element in Government investments since it is effectively targeted at key priority areas such as health, education, law and justice, agriculture and other strategic assets.

The largest share of grants is provided by the Australian Government, with K1,122.3 million or 77 per cent of total donor grants. The value of grants received will be maintained at a high level over the next 3 years. This is due to the Joint Understanding on the Management of Asylum Seekers, which includes a commitment of increased Development Partner Assistance. The major projects under this agreement in 2015 include: Waigani Court House Complex K10.3 million, JU Education K45.7 million, and Joint Understanding Transport K6.3 million.

Other important Development Partner assistance include New Zealand K37.4 million, Peoples Republic of China K15.0 million plus K305.0 million in loans, Japan K73.8 million plus K59.0 million in loans, European Union K82.7 million, United Nations K87.1 million in grants.

### **5.2.1 Relationship between Government and Donor Expenditure**

Grant support, existing concessional loans by Development Partners and further foreign and domestic financing comprised 33 per cent of Capital Expenditure. The Government is committed to ensuring that expenditure programs funded by Development Partners are aligned to Government priorities, as detailed in the Alotau Accord and the MTDP.

In 2015, the Government is committed to advance the work and targets agreed upon under the PNG Commitment on Aid Effectiveness, signed in July 2008. A DSP comprehensive review will be completed and fully costed to incorporate the principles of sustainable development, in line with the Alotau Accord Platform for Action. Our donor partner's assistance will also be reviewed to align more coherently with a new proposed Aid Policy. This commitment will localise the Paris Declaration principles to improve aid effectiveness and include the following principles:

1. Government ownership;
2. Alignment of development partners' programs and strategies to PNG's development policies;
3. Harmonization of development partners' country assistance strategies and requirements that development partners use Government systems and processes;
4. Managing for development results; and
5. Mutual accountability.

The Government will continue to strengthen national and sectoral dialogues with Development Partners through its biannual donor forums and other consultative workshops,

and the Development Assistance Database (DAD) to assist the management of donor assistance expenditure and projections. In 2014, with the re-institutionalization and strengthening of the PIP guidelines and project cycle, all new Development Partners' programs will be screened to ensure close alignment with the Government's development priorities. The recurrent funding implications also need to be considered prior to the funding of capital expenditure projects. Furthermore, the Government is in the process of re-introducing the Annual Aid Report, to improve the transparency and accountability of grant assistance.

The Government will also pay particular attention to the strategic use of technical advisers in capacity development programs, with the overall target of reducing the level of technical assistance as a percentage of total foreign aid. Over the next five years, the Government intends to reduce the total value of technical advisers in real terms to less than 50 per cent of total aid. Technical advisers will be strategically placed in appropriate sectors, subject to proper screening and consultation, and greater use of Government recruitment processes will be employed.

### **5.3 2015 BUDGET REFORMS**

The 2015 Budget continues the reform process initiated in 2013 to move to a single, integrated Budget. This Budget was framed through a process that consolidates both operational and capital expenditure, providing a comprehensive picture of the Government's spending program over the medium term.

The integrated Budget gives agencies and the public an overall view of National Departments, Statutory Authorities and Provincial Administrations (Agencies) total budget appropriations. It provides a complete picture of Agencies' use of public monies by activity and also in terms of personal emoluments; goods and services; utilities and rentals, grants and capital formation.

A number of processes were put in place to ensure a unified 2015 budget. The former 'Sectors' have been expanded to 'Priority Sectors' to concentrate funding allocations to agencies with related service responsibilities and to evenly distribute funding to the Government's priority areas. This expansion is specifically highlighting funding to Health and Higher Education (specific agencies) separately from other Social sector agencies.

Appropriating expenditure under sectors allows, efficiency in resource allocation; mitigates duplication of responsibilities and ensures alignment of sector priorities rather than individual isolated plans. Providing an overall perspective of the total funding available to all Departments, Authorities and Provinces will ensure an appreciation of how individual agencies expenditure contributes to a sectors focus and in turn achieving the Medium Term Development Plan 2011 – 2015 (MTDP).

The Budget reforms aim to integrate more information into resource allocation decisions, particularly information on program goals and performance, while also seeking to focus more attention on assessing the validity of historical budget decisions. Budget reforms focus on moving towards a process that shifts emphasis to expected outcomes from Government allocation of resources (services) as opposed to focusing on inputs.

The 2016 Agency Budget bids will need to show detailed costings for new initiatives, present financial implications across the full forward estimates period and clearly demonstrate alignment with relevant Government policies and priorities. These bids will also cover the forward year's operational and capital investment expenditure. Agency bids must clearly demonstrate how the operational expenditure caters for its mandate and how an agency civil service responsibilities and its growth initiatives is supported by capital expenditure.



Agencies forward estimates will indicate how current capital expenditure will be maintained through operational expenditure in the forward years. Once current projects have been completed they will need to be adequately catered for in forward operational estimates to ensure a project is sustainable and remains viable.

An important initiative in the 2015 Budget is the introduction of the Combined Budget Operational Rules (CBOR). These are a set of organic rules that set out Budget criteria and processes for Government Departments, Statutory Authorities and Provinces to adhere to. The Departments of Treasury and National Planning and Monitoring will be using agencies compliance with the CBORs for assessing 2016 Budget Submissions. The CBOR will be revised annually by the Departments of Treasury and National Planning and Monitoring for endorsement by the National Executive Council.

The Government will continue the practise initiated in 2013, of making information on budget implementation widely and regularly available to all stakeholders and citizens. This is delivered through the quarterly release of information about appropriations, warrant releases and expenditure to date of every Government agency. The information will continue to be published in the major newspapers and online through the Department of Treasury website ([www.treasury.gov.pg](http://www.treasury.gov.pg)).

#### **5.4 PUBLIC SECTOR EFFICIENCY PROGRAM REVIEW**

The National Government is committed to having an efficient Public Service. Over the last four years the size and remit of the National Government and sub-national governments has changed considerably, as the Government has moved to devolve service delivery. There is now more money being given to, and services being delivered by the sub-national governments than ever before.

It is timely to consider the costs, efficiency and functions of the Public Sector; and to examine if the balance is right between the National and sub-national levels of government. The Efficiency Review will report on efficiencies and savings to improve the effectiveness of, and value-for-money from all Government expenditure across the forward estimates and in the medium term, including options for greater efficiencies in the National Government, such as:

- the number and size of departments and agencies including consolidation of agencies and boards (right sizing); flattening organisational structures and streamlining areas of responsibility and accountability and the high-cost of redundancies; and
- potential improvements to productivity, service quality, and value for money across the public sector, in particular better delivery of services to the regions.

This Efficiency Review is an important part of controlling expenditure in the Public Sector and contributing to our economic framework.

#### **5.5 SECTOR EXPENDITURE**

##### **5.5.1 Administration Sector**

The Administration sector consists of the central agencies including the Departments of Prime Minister & NEC, Finance, Treasury, National Planning & Monitoring, Personnel Management and Provincial & Local Government Affairs. It also includes the Internal Revenue Commission and PNG Customs, which are the two principal revenue earning agencies for the Government.

Total expenditure for the Administration sector in 2015 is estimated to be K2,536.1 million. Many costs captured under this sector are not truly 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 Lands and Housing Program. Further, Division 207 Treasury and Finance Miscellaneous (K772.0 million) includes several large cross-agency items such as Employer's Superannuation contributions of K240.0 million and Office Accommodation (K212.0 million). Division 207 has also been allocated funding for public service Retrenchment at K50.0 million. For greater clarity, Public Debt Interest expenditure (K1,130.0 million) is shown as a separate line item in Table 11.

Other programs in the Administration sector include K10.0 million for the Sustainable Development Programme aimed at promoting the development of clean energy sources. Another K25.0 million is allocated to PNG Church State Partnership programme to enhance the partnership between the PNG Government and the churches. This will improve service delivery in rural communities where the Government is unable to deliver social services. Furthermore, K70.0 million is allocated to facilitate the National Land and Housing Program.

**Table 12: Administration Sector 2015–2018 Expenditure (Kina million)**

ADMINISTRATION SECTOR	2014	2015	2016	2017	2018
<b>NATIONAL DEPARTMENT</b>	<b>1,927,692.8</b>	<b>1,684,521.9</b>	<b>1,624,323.7</b>	<b>1,527,272.9</b>	<b>1,100,568.2</b>
<b>201 National Parliament</b>	<b>177,225.0</b>	<b>165,695.7</b>	<b>155,753.9</b>	<b>146,720.2</b>	<b>154,202.9</b>
Operational	177,225.0	165,695.7	155,753.9	146,720.2	154,202.9
<b>202 Office of Governor-General</b>	<b>4,706.5</b>	<b>7,239.6</b>	<b>6,805.2</b>	<b>6,410.5</b>	<b>6,737.5</b>
Operational	4,706.5	7,239.6	6,805.2	6,410.5	6,737.5
<b>203 Department of Prime Minister &amp; NEC</b>	<b>206,081.0</b>	<b>184,750.2</b>	<b>158,670.0</b>	<b>146,581.3</b>	<b>116,662.3</b>
Operational		95,904.3	90,150.0	84,921.3	89,252.3
APEC Authority		5,000.0			
Incentive Fund		40,845.9	68,520.0	61,660.0	27,410.0
Melanesian Festival of Arts		-	-	-	-
National Youth Program		10,000.0			
Pacific Islands Leader's Forum (2017)		3,000.0			
PM's Commitment		30,000.0			
<b>204 National Statistical Office</b>	<b>6,008.1</b>	<b>9,523.5</b>	<b>8,952.1</b>	<b>8,432.9</b>	<b>8,862.9</b>
Operational	6,008.1	9,523.5	8,952.1	8,432.9	8,862.9
<b>205 Office of Bougainville Affairs</b>	<b>3,293.7</b>	<b>5,000.0</b>	<b>4,700.0</b>	<b>4,427.4</b>	<b>4,653.2</b>
Operational	3,293.7	5,000.0	4,700.0	4,427.4	4,653.2
<b>206 Department of Finance</b>	<b>52,326.3</b>	<b>84,340.2</b>	<b>47,964.8</b>	<b>35,136.1</b>	<b>44,063.7</b>
Operational		35,377.5	33,254.8	31,326.1	32,923.7
District and Provincial Treasury Roll-out Program		15,000.0	0.0	0.0	0.0
Financial Management Information Project (FMIP)		8,000.0	0.0	0.0	0.0
PCaB		2,000.0	4,000.0	3,000.0	3,000.0
UN Assistance to Governance		23,962.7	10,710.0	810.0	8,140.0
<b>208 Department of Treasury</b>	<b>223,474.0</b>	<b>242,863.7</b>	<b>203,930.2</b>	<b>200,552.4</b>	<b>198,127.3</b>
Operational		30,223.6	28,410.2	26,762.4	28,127.3
Business Development Grant		-	-	-	-
High Impact Projects (PNG LNG)		50,000.0	50,000.0	50,000.0	50,000.0
Infrastructure Development Grant (PNG LNG)		120,000.0	120,000.0	120,000.0	120,000.0
Micro Finance Expansion Project		8,640.1	5,520.0	3,790.0	0.0

ADMINISTRATION SECTOR	2014	2015	2016	2017	2018
Ministerial Commitments Outstanding		10,000.0	0.0	0.0	0.0
UBSA					
PDL1 Outstanding BDG (PNG LNG)		19,000.0	0.0	0.0	0.0
Stanley Gas BDG		5,000.0	0.0	0.0	0.0
<b>209 Registrar For Political Parties</b>	<b>7,472.3</b>	<b>9,152.9</b>	<b>8,603.7</b>	<b>8,104.7</b>	<b>8,518.1</b>
Operational	7,472.3	9,152.9	8,603.7	8,104.7	8,518.1
<b>211 PNG Customs Service</b>	<b>63,498.0</b>	<b>52,170.0</b>	<b>47,159.8</b>	<b>44,424.5</b>	<b>46,690.2</b>
Operational		50,170.0	47,159.8	44,424.5	46,690.2
Automated System for Customs Data (ASYCUDA)		2,000.0	0.0	0.0	0.0
<b>212 Information Technology Division</b>	<b>19,778.8</b>	<b>20,486.5</b>	<b>19,257.3</b>	<b>18,140.4</b>	<b>19,065.5</b>
Operational	19,778.8	20,486.5	19,257.3	18,140.4	19,065.5
<b>213 Fire Services</b>	<b>22,616.6</b>	<b>24,848.9</b>	<b>23,358.0</b>	<b>22,003.2</b>	<b>23,125.4</b>
Operational	22,616.6	24,848.9	23,358.0	22,003.2	23,125.4
<b>215 PNG Immigration and Citizenship Services</b>	<b>8,665.5</b>	<b>12,914.6</b>	<b>12,139.7</b>	<b>11,435.6</b>	<b>12,018.8</b>
Operational	8,665.5	12,914.6	12,139.7	11,435.6	12,018.8
<b>216 Internal Revenue Commission</b>	<b>76,234.9</b>	<b>76,552.0</b>	<b>73,918.9</b>	<b>68,617.6</b>	<b>68,352.1</b>
Operational		60,552.0	56,918.9	53,617.6	56,352.1
RASII Project: Replacement of Ageing Tax Collection System		10,000.0	0.0	0.0	0.0
Revenue Raising Initiatives		6,000.0	17,000.0	15,000.0	12,000.0
<b>217 Department of Foreign Affairs and Trade</b>	<b>127,110.0</b>	<b>76,497.4</b>	<b>71,972.5</b>	<b>67,488.7</b>	<b>70,562.7</b>
Operational		75,821.8	71,272.5	67,138.7	70,562.7
Australia-PNG Network		675.6	700.0	350.0	0.0
<b>219 PNG Institute of Public Administration</b>	<b>6,819.1</b>	<b>8,852.4</b>	<b>8,321.3</b>	<b>7,838.6</b>	<b>8,238.4</b>
Operational	6,819.1	8,852.4	8,321.3	7,838.6	8,238.4
<b>220 Department of Personnel Management</b>	<b>220,565.0</b>	<b>187,549.1</b>	<b>162,559.0</b>	<b>148,618.1</b>	<b>86,661.9</b>
Operational		25,328.7	23,809.0	22,428.1	23,571.9
Australian Awards Program		40,845.9	41,120.0	41,120.0	20,550.0
Economic and Public Sector Reform		33,890.9	12,560.0	0.0	0.0
PNG Country Program		685.6	570.0	570.0	290.0
Strongim Gavman Program		83,798.1	84,500.0	84,500.0	42,250.0
Time & Access Project		3,000.0	0.0	0.0	0.0
<b>221 Public Service Commission</b>	<b>6,188.8</b>	<b>8,418.5</b>	<b>7,913.4</b>	<b>7,454.4</b>	<b>7,834.6</b>
Operational	6,188.8	8,418.5	7,913.4	7,454.4	7,834.6
<b>227 Provincial Treasuries</b>	<b>40,058.0</b>	<b>48,284.4</b>	<b>45,387.4</b>	<b>42,754.9</b>	<b>44,935.4</b>
Operational	40,058.0	48,284.4	45,387.4	42,754.9	44,935.4
<b>229 Department of National Planning and Monitoring</b>	<b>506,713.0</b>	<b>277,649.0</b>	<b>414,982.1</b>	<b>416,382.5</b>	<b>80,476.1</b>
Operational		22,002.2	20,682.1	19,482.5	20,476.1
EDF NAO Institutional Capacity Project		7,510.0	700.0	0.0	0.0
Electoral Preparation Component		-	-	-	-
Enga Hydro Project (Tsak)		12,950.0	5,000.0	0.0	0.0
JICA Training		1,548.8	0.0	0.0	0.0
JICA Volunteer		7,744.2	0.0	0.0	0.0
National E-ID Card Project		55,000.0	25,000.0	0.0	0.0
National Land and Housing Program		70,000.0	282,000.0	282,000.0	0.0

ADMINISTRATION SECTOR	2014	2015	2016	2017	2018
ONE UN Fund for PNG		5,910.7	0.0	0.0	0.0
PNG Church State Partnership Program		25,000.0	50,000.0	50,000.0	50,000.0
PNG UN Country Fund		6,239.7	1,710.0	0.0	0.0
Policy Design Support: Mdg, Population and Aid Effectiveness		5,000.0	3,000.0	0.0	0.0
Rural Economic Development Phase II		25,417.8	15,890.0	54,900.0	0.0
Solar Power Desalinization In Manus		13,325.6	1,000.0	0.0	0.0
Sustainable Development Program		10,000.0	10,000.0	10,000.0	10,000.0
TIPA Administration Relocation		10,000.0	0.0	0.0	0.0
<b>230 Electoral Commission</b>	<b>36,981.2</b>	<b>36,152.0</b>	<b>34,601.0</b>	<b>33,137.0</b>	<b>29,669.6</b>
Operational		26,852.1	25,241.0	23,777.0	24,989.6
Electoral Support Project Phase II		9,299.9	9,360.0	9,360.0	4,680.0
<b>231 National Intelligence Organisation</b>	<b>4,372.5</b>	<b>5,908.3</b>	<b>5,553.8</b>	<b>5,231.7</b>	<b>5,498.5</b>
Operational	4,372.5	5,908.3	5,553.8	5,231.7	5,498.5
<b>232 Provincial and Local Government Affairs</b>	<b>76,923.6</b>	<b>101,292.0</b>	<b>48,514.3</b>	<b>28,380.4</b>	<b>18,392.3</b>
Operational		17,313.1	16,274.3	15,330.4	16,112.3
PNG Disaster Risk Management Program 2010-2014		4,540.6	4,570.0	4,570.0	2,280.0
PNG Provincial and LLG		33,692.1	12,560.0	7,740.0	0.0
Rural Service Deliver & Local Governance		6,927.2	3,720.0	740.0	0.0
Strong Pipol Stongim Nesen		38,819.0	11,390.0	0.0	0.0
<b>262 Department of Industrial Relations</b>	<b>27,093.6</b>	<b>34,554.8</b>	<b>49,708.8</b>	<b>45,611.8</b>	<b>33,658.0</b>
Operational		28,924.2	27,188.8	25,611.8	26,918.0
ILO Support Program		630.6	520.0	0.0	740.0
Labour and Industrial Relations Capacity Development		5,000.0	22,000.0	20,000.0	6,000.0
<b>263 National Tripartite Consultative Council</b>	<b>850.4</b>	<b>995.8</b>	<b>936.1</b>	<b>881.8</b>	<b>926.8</b>
Operational	850.4	995.8	936.1	881.8	926.8
<b>268 Central Supply &amp; Tenders Board</b>	<b>2,636.9</b>	<b>2,830.4</b>	<b>2,660.5</b>	<b>2,506.2</b>	<b>2,634.0</b>
Operational	2,636.9	2,830.4	2,660.5	2,506.2	2,634.0
<b>COMMERCIAL &amp; STATUTORY AUTHORITIES</b>	<b>47,727.0</b>	<b>79,456.9</b>	<b>61,891.5</b>	<b>58,301.7</b>	<b>61,275.1</b>
<b>502 Office of the Auditor-General</b>	<b>18,000.9</b>	<b>28,989.4</b>	<b>27,250.0</b>	<b>25,669.5</b>	<b>26,978.7</b>
Operational	18,000.9	28,989.4	27,250.0	25,669.5	26,978.7
<b>503 Ombudsman Commission</b>	<b>18,114.9</b>	<b>22,177.9</b>	<b>20,847.2</b>	<b>19,638.1</b>	<b>20,639.6</b>
Operational	18,114.9	22,177.9	20,847.2	19,638.1	20,639.6
<b>506 National Training Council</b>	<b>3,124.8</b>	<b>16,725.1</b>	<b>2,923.5</b>	<b>2,753.9</b>	<b>2,894.4</b>
Operational		3,110.1	2,923.5	2,753.9	2,894.4
Scholarships PNG		13,615.0	0.0	0.0	0.0
<b>507 National Economic &amp; Fiscal Commission</b>	<b>2,920.3</b>	<b>4,168.0</b>	<b>3,917.9</b>	<b>3,690.7</b>	<b>3,878.9</b>
Operational	2,920.3	4,168.0	3,917.9	3,690.7	3,878.9
<b>523 Papua New Guinea Accidents Investigation Commission</b>	<b>5,566.1</b>	<b>7,396.6</b>	<b>6,952.8</b>	<b>6,549.5</b>	<b>6,883.6</b>
Operational	5,566.1	7,396.6	6,952.8	6,549.5	6,883.6
<b>MISCELLANEOUS EXPENDITURE</b>	<b>1,281,130.0</b>	<b>772,113.9</b>	<b>725,787.1</b>	<b>683,691.4</b>	<b>718,559.7</b>
<b>207 Treasury and Finance - Miscellaneous</b>	<b>1,281,130.0</b>	<b>772,113.9</b>	<b>725,787.1</b>	<b>683,691.4</b>	<b>718,559.7</b>
Operational		-	-	-	-
Hubert Murray Stadium		40,000.0	37,600.0	35,419.2	37,225.6

ADMINISTRATION SECTOR	2014	2015	2016	2017	2018
Time Management		3,000.0	3,760.0	3,541.9	3,722.6
Public Officers Superannuation Fund		240,000.0	225,600.0	212,515.2	223,353.5
Multi-Departmental Office Accommodation		212,100.0	199,374.0	187,810.3	197,388.6
Secretary's Advance		50,000.0	47,000.0	44,274.0	46,532.0
Retrenchment		30,000.0	28,200.0	26,564.4	27,919.2
Natural Disasters		30,000.0	28,200.0	26,564.4	27,919.2
Landowner Settlements - Sirinumu & Rauna		20,000.0	18,800.0	17,709.6	18,612.8
Election Court Cases (PNG EC)		17,000.0	15,980.0	15,053.2	15,820.9
National Events		16,500.0	15,510.0	14,610.4	15,355.6
Png LNG Support - Treasury		10,000.0	9,400.0	8,854.8	9,306.4
S45a Superannuation Non-Contributory Vested Benefits		10,000.0	9,400.0	8,854.8	9,306.4
Nas Fund Grant		9,900.0	9,306.0	8,766.3	9,213.3
Constitutional Office Holders Pensions		8,893.9	8,360.3	7,875.4	8,277.0
Multi-Departmental Utilities		8,700.0	8,178.0	7,703.7	8,096.6
Workers Compensation Payments		8,000.0	7,520.0	7,083.8	7,445.1
Taxation Review		8,000.0	7,520.0	7,083.8	7,445.1
Contributions to International Orgns		7,000.0	6,580.0	6,198.4	6,514.5
Sovereign Wealth Fund Working Group		5,000.0	4,700.0	4,427.4	4,653.2
Audit DSIP ( K5 m each to ORD & Audit Office)		5,000.0	4,700.0	4,427.4	4,653.2
National Anti-Corruption Strategy Taskforce		5,000.0	4,700.0	4,427.4	4,653.2
Kodu Land Owners Association		5,000.0	4,700.0	4,427.4	4,653.2
East Awin Refugee Camp Landowners		5,000.0	4,700.0	4,427.4	4,653.2
Financial Sector Review		5,000.0	4,700.0	4,427.4	4,653.2
Human Resources Mangt & Payroll Project		3,000.0	2,820.0	2,656.4	2,791.9
SIP & Implementation of F&E Reviews		2,000.0	1,880.0	1,771.0	1,861.3
Structural Policy Reviews ( ICC)		2,000.0	1,880.0	1,771.0	1,861.3
Structural Policy Reforms - Treasury		2,000.0	1,880.0	1,771.0	1,861.3
Clean up of Government Payroll Audits		1,500.0	1,410.0	1,328.2	1,396.0
Former Governor Generals' Entitlements		520.0	488.8	460.4	483.9
Refund by Other Revenue Collect Agencies		500.0	470.0	442.7	465.3
Public/Private Partnership		500.0	470.0	442.7	465.3
<b>Grand Total</b>	<b>3,256,549.8</b>	<b>2,536,092.8</b>	<b>2,412,002.3</b>	<b>2,269,266.1</b>	<b>1,880,403.1</b>

Source: Department of Treasury

### 5.5.2 Economic and Agriculture Sector

The Economic and Agriculture sector includes agriculture and all industries other than Transport and Infrastructure. Key policy agencies include the Departments of Commerce and Industry, Agriculture and Livestock, Mineral Policy and Geohazard Management; and the Department of Lands and Physical Planning. This sector also includes a range of implementation agencies and commodity boards.

In 2015, the Government will provide K730.0 million to support the growth of the Economic sector in PNG with K141.3 million targeted at developing the potential of agriculture and small to medium enterprises.

The Department of Agriculture and Livestock as the agency responsible for the sector has developed the National Agriculture Development Plan 2007-2016 to guide policy

development and implementation in this sector. The Government will provide over K180.0 million for projects of National significance to this sector. The Government's major investments in this sector are K50.0 million for National Development Bank and Small to Medium Enterprise, K33.8 million for the Pacific Marine Industrial Zone, K50.0 million for basic infrastructure in agricultural corridors and K50.0 million for the Agriculture Commercialisation Equity Fund. The aim of the latter is to attract investors in the coffee, cocoa, oil palm, rubber and livestock industries.

Tourism in PNG has enormous potential, given the abundance of natural environment and resources that once developed could contribute significantly to PNG's economy. The Government has allocated K20.0 million for Tourism Development. In addition to this other areas that have significant funding invested in the Economic sector include Private Sector and Rural Development (K27.4 million), Productive Partnership for Agriculture Development (K24.2 million) and the Kokoda Track Initiative (10.2 million).

Government Departments with sizable operational funding in this sector include the Department of Lands and Physical Planning (K38.9 million), PNG National Forest Authority (K31.6 million) and the Department of Environment and Conservation (K22.6 million).

**Table 13: Economic/Agriculture Sector 2014–2018 Expenditure (Kina million)**

<b>ECONOMIC &amp; AGRICULTURE SECTOR</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>NATIONAL DEPARTMENT</b>	<b>333,783.8</b>	<b>291,556.9</b>	<b>126,577.2</b>	<b>119,242.5</b>	<b>117,861.8</b>
<b>245 Department of Environment and Conservation</b>	<b>51,858.6</b>	<b>40,939.7</b>	<b>21,249.6</b>	<b>20,017.2</b>	<b>21,038.0</b>
Operational		22,606.0	21,249.6	20,017.2	21,038.0
Environment and Mining Mineral Policy		4,065.1	0.0	0.0	0.0
Kokoda Track Initiative		10,203.4	0.0	0.0	0.0
PNG Protected Areas		2,065.1	0.0	0.0	0.0
Variarata National Park		2,000.0	0.0	0.0	0.0
<b>247 Department of Agriculture and Livestock</b>	<b>46,581.7</b>	<b>73,158.8</b>	<b>22,319.1</b>	<b>21,031.3</b>	<b>14,641.8</b>
Operational		15,733.1	14,789.1	13,931.3	14,641.8
Disaster Risk Management and Climate Change - Agriculture		1,825.9	0.0	0.0	0.0
Mt. Hagen Agriculture Technical Cooperation Project		4,300.0	570.0	0.0	0.0
Productive Partnership for Agriculture Development		22,953.2	3,910.0	3,970.0	0.0
Rehabilitation of Madang Town Market		25,814.0	0.0	0.0	0.0
Smallholder Rice Project Phase II		2,532.6	3,050.0	3,130.0	0.0
<b>252 Department of Lands and Physical Planning</b>	<b>62,028.4</b>	<b>58,874.3</b>	<b>36,541.8</b>	<b>34,422.4</b>	<b>36,178.0</b>
Operational		38,874.3	36,541.8	34,422.4	36,178.0
Customary Land Acquisition (complementary to Housing Program)		20,000.0	0.0	0.0	0.0
<b>254 Department of Mineral Policy and Geohazards Management</b>	<b>14,506.5</b>	<b>9,784.5</b>	<b>9,103.4</b>	<b>8,575.4</b>	<b>9,012.8</b>
Operational		9,684.5	9,103.4	8,575.4	9,012.8
Geothermal Resource Policy & Geothermal Forum		100.0	0.0	0.0	0.0
<b>255 Department of Petroleum and Energy</b>	<b>31,787.0</b>	<b>37,672.6</b>	<b>20,600.2</b>	<b>19,405.4</b>	<b>20,395.1</b>
Operational		21,915.1	20,600.2	19,405.4	20,395.1
Energy Sector Development		8,529.5	0.0	0.0	0.0
Lae Area Power Development Master Plan		7,227.9	0.0	0.0	0.0
<b>261 Department of Trade Commerce and Industry</b>	<b>125,023.0</b>	<b>69,054.6</b>	<b>14,815.0</b>	<b>13,955.7</b>	<b>14,667.4</b>

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<b>ECONOMIC &amp; AGRICULTURE SECTOR</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Operational		15,760.6	14,815.0	13,955.7	14,667.4
Pacific Marine Industrial Park (PMIZ)		33,800.0	0.0	0.0	0.0
SME Access Risk Financing Facility		9,870.7	0.0	0.0	0.0
Trade Related Assistance - Phase 2		9,623.3	0.0	0.0	0.0
<b>269 Office of Tourism Arts and Culture</b>	<b>1,998.6</b>	<b>2,072.4</b>	<b>1,948.1</b>	<b>1,835.1</b>	<b>1,928.7</b>
Operational	1,998.6	2,072.4	1,948.1	1,835.1	1,928.7
<b>COMMERCIAL &amp; STATUTORY AUTHORITIES</b>	<b>356,198.7</b>	<b>287,338.4</b>	<b>196,120.3</b>	<b>189,066.4</b>	<b>194,909.3</b>
<b>501 Konebada Petroleum Park Authority</b>	<b>0.0</b>	<b>5,447.1</b>	<b>5,120.3</b>	<b>4,823.3</b>	<b>5,069.3</b>
Operational	0.0	5,447.1	5,120.3	4,823.3	5,069.3
<b>511 Papua New Guinea Climate Change Authority</b>	<b>15,391.8</b>	<b>9,203.6</b>	<b>8,651.4</b>	<b>8,149.6</b>	<b>8,565.2</b>
Operational	15,391.8	9,203.6	8,651.4	8,149.6	8,565.2
<b>530 Investment Promotion Authority</b>	<b>2,851.5</b>	<b>4,000.0</b>	<b>3,760.0</b>	<b>3,541.9</b>	<b>3,722.6</b>
Operational	2,851.5	4,000.0	3,760.0	3,541.9	3,722.6
<b>531 Small Business Development Corporation</b>	<b>6,401.5</b>	<b>3,409.4</b>	<b>3,204.8</b>	<b>3,019.0</b>	<b>3,172.9</b>
Operational	6,401.5	3,409.4	3,204.8	3,019.0	3,172.9
<b>532 National Institute of Standards &amp; Industrial Technology</b>	<b>3,307.5</b>	<b>4,147.4</b>	<b>3,898.6</b>	<b>3,672.4</b>	<b>3,859.7</b>
Operational	3,307.5	4,147.4	3,898.6	3,672.4	3,859.7
<b>533 Industrial Centers Development Corporation</b>	<b>2,345.5</b>	<b>3,409.5</b>	<b>3,205.0</b>	<b>3,019.1</b>	<b>3,173.1</b>
Operational	2,345.5	3,409.5	3,205.0	3,019.1	3,173.1
<b>535 Mineral Resources Authority</b>	<b>5,876.0</b>	<b>73,654.8</b>	<b>74,500.0</b>	<b>74,500.0</b>	<b>74,500.0</b>
Operational		0.0			
2nd Mining Sector TA Project		3,764.8	0.0	0.0	0.0
Advanced Mining Projects		3,000.0	3,000.0	3,000.0	3,000.0
Hidden Valley MoA		4,000.0	4,000.0	4,000.0	4,000.0
Lihir MoA		-	-	-	-
Lihir MoA (Outstanding)		20,000.0	20,000.0	20,000.0	20,000.0
OK TEDI MoA		300.0	300.0	300.0	300.0
Porgera Mining Agreement		10,000.0	15,000.0	15,000.0	15,000.0
Ramu Nickel MoA		7,000.0	7,500.0	7,500.0	7,500.0
Scientific Database and Training Plans		1,590.0	0.0	0.0	0.0
Simberi MoA		4,000.0	4,500.0	4,500.0	4,500.0
Sinivit MoA		10,000.0	10,200.0	10,200.0	10,200.0
Tolukuma MoA		10,000.0	10,000.0	10,000.0	10,000.0
<b>536 Kokonas Industry Kopration</b>	<b>13,078.5</b>	<b>1,206.0</b>	<b>1,133.6</b>	<b>1,067.9</b>	<b>1,122.4</b>
Operational	13,078.5	1,206.0	1,133.6	1,067.9	1,122.4
<b>543 National Development Bank</b>	<b>100,000.0</b>	<b>50,000.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Operational		0.0			
Agriculture and SME Funding		40,000.0	0.0	0.0	0.0
People's Microbank		10,000.0	0.0	0.0	0.0
<b>545 Rural Airstrips Authority</b>	<b>0.0</b>	<b>5,900.0</b>	<b>5,546.0</b>	<b>5,224.3</b>	<b>5,490.8</b>
Operational	0.0	5,900.0	5,546.0	5,224.3	5,490.8
<b>549 Office of Coastal Fisheries Development Agency</b>	<b>42,446.0</b>	<b>27,928.5</b>	<b>2,752.8</b>	<b>2,593.1</b>	<b>2,725.4</b>
Operational		2,928.5	2,752.8	2,593.1	2,725.4
Fisheries Development		5,000.0	0.0	0.0	0.0

<b>ECONOMIC &amp; AGRICULTURE SECTOR</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Wharves and Jetties Rehabilitation and Construction (K2.5m for 15 maritime district)		37,500.0	0.0	0.0	0.0
<b>550 Cocoa Coconut Institute Ltd</b>	<b>16,550.3</b>	<b>8,332.6</b>	<b>7,832.6</b>	<b>7,378.4</b>	<b>7,754.6</b>
Operational	16,550.3	8,332.6	7,832.6	7,378.4	7,754.6
<b>553 Fresh Produce Development Company</b>	<b>11,532.6</b>	<b>11,730.5</b>	<b>6,166.9</b>	<b>5,809.2</b>	<b>6,105.5</b>
Operational		6,560.5	6,166.9	5,809.2	6,105.5
Market Supply Chain Initiative		5,170.0	0.0	0.0	0.0
<b>554 PNG Coffee Industry Corporation</b>	<b>32,423.0</b>	<b>3,374.0</b>	<b>3,171.6</b>	<b>2,987.6</b>	<b>3,140.0</b>
Operational	32,423.0	3,374.0	3,171.6	2,987.6	3,140.0
<b>557 PNG National Forest Authority</b>	<b>38,496.5</b>	<b>35,779.2</b>	<b>29,750.1</b>	<b>28,024.6</b>	<b>29,453.8</b>
Operational		31,649.0	29,750.1	28,024.6	29,453.8
PNG National Forest Resource Information System		4,130.2	0.0	0.0	0.0
<b>558 Tourism Promotion Authority</b>	<b>13,710.3</b>	<b>11,617.7</b>	<b>10,920.6</b>	<b>10,287.2</b>	<b>10,811.9</b>
Operational	13,710.3	11,617.7	10,920.6	10,287.2	10,811.9
<b>559 PNG Oil Palm Industry Corporation</b>	<b>10,168.0</b>	<b>0.0</b>			
Operational	10,168.0	0.0			
<b>562 National Agriculture Research Institute</b>	<b>16,747.0</b>	<b>11,321.7</b>	<b>10,642.4</b>	<b>10,025.1</b>	<b>10,536.4</b>
Operational	16,747.0	11,321.7	10,642.4	10,025.1	10,536.4
<b>563 National Agriculture Quarantine &amp; Inspection Authority</b>	<b>7,241.4</b>	<b>5,100.0</b>	<b>4,794.0</b>	<b>4,515.9</b>	<b>4,746.3</b>
Operational	7,241.4	5,100.0	4,794.0	4,515.9	4,746.3
<b>568 Livestock Development Corporation</b>	<b>8,000.0</b>	<b>0.0</b>			
Operational	8,000.0	0.0			
<b>569 Independent Consumer and Competition Commission</b>	<b>9,631.3</b>	<b>11,776.3</b>	<b>11,069.7</b>	<b>10,427.7</b>	<b>10,959.5</b>
Operational	9,631.3	11,776.3	11,069.7	10,427.7	10,959.5
<b>MISCELLANEOUS EXPENDITURE</b>	<b>0.0</b>	<b>146,900.0</b>	<b>138,086.0</b>	<b>130,077.0</b>	<b>136,710.9</b>
<b>207 Treasury and Finance - Miscellaneous</b>	<b>0.0</b>	<b>146,900.0</b>	<b>138,086.0</b>	<b>130,077.0</b>	<b>136,710.9</b>
National Maritime Safety Authority Commission of Inquiry		6,200.0	5,828.0	5,490.0	5,770.0
Tourism Zone Infrastructure		20,000.0	18,800.0	17,709.6	18,612.8
Agriculture Zone Infrastructure		100,000.0	94,000.0	88,548.0	93,063.9
SGS (Log Monitoring)		10,700.0	10,058.0	9,474.6	9,957.8
Timber Royalty Payments		5,000.0	4,700.0	4,427.4	4,653.2
Petroleum & Energy LNG Support		5,000.0	4,700.0	4,427.4	4,653.2
<b>Grand Total</b>	<b>689,982.5</b>	<b>730,795.2</b>	<b>460,783.6</b>	<b>438,385.9</b>	<b>449,482.0</b>

Source: Department of Treasury

### 5.5.3 Education Sector

The Education sector includes the delivery of primary, secondary and tertiary education through the Departments of Education (DOE), and Higher Education, and the national universities. Total funding for the Education sector in 2015 will be K1.9 billion.

In 2015, the Department of Education will receive funding of K1,140.0 million to further the current Government's considerable commitment to education. The subsidies paid to support the tuition fee-free policy continue to be a major but essential cost (K605.0 million plus existing funding in trust accounts) to promote both increased school enrolments at Elementary and primary levels and improved retention rates at higher levels.



The Government recognises the flow-on implications of the fee-free education policy and is providing additional funding to the Department of Education and the Provinces for the recruitment of additional teachers. This is to meet the cost of the recent large increases in teachers' awards and allowances.

In 2015, 18,232 schools in PNG will be beneficiaries of tuition-free education. This includes: 11,093 Elementary Schools, 6,453 Primary Schools, 410 High Schools, 228 Schools Vocational, 2 FODE Schools, 8 National High Schools, 30 Permitted Schools and 8, Special Education Schools.

A total of K60.0 million will be provided for Curriculum Development Materials which includes the procurement of text and resource books for teachers in elementary and primary schools. K12.2 million will be provided for National Examinations to cater for grade 8, grade 10 and grade 12 examinations in 2015 and K21.7 million for secondary school equipment.

In addition, the new District Education Infrastructure funding (K267.0 million) will provide K3.0 million for each District to address the backlog of schools infrastructure needs.

The Government is continuing to improve access to higher education by providing 10,300 TESAS scholarships and also introducing a student loans scheme. At the same time the Government is also providing wide-ranging support for the overdue rehabilitation of the nation's higher education infrastructure. K62.5 million is being provided for infrastructure at seven universities, K40.0 million for thirteen Technical Colleges, K40.0 million for eight Teachers' Colleges and K40.0 million for eight Nursing Colleges.

**Table 14: Education Sector 2015–2018 Expenditure (Kina million)**

EDUCATION SECTOR	2014	2015	2016	2017	2018
<b>NATIONAL DEPARTMENT</b>	<b>1,294,576.6</b>	<b>1,698,968.2</b>	<b>1,507,411.7</b>	<b>1,442,505.0</b>	<b>1,478,481.8</b>
<b>229 Department of National Planning and Monitoring</b>	<b>0.0</b>	<b>267,000.0</b>	<b>267,000.0</b>	<b>267,000.0</b>	<b>267,000.0</b>
District Education Infrastructure	0.0	267,000.0	267,000.0	267,000.0	267,000.0
<b>235 Department of Education</b>	<b>1,082,250.0</b>	<b>1,140,848.4</b>	<b>922,409.0</b>	<b>862,606.5</b>	<b>887,355.5</b>
Operational		924,477.7	869,009.0	818,606.5	860,355.5
Australia Pacific Technical College		5,673.3	0.0	0.0	0.0
Community College		17,700.0	0.0	0.0	0.0
Education Quality through TV Programs		4,548.8	7,400.0	0.0	0.0
Flexible, Open & Distance Education Project		5,200.7	10,000.0	7,000.0	3,000.0
Human Resources Development Program - Phase 1		20,460.0	0.0	0.0	0.0
Human Resources Development Program - Phase 2		19,063.4	0.0	0.0	0.0
PNG Education		90,763.1	0.0	0.0	0.0
Reading Education Project		17,998.9	14,000.0	14,000.0	0.0
Schools of Excellence (equally to 7 schools)		25,000.0	22,000.0	23,000.0	24,000.0
Short Term Scholarship (NZPS & RDS)		400.0	0.0	0.0	0.0
UN Education		9,562.5	0.0	0.0	0.0
<b>236 Office of Higher Education</b>	<b>210,208.0</b>	<b>282,544.4</b>	<b>309,941.8</b>	<b>305,305.1</b>	<b>316,145.7</b>
Operational		85,044.4	79,941.8	75,305.1	79,145.7
Nursing Colleges (equally to 8 colleges)		40,000.0	0.0	0.0	0.0
Teacher's Colleges Rehabilitation (equally to 8 colleges)		40,000.0	44,000.0	47,000.0	52,000.0
Technical and Business College (TVET) (equally to 13 Colleges)		40,000.0	70,000.0	73,000.0	77,000.0

<b>EDUCATION SECTOR</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
TESAS Loan Scheme		5,000.0	20,000.0	20,000.0	20,000.0
Trade Skills Scholarship		10,000.0	36,000.0	30,000.0	28,000.0
University Infrastructure Rehabilitation		62,500.0	60,000.0	60,000.0	60,000.0
<b>237 PNG National Commission for UNESCO</b>	<b>2,118.6</b>	<b>4,355.3</b>	<b>4,094.0</b>	<b>3,856.5</b>	<b>4,053.2</b>
Operational	2,118.6	4,355.3	4,094.0	3,856.5	4,053.2
<b>251 PNG Science &amp; Technology Secretariat</b>	<b>0.0</b>	<b>4,220.1</b>	<b>3,966.9</b>	<b>3,736.9</b>	<b>3,927.4</b>
Operational	0.0	4,220.1	3,966.9	3,736.9	3,927.4
<b>COMMERCIAL &amp; STATUTORY AUTHORITIES</b>	<b>215,364.0</b>	<b>210,324.3</b>	<b>140,941.5</b>	<b>132,766.9</b>	<b>139,538.0</b>
<b>505 National Research Institute</b>	<b>4,842.4</b>	<b>5,379.5</b>	<b>5,056.7</b>	<b>4,763.4</b>	<b>5,006.4</b>
Operational	4,842.4	5,379.5	5,056.7	4,763.4	5,006.4
<b>512 University of Papua New Guinea</b>	<b>74,583.3</b>	<b>98,277.5</b>	<b>49,717.5</b>	<b>46,833.9</b>	<b>49,222.5</b>
Operational		52,891.0	49,717.5	46,833.9	49,222.5
PNG JU Education		45,386.5	0.0	0.0	0.0
<b>513 University of Technology</b>	<b>64,440.0</b>	<b>47,031.5</b>	<b>44,209.6</b>	<b>41,645.5</b>	<b>43,769.4</b>
Operational	64,440.0	47,031.5	44,209.6	41,645.5	43,769.4
<b>514 University of Goroka</b>	<b>42,969.1</b>	<b>21,247.0</b>	<b>19,972.2</b>	<b>18,813.8</b>	<b>19,773.3</b>
Operational	42,969.1	21,247.0	19,972.2	18,813.8	19,773.3
<b>515 University of Environment &amp; Natural Resources</b>	<b>25,276.7</b>	<b>28,895.1</b>	<b>17,761.4</b>	<b>16,731.2</b>	<b>17,584.5</b>
Operational		18,895.1	17,761.4	16,731.2	17,584.5
Vudal Library		10,000.0	0.0	0.0	0.0
<b>516 Papua New Guinea Sports Foundation</b>	<b>0.0</b>	<b>5,000.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Sports Enhancement Program	0.0	5,000.0	0.0	0.0	0.0
<b>518 PNG Maritime College</b>	<b>3,252.5</b>	<b>4,493.7</b>	<b>4,224.1</b>	<b>3,979.1</b>	<b>4,182.0</b>
Operational	3,252.5	4,493.7	4,224.1	3,979.1	4,182.0
<b>Grand Total</b>	<b>1,509,940.6</b>	<b>1,909,292.6</b>	<b>1,648,353.3</b>	<b>1,575,272.0</b>	<b>1,618,019.8</b>

Source: Department of Treasury

### 5.5.4 Health Sector

The Health sector encompasses the key policy agency of the Department of Health as well as delivery and research agencies including Hospital Management Services and the Provincial Health Authorities.

In 2015 total funding for the sector will be K1.8 billion. The Government will continue to subsidise free health care in 2015 at the cost of K20.0 million, support the creation of four new Provincial Health Authorities in West New Britain, Manus, Enga and Sandaun at a cost of K75.4 million, fund rural primary health service delivery K25.2 million, and, as noted in the Education sector above, will provide K40.0 million for rehabilitation of eight Nursing Colleges.

The Government is also responding to the pressures on the operating budgets of our Hospitals by providing increased funding to meet the cost of increases in doctors' awards and the forthcoming adjustments to health workers' awards. Hospital operating budgets are also being supplemented to provide increased funding for goods and services to reduce the prospect of service levels being compromised by unavailability of medical supplies and equipment. The budget for medical supplies in 2015 is K224.6 million.

The Government is committed to rebuilding and/or rehabilitating our hospitals. In 2015, a total of K216.0 million will be provided for major works at the Angau Memorial Hospital and the New Enga Provincial Hospital. A further K93.0 million will be distributed for capital works across the remaining Provincial Hospitals.

The capacity to address hospital infrastructure needs at the District level will also be enhanced by the introduction of the District Health Infrastructure Program K178.0 million. This funding will provide K2.0 million annually to each District. This is additional to any funding for health projects that may be provided from the existing Support Improvement Program (SIP) funding available to that particular region.

**Table 15: Health Sector 2014–2018 Expenditure (Kina million)**

HEALTH SECTOR	2014	2015	2016	2017	2018
<b>NATIONAL DEPARTMENT</b>	<b>1,264,863.8</b>	<b>1,692,681.3</b>	<b>1,298,474.4</b>	<b>1,251,065.4</b>	<b>1,269,449.3</b>
<b>229 Department of National Planning and Monitoring</b>	<b>0.0</b>	<b>178,000.0</b>	<b>178,000.0</b>	<b>178,000.0</b>	<b>178,000.0</b>
District Health Infrastructure	0.0	178,000.0	178,000.0	178,000.0	178,000.0
<b>238 Milne Bay Provincial Health Authority</b>	<b>24,637.1</b>	<b>28,460.1</b>	<b>26,752.5</b>	<b>25,200.8</b>	<b>26,486.1</b>
Operational	24,637.1	28,460.1	26,752.5	25,200.8	26,486.1
<b>239 Western Highlands Provincial Health Authority</b>	<b>29,106.2</b>	<b>33,820.0</b>	<b>31,790.8</b>	<b>29,946.9</b>	<b>31,474.2</b>
Operational	29,106.2	33,820.0	31,790.8	29,946.9	31,474.2
<b>240 Department of Health</b>	<b>666,262.0</b>	<b>614,535.2</b>	<b>334,036.2</b>	<b>314,662.1</b>	<b>330,709.9</b>
Operational		355,357.7	334,036.2	314,662.1	330,709.9
AAPS Program in PNG		16,602.6	0.0	0.0	0.0
Capacity Building Service Centre		67,983.5	0.0	0.0	0.0
HIV/AIDS Prevention		3,369.5	0.0	0.0	0.0
Medical non-nursing Training Institutions Rehabilitation		-	-	-	-
PNG Health and HIV Financing Program		27,437.0	0.0	0.0	0.0
PNG Health and HIV Multilateral Partnerships		11,777.6	0.0	0.0	0.0
PNG Health and HIV Procurement Program		75,510.0	0.0	0.0	0.0
Rural Primary Health Services Delivery Project		24,132.0	0.0	0.0	0.0
Specific Medical Equipment		826.0	0.0	0.0	0.0
UN Assistance to Health Sector		26,221.6	0.0	0.0	0.0
Young Child Survival and Development (Health and Nutrition)		5,317.7	0.0	0.0	0.0
<b>241 Hospital Management Services</b>	<b>516,143.0</b>	<b>806,286.5</b>	<b>698,210.2</b>	<b>675,292.5</b>	<b>673,389.9</b>
Operational		497,389.1	467,545.8	440,428.1	462,889.9
Alotau Provincial Hospital		3,500.0	3,500.0	3,500.0	3,500.0
Angau Memorial Specialized Referral Hospital		117,673.8	10,000.0	10,000.0	10,000.0
Boram Provincial Hospital Relocation		5,000.0	10,000.0	10,000.0	10,000.0
Daru Provincial Hospital		4,000.0	4,000.0	4,000.0	4,000.0
Gerehu, New NCD Provincial Hospital		3,000.0	5,000.0	5,000.0	5,000.0
Goroka Provincial Hospital		5,000.0	5,000.0	5,000.0	5,000.0
Kavieng Provincial Hospital		3,000.0	3,000.0	3,000.0	3,000.0
Kerema Provincial Hospital Redevelopment		4,000.0	5,000.0	5,000.0	5,000.0
Kimbe Provincial Hospital		3,000.0	3,000.0	3,000.0	3,000.0
Kudjip Nazarene Provincial Hospital		3,000.0	3,000.0	3,000.0	3,000.0

HEALTH SECTOR	2014	2015	2016	2017	2018
Kundiawa Provincial Hospital Rehabilitation		3,000.0	3,000.0	3,000.0	3,000.0
Laloki Psychiatric Hospital		2,000.0	2,000.0	2,000.0	2,000.0
Lorengau Provincial Hospital		5,000.0	5,000.0	5,000.0	5,000.0
Mendi Provincial Hospital Redevelopment		6,000.0	6,000.0	6,000.0	6,000.0
Modilon Provincial Hospital Rehabilitation		5,000.0	5,000.0	5,000.0	5,000.0
Mt. Hagen Referral Hospital Rehabilitation		10,000.0	10,000.0	10,000.0	10,000.0
New Central Provincial Hospital Development		5,000.0	5,000.0	5,000.0	5,000.0
New Enga Provincial Hospital		88,723.6	110,164.4	114,364.4	90,000.0
Nonga NGI Referral Hospital		5,000.0	5,000.0	5,000.0	5,000.0
Old Nonga Provincial Hospital		3,000.0	3,000.0	3,000.0	3,000.0
Popondetta Provincial Hospital Redevelopment		5,000.0	5,000.0	5,000.0	5,000.0
Port Moresby Specialized Referral Hospital Rehab		10,000.0	10,000.0	10,000.0	10,000.0
Tari Provincial Hospital		5,000.0	5,000.0	5,000.0	5,000.0
Vanimo Provincial Hospital Rehabilitation		5,000.0	5,000.0	5,000.0	5,000.0
<b>244 Eastern Highlands Provincial Health Authority</b>	<b>28,715.5</b>	<b>31,579.5</b>	<b>29,684.7</b>	<b>27,963.0</b>	<b>29,389.1</b>
Operational	28,715.5	31,579.5	29,684.7	27,963.0	29,389.1
<b>COMMERCIAL &amp; STATUTORY AUTHORITIES</b>	<b>38,982.8</b>	<b>18,864.0</b>	<b>17,732.2</b>	<b>16,703.7</b>	<b>17,555.6</b>
<b>519 National Aids Council Secretariat</b>	<b>27,280.8</b>	<b>8,791.5</b>	<b>8,264.0</b>	<b>7,784.7</b>	<b>8,181.7</b>
Operational	27,280.8	8,791.5	8,264.0	7,784.7	8,181.7
<b>520 Institute of Medical Research</b>	<b>11,702.0</b>	<b>10,072.5</b>	<b>9,468.2</b>	<b>8,919.0</b>	<b>9,373.9</b>
Operational	11,702.0	10,072.5	9,468.2	8,919.0	9,373.9
<b>MISCELLANEOUS EXPENDITURE</b>	<b>0.0</b>	<b>60,000.0</b>	<b>56,400.0</b>	<b>53,128.8</b>	<b>55,838.4</b>
<b>207 Treasury and Finance - Miscellaneous</b>	<b>0.0</b>	<b>60,000.0</b>	<b>56,400.0</b>	<b>53,128.8</b>	<b>55,838.4</b>
Health Awards (for Doctors, Nurses...etc)		40,000.0	37,600.0	35,419.2	37,225.6
Free Primary Health Care		20,000.0	18,800.0	17,709.6	18,612.8
<b>Grand Total</b>	<b>1,303,846.6</b>	<b>1,771,545.3</b>	<b>1,372,606.6</b>	<b>1,320,897.9</b>	<b>1,342,843.2</b>

Source: Department of Treasury

### 5.5.5 Infrastructure Sector

The Infrastructure Sector, comprising all forms of transport, communications and the key utilities of power, water and sanitation and electricity. Roads and bridges infrastructure is critical for the economy of PNG. The Government has now recognised maintenance, asset management for roads and bridges and initial emergency repairs caused by natural disasters as an on-going cost rather than capital projects. These activities have been allocated with K213.0 million.

Funding of K2,298.0 million across the Infrastructure sector will be used for various roads and bridges, infrastructure rehabilitation and completion of facilities for the 2015 Pacific Games (K360 million). The majority of infrastructure funding is for the Department of Works and Implementation (K1,194.0 million).

The Government has allocated funding for utilities (K225.2 million) through PNG towns, Port Moresby and Lae electrification (K118.0 million), Port Moresby Sewerage (K50.6 million) and National Transmission Network (K10.0 million).

## Transport

The Government is committed to improving the three (3) modes of the transport sector to establish an investment platform as a basis for sustainable economic growth and effective social service delivery in PNG. The Government has invested K151.0 million for Air transport infrastructure made up of Civil Aviation Development Improvement Program (K121.0 million) and the Port Moresby International Terminal (K30.0 million). Maritime transport investment totals K50.8 million, comprising of the Lae Port development of K23.6 million and Maritime Waterways Safety project (K27.2 million). The infrastructure area also caters for National Highways (K238.9 million), Highlands Highway (K150.0 million) and City Roads (K293.0 million).

**Table 16: Infrastructure Sector 2014–2018 Expenditure (Kina million)**

INFRASTRUCTURE SECTOR	2014	2015	2016	2017	2018
<b>NATIONAL DEPARTMENT</b>	<b>1,887,755.6</b>	<b>2,197,478.7</b>	<b>1,633,992.3</b>	<b>1,306,342.7</b>	<b>996,413.6</b>
<b>203 Department of Prime Minister &amp; NEC</b>	<b>0.0</b>	<b>368,000.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Pacific Games 2015	0.0	368,000.0	0.0	0.0	0.0
<b>229 Department of National Planning and Monitoring</b>	<b>0.0</b>	<b>208,000.0</b>	<b>130,000.0</b>	<b>130,000.0</b>	<b>130,000.0</b>
Tax Credit Program	0.0	208,000.0	130,000.0	130,000.0	130,000.0
<b>257 Department of Public Enterprises</b>	<b>5,619.2</b>	<b>8,271.6</b>	<b>7,775.3</b>	<b>7,324.3</b>	<b>7,697.9</b>
Operational	5,619.2	8,271.6	7,775.3	7,324.3	7,697.9
<b>258 Department of Information and Communication</b>	<b>61,817.2</b>	<b>17,295.0</b>	<b>7,678.6</b>	<b>7,407.2</b>	<b>7,632.0</b>
Operational		4,977.2	4,678.6	4,407.2	4,632.0
Rural Telecommunication		12,317.8	3,000.0	3,000.0	3,000.0
<b>259 Department of Transport</b>	<b>29,984.8</b>	<b>34,953.9</b>	<b>24,110.2</b>	<b>22,711.8</b>	<b>23,870.1</b>
Operational		25,649.1	24,110.2	22,711.8	23,870.1
Capacity Development (JICA)		3,065.1	0.0	0.0	0.0
JU Transport		6,239.7	0.0	0.0	0.0
<b>264 Department of Works and Implementation</b>	<b>1,718,070.0</b>	<b>1,521,460.7</b>	<b>1,445,376.7</b>	<b>1,120,952.8</b>	<b>808,351.9</b>
Operational		385,059.8	361,956.2	340,962.8	358,351.9
Agaun - Bubuleta Road (Missing Link) (Rollover)		5,000.0	0.0	0.0	0.0
Alotau Town Road		-	-	-	-
Arawa Town Road		-	-	-	-
Aseki - Menyamy (Missing Links)		5,000.0	0.0	0.0	0.0
Baiyer - Madang (Rollover)		-	-	-	-
Bena To Ramu Road (Missing Links)		5,000.0	0.0	0.0	0.0
Bosavi - Kutubu (Missing Links)		5,000.0	0.0	0.0	0.0
Bridge Replacement & Improve Rural Access Project		57,153.6	62,134.9	59,990.1	0.0
Bridges Program (Missing Links) incl LNG Sites		10,000.0	0.0	0.0	0.0
Capacity Development for Road Maintenance		2,581.4	0.0	0.0	0.0
Capacity Development of Madang Civil Engineering		2,065.1	0.0	0.0	0.0
Daru Town Road (Upgrading & Sealing)		-	-	-	-
Disaster Risk Management and Climate Change - Transport		3,200.0	0.0	0.0	0.0
Esa' ala Road (Rollover)		4,000.0	0.0	0.0	0.0
Finschafen Road Works (Rollover)		5,000.0	0.0	0.0	0.0

INFRASTRUCTURE SECTOR	2014	2015	2016	2017	2018
Fisika (Missing Links)		7,000.0	0.0	0.0	0.0
Gazelle - Rabaul Link Road (Regional Centre)		10,000.0	0.0	0.0	0.0
Goilala - Mona Road (Rollover)		5,000.0	0.0	0.0	0.0
Goroka Town Road		-	-	-	-
Gulf - Southern Highlands (Rollover)		10,000.0	0.0	0.0	0.0
Highlands Highway, Kerowagi - Kundiawa (Upgrading & Sealing)		20,000.0	0.0	0.0	0.0
Highlands Highway, Komo - Tari Road (Upgrading & Sealing)		20,000.0	20,000.0	0.0	0.0
Highlands Highway, Kundiawa - Asaro (Upgrading & Sealing)		10,000.0	0.0	0.0	0.0
Highlands Highway, Lae-Nadzab Road (4Lane)		70,000.0	260,000.0	200,000.0	200,000.0
Highlands Highway, Mt. Hagen Entry & Exit		20,000.0	50,000.0	0.0	0.0
Highlands Highway, Tari - Mendi - Hagen Road (Upgrading & Sealing)		40,000.0	50,000.0	0.0	0.0
Highlands Highway, Togoba-Kisenepoi (Upgrading & Sealing)		25,000.0	200,000.0	200,000.0	200,000.0
Highlands Region Roads Improvement Investment Program - Tranche 1		36,516.9	0.0	0.0	0.0
Highlands Region Roads Improvement Investment Program - Tranche 2		89,448.1	56,285.6	50,000.0	50,000.0
Hiri Lai Road (Rollover)		10,000.0	10,000.0	10,000.0	0.0
Kaintiba - Menyamya (Missing Links)		5,000.0	0.0	0.0	0.0
Karamui - Gumine (Missing Links)		5,000.0	0.0	0.0	0.0
Kavieng Town Road		-	-	-	-
Kerema Town Roads		-	-	-	-
Kikori - Gulf Road (Rollover)		5,000.0	0.0	0.0	0.0
Kimbe Town Road		-	-	-	-
Kimil - Tabibuka Road (Rollover)		5,000.0	0.0	0.0	0.0
Kirriwinna Ring Road (2014 Rollover)		5,000.0	0.0	0.0	0.0
Kokoda Highway (Oro)		5,000.0	0.0	0.0	0.0
Kokopo Town Feeder Roads (Regional Centre)		0.0	20,000.0	0.0	0.0
Kompam - Baiyer (Missing Link)		5,000.0	0.0	0.0	0.0
Kompam Road (2014 Rollover)		5,000.0	0.0	0.0	0.0
Kundiawa Town Road		0.0	0.0	0.0	0.0
Kupiano Town Road Sealing (Rollover)		2,000.0	0.0	0.0	0.0
Lae City Roads (Regional Centre)		20,000.0	50,000.0	0.0	0.0
Lorengau Town Road		-	-	-	-
Madang Town Roads		-	-	-	-
Mendi Town Road		-	-	-	-
Mt. Hagen Town Road (2014 Rollover)		20,000.0	0.0	0.0	0.0
Mul - Baiyer-Madang (Missing Links)		5,000.0	20,000.0	20,000.0	0.0
National Highway, Aitape - Vanimo (Upgrading & Sealing)		5,000.0	0.0	0.0	0.0
National Highway, Buluminksi - Namatanai (Upgrading & Sealing)		10,000.0	0.0	0.0	0.0
National Highway, East/West - New Britain (Upgrading & Sealing)		10,000.0	30,000.0	10,000.0	0.0
National Highway, Hiritano (Upgrading & Sealing)		10,000.0	0.0	0.0	0.0
National Highway, Kandrian - Kimbe Road (Upgrading & Sealing)		5,000.0	20,000.0	10,000.0	0.0

<b>INFRASTRUCTURE SECTOR</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
National Highway, Magi (Upgrading & Sealing)		10,000.0	0.0	0.0	0.0
National Highway, Ramu - Madang (Upgrading & Sealing)		10,000.0	0.0	0.0	0.0
National Highway, Sepik (Upgrading & Sealing)		5,000.0	0.0	0.0	0.0
Nawaeb (Missing Links)		5,000.0	0.0	0.0	0.0
Popondetta Town Road		-	-	-	-
Porgera - Tari (Rollover)		5,000.0	0.0	0.0	0.0
Port Moresby City Roads		233,500.0	200,000.0	200,000.0	0.0
Road Maintenance and Rehabilitation Project (RMRP) Phase 2		28,823.8	10,000.0	0.0	0.0
Road Maintenance and Rehabilitation Project (RMRP) Phase 2 - Additional Financing		32,870.9	10,000.0	10,000.0	0.0
Rouna and Sirinumu Road (Rollover)		10,000.0	0.0	0.0	0.0
Sembirigi - Erave Road (Missing Links)		7,000.0	0.0	0.0	0.0
Tade - Kopiago Road		5,000.0	0.0	0.0	0.0
Tari Town Road		-	-	-	-
Telefomin - Tabubil Road (Missing Links) (Rollover)		5,000.0	10,000.0	10,000.0	0.0
Transport Sector Support Program - Phase 1		84,416.5	5,000.0	0.0	0.0
Transport Sector Support Program - Phase 2		82,824.4	0.0	0.0	0.0
Tsak Road - Wapanamanda		3,000.0	0.0	0.0	0.0
Vanimo Town Road		-	-	-	-
Wabag Town Road		-	-	-	-
Wapenamanda Road (Rollover)		5,000.0	0.0	0.0	0.0
Wewak Town Roads		-	-	-	-
<b>264.1 Infrastructure Development Authority</b>	<b>0.0</b>	<b>7,795.0</b>	<b>7,327.3</b>	<b>6,902.3</b>	<b>7,254.3</b>
Operational	0.0	7,795.0	7,327.3	6,902.3	7,254.3
<b>267 Office of Rural Development</b>	<b>72,264.4</b>	<b>39,702.6</b>	<b>11,724.2</b>	<b>11,044.2</b>	<b>11,607.5</b>
Operational		12,472.6	11,724.2	11,044.2	11,607.5
Private Sector and Rural Development		27,230.0	0.0	0.0	0.0
<b>COMMERCIAL &amp; STATUTORY AUTHORITIES</b>	<b>911,143.6</b>	<b>501,416.2</b>	<b>433,503.6</b>	<b>256,285.4</b>	<b>186,306.9</b>
<b>509 Border Development Authority (BDA)</b>	<b>20,208.5</b>	<b>16,949.4</b>	<b>15,877.9</b>	<b>13,112.7</b>	<b>7,348.9</b>
Operational		5,231.8	4,917.9	4,632.7	4,868.9
Pilot Border Trade		11,717.6	10,960.0	8,480.0	2,480.0
<b>524 Independent Public Business Corporation</b>	<b>514,489.0</b>	<b>83,235.1</b>	<b>150,000.0</b>	<b>140,000.0</b>	<b>50,000.0</b>
Operational		0.0			
GM-PG Energy Sector Development project		376.5	0.0	0.0	0.0
Lae Port Development (Tidal Basin) - Additional Financing		23,623.1	0.0	0.0	0.0
National Broadband Network		8,000.0	100,000.0	90,000.0	0.0
Port Moresby Sewerage Project		50,595.5	50,000.0	50,000.0	50,000.0
Regulatory Reform (Design Phase)		640.0	0.0	0.0	0.0
<b>525 National Broadcasting Commission</b>	<b>36,888.8</b>	<b>43,396.8</b>	<b>40,793.0</b>	<b>38,427.0</b>	<b>40,386.8</b>
Operational	36,888.8	43,396.8	40,793.0	38,427.0	40,386.8
<b>526 National Maritime Safety Authority</b>	<b>13,574.5</b>	<b>35,113.5</b>	<b>10,426.0</b>	<b>6,995.3</b>	<b>7,352.1</b>
Operational	13,574.5	7,900.0	7,426.0	6,995.3	7,352.1

<b>INFRASTRUCTURE SECTOR</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Maritime Waterways Safety Project		27,213.5	3,000.0	0.0	0.0
<b>537 National Airports Corporation</b>	<b>149,692.0</b>	<b>151,000.0</b>	<b>103,318.9</b>	<b>15,711.6</b>	<b>48,311.4</b>
Operational		0.0			
CADIP Program - Tranche 1 & 2		121,000.0	88,318.9	711.6	48,311.4
Port Moresby International Terminal Building Upgrade : Stage 1		30,000.0	15,000.0	15,000.0	0.0
<b>538 Papua New Guinea Air Services Limited</b>	<b>16,338.0</b>	<b>0.0</b>			
Operational	16,338.0	0.0			
<b>541 National Housing Corporation</b>	<b>244.6</b>	<b>250.7</b>	<b>235.7</b>	<b>222.0</b>	<b>233.3</b>
Operational	244.6	250.7	235.7	222.0	233.3
<b>546 PNG Power Limited</b>	<b>125,296.0</b>	<b>117,478.9</b>	<b>45,000.0</b>	<b>25,000.0</b>	<b>15,000.0</b>
Operational		0.0			
Hela and Southern Highlands Electricity Project (PPP)		-	-	-	-
PNG Towns' Electricity Investment Project		59,100.0	20,000.0	15,000.0	15,000.0
Port Moresby Grid Development		34,913.3	10,000.0	0.0	0.0
Upgrading the Power Distribution System of Ramu Grid		13,325.6	15,000.0	10,000.0	0.0
Urban Grid Electrification Extension		10,140.0	0.0	0.0	0.0
<b>551 Fisheries (project)</b>	<b>4,000.0</b>	<b>20,000.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Operational		0.0			
Fisheries Surveillance		10,000.0	0.0	0.0	0.0
Wagan Wharf		10,000.0	0.0	0.0	0.0
<b>565 Civil Aviation Safety Authority</b>	<b>13,612.2</b>	<b>14,291.7</b>	<b>13,434.2</b>	<b>12,655.0</b>	<b>13,300.4</b>
Operational	13,612.2	14,291.7	13,434.2	12,655.0	13,300.4
<b>566 Cocoa Board</b>	<b>16,800.0</b>	<b>4,700.0</b>	<b>4,418.0</b>	<b>4,161.8</b>	<b>4,374.0</b>
Operational	16,800.0	4,700.0	4,418.0	4,161.8	4,374.0
<b>567 National Road Authority</b>	<b>0.0</b>	<b>15,000.0</b>	<b>50,000.0</b>	<b>0.0</b>	<b>0.0</b>
Highlands Region Roads Improvement Investment Program - Maintenance	0.0	15,000.0	50,000.0	0.0	0.0
<b>MISCELLANEOUS EXPENDITURE</b>	<b>0.0</b>	<b>20,000.0</b>	<b>18,800.0</b>	<b>17,709.6</b>	<b>18,612.8</b>
<b>207 Treasury and Finance - Miscellaneous</b>	<b>0.0</b>	<b>20,000.0</b>	<b>18,800.0</b>	<b>17,709.6</b>	<b>18,612.8</b>
Hela and Southern Highlands Electricity Project (PPP)	0.0	20,000.0	18,800.0	17,709.6	18,612.8
<b>Grand Total</b>	<b>2,798,899.2</b>	<b>2,718,894.9</b>	<b>2,086,295.9</b>	<b>1,580,337.7</b>	<b>1,201,333.3</b>

Source: Department of Treasury

### 5.5.6 Law and Order Sector

In 2015, the Government will provide K1.6 billion 2015 (including K66.0 million in donor grants) to the Law and Order sector. The major recipients of the increased funding in 2015 Budget are the Departments of Police (K367.2 million) and Defence (K261.2 million). In total K15.2 million has been allocated to recruit 480 new Defence recruits, 750 new Police recruits and 200 new CIS recruits.

Major investments in the law sector include the PNG – Australia law and Justice Partnership (K55.7 million), Waigani Court House Complex (K180.0 million) and SIP contributions to the sector of K127.0 million. The Government will also provide K30.0 million to Police, Defence and Correctional Services, in addition to K28.0 million provided in 2014, to meet the costs associated with providing security services for the 2015 Pacific Games.



Some other drivers of increased funding for the law and justice sector include increased numbers of Judges, increased court circuits held in the provinces and districts and the extension of fully funded village court allowances from seven officials per court to eleven officials per court, at a cost of K14.4 million.

**Table 17: Law & Order Sector 2014–2018 Expenditure (Kina million)**

LAW AND ORDER SECTOR	2014	2015	2016	2017	2018
<b>NATIONAL DEPARTMENT</b>	<b>1,170,468.3</b>	<b>1,359,532.7</b>	<b>1,068,479.3</b>	<b>1,226,770.3</b>	<b>1,043,453.2</b>
<b>218 Office of the Public Prosecutor</b>	<b>6,896.9</b>	<b>8,594.5</b>	<b>8,078.8</b>	<b>7,610.3</b>	<b>7,998.4</b>
Operational	6,896.9	8,594.5	8,078.8	7,610.3	7,998.4
<b>222 Office of the Public Solicitor</b>	<b>11,828.3</b>	<b>19,213.9</b>	<b>13,361.1</b>	<b>18,656.1</b>	<b>13,228.0</b>
Operational		14,213.9	13,361.1	12,586.1	13,228.0
Prov. Justice Center		5,000.0	0.0	6,070.0	0.0
<b>223 Judiciary Services</b>	<b>168,994.0</b>	<b>339,994.4</b>	<b>164,994.7</b>	<b>347,817.0</b>	<b>139,590.7</b>
Operational		149,994.4	140,994.7	132,817.0	139,590.7
Kokopo Court House		0.0	11,000.0	0.0	0.0
Lae Court House		0.0	13,000.0	11,000.0	0.0
Mt. Hagen Court House		10,000.0	0.0	0.0	0.0
Waigani Court House Design and Maintenance		180,000.0	0.0	204,000.0	0.0
<b>224 Magisterial Services</b>	<b>49,202.1</b>	<b>50,546.1</b>	<b>37,914.8</b>	<b>35,715.7</b>	<b>37,537.3</b>
Operational		40,334.9	37,914.8	35,715.7	37,537.3
Joint Understanding: Waigani Court House Complex		10,211.2	0.0	0.0	0.0
<b>225 Department of Attorney-General</b>	<b>122,219.0</b>	<b>173,631.6</b>	<b>119,431.8</b>	<b>113,374.8</b>	<b>118,391.9</b>
Operational		111,097.7	104,431.8	98,374.8	103,391.9
Infrastructure and Capital Works Program		5,000.0	15,000.0	15,000.0	15,000.0
Law and Justice Sector Secretariat		1,000.0	0.0	0.0	0.0
PNG - Australia Law & Justice Partnership		55,395.0	0.0	0.0	0.0
Promotion & Protection of Human Rights		1,138.8	0.0	0.0	0.0
<b>226 Department of Corrective Institutional Services</b>	<b>116,058.0</b>	<b>139,170.2</b>	<b>134,019.0</b>	<b>147,176.6</b>	<b>141,909.9</b>
Operational		129,170.2	121,420.0	114,377.6	120,210.9
CS Infrastructure		10,000.0	12,599.0	32,799.0	21,699.0
<b>228 Department of Police</b>	<b>449,300.0</b>	<b>367,179.4</b>	<b>345,148.6</b>	<b>325,130.0</b>	<b>341,711.6</b>
Operational	449,300.0	367,179.4	345,148.6	325,130.0	341,711.6
<b>234 Department of Defence</b>	<b>245,970.0</b>	<b>261,202.6</b>	<b>245,530.4</b>	<b>231,289.7</b>	<b>243,085.5</b>
Operational	245,970.0	261,202.6	245,530.4	231,289.7	243,085.5
<b>COMMERCIAL &amp; STATUTORY AUTHORITIES</b>	<b>10,900.8</b>	<b>21,902.1</b>	<b>73,188.0</b>	<b>194,539.1</b>	<b>11,076.6</b>
<b>510 Legal Training Institute</b>	<b>2,453.2</b>	<b>13,595.4</b>	<b>65,379.7</b>	<b>172,183.7</b>	<b>3,346.0</b>
Operational		3,595.4	3,379.7	3,183.7	3,346.0
Relocation of LTI		10,000.0	62,000.0	169,000.0	0.0
<b>517 National Narcotics Bureau</b>	<b>4,440.3</b>	<b>4,626.0</b>	<b>4,348.4</b>	<b>4,096.2</b>	<b>4,305.1</b>
Operational	4,440.3	4,626.0	4,348.4	4,096.2	4,305.1
<b>522 Constitutional and Law Reform Commission</b>	<b>4,007.3</b>	<b>3,680.7</b>	<b>3,459.9</b>	<b>18,259.2</b>	<b>3,425.4</b>
Operational		3,680.7	3,459.9	3,259.2	3,425.4
Review & Amendment of 150 Existing Legislations		0.0	0.0	15,000.0	0.0
<b>MISCELLANEOUS EXPENDITURE</b>	<b>0.0</b>	<b>197,000.0</b>	<b>185,180.0</b>	<b>174,439.6</b>	<b>183,336.0</b>
<b>207 Treasury and Finance -</b>	<b>0.0</b>	<b>197,000.0</b>	<b>185,180.0</b>	<b>174,439.6</b>	<b>183,336.0</b>

LAW AND ORDER SECTOR	2014	2015	2016	2017	2018
<b>Miscellaneous</b>					
Pacific Games Security Funding		30,000.0	28,200.0	26,564.4	27,919.2
Court Cases		70,000.0	65,800.0	61,983.6	65,144.8
Local Level Government Officials Allowances		48,000.0	45,120.0	42,503.0	44,670.7
PNG LNG Support (Police)		15,000.0	14,100.0	13,282.2	13,959.6
Land Purchase for Relocation (Defence)		15,000.0	14,100.0	13,282.2	13,959.6
Legal Brief Out - Attorney General		10,000.0	9,400.0	8,854.8	9,306.4
Retirement Benefit Fund - Defence		9,000.0	8,460.0	7,969.3	8,375.8
<b>Grand Total</b>	<b>1,181,369.1</b>	<b>1,578,434.8</b>	<b>1,326,847.3</b>	<b>1,595,748.9</b>	<b>1,237,865.8</b>

Source: Department of Treasury

### 5.5.7 Provincial Sector

The 2015 Budget will see further increases in the funding provided to Provinces from the National Government. Funding will increase to K3.7 billion and additional resources will also be available from the District Education Infrastructure Program (K267.0 million) and District Health Infrastructure Program (K178 million). While funding will initially be appropriated through the Department of National Planning these new programs will provide K3.0 million per district and K2.0 million per district respectively for local infrastructure priorities in health and education priorities. As the funding is tied the expenditure is listed in the tables for those sectors.

The funding for the Provinces includes the ongoing K1,492.0 million per year in direct funding based on K5.0 million per district for the Provincial Services Improvement Program, K10.0 million per District under the District Services Improvement and K0.5 million per Local Level Government. With the removal of fixed sector allocations, Provinces and Districts now have greater flexibility in utilising this funding to address local development priorities. Accordingly, it is not expected that Provinces and Districts should require significant project funding from future National Budgets.

The operating budgets of Provinces will also be increased, in many cases substantially, to enable the recruitment of more teachers and health workers and to assist in meeting the increased costs arising from substantial award increases in 2014 and 2015.

**Table 18: Provinces Sector 2014–2018 Expenditure (Kina million)**

PROVINCIAL SECTOR	2014	2015	2016	2017	2018
<b>PROVINCIAL GOVERNMENT</b>	<b>3,582,932.3</b>	<b>3,670,491.8</b>	<b>3,437,153.9</b>	<b>3,318,855.4</b>	<b>3,379,317.7</b>
<b>571 Fly River Provincial Government</b>	<b>122,881.0</b>	<b>121,046.8</b>	<b>118,136.4</b>	<b>114,946.6</b>	<b>117,588.7</b>
Operational		58,506.8	54,996.4	51,806.6	54,448.7
District Support Grant-Fly		2,000.0	2,000.0	2,000.0	2,000.0
District Support Improvement Program-Fly		30,000.0	30,000.0	30,000.0	30,000.0
Fly River Provincial Government SSG		14,140.0	14,140.0	14,140.0	14,140.0
Provincial Support Improvement Program-Fly		15,000.0	10,000.0	10,000.0	10,000.0
Special Support Grant Fly River Dev Trust		-	-	-	-
Support to LLG - Fly		1,400.0	7,000.0	7,000.0	7,000.0
<b>572 Gulf Provincial Government</b>	<b>89,462.1</b>	<b>93,263.3</b>	<b>93,905.5</b>	<b>90,854.4</b>	<b>93,381.7</b>
Operational		55,963.3	52,605.5	49,554.4	52,081.7
District Support Grant-Gulf		1,500.0	1,500.0	1,500.0	1,500.0
District Support Improvement Program-Gulf		20,000.0	20,000.0	20,000.0	20,000.0

PROVINCIAL SECTOR	2014	2015	2016	2017	2018
Gulf Provincial Government SSG		4,800.0	4,800.0	4,800.0	4,800.0
Provincial Support Improvement Program-Gulf		10,000.0	10,000.0	10,000.0	10,000.0
Support to LLG - Gulf		1,000.0	5,000.0	5,000.0	5,000.0
<b>573 Central Provincial Government</b>	<b>146,998.0</b>	<b>179,154.4</b>	<b>143,975.1</b>	<b>139,087.2</b>	<b>143,135.9</b>
Operational		89,654.4	84,275.1	79,387.2	83,435.9
Central Province LNG Commitment		25,000.0	0.0	0.0	0.0
Central Provincial Government SSG		700.0	700.0	700.0	700.0
District Support Grant-Central		2,500.0	2,500.0	2,500.0	2,500.0
District Support Improvement Program-Central		40,000.0	40,000.0	40,000.0	40,000.0
Provincial Support Improvement Program-Central		20,000.0	10,000.0	10,000.0	10,000.0
Support to LLG - Central		1,300.0	6,500.0	6,500.0	6,500.0
<b>574 National Capital District</b>	<b>62,120.4</b>	<b>62,334.3</b>	<b>50,564.7</b>	<b>45,857.9</b>	<b>46,029.2</b>
Operational		3,792.2	3,564.7	3,357.9	3,529.2
District Support Grant-NCD		2,000.0	2,000.0	2,000.0	2,000.0
District Support Improvement Program-NCD		30,000.0	30,000.0	30,000.0	30,000.0
Gordon's Market Development		1,990.0	0.0	0.0	0.0
NCD Solid Waste Management		2,581.4	4,500.0	0.0	0.0
Provincial Support Improvement Program-NCD		15,000.0	10,000.0	10,000.0	10,000.0
Support to LLG-NCD		100.0	500.0	500.0	500.0
Urban Youth Employment Project		6,870.7	0.0	0.0	0.0
<b>575 Milne Bay Provincial Government</b>	<b>140,083.0</b>	<b>160,045.0</b>	<b>150,688.3</b>	<b>145,457.4</b>	<b>149,790.2</b>
Operational		95,945.0	90,188.3	84,957.4	89,290.2
District Support Grant - Milne Bay		2,500.0	2,500.0	2,500.0	2,500.0
District Support Improvement Program - Milne Bay		40,000.0	40,000.0	40,000.0	40,000.0
Provincial Support Improvement Program - Milne Bay		20,000.0	10,000.0	10,000.0	10,000.0
Support to LLGs-Milne		1,600.0	8,000.0	8,000.0	8,000.0
<b>576 Oro Provincial Government</b>	<b>82,089.4</b>	<b>85,411.3</b>	<b>85,830.6</b>	<b>82,940.4</b>	<b>85,334.4</b>
Operational		53,011.3	49,830.6	46,940.4	49,334.4
District Support Grant-Oro		1,500.0	1,500.0	1,500.0	1,500.0
District Support Improvement Program-Oro		20,000.0	20,000.0	20,000.0	20,000.0
Provincial Support Improvement Program-Oro		10,000.0	10,000.0	10,000.0	10,000.0
Support to LLGs - Oro		900.0	4,500.0	4,500.0	4,500.0
<b>577 Southern Highlands Province</b>	<b>235,614.0</b>	<b>225,405.6</b>	<b>202,330.9</b>	<b>196,811.0</b>	<b>201,383.2</b>
Operational		101,245.6	95,170.9	89,651.0	94,223.2
District Support Grant-SHP		3,000.0	3,000.0	3,000.0	3,000.0
District Support Improvement Program-SHP		50,000.0	50,000.0	50,000.0	50,000.0
Mendi Airport Relocation		10,000.0	0.0	0.0	0.0
Provincial Support Improvement Program-SHP		25,000.0	10,000.0	10,000.0	10,000.0
Southern Highlands Provincial Government SSG		20,160.0	20,160.0	20,160.0	20,160.0
Special Support Grant-Kutubu Spa		14,000.0	14,000.0	14,000.0	14,000.0
Support to LLGs-SHP		2,000.0	10,000.0	10,000.0	10,000.0
<b>578 Enga Provincial Government</b>	<b>222,048.0</b>	<b>172,518.2</b>	<b>170,645.1</b>	<b>171,217.1</b>	<b>154,884.9</b>
Operational		81,218.2	76,345.1	71,917.1	75,584.9

PROVINCIAL SECTOR	2014	2015	2016	2017	2018
District Support Grant-Enga		3,000.0	3,000.0	3,000.0	3,000.0
District Support Improvement Program-Enga		50,000.0	50,000.0	50,000.0	50,000.0
Enga Provincial Government SSG		4,400.0	4,400.0	4,400.0	4,400.0
Enga Teachers College		3,000.0	15,000.0	20,000.0	0.0
Provincial Support Improvement Program		25,000.0	10,000.0	10,000.0	10,000.0
Special Support Grant-Porgera SPA		4,400.0	4,400.0	4,400.0	4,400.0
Support to LLGs-Enga		1,500.0	7,500.0	7,500.0	7,500.0
<b>579 Western Highlands Provincial Government</b>	<b>190,409.0</b>	<b>189,163.9</b>	<b>157,018.1</b>	<b>141,797.0</b>	<b>146,121.7</b>
Operational		95,763.9	90,018.1	84,797.0	89,121.7
District Support Grant-WHP		2,500.0	2,500.0	2,500.0	2,500.0
District Support Improvement Program-WHP		40,000.0	40,000.0	40,000.0	40,000.0
Kapal Haus (Administration Building)		30,000.0	10,000.0	0.0	0.0
Provincial Support Improvement Program-WHP		20,000.0	10,000.0	10,000.0	10,000.0
Support to LLGs-WHP		900.0	4,500.0	4,500.0	4,500.0
<b>580 Simbu Provincial Government</b>	<b>208,421.0</b>	<b>200,502.6</b>	<b>182,202.5</b>	<b>176,477.7</b>	<b>181,219.6</b>
Operational		105,002.6	98,702.5	92,977.7	97,719.6
District Support Grant - Simbu		3,500.0	3,500.0	3,500.0	3,500.0
District Support Improvement Program - Simbu		60,000.0	60,000.0	60,000.0	60,000.0
Provincial Support Improvement Program-Simbu		30,000.0	10,000.0	10,000.0	10,000.0
Support to LLGs - Simbu		2,000.0	10,000.0	10,000.0	10,000.0
<b>581 Eastern Highlands Provincial Government</b>	<b>246,299.0</b>	<b>260,544.6</b>	<b>236,016.0</b>	<b>227,084.0</b>	<b>224,825.8</b>
Operational		127,144.6	119,516.0	112,584.0	118,325.8
District Support Grant-EHP		4,500.0	4,500.0	4,500.0	4,500.0
District Support Improvement Program-EHP		80,000.0	80,000.0	80,000.0	80,000.0
Goroka Town Sewerage		6,500.0	10,000.0	8,000.0	0.0
Provincial Support Improvement Program-EHP		40,000.0	10,000.0	10,000.0	10,000.0
Support to LLGs-EHP		2,400.0	12,000.0	12,000.0	12,000.0
<b>582 Morobe Provincial Government</b>	<b>268,420.0</b>	<b>334,799.1</b>	<b>295,322.6</b>	<b>285,240.9</b>	<b>293,591.7</b>
Operational		184,917.7	173,822.6	163,740.9	172,091.7
District Support Grant-Morobe		5,000.0	5,000.0	5,000.0	5,000.0
District Support Improvement Program-Morobe		90,000.0	90,000.0	90,000.0	90,000.0
Master Plan of Lae Area		2,581.4	0.0	0.0	0.0
Provincial Support Improvement Program-Morobe		45,000.0	10,000.0	10,000.0	10,000.0
Special Support Grant (Hidden Valley)		4,000.0	0.0	0.0	0.0
Support to LLGs-Morobe		3,300.0	16,500.0	16,500.0	16,500.0
<b>583 Madang Provincial Government</b>	<b>223,091.0</b>	<b>242,753.8</b>	<b>221,512.6</b>	<b>213,478.8</b>	<b>220,133.3</b>
Operational		147,353.8	138,512.6	130,478.8	137,133.3
District Support Grant-Madang		3,500.0	3,500.0	3,500.0	3,500.0
District Support Improvement Program-Madang		60,000.0	60,000.0	60,000.0	60,000.0
Provincial Support Improvement Program-Madang		30,000.0	10,000.0	10,000.0	10,000.0
Support to LLGs-Madang		1,900.0	9,500.0	9,500.0	9,500.0
<b>584 East Sepik Provincial Government</b>	<b>222,215.0</b>	<b>225,584.9</b>	<b>208,215.8</b>	<b>201,156.2</b>	<b>207,003.7</b>

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PROVINCIAL SECTOR	2014	2015	2016	2017	2018
Operational		129,484.9	121,715.8	114,656.2	120,503.7
District Support Grant- East Sepik		3,500.0	3,500.0	3,500.0	3,500.0
District Support Improvement Program- East Sepik		60,000.0	60,000.0	60,000.0	60,000.0
Provincial Support Improvement Program- East Sepik		30,000.0	10,000.0	10,000.0	10,000.0
Support to LLGs - East Sepik		2,600.0	13,000.0	13,000.0	13,000.0
<b>585 Sandaun Provincial Government</b>	<b>161,314.0</b>	<b>171,530.2</b>	<b>161,890.4</b>	<b>156,038.7</b>	<b>160,885.7</b>
Operational		107,330.2	100,890.4	95,038.7	99,885.7
District Support Grant		2,500.0	2,500.0	2,500.0	2,500.0
District Support Improvement Program		40,000.0	40,000.0	40,000.0	40,000.0
Provincial Support Improvement Program- Sandaun		20,000.0	10,000.0	10,000.0	10,000.0
Support to LLGs - Sandaun		1,700.0	8,500.0	8,500.0	8,500.0
<b>586 Manus Provincial Government</b>	<b>65,208.7</b>	<b>68,698.5</b>	<b>75,408.6</b>	<b>72,600.9</b>	<b>74,926.6</b>
Operational		51,498.5	48,408.6	45,600.9	47,926.6
District Support Grant-Manus		1,000.0	1,000.0	1,000.0	1,000.0
District Support Improvement Program- Manus		10,000.0	10,000.0	10,000.0	10,000.0
Provincial Support Improvement Program- Manus		5,000.0	10,000.0	10,000.0	10,000.0
Support to LLGs - Manus		1,200.0	6,000.0	6,000.0	6,000.0
<b>587 New Ireland Provincial Government</b>	<b>96,220.7</b>	<b>127,605.5</b>	<b>123,825.2</b>	<b>119,845.0</b>	<b>123,141.8</b>
Operational		73,005.5	68,625.2	64,645.0	67,941.8
District Support Grant-NIP		1,500.0	1,500.0	1,500.0	1,500.0
District Support Improvement Program-NIP		20,000.0	20,000.0	20,000.0	20,000.0
IDG (New Ireland)		3,000.0	3,000.0	3,000.0	3,000.0
IDG (New Ireland) - Outstanding		3,000.0	0.0	0.0	0.0
New Ireland Provincial Government SSG		10,360.0	10,360.0	10,360.0	10,360.0
Provincial Support Improvement Program- NIP		10,000.0	10,000.0	10,000.0	10,000.0
Special Support Grant - Simberi		1,400.0	1,400.0	1,400.0	1,400.0
Special Support Grant-Nimarmar Spa		4,440.0	4,440.0	4,440.0	4,440.0
Support to LLGs - New Ireland		900.0	4,500.0	4,500.0	4,500.0
<b>588 East New Britain Provincial Government</b>	<b>160,978.0</b>	<b>169,479.5</b>	<b>160,368.7</b>	<b>154,634.3</b>	<b>159,384.2</b>
Operational		105,179.5	98,868.7	93,134.3	97,884.2
District Support Grant-ENB		2,500.0	2,500.0	2,500.0	2,500.0
District Support Improvement Program-ENB		40,000.0	40,000.0	40,000.0	40,000.0
Provincial Support Improvement Program- ENB		20,000.0	10,000.0	10,000.0	10,000.0
Support to LLGs - ENB		1,800.0	9,000.0	9,000.0	9,000.0
<b>589 West New Britain Provincial Government</b>	<b>109,020.0</b>	<b>108,877.4</b>	<b>108,700.8</b>	<b>104,542.1</b>	<b>107,986.8</b>
Operational		76,277.4	71,700.8	67,542.1	70,986.8
District Support Grant-WNB		1,500.0	1,500.0	1,500.0	1,500.0
District Support Improvement Program- WNB		20,000.0	20,000.0	20,000.0	20,000.0
Provincial Support Improvement Program- WNB		10,000.0	10,000.0	10,000.0	10,000.0
Support to LLGs - WNB		1,100.0	5,500.0	5,500.0	5,500.0
<b>590 Autonomous Bougainville Government</b>	<b>262,505.0</b>	<b>299,358.2</b>	<b>307,298.4</b>	<b>300,321.1</b>	<b>306,100.4</b>
Operational		127,977.0	120,298.4	113,321.1	119,100.4

PROVINCIAL SECTOR	2014	2015	2016	2017	2018
District Support Grant - ABG		2,000.0	2,000.0	2,000.0	2,000.0
District Support Improvement Program - ABG		30,000.0	30,000.0	30,000.0	30,000.0
Governance and Implementation Fund (GIF)		6,960.0	0.0	0.0	0.0
Inclusive Development in Bougainville		2,421.2	0.0	0.0	0.0
Provincial Support Improvement Program - ABG		15,000.0	10,000.0	10,000.0	10,000.0
Restoration and Development Grant		15,000.0	15,000.0	15,000.0	15,000.0
Restoration and Development Grant - Outstanding		30,000.0	30,000.0	30,000.0	30,000.0
Special Intervention Fund		70,000.0	100,000.0	100,000.0	100,000.0
<b>591 Hela Provincial Government</b>	<b>143,923.0</b>	<b>96,652.6</b>	<b>91,529.5</b>	<b>89,236.8</b>	<b>91,135.8</b>
Operational		42,052.6	39,529.5	37,236.8	39,135.8
District Support Grant-Hela		2,000.0	2,000.0	2,000.0	2,000.0
District Support Improvement Program-Hela		30,000.0	30,000.0	30,000.0	30,000.0
Hides Special Purpose Authority		7,000.0	7,000.0	7,000.0	7,000.0
Provincial Support Improvement Program-Hela		15,000.0	10,000.0	10,000.0	10,000.0
Support to LLGs - Hela		600.0	3,000.0	3,000.0	3,000.0
<b>592 Jiwaka Provincial Government</b>	<b>123,612.0</b>	<b>94,762.2</b>	<b>91,768.5</b>	<b>89,229.9</b>	<b>91,332.6</b>
Operational		46,562.2	43,768.5	41,229.9	43,332.6
District Support Grant-Jiwaka		2,000.0	2,000.0	2,000.0	2,000.0
District Support Improvement Program-Jiwaka		30,000.0	30,000.0	30,000.0	30,000.0
Provincial Support Improvement Program-Jiwaka		15,000.0	10,000.0	10,000.0	10,000.0
Support to LLGs - Jiwaka		1,200.0	6,000.0	6,000.0	6,000.0
<b>Grand Total</b>	<b>3,582,932.3</b>	<b>3,689,491.8</b>	<b>3,437,153.9</b>	<b>3,318,855.4</b>	<b>3,379,317.7</b>

Source: Department of Treasury

### 5.5.8 Social Sector

Funding for the Social Sector (outside of Health and Education) in 2015 will be K145.1 million (including K71.0 million in donor grants). In 2015 key funding for this sector is for the Department of Community Development K76.7 million, PNG Sports foundation K17.6 million and the National Museum and Art Gallery K21.7 million.

The Department of Community Development will be provided K16.0 million in 2015 including K30.6 million for programs targeting gender equality and gender based violence. The National Museum and Art Gallery is provided K21.0 million of which K13.0 million is continued funding to develop the art conference facility in Port Moresby under the International Conference Centre Project.

The 2015 Budget also continues support for the Church State Partnership Program providing K22.0 million. Supporting Church-delivered programs have proven to be an efficient and cost effective use of Government funding for improving delivery of basic health and welfare services in many areas where the Governments has no presence.

**Table 19: Social Sector 2014–2018 Expenditure (Kina million)**

SOCIAL SECTOR	2014	2015	2016	2017	2018
<b>NATIONAL DEPARTMENT</b>	<b>129,924.0</b>	<b>90,211.5</b>	<b>23,146.6</b>	<b>21,804.1</b>	<b>22,916.1</b>
<b>233 Office of Censorship</b>	<b>0.0</b>	<b>3,675.8</b>	<b>3,455.3</b>	<b>3,254.9</b>	<b>3,420.9</b>

SOCIAL SECTOR	2014	2015	2016	2017	2018
Operational	0.0	3,675.8	3,455.3	3,254.9	3,420.9
<b>242 Department of Community Development</b>	<b>127,074.0</b>	<b>81,652.9</b>	<b>15,101.6</b>	<b>14,225.7</b>	<b>14,951.2</b>
Operational		16,065.5	15,101.6	14,225.7	14,951.2
Child Protection		5,826.0	0.0	0.0	0.0
Church Partnership Program		21,977.9	0.0	0.0	0.0
Gender Equality/Gender Based Violence		30,631.9	0.0	0.0	0.0
Non State Actors Support Program		2,151.7	0.0	0.0	0.0
Social Protection Program		5,000.0	0.0	0.0	0.0
<b>243 National Volunteer Services</b>	<b>1,246.2</b>	<b>2,849.9</b>	<b>2,678.9</b>	<b>2,523.5</b>	<b>2,652.2</b>
Operational	1,246.2	2,849.9	2,678.9	2,523.5	2,652.2
<b>246 Office of Urbanization</b>	<b>1,603.8</b>	<b>2,032.8</b>	<b>1,910.8</b>	<b>1,800.0</b>	<b>1,891.8</b>
Operational	1,603.8	2,032.8	1,910.8	1,800.0	1,891.8
<b>COMMERCIAL &amp; STATUTORY AUTHORITIES</b>	<b>89,631.2</b>	<b>49,327.6</b>	<b>34,148.0</b>	<b>32,167.4</b>	<b>33,807.9</b>
<b>516 Papua New Guinea Sports Foundation</b>	<b>20,163.7</b>	<b>17,585.2</b>	<b>16,530.0</b>	<b>15,571.3</b>	<b>16,365.4</b>
Operational	20,163.7	17,585.2	16,530.0	15,571.3	16,365.4
<b>521 National Youth Commission</b>	<b>9,286.1</b>	<b>4,997.3</b>	<b>4,697.5</b>	<b>4,425.0</b>	<b>4,650.7</b>
Operational	9,286.1	4,997.3	4,697.5	4,425.0	4,650.7
<b>539 National Museum and Art Gallery</b>	<b>35,007.7</b>	<b>21,657.3</b>	<b>8,137.9</b>	<b>7,665.9</b>	<b>8,056.8</b>
Operational		8,657.3	8,137.9	7,665.9	8,056.8
International Conference Center - Landscaping Component		13,000.0	0.0	0.0	0.0
<b>542 National Cultural Commission</b>	<b>25,173.7</b>	<b>5,087.9</b>	<b>4,782.6</b>	<b>4,505.2</b>	<b>4,735.0</b>
Operational	25,173.7	5,087.9	4,782.6	4,505.2	4,735.0
<b>GRAND TOTAL</b>	<b>219,555.2</b>	<b>139,539.1</b>	<b>57,294.6</b>	<b>53,971.5</b>	<b>56,724.0</b>

Source: Department of Treasury

## 5.6 NON-FINANCIAL INSTRUCTIONS

To improve agency performance, accountability and transparency, the Government is issuing a number of non-financial instructions in the Budget context for implementation in 2015 and beyond. The instructions are intended to improve the performance of all agencies (national departments and statutory authorities and provincial administrations) who receive government funding.

The Government continues to note with concern high levels of agency non-compliance of some of the non-financial instructions issued in the 2014 Budget. From 2015, an agency's progress in implementing instructions will be monitored by the Department of Treasury. Quarterly status reports on performance levels, by agency, will be provided to the Central Agency Coordinating Committee and copied to Budget Ministers.

For ease of agency reporting, an implementation update is now required as part of the *Quarterly Budget Review* process conducted under the *Public Finance (Management) Act 1995*. A new template detailing the requested information will be provided via the *Quarterly Budget Review Budget Circular*.

The 2015 Budget non-financial instructions:

**Implementing Staffing Restructures** – The Government is committed to an efficient public sector. Over the last four years the size and remits of the National Government and sub-national governments has changed considerably as the Government moved to devolved service delivery to the subnational level. The size and structure of agencies must reflect this new service delivery model. From 2015, all agency restructures approved by the *Salaries and Conditions Monitoring Committee* (SCMC) must also go through the normal National Budget process for final approval. Budget approval and funding of the SCMC approved restructures is not automatic.

Agencies must not attempt to implement staffing restructures without Budget approval as this will cause Personnel Emoluments expenditure overruns. Agencies should also note that increases in salaries and allowances must be consistent with government agreed economic parameters, which have been signed off by the Department of Treasury.

**Loan Agreements for Capital Projects** – The Government is concerned about rising levels of Government interest payments and debt stock resulting from some agencies entering into loan agreements without the Government's approval on the proposed terms and conditions. Agencies must not independently enter into loan negotiations on their own behalf. All agencies must submit their projects to the Department of National Planning and Monitoring to appraise and include in the Public Investment Program.

The appraisal of projects is to be guided by the Vision 2050, PNG Development Strategic Plan 2010-2030 (DSP) and the Medium Term Development Plan (MTDP) consistent with the Medium Term Fiscal Strategy and the Medium Term Debt Strategy.

Decisions on financing options will be made by Department of Treasury in consultation with Department of National Planning and Monitoring.

Guidelines on the process for obtaining loan approval, including timeframes for reviewing the application, will be circulated by the Department of Treasury by end of March 2015.

**Customary Lands Acquisition Settlements**– The Government will put in place a process to resolve outstanding issues relating to customary land acquisition requests for payment. The process will be developed by the Department of Lands and Physical Planning in consultation with State Solicitor and provided to the Department of Treasury by 31<sup>st</sup> May 2015. No further funding will be provided in 2015 for land settlements until the new payment process has been put in place.

**Trust Fund Management** – The Government requires all agencies to report annually to the Department of Finance, by 30<sup>th</sup> September, on public monies held in Trust accounts managed or controlled by these GoPNG entities. The reports must include:

- the financial balance of the Trust account as at 31<sup>st</sup> August;
- the reconciled movements of funds in the Trust account up to 30<sup>th</sup> August;
- detailed information on Trust account expenditure, including currently year spending and planned expenditure in the coming Budget year;
- details of the interest earned on the Trust account during current financial year; and
- the legal authority under which the Trust account has been created and continues to operate.

The Department of Finance will report annually to: the Budget Screening Committee on the performance of individual agencies; and the National Executive Council on the management of Trust accounts across government.



**Funding for New Projects (K30.0 million and over)** – the Government has introduced a two-stage Budget approval process for new capital projects to better support government decision-making. From 1 January 2015 a funding threshold of K30.0 million and over will also apply to the new project approval process. Agencies seeking government resourcing over the funding threshold must comply with the two-stage Budget approval process:

- The first stage involves '*Initial Concept Approval*' seeking Budget Screening Committee initial approval of the project and agreement to come back the following year with a business case. The initial 'first stage' request should include justification for the new project and the estimated cost and benefits. The agency may also request government resources to cover the cost of preparing the comprehensive business case, including a detailed implementation plan.
- The second stage involves '*Final Government Approval*' submitting a comprehensive business case through the Budget process for consideration by Budget Screening Committee and final approval. The comprehensive business case should also include details of the total costs and funding profile that aligns with the detailed implementation plan.

Details on the features of a Budget business case are set out in the Consolidated Budget Operating Rules (CBORs), paragraph 2.17, page 8. Copies of the CBORs are available from the Department of Treasury website.

**Construction of New Office Complexes** – The Government will only fund the construction of new office complexes on a case-by-case basis and in line with current government policy.

The Government requires all funding requests to construct new office complexes to be forwarded for deliberation to the Departments of Personnel Management and the Office Allocation Committee.

The Office Allocation Committee will prepare a prioritised list of recommended office constructions, including total estimated costs, each year for consideration by the Budget Screening Committee.

Construction projects recommended for funding by the Budget Screening Committee and exceeding the 'new-projects' threshold of K30.0 million and over will then move through the two-stage Budget approval process.

**Recruitment of Staff without Budget Resourcing** - The Department of Personnel Management will report annually to the Budget Screening Committee all current year instances of agencies recruiting new staff without first securing the financial resources necessary to meet the personnel emoluments costs of the new appointees. The report should also provide advice on appropriate sanctions where evidence indicates that the Agency Head, or their delegate, had exceeded their powers.

*Agencies should note* - additional staff should only be recruited if government resources include funded vacancies. The Budget Screening Committee will only recommend the additional resourcing for the Budget year following approval by the Salaries and Conditions Monitoring Committee (SCMC). Agencies must not seek to recruit additional staff on the basis of SCMC approval without first securing appropriate government funding.

**Retrenchment and Retirement** -The Government continues to be concerned about the significant impact on the National Budget of the current retrenchment provisions, in particular the waste of maintaining unattached and effectively unemployed officers on the public sector

payroll pending their retrenchment or retirement. The Government also notes with concern the wide-range of responses by agencies to managing this issue.

The Department of Personnel Management has oversight responsibility for retrenchment and retirements across the public sector. The Government has provided the Department of Personnel Management with additional resources to facilitate this responsibility.

The Government will move to implement the following budgeting rules to standardise the public sector approach to managing this issue.

- Agencies must use the existing provisions set out in General Orders to determine the eligibility of unattached officer for retrenchment or retirement. Agencies should contact the Department of Personnel Management for guidance if they are unclear about implementing any aspect of the General Orders.
- Agencies must submit a report to the Department of Personnel Management on each eligible unattached officer to be considered for financial assistance.
- From 2016 Budget, agencies will be provided only one year of funding for each identified unattached officer. This funding is to allow time for agencies to conduct appropriate personnel management processes and resolve the unattached employment issue.
  - Agencies will be eligible to receive this budget funding where budget submissions include detailed information on each unattached officer. This information will be retained for future year funding and should include name, classification and any relevant retirement or retrenchment plans.
  - Additional budget funding (beyond the first year) will be considered only by exception and where detailed explanations have been provided.

Detailed employment information will be forwarded from the Budget Steering Committee to the Department of Personnel Management in accordance with the agency's oversight responsibilities and these instructions.

**Consolidated Revenue** – The Government will establish a review of existing arrangements for the hypothecation of revenues to agencies, with a view to returning all revenues to Consolidated Revenue for an annual allocation of operational funds through the Budget process. This will be a joint review led by the Department of Treasury and supported by the Department of Finance. Affected agencies will be consulted on the appropriate level of operational funding required to carry out their legislative requirements, in lieu of the existing hypothecation arrangements. The review will be provided to National Executive Council before mid-2015 for implementation in 2016 Budget.

**Provincial Governments' Payroll Management** - The Government notes with concern the consistent trend among Provincial Governments to over spend on salaries paid through the national Alesco payroll system without justification. The Government has identified the worst offenders and has directed the Department of Personnel Management to withdraw personnel delegations from the offending Provincial Administrations until ineligible individuals are removed from the National payroll by the Provincial Administrations and the Department of Finance. Reviewing the performance of Provincial Administrations is an ongoing responsibility of the Department of Personnel Management. The withdrawal of personnel delegations from Provincial Administrations will continue where significant breaches are identified.

**Agency Payroll Debts to the Department of Finance** – Departments of Finance and Treasury will report annually to the Budget Screening Committee on options to resolve the

outstanding payroll debts of agencies administered under the Finance portfolio. Affected agencies will be consulted in developing options to resolve the outstanding debts, with due consideration to their capacity to repay. In addition, the joint report will include appropriate options for enforcing penalties for non-repayment.

**Subscriptions and Memberships** – the Government has expressed concern about the substantial amount of resources being spent annually by agencies for membership of international and regional organisations. The Government has requested the Department of Finance to review the subscription and membership fees of all agencies to identify where quantifiable outcomes for PNG have been achieved. The Department of Finance will report to National Executive Council by mid-2015 on the findings of this review and include:

- a timetable for ceasing those subscriptions and memberships that have not delivered for PNG and the potential savings; and
- propose criteria for government membership of international and regional organisations in the future.

The Department of Finance will each year provide the total cost to the Budget Screening Committee of the international and regional organisations memberships endorsed by National Executive Council, beginning with 2016 Budget.

**Legislative Reviews** – To ensure the integrity of the PNG legal system all legislative reviews must be undertaken in consultation with the Constitutional Law Reform Committee, which is the mandated government agency responsible for oversight and review of State legislation.

**Internal Audit Committees** - In 2014 Budget the Government directed each agencies to establish a functioning internal audit committee in line with the *Public Management Act 1995* (Financial Instructions, Division two). It is the government's intention to improve the transparency and accountability of government expenditure. The 2015 Budget process has identified a number of agencies have not moved to implement this government instruction. Agencies will be given until 31 March 2015 to establish a committee and notify the Department of Finance. Agencies that fail to comply will be referred to the next meeting of the National Executive Council for appropriate action.

**Financial Performance Reporting** - The Government requires all State Owned Enterprises and State Authorities to report on their quarterly financial performance to the Department of Treasury. State Owned Entities must also report to the *Independent Public Business Corporation*.

The reports should include as a minimum the following financial information: quarterly revenue, expenses, net profit, capital expenditure, total assets, total liabilities and any dividend payments. The report should also explain any material trends or events that have impacted the reporting period or could be expected to affect performance against future projections.

Relevant agencies must ensure their report is submitted to the Department of Treasury not later than one calendar month from the end of each reporting quarter.

**Provincial and Local Level Government (LLG) Revised Budgets** – The Government is concerned that provincial administrations and LLGs are not submitting their revised budgets on time and their revenue projections for off-budget income are increasingly different to the final year outcome. All revised budgets must now be completed by 30 June each year and reported in 2<sup>nd</sup> Quarterly Budget Reviews. To improve full year revenue estimates, all revised budgets will report year-to-date actuals against the estimated projections of all off-

budget income and submit revised estimates where total revenue is found to be underestimated or overstated.

#### **AGENCY SPECIFIC INSTRUCTIONS:**

In addition to the above decisions the Government has made a range of recommendations in relation to specific agencies. These include:

**Staffing and Establishment Audits (Department of Treasury, Finance and Personnel Management)** Human resource audits on staffing and establishment levels across the public sector will continue throughout 2015. This is to support the Government's policy of 1PPP (1 person, 1 position and 1 pay). The audits will be an ongoing activity conducted by the Department of Personnel Management, in consultation with Departments of Finance and Treasury. The purpose of the audits will be to monitor payroll data to identify those agencies that are overspending against their personnel emolument appropriations and advise on payroll management issues. To facilitate this outcome the three departments will meet regularly, as part of the *Quarterly Budget Review*, and share payroll data and information.

The Department of Personnel Management will annually report to Budget Screening Committee on the outcome of the payroll audits.

**NASFUND** - The financial health and strong financial position of NASFUND indicates there may no longer be a need to provide ongoing Budget support. The Department of Treasury will discuss with NASFUND options and mechanisms for withdrawing Budget funding for the entity and report to National Executive Council by 31<sup>st</sup> March 2015.

**Central Supply and Tenders Board (CSTB)** – The Government is concerned about the length of time taken for agencies to obtain approval to undertake a tender process. The CSTB will draft a set of clear guidelines by 31<sup>st</sup> March 2015 on the tender approval process, including the length of time required for each stage of the process. These guidelines should be developed in consultation with affected agencies and endorsed by the National Executive Council. The Department of Finance will report annually to National Executive Committee, through the Chief Secretary's Office, on CSTB's compliance with the service obligations specified under the new guidelines.

**Border Security** - the Government notes an increasing number of agencies are becoming involved in various elements of border security. To ensure that these activities are properly coordinated the Government has instructed that a co-ordinating committee of relevant agencies be established by 31<sup>st</sup> March 2015 and chaired by the Department of Defence. Participating agencies should include Police, NIO, and the BDA.

The Department of Defence will report annually to Budget Screening Committee on the work of the Committee, including any recommendations for Budget funding.

**National Narcotics Bureau (NNB)** - the Government recognises the importance of the function of the NNB. However, this function will not be effectively delivered until the current management issue regarding the appointment of an Agency Head is resolved. The Minister for Police must pursue this management issue with the National Executive Council to ensure an appointment is made effective prior to 2015 financial year. Failure to meet this administrative requirement will result in an amalgamation of the NNB's operational funding with the Police Department.

**Police, Correctional Services and Defence** – All elements of the disciplined services appear to have difficulty in controlling expenditure on the utilities of facilities and properties under their control, particularly water and electricity. These agencies are to implement

measures in 2015 to control this expenditure and report to 2016 Budget Screening Committee on their effectiveness to reduce cost.

In addition, the disciplined services must implement the Prime Minister's directive of "users pay" and install power and water meters in all barracks housing. This task is to be implemented by the Department of Works and the Department of Personnel Management and funded by the relevant disciplined service.

The Department of Police will take the lead on both components of this instruction and report to the Budget Screening Committee on implementation for 2016 Budget.

**Department of Health** - The Department of Health in partnership with Department of Treasury will conduct a review into the process for distributing medical supplies to hospitals and health clinics to ensure there are no leakages and medical drugs are distributed to the appropriate point of distribution. The review will also include a process audit of the logical arrangements of the current service to ensure efficient and effective delivery.

The Departments will table the report, including recommendations and estimated costs, to the Budget Screening Committee for consideration in the 2016 Budget process.

In addition, the Department of Health will now conduct annual reviews on the type and volume of medical drugs listed for procurement and distribution for the Budget year. The focus of the review will be to assess the relevance and responsiveness of the medical drugs supplies listed to meet expected medical needs. The outcomes of the Department of Health's annual assessment will be provided to the Budget Screening Committee through the Budget process.

**PNG Fire Services** - The Government has provided additional resources in 2015 to help address its concern about the ability of the PNG Fire Services to adequately contain high rise building fires. Further access to the equipment funding will be contingent on the PNG Fire Services reporting to the National Executive Council on options for generating ongoing funding to maintain the new fire fighting equipment. Fund raising options that should be considered include introducing an annual fire services levy on insurance premiums for high rise building and/or property levy on the owners of all commercial buildings.

**Solicitor General** - Ineffective management by agencies of legal claims is a continuing problem and exposes the State to significant financial risk. In 2015, the Office of the Solicitor General will develop and implement an information and training program to better educate agencies on options and strategies for managing current and future claims. The Office of the Solicitor General will report to the Office of the Chief Secretary on the implement of this instruction by 30 June 2015.

In addition, the cost of agencies hiring private law firms is placing an enormous financial burden on government resources. The Office of Solicitor General will put in place a process for seeking the Solicitor General approval to hire private law firms. This instruction is in the interest of national security and is a cost saving measure for the Government. The Office of Solicitor General will report to the Office of the Chief Secretary on the successfully completion of the instruction by no later than 30 June 2015.

**National Road Authority (NRA)** - The Government ceased to fund the agency's operational funding from 2011 as the agency receives significant off-Budget revenue from road user charges to meet these running costs. The road user charge of 4 toea per litre diesel levy collected on behalf of the NRA by the IRC is held in an off-budget account. While, the road levy generates approximately K16.0 million annually the Government is concerned that more revenue could be generated by applying the levy to exported diesel. The NRA will report to

National Executive Council by 31<sup>st</sup> March 2015 on current expenditure and revenue, including options for raising more revenue and self-funding road maintenance.

**Department of Personnel Management** – To improve the accuracy of allowance payments the Department of Personnel Management will conduct an annual payroll data audit to monitor the payments of the Domestic Market Allowance and the Special Domestic Market Allowance to verify the accuracy of payments. This exercise will further enhance the integrity of the Human Resource system across the public sector and improve the financial management of the National Budget.

Agencies found not to be compliant, including paying old allowances and permits, will be reported to the Central Agencies Coordinating Committee through the Office of the Chief Secretary and to Budget Ministers.

## 5.6 CONSOLIDATED BUDGET OPERATING RULES

The Government will put in place a set of budgeting rules detailing government budget policies and processes to be adopted by agencies through the financial year and when preparing budget submissions. The new Consolidated Budget Operating Rules (CBORs) will be the authoritative source of information for agencies seeking to comply with the Government's fiscal framework and will act as a 'first screen' of agencies funding bids during the Budget process.

The CBORs will be updated annually by the Departments of Treasury and National Planning and Monitoring, for endorsement by National Executive Council.

All queries relating the CBORs should be directed in the first instance to the Budget Coordination Unit of Department of Treasury.

Copies of the COBRs can be obtained from the Department of Treasury or by visiting the website.

## 5.7 TRUST ACCOUNTS

This section provides a summary of balances for budget funded trust accounts (trust accounts) as at 30<sup>th</sup> September 2014. These trust accounts contain funds appropriated through additional priority expenditure (APE), supplementary budget expenditure (SBE) and annual Budgets.

The purpose of holding funds in trust accounts is to spread public investment spending over time to manage inflationary and demand pressures in the economy and to provide time for implementing agencies to properly design implementation strategies.

The closing balance as at 30<sup>th</sup> September 2014 totalled K602.3 million. A total of K329.2 million was appropriated for trust accounts in 2014 Budget, of which K209.2 million was released to the trust accounts and K120.0 million still outstanding from the 2014 Budget.

## 5.8 SUMMARY OF TRUST ACCOUNT MOVEMENTS

Since 2005 a total of K8,301.4 million, up to and including the 2014 Budget has been paid into trust accounts for implementation of priority expenditure programs. These Trust Accounts have largely been funded from additional mineral revenue in supplementary budgets and annual budgets. The purpose of holding funds in trusts is to give time to agencies to properly plan and implement projects.

Table 20 provides a summary on the movement of fund in and out of Budget Funded Trust Accounts from 2005 to 2004.

**Table 20: Summary of Trust Accounts Movements since 2005 - 2014 (Kina million)**

Year	Deposits from SBE & APE (1)	Deposits from Annual Budgets & Interest	Spending from Trust Accounts	Net Savings (Deposits less Spending)
2005	400		0	400
2006	568.4		0	568.4
2007	1,283.0		76	1207
2008	1,501.4	36.5	480.5	1,057.4
2009	0.0	627.2	2,365.90	-1,738.7
2010	0.0	887.2	818.3	68.9
2011	628.5	598.2	1,426.30	-199.6
2012	398.0	428.0	1,095.0	-269.0
2013	285.8	450.0	537.1	198.7
2014 (30 Sept)*	0.0	209.2	244.8	-35.6

Source: Department of Finance and Department of Treasury

\*The trust movement (transactions) is up to 30<sup>th</sup> June as reported in 2014 Mid-Year Economic Fiscal Outlook.

The last column of Table 20 shows the broad fiscal impact of movements in trust accounts. A positive figure indicates that deposits exceed expenditure whilst a negative figure indicates that expenditure exceeds deposits.

Some of the major areas of funding from trust accounts include District Services Improvement Program, PNG LNG Additional Equity, LNG Infrastructure Development Grants, LNG High Impact, Bougainville Restoration & Development and 2015 Pacific Games.

The quality and effectiveness of spending from trust accounts is unclear as there is lack of detailed expenditure reports from implementing agencies. Also, note that information on trust movements for 2013 reflects up to August 2014 in Table 20 above. This is due to unavailability of most recent (up to 30<sup>th</sup> September) information. More information on the trust movements in 2014 will be provided in the 2014 Final Budget Outcome (FBO) Report.

## 5.9 APPROPRIATION FOR TRUST ACCOUNTS: 2013 - 2014

A total of K329.2 million has been appropriated for trust accounts in the 2014 Budget. Of this, K209.2 million has been paid into trust accounts as at 30<sup>th</sup> September 2014, with the remainder to be paid when funds become available later in 2014. A total of K778.0 million will be appropriated for budget funded trust accounts in the 2014 Supplementary Budget and the 2015 Budget.

**Table 21: Appropriation for each Trust Account 2014-2015 (Kina million)**

Expenditure Programs	Appropriation for Trust Accounts	Appropriations paid into Trust Account	Appropriations yet to be released
<b>2014 BUDGET</b>			
2015 Pacific Games	59.2	59.2	0.0
Infrastructure Development Grant (USBA)	120.0	0.0	120.0
Restoration and Development Grant (AGB)	100.0	100.0	0.0

<b>Expenditure Programs</b>	<b>Appropriation for Trust Accounts</b>	<b>Appropriations paid into Trust Account</b>	<b>Appropriations yet to be released</b>
High Impact Projects (USBA)	50.0	50.0	0.0
<b>TOTAL</b>	<b>329.2</b>	<b>209.2</b>	<b>120.0</b>
<b>2014 SUPPLEMENTARY BUDGET</b>			
2015 Pacific Games	250.0	0.0	00.0
<b>TOTAL</b>	<b>250.0</b>	<b>0.0</b>	<b>00.0</b>
<b>2015 BUDGET</b>			
2015 Pacific Games	360.0	0.0	0.0
Infrastructure Development Grant (USBA)	120.0	0.0	0.0
Restoration and Development Grant (AGB)	30.0	0.0	0.0
High Impact Projects (USBA)	10.0	0.0	0.0
<b>TOTAL</b>	<b>520.0</b>	<b>0.0</b>	<b>0.0</b>

Source: Department of Treasury

#### 5.10 TRUST ACCOUNT FUND MOVEMENTS IN 2014

Data on the transactions (credit and debits) in the trust accounts for the period 1<sup>st</sup> January to 30<sup>th</sup> September 2013 could not be provided due to insufficient information regarding the details. Reporting will only be on trust account balances up to 30<sup>th</sup> September 2014. A more detailed report on trust accounts including credit and debit information for 2014 will be provided in the 2014 FBO report.

Opening balance of Budget Funded Trust Accounts from 1<sup>st</sup> January, 2014 totalled K710.4 million and closing balance as at 30<sup>th</sup> September 2014 totalled K602.3 million. Table 22 shows the Budget Funded Trust Account balances from 1<sup>st</sup> January up to 30<sup>th</sup> September 2014.

**Table 22: Trust Account Movements from 1<sup>st</sup> January to 30<sup>th</sup> September 2014 (Kina million)**

<b>Description</b>	<b>Opening Balance as at 1<sup>st</sup> Jan 14</b>	<b>Balance as at 30<sup>th</sup> Sept 14</b>
Education Sector Infrastructure Rehabilitation	1.1	0.8
Higher Education Sector Infrastructure Rehabilitation	2.2	9.7
Transport Sector Infrastructure Rehabilitation	8.4	48.3
Resettlement of Rabaul Volcano Victims	0.1	0.2
Rehabilitation of Housing for Nurses	0.2	0.2
Rehabilitation of Housing for Police	18.7	25.3
District Services Improvement Program <sup>1</sup>	65.4	38.3
Urbanisation Pilot	4.2	2.9
Rural Electrification	0.0	0.0
Regional, Provincial Treasury and District Admin. Offices	0.2	0.2



Description	Opening Balance as at 1 <sup>st</sup> Jan 14	Balance as at 30 <sup>th</sup> Sept 14
LNG Project Development Cost	6.5	2.0
Infrastructure Development Grants <sup>1</sup>	131.9	78.1
Public Service Program	3.0	2.8
Public Service Audit Program	3.0	4.7
National Planning Committee	0.1	0.1
Coastal Vessels	0.1	0.1
Highlands Highway Rehabilitation	0.0	0.0
Lae City Roads Rehabilitation	0.0	2.1
Madang Marine Park	0.0	9.4
Rural District Roads Support	2.1	0.0
PNG LNG High Impact Infrastructure <sup>1</sup>	43.4	1.1
District Offices Rehabilitation	0.0	0.4
Mining Legal Costs	0.3	0.1
ABG Mining	0.1	0.8
Port Moresby Roads	0.0	0.3
Tuition Fee Free Education	92.4	90.3
Port Moresby General Hospital Infrastructure and Improvement	0.0	0.0
Restoration and Development Grant (ABG)	151.8	118.8
PNG LNG Additional Equity	0.7	0.7
2015 Pacific Games	89.3	85.8
Trade Skills Scholarships	3.5	8.4
Tuition Fee Free Education - Component	40.0	8.0
NCD Roads	9.0	15.7
NCD Institutional Roads	0.0	15.7
Central Malalaua Highway	9.0	9.0
Trans East-West New Britain Highway	0.0	0.0
Kokopau to Arawa Road Upgrading	2.6	0.0
Provincial Bookmaking	1.4	0.0
Rural Airstrips Rehabilitation & Maintenance	6.0	1.8
PDL 1 Hides LBBSA – BDG	1.1	1.1
PDL 8 – Angore LBBSA BDG Account	12.0	12.0
PNG LNG Project Royalty	0.0	6.8
<b>TOTAL</b>	<b>709.8</b>	<b>602.2</b>

Source: Department of Finance and Department of Treasury

1. DSIP Trust Account gives the sum of the amount in the main bank (BPNG) and the DSIP subsidiary bank accounts.

## 5.11 DISTRICT SERVICE IMPROVEMENT PROGRAM TRUST ACCOUNTS

A total of K1, 780.0 million, since 2008 until the 2012 Budget, has been appropriated for the District Service Improvement Program (DSIP). Since that period DSIP appropriation was paid into the 89 DSIP Trust Accounts. For ease of management of these funds, separate bank accounts for each of the 89 Districts were established.

Note that since the Government opting for multi-year budgeting commencing in 2013 all 89 districts were funded K10.0 million for each district released through their District Treasury Operating Accounts straight from the 2013 budget. It was the same for the Budget 2014. The total of DSIP funding to the districts through the multi-year budgeting from 2013-2014 equates to K1,780.0 million.

All in all a grand total of K3,560.0 million, up to and including the 2014 Budget has been appropriated for the District Services Improvement (DSIP).

The opening balance as at 1<sup>st</sup> January 2014 of the 89 DSIP Trust Accounts was K53.9 million and the closing balance as at 30<sup>th</sup> September 2014 was K38.3 million. Table 23 below shows the balances of the DSIP subsidiary trust accounts.

The Department of Finance, in consultation with the Department of National Planning and the Office of Rural Development, developed a Finance Instruction which provides guidance on the use and management of the DSIP funds. Monitoring of the implementation of the DSIP Program is undertaken by the Office of Rural Development with the support of the respective 89 Districts.

To date limited financial or project reporting has been provided by the implementing agencies including the relevant Districts to the Department of Finance.

**Table 23: Bank Balances of the 89 District Service Improvement Program Bank Accounts from 1<sup>st</sup> January 2014 to 30<sup>th</sup> September 2014**

District	Total Fund Paid into Trust since 2012	Opening Balance as at 1 <sup>st</sup> January 2014	Balance as at 30 <sup>th</sup> September 2014
Abau	20,000,000.00	44.47	0.0
Goilala	20,000,000.00	2,850.50	2,770.50
KairukuHiri	20,000,000.00	34,843.24	34,763.24
Rigo	20,000,000.00	1,502.07	1,422.07
Gazelle	20,000,000.00	310,117.03	604.61
Kokopo	20,000,000.00	141,083.12	114,104.82
Pomio	20,000,000.00	98,292.70	7,854.38
Rabaul	20,000,000.00	1,182,817.06	1,183,072.75
Ambunti-Drekikir	20,000,000.00	27,132.02	27,000.02
Angoram	20,000,000.00	2,456,531.83	2,274,219.45
Maprik	20,000,000.00	408,890.42	408,940.39
Wewak	20,000,000.00	1,955,233.41	1,905,731.77
Wosera-Gawi	20,000,000.00	471,181.00	69,983.83
Yangogoru-Saussia	20,000,000.00	74.47	0.00
Daulo	20,000,000.00	182,760.55	35,423.00
Goroka	20,000,000.00	68,299.72	57,425.72
Henganofi	20,000,000.00	5,035.03	4,955.03
Kainantu	20,000,000.00	1,203.63	1,103.63
Lufa	20,000,000.00	14,306.75	14,226.75
Obura-Wanenara	20,000,000.00	733,995.53	734,098.84
Okapa	20,000,000.00	25,207.50	5,027.50
Unggai-Bena	20,000,000.00	426,300.63	0.00
Kandep	20,000,000.00	13,400.29	13,268.29

<b>District</b>	<b>Total Fund Paid into Trust since 2012</b>	<b>Opening Balance as at 1<sup>st</sup> January 2014</b>	<b>Balance as at 30<sup>th</sup> September 2014</b>
Kompam-Ambun	20,000,000.00	6,755.56	6,675.56
Lagaip-Porgera	20,000,000.00	16,208.34	1,684.26
Wabag	20,000,000.00	26,945.35	26,865.35
Wapenamanda	20,000,000.00	154.76	50.76
Kerema	20,000,000.00	12,789.01	12,709.01
Kikori	20,000,000.00	4,124.00	4,020.00
Bogia	20,000,000.00	2,383,526.01	292,410.76
Madang	20,000,000.00	233,531.98	233,451.62
Middle Ramu	20,000,000.00	2,215.46	2,120.46
Raikos	20,000,000.00	6,582.00	1,889.85
Sumkar	20,000,000.00	69.31	0.03
Usino-Bundi	20,000,000.00	73,292.89	73,142.89
Manus	20,000,000.00	5,001,242.20	5,002,752.13
Alotau / Rabaraba	20,000,000.00	236,761.34	17,276.02
Esa'ala	20,000,000.00	351,258.54	351,075.73
Kiriwina	20,000,000.00	234,609.36	212,781.45
Samarai Murua	20,000,000.00	3,846.11	3,766.11
Bulolo	20,000,000.00	21,793.57	21,653.57
Finschafen	20,000,000.00	3,066,609.14	2,664,129.50
Huon Gulf	20,000,000.00	685,260.64	122,437.87
Kabwum	20,000,000.00	-8.11	0.00
Lae	20,000,000.00	559.44	479.44
Markham	20,000,000.00	3,715,859.49	555,354.31
Menyamy	20,000,000.00	477,061.74	116,515.43
Nawaeb	20,000,000.00	136,691.31	136,587.31
Tewa-Siassi	20,000,000.00	2,321,149.49	2,184,318.23
Moresby North East	20,000,000.00	121,181.89	121,101.89
Moresby North West	20,000,000.00	162.18	82.18
Moresby South	20,000,000.00	32,591.35	32,527.18
Kavieng	20,000,000.00	357,602.84	295,496.25
Namatanai	20,000,000.00	1,155,607.93	853,418.86
Central Bougainville	20,000,000.00	1,341,786.40	5,988.85
North Bougainville	20,000,000.00	8,355.39	8,185.39
South Bougainville	20,000,000.00	177,292.42	96,730.82
Ijivitari	20,000,000.00	233,985.87	98,306.87
Sohe	20,000,000.00	633,186.26	25,258.17
Aitape-Lumi	20,000,000.00	29,135.09	29,031.09
Nuku	20,000,000.00	203,519.14	115.14
Telefomin	20,000,000.00	96.31	0.00
Vanimo-Green	20,000,000.00	3,838,384.89	3,839,505.13
Chuave	20,000,000.00	17,280.19	13,150.19
Gumine	20,000,000.00	665,397.92	665,494.43
Karamui-Nomane	20,000,000.00	687,023.02	25,749.76

<b>District</b>	<b>Total Fund Paid into Trust since 2012</b>	<b>Opening Balance as at 1<sup>st</sup> January 2014</b>	<b>Balance as at 30<sup>th</sup> September 2014</b>
Kerowagi	20,000,000.00	1,440.40	1,305.40
Kundiawa-Gembogl	20,000,000.00	537,820.26	22,169.10
Sinasina-Yongumugl	20,000,000.00	1,002,917.66	7,864.90
Ialibu-Pangia	20,000,000.00	3,125,469.70	3,001,459.54
Imbongu	20,000,000.00	163,069.36	0.04
Kagua-Erave	20,000,000.00	74,580.42	74,435.42
Komo-Magarima	20,000,000.00	96.79	16.79
Koroba-L/Kopiago	20,000,000.00	28,751.14	28,671.14
Mendi	20,000,000.00	2,227,184.88	374,914.97
Nipa-Kutubu	20,000,000.00	8,561.37	8,481.37
Tari-Pori	20,000,000.00	999,965.33	1,000,203.22
Kandrian	20,000,000.00	151,587.83	151,567.83
Talasea	20,000,000.00	2,546.44	2,526.44
Middle Fly	20,000,000.00	168,134.84	168,174.03
North Fly	20,000,000.00	19,971.99	19,951.99
South Fly	20,000,000.00	4,313,282.75	4,313,719.78
Dei	20,000,000.00	251,455.84	251,462.48
Hagen	20,000,000.00	3,643,738.43	3,644,104.52
Jimi	20,000,000.00	0.00	0.00
Mul/Bayer	20,000,000.00	124,695.43	124,675.43
North Waghi	20,000,000.00	730.61	710.61
South Waghi	20,000,000.00	36.76	10.76
Tambul-Nebiler	20,000,000.00	1,526.76	1,506.76
<b>TOTAL</b>	<b>1,780,000,000</b>	<b>53,930,145</b>	<b>38,248,219</b>

Source: Department of Finance

## CHAPTER 6. FINANCING & DEBT STRATEGY

### 6.1. OVERVIEW

The Government stock of debt continued to grow in 2014 as it issued increased volumes of domestic and external debt to the market to fund its budget deficit, largely due to its development needs. This coincided with an increase in interest rates and a fall in demand for its Treasury Bills and Inscribed Stock.

In 2015, the stock of debt is expected to fall slightly following the Government's decision to proceed with the sale of equity in the LNG project to landowners. Proceeds from the transaction will be used to retire debt, which should lead to a reduction in refinancing and interest rate risk within the domestic portfolio. Whilst there will be a requirement to increase debt in 2016, it is envisaged that for the following three years issuance will only be for the purpose of refinancing maturing debt. The debt to GDP ratio is expected to fall over the next 5 years to levels well below the current 30 per cent limit defined in the *Fiscal Responsibility Act 2006* (FRA).

Over the next 5 years the Government will seek to re-balance its domestic debt portfolio, by reducing the amount of Treasury Bills on issue relative to inscribed stock. This will in turn lengthen the maturity of its domestic portfolio.

Development partners' provide assistance in the form of foreign currency project loans. As expected the Government's vision is to ensure that all respective projects are implemented to meet its development needs. This is expected to continue in 2015.

### 6.2. FINANCING DEVELOPMENT

The estimated budget deficit is projected to be K2,272.2 *million* in 2015, which is slightly lower than the estimated deficit of K2,429.0 million in 2014.

In 2014 the State's financing methods comprised:

- issuance of Kina denominated Inscribed Stock and Treasury Bills via tender for general funding. These were done at monthly and weekly intervals respectively; and
- foreign currency denominated loans from our development partners for specific projects.

In 2015, Treasury will examine options to broaden the range of financing tools to complement its traditional financing methods. These may include a sovereign bond issue and development of a retail trading facility aimed at small investors outside the wholesale market.

#### **6.2.1 Foreign currency denominated loans from development partners**

Foreign currency denominated loans are primarily concessional loans from bilateral or multilateral development partners and are generally repayable over 20-32 years.

In 2015, the Government intends to undertake net financing of K811.0 million (comprised of expected gross borrowings of K986.8 million and repayment (amortisation) of K175.8 million). This represents an increase of 17.9 per cent on the 2014 net financing program.

### **6.2.2 *Inscribed Stock issued via tender***

Inscribed Stocks are bond securities of varying maturities (3 to 17 years) issued domestically via competitive tender. They pay a fixed coupon semi-annually, and on maturity the face value of the bond is repaid.

The 2014 Inscribed Stock issuance program of K1,920.0 million, which was 35.6 per cent higher than the previous year's program, placed considerable pressure on the local capital market to absorb a large quantity of stock by historic standards. As a result, yields pushed higher and investor demand waned considerably over the year. The average coverage ratio for tenders for the 2014 year to date is around 1.3 times, compared with 1.9 for the previous year. The fall in the coverage ratio can be attributed to the narrowing investor base and inability of a smaller market to absorb large amounts of Kina denominated stock. Given this, Treasury plans to look at a range of options aimed at broadening the investor base and expanding the number of available financing methods to raise funds.

The Inscribed Stock secondary market continues to be largely inactive constraining some investors from participating in the primary market due to the lack of secondary market liquidity. Once again the 2014 year saw small levels of secondary trading occurring for liquidity reasons.

In 2015, gross issuance of Inscribed Stock is estimated to be K1,200.0 million (37.5 per cent lower than 2014) with maturities of K491.1 million. Net issuance is estimated to be K708.9 million, which will assist in lengthening the average maturity of the domestic debt portfolio to reduce refinancing risk (the risk of being unable to roll over the debt when it matures). This will lead to a reduction in the stock of Treasury Bills on issue.

Issuance in 2015 will commence on a monthly basis beginning in January, with further details to be released early next year following discussions with market participants.

### **6.2.3 *Treasury Bills issued via tender***

Treasury Bills are a discount security issued for 182 days or 364 days via competitive tender. Treasury Bills are issued at a discount from the amount repaid at maturity, with this discount representing the interest earned by the investors.

Like Inscribed Stock, Treasury Bill issuance in 2014 was characterised by rising interest rates and reduced demand by investors. Interest rates rose steadily over the year, with the yield on the 182 day security increasing from around 2.5 per cent at the beginning of the year to 4.58 per cent near year end. Similarly, the 364 day security increased from 3.8 per cent to 7.40 per cent over the same period. The coverage ratio for tenders for the 2014 year to date is around 0.82 times, compared to 1.41 in 2013.

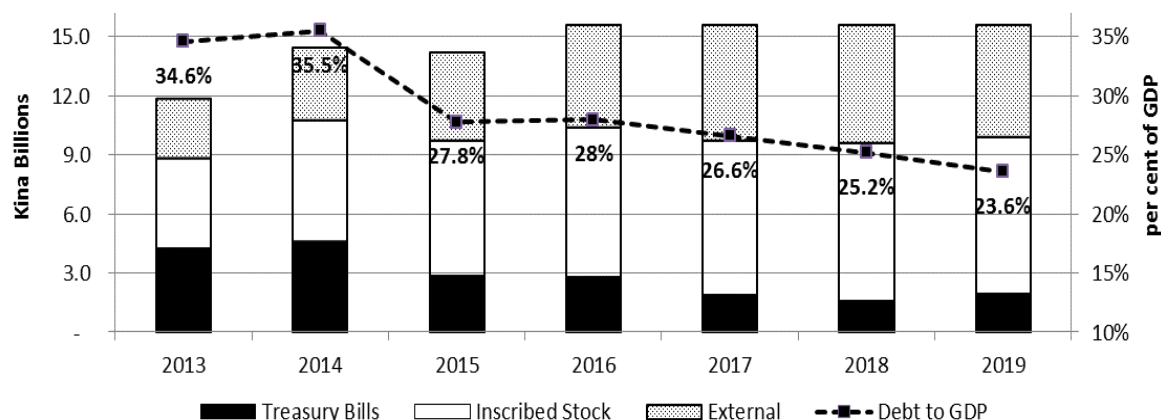
In 2015, gross issuance of Treasury Bills is estimated to be K6,379.8 million, a 11.4 per cent decline in issuance from 2014 levels with maturities of K8,127.5 million. Net amortisations is projected to be K1,747.7 million for 2015.

Treasury Bills will be issued most weeks of the year with maturities of 182 and/or 364 days offered.

### 6.3. PUBLIC DEBT

Total public debt is estimated to decrease from K14,488.4 million in 2014 to K14,260.4 million at the end of 2015. This decrease is attributed to the expected proceeds from the sale of equity in the PNG LNG project exceeding the projected 2015 budget deficit. In terms of the debt targets outlined in the FRA, debt as a share of nominal GDP is projected to fall from 35.5 per cent in 2014 to 27.8 per cent in 2015. Going forward the debt to GDP ratio is expected to rise slightly in 2016 before falling again over the forward years. The ratio is projected to fall to 23.6 per cent in 2019.

**Figure 29: Debt Portfolio Composition**



Source: Department of Treasury

#### 6.3.1 Domestic Debt

Total domestic debt at the end of 2014 is expected to be K10,768.1 million, an increase of K1,922.9 million or 21.7 per cent from the previous year. In 2015, domestic debt is expected to be K9,729.3 million, a decrease K1,038.8 million or 9.6 per cent.

Domestic debt comprises Treasury Bills and Inscribed Stock on issue. Revised estimates for the portfolio will be updated at MYEFO.

The domestic debt portfolio seeks to maintain a balance of short-term to long-term debt in the portfolio to reduce the level of refinancing risk within the portfolio whilst benefiting from the interest savings offered by short-term debt.

At end of 2014 Treasury Bills are expected to comprise 42.4 per cent of the domestic debt portfolio. Over the forward years the domestic debt portfolio will be restructured to reduce the level of short-term debt it contains to increase the average debt maturity profile of the debt portfolio.

#### 6.3.2 External Debt

External debt at the end of 2014 is expected to be K3,720.3 million, an increase of K687.8 million or 22.7 per cent from the previous year. In 2015, external debt is projected to increase by a further K811.0 million or 21.8 per cent.

The external debt of PNG continues to be provided by international agencies (multilateral and bilateral creditors). International agencies provide project finance for many of our development projects, so as capital works progresses on infrastructure projects, the level of this borrowing will increase. The loans' terms usually provide for a grace period of five years for principal repayments and repayment of principal by instalments over a 20 year period.

**Table 24: 2015 Central Government Financing (Kina million)**

Financing Source	Est. Balance 2014 end	Est. Repayment 2015	Est. Borrowing 2015	Est. Balance 2015 end	Net Change 2015
<b>Domestic Debt</b>	<b>10,768.1</b>	<b>8,618.6</b>	<b>7,579.8</b>	<b>9,729.3</b>	<b>-1,038.8</b>
Treasury Bills	4,564.3	8,127.5	6,379.8	2,816.5	-1,747.8
Inscribed Stock	6,203.8	491.1	1,200.0	6,912.8	709.0
<b>External Debt</b>	<b>3,720.3</b>	<b>175.8</b>	<b>986.8</b>	<b>4,531.3</b>	<b>811.0</b>
International Agencies	3,720.3	175.8	986.8	4,531.3	811.0
Commercial Loans	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>14,488.4</b>	<b>8,794.4</b>	<b>8,566.6</b>	<b>14,260.6</b>	<b>-227.8</b>
<b>% of Nominal GDP</b>	<b>35.5%</b>			<b>27.8%</b>	

Source: Department of Treasury

**6.3.3 State Guaranteed Debt and Other Liabilities**

Guarantees involve significant financial risk, so much so Treasury is continuing to work towards producing a policy to guide the granting of all future guarantees. This is expected to be completed and endorsed in 2015.

Given there is significant risk, State guarantees are only given in exceptional circumstances. This includes the completion guarantee that the Government issued for the State's share of the PNG LNG project debt of around US\$2.7 billion (K6.7 billion). This is expected to be extinguished next year.

In addition, the State has unfunded public service superannuation liabilities of around K2.1 billion.

**6.4. MEDIUM TERM DEBT STRATEGY**

The objective of the Medium Term Debt Strategy 2013–2017 (the Debt Strategy) is to minimize 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.

**6.4.1 Maintain debt at sustainable levels**

The FRA imposes a nominal debt to GDP limit on central Government borrowings of 35 per cent of GDP for 2013, 2014 and 2015, with the level falling to 30 per cent thereafter. Whilst it is expected that the ratio will slightly exceed the 35 per cent threshold in 2014, it is projected to fall to 27.8 per cent in the following year. It is further expected to fall over the remaining years, reaching a low of 23.6 per cent in 2019.

The limit applies only to debt centrally borrowed by the Government and does not include superannuation arrears, State Owned Enterprise borrowing or contingent liabilities. These other liabilities are considered when the limit for central Government borrowing is set.



**Table 25: Debt Sustainability Measures**

	2013	2014	2015	2016	2017	2018	2019
Debt to GDP	34.6%	35.5%	27.8%	28.0%	26.6%	25.2%	23.6%

Source: Department of Treasury

#### **6.4.2 Manage debt portfolio to keep financial risk at prudent levels**

The composition of the portfolio is managed through product 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. For instance, a depreciation in the value of the kina against its loan currencies will lead to an increase in the debt servicing and amortisation costs of the Government. Conversely, an appreciation in the value of the kina will reduce these costs.

The Government aims to limit foreign currency debt to around 40.0 per cent of the total Public Debt portfolio by restricting the amount of new foreign currency loans it enters into.

Unless a specific foreign currency loan is required by the Government, new foreign currency loans are considered if:

- the loan is highly concessional and in a low risk currency. The criteria for considering concessional financing shall be a grant element of 35.0 per cent or more<sup>5</sup>. This is in line with international debt management practice and as recommended by the IMF and the World Bank;
- a project is high priority under the Medium Term Development Plan and will not significantly increase the level of external debt above 40.0 per cent of the total debt portfolio or increase the level of Public Debt above the limit specified in the *Fiscal Responsibility Act 2006*;
- the lender's policies do not preclude awarding of contracts to PNG firms and/or awarding of contracts via international competitive bidding; and
- there is a genuine advantage to funding the project from foreign currency loans such as the need to import foreign expertise and/or foreign materials.

In addition, where it is appropriate on a risk/return basis, the Government may borrow domestic funds to retire foreign-currency debt.

**Table 26: Estimated Percentage of Foreign Currency Debt in Public Debt Portfolio**

	2013	2014	2015	2016	2017	2018	2019
Target: up to 40%	25.5%	25.7%	31.8%	33.7%	37.7%	38.6%	36.5%

Source: Department of Treasury

##### Interest Rate Risk

<sup>5</sup>The grant element is the difference between the face value and the market value of a loan expressed as a percentage of the face value of the loan.

Represents the risk that debt servicing cost outcomes vary due to changes in interest rates.

Domestic debt currently issued is all fixed interest rate debt. For this debt, interest rate risk arises when Treasury seeks to refinance it when it matures. At this time there is a risk that debt servicing costs will change due to the interest rate on the new debt 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 rate risk increased significantly over the course of 2014, as the cost of refinancing short-dated debt, such as 182 and 364 day Treasury Bills, became more expensive. 182 and 364 day yields have risen by around 200 and 350 basis points respectively since the start of 2014.

Shorter term debt however is less expensive than longer term debt and therefore there is a balance between cost and risk in the amount of short-term debt to long-term debt maintained within the portfolio.

The Debt Strategy seeks to manage interest rate risk through the structure of the domestic debt portfolio. The portfolio seeks to maintain Treasury Bills on issue at 15 to 30 per cent of the domestic portfolio.

The level of Treasury Bills at the end of 2014 is estimated to be 42.4 per cent of the portfolio, compared to 47.5 per cent in 2013. The accumulation of Treasury Bills in recent years to unprecedented levels that are well above the 30 per cent target is due to a combination of factors. These include additional financing as result of the lower proceeds derived from issuance due to higher interest rates and a lack of reliable and up-to-date government cash data that will allow Treasury to make fully informed decisions in respect of the timing, composition and volume of the ongoing financing task. Without this, Treasury's decision making processes are compromised and the best outcomes are unable to be achieved for the Government. Going forward, Treasury will endeavour to work with Department of Finance and Bank of PNG to resolve this very important issue.

**Table 27: Estimated Percentage of Treasury Bills in Domestic Debt Portfolio**

	2013	2014	2015	2016	2017	2018	2019
Target 15% to 30%	47.5%	42.4%	28.9%	26.4%	18.8%	15.9%	19.5%

Source: Department of Treasury

### Refinancing Risk

Refinancing or roll-over risk is the risk that debt is unable to be repaid when it matures or falls due for payment.

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 5 years for the domestic debt portfolio and at about 12 years for foreign-currency debt (2014: ~ 12 years).

Treasury has reviewed its target for the use of long-term (Inscribed Stock) relative to short-term (Treasury Bills) fixed debt, and plans to reduce the level of Treasury Bills on issue to below 35 per cent by 2016. This will lead to a reduction in refinancing risk over the same period. In terms of inscribed stock issuance, Treasury will give consideration to the creation of new lines of stock throughout 2015, taking into account prevailing market conditions and investor demand. Moreover, it will seek to limit the amount of inscribed stock maturing in any one year to K800 million.

**Table 28: Estimated Average Maturity of the Domestic Debt Portfolio**

	2013	2014	2015	2016	2017	2018	2019
Target 5 years	4.0	4.4	4.8	5.5	5.5	5.4	5.0

Source: Department of Treasury

Treasury has reviewed its targets for the use of long-term fixed-rate debt relative to short-term variable-rate debt, and plans to increase Inscribed Stock on issue from K6.2 billion at the end of 2014 to K8.0 billion in 2019. Furthermore, given the current high level of inscribed stock yields at the long end, Treasury does not plan to issue any new lines beyond the 2031 line in the foreseeable future.

### Operational Risk

Operational risk is defined by the Bank of International Settlements as risk of losses resulting from inadequate or failed internal processes, people and systems or from external events.

This definition includes legal risk, but excludes strategic and reputational risk.

The operational risks facing Treasury include the difficulty in developing and retaining skilled staff, the lack of a business continuity plan, reliance on poor (actual and projected) Government cash management information and a heavy dependence on few key personnel operating the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS). Treasury will continue to mitigate these operational risks through a capacity development plan, development of an efficient cash management environment and by working in partnership with the Commonwealth Secretariat and other CS-DRMS users.

### **6.4.3 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 debt.

Over the course of 2015 and the forward years, Treasury will focus on investigating and developing ways of improving the capacity and efficiency of the sovereign debt market, and more broadly, capital markets in PNG. This may include such initiatives as:

- issue of a sovereign bond;
- greater interaction with market participants and potential new customers aimed at keeping the market fully informed of developments. This would be achieved via regular meetings with stakeholders;
- establishment of a retail investor facility, whereby small and medium size investors buy and sell Treasury Bills and Inscribed Stock from the BPNG;
- finalisation of the establishment of a repurchase facility between the BPNG and market participants; and
- a review of debt related legislation aimed at removing impediments that compromise the efficiency of the market.

## CHAPTER 7. NATIONAL REFORM AGENDA

### 7.1 OVERVIEW

The Government recognises the importance of on-going reform to enhancing outcomes for Papua New Guineans. Accordingly, the Government will continue its ambitious reform agenda throughout 2015.

As part of this ongoing effort and commitment, the Government has commenced two reviews fundamental to these objectives: the Competition review and the Financial Sector Services Review respectively. These reviews, combined with the significant transparency and governance reforms currently being implemented, will arm the Government with a program for reform that will improve the environment for PNG businesses both private and public into the future.

The reforms are designed to build on existing development policies and strategies, such as Vision 2050, the PNG Development Strategic Plan 2010 – 2030 (DSP) and the Medium Term Development Plan (MTDP) 2011-2015. The major development strategies will also be reviewed and the recent establishment of the Bridging MTDP 2015-2018 will outline the process of translating Vision 2050 into key strategic directions and making decisions to allocate resources to achieve those strategies. The Bridging MTDP 2015-2018 proposes immediate interventions and investments in key economic sectors to kick-start a shift from the current inefficient and environmentally unsustainable economy to a more sustainable one.

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 2015. In addition, efforts will also be needed to implement the 'one position, one salary' principle, so as to eliminate an estimated several thousand 'ghost' employees in the public sector.

In addition, the Government will monitor existing reforms to ensure they achieve their objectives and explore areas for further reform. In order to provide a stable investment climate that promotes a competitive and dynamic private sector, the Government will continue to remove impediments to doing business and investment in PNG

The 2015 Budget is an integrated multi-year National Budget. This enables the agencies and the public to have a clear idea of the appropriated 2015 expenditure and future year expenditure estimates over the period 2016 to 2019 for each Department and Authority. The Budget also provides a clearer picture of what each agency's funding is being spent on in terms of personal emoluments; goods and services; utilities and rentals, grants and capital formation, as well as spending by sectors. These reforms will set the foundation for greater transparency and accountability by departments, and ultimately, better services delivery for the people of Papua New Guinea.

### 7.2 PUBLIC SECTOR REFORM

#### 7.2.1 *The Papua New Guinea Vision 2050*

Consultations with the various Departments, Agencies and Provinces regarding the alignment of their Plans to the PNG Vision 2050 continued to take place in 2014. Most of the work in relation to alignment of Plans by the various Agencies has been completed. The challenge now is to ensure that appropriate frameworks are put in place to monitor the

outcomes of these strategies. The key elements for monitoring performance will include Agencies' planned outcomes, indicators, baseline data and targets.

An important component of the PNG Vision 2050 is its linkage to the Medium Term Development Plan (MTDP) 2011-2015. Recently, the MTDP 2011-2015 was reviewed. As a result of this review, the Bridging MTDP 2015-2018 Framework is currently being put in place. The PNG Vision 2050 provides the framework and guidelines for articulating the Bridging MTDP 2015-2018. The strategic development planning framework for the Bridging MTDP 2015-2018 outlines the process of translating the PNG Vision 2050 into key strategic directions and making decisions to allocate resources to achieve those strategies. The Bridging MTDP 2015-2018 Framework will be used by all State Agencies including the Provinces, Development Partners and other Stakeholders. The Bridging MTDP 2015-2018 proposes immediate intervention and investments in nine (9) crucial economic Sectors to kick-start a shift from the current inefficient and environmentally unsustainable economy to a more sustainable one. These Sectors include Forestry & Biodiversity, Fisheries (especially tuna), Agriculture, Clean Energy, Eco Cultural Tourism, Water, Gas and Minerals.

## **7.2.2 Public Sector Reform Programs**

The Government continued to initiate legislative and administrative reforms in the various sectors during 2014. Major legislative reforms included amendments to the *Public Service Management Act (PSMA) 2014*. The new *PSMA 2014* was one of several legislative and administrative reforms which resulted from the *Alotau Accord* in 2012. Other reforms were the new *Public Services (Employment) Regulations 2014* on employment of Departmental Heads, Provincial Administrators and Chief Executive Officers of Statutory Authorities. In addition, other Agencies like the Constitutional Law Reform Commission and the Internal Revenue Commission were engaged in public consultations during 2014 with a view to making important changes and reforms in these organisations.

### **7.2.2.1 Service Improvement Program (SIP)**

The Service Improvement Program (SIP) is a reform program that is aimed at improving service processes and procedures in Government Agencies in order to better perform their functions and responsibilities. During 2014, the SIP Program continued to be rolled out through the conduct of training for SIP Coordinators and SIP Trainers in the Provinces. In addition, there are three (3) separate Modules under the SIP Program. Training programs were conducted for Agencies and the Provinces using these Modules.

### **7.2.2.2 Manpower & Payroll Audits**

The Manpower & Payroll Audits is part of the Government's Public Sector Reform Program aimed at addressing discrepancies in the payroll and establish data for teachers and eliminating duplication and wastage in the Public Service at the National and Provincial level throughout the country. In 2014, Manpower & Payroll Audits were conducted in four (4) additional Provinces namely Western (North Fly District), West Sepik, East New Britain and Enga Provinces. Audit findings from these Provinces indicated that there were huge discrepancies in salary administration. This reform program will continue in 2015.

### **7.2.2.3 Rightsizing Initiative**

Every year, the Public Sector wage bill continues to increase. At the same time, new Agencies are being created and this is putting a huge strain on the budget. In 2013, there were a number of Agencies with duplicate functions were identified to be abolished or amalgamated with other Agencies in 2014. However, this did not continue into 2014 and the Government will further look at these Agencies in 2015.

#### **7.2.2.4 Capacity Building and Institutional Strengthening Program**

The Capacity Building & Institutional Strengthening Program (CBISP) is aimed at empowering elected officials at the Local Government level to understand their roles and responsibilities. The Program concentrates on providing training for Ward Councillors, LLG Presidents, LLG Managers as well as those operating in the Districts. After the Elections in 2012, training programs have been conducted throughout the country. The emphasis is on a proper understanding of the Organic Law Reform System by LLG members and officials. The CBISP program will continue to be rolled out in 2015.

#### **7.2.3 Equitable Resource Allocations to Provincial Governments**

The *Intergovernmental Relations (Functions and Funding) Act 2009* delivered reforms that have changed the system of intergovernmental financing arrangement. The main focus of this system 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 the total 'core' tax revenue which excludes variable mining and petroleum revenues (referred to as Net National Revenue) available to the National Government each year. 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 million to K464 million in 2014, a total increase of K329.5 million.

For the 2015 fiscal year, the equalisation amount is K520.4 million, an increase of K50.9 million from 2014. This is derived by applying the prescribed percentage of 6.57 per cent to the 2013 actual net national revenue amount of K7,920.4 million.

#### **7.2.4 District Treasury Roll-Out Program**

The District Treasury Roll-Out Program has started in 2004. Since its inception, 60 District Treasuries have been fully commissioned and made functional. There are a total of twenty-six (26) District Treasuries yet to be rolled out and commissioned. Work is in progress and will continue in 2015. Plans are in place to revisit the provinces that were rolled out in 2004 and 2005 where maintenance for staff houses and offices were allocated by District Administration and LLG. The Government is committed and will continue to make funds available to fully funding this Program in 2015.

Major services established in 2014 include:

- Provincial Government Accounting System (PGAS) set up;
- Reliable Security (including in many locations, steel picket fencing);
- Reliable power supply;
- Installation of VSaTs in other District Treasury Offices to improve communication; and
- Arrangement for the coordination and management of BSP Bank Agencies in the District Treasuries by BSP Limited.

### **7.2.5 Public Service Pay Fixation Agreement 2014 to 2016**

The new *Public Service Pay Fixation Agreement (PSPFA) 2014-2016* was implemented in January 2014 to supersede the old *Public Service Pay Fixation Agreement 2011-2013*. The State decided to retain the 7.5 per cent increase in the new PSPA 2014-2016 to reflect the medium term Consumer Price Index (CPI) rate of 8.0 per cent which is in consistent with the CPI Threshold Clause. This is also in light of the major events that have unfolded over the recent past years with increased economic activities and the associated high cost of living in the country.

### **7.2.6 Superannuation Liabilities**

In accordance with *Sections 4 and 76 of the Superannuation (General Provisions) Act 2000*, the State is obliged to make a mandatory employer superannuation contribution (State's superannuation contribution) of 8.4 per cent of the base level salary for all its employees to Nambawan Super Limited (NSL). An employee contribution of 6.0 per cent of the base salary is also paid to the NSL.

In 2014, the Government has remitted its full 8.4 per cent employer contribution and the 6.0 per cent employee contribution to Nambawan Super automatically through the Alesco payroll system. The State also continues to settle the exit payments manually to NSL which are also State liabilities.

Nevertheless, the State has incurred Superannuation arrears of more than K2.0 billion which have accumulated due to no budgetary allocations in some fiscal years. To address this, Treasury and Nambawan Super are working together to design appropriate measures to effectively settle the stock of Superannuation liabilities which is long overdue.

## **7.3 A COMPETITIVE AND DYNAMIC PRIVATE SECTOR**

The primary driver of growth is a competitive, dynamic and diverse private sector. The Government remains committed to developing an environment that is conducive to private sector development, through encouraging innovation, and supporting competitive markets. As part of this ongoing effort and commitment, the Government has commenced two reviews fundamental to these objectives, the Consumer and Competition Framework Review and the Financial Sector Services Review. These reviews combined with the significant transparency and governance reforms currently being implemented will assist the Government to improve the environment for PNG businesses both private and public into the future.

The recently passed Public-Private Partnership (PPP) legislation will encourage a competitive bidding process that will encourage private sector participation in public infrastructure development. This will lead to more effective infrastructure development for boosting economic activity and alleviating poverty. In addition, the community service obligation and the on-lending policies which were also approved recently by National Executive Council aims to apply competitive tension in the market dominated by public enterprises and create a level playing field for the private sector to enter the market.

Furthermore, the Government announced last year that its micro reform agenda for the period up until 2020 will;

1. Encourage State-Owned Enterprises (SOEs) to be efficient and increase the nature and level of competition in the markets in which SOEs operate, with a particular focus on the telecommunication, electricity and transport sectors;

2. Ensure that a strong regulator enforces the competition and consumer protection law so that markets operate competitively, and ethical traders, small businesses and consumers are not treated unfairly, misled or deceived.
3. Build the productivity of sectors particularly important to the rural and remote area of PNG such as tourism and agriculture;
4. Reduce the cost of doing business and remove regulatory impediments to private sector growth and facilitate the development of the small and medium enterprise sector; and
5. Encourage the operation of the informal economy and the transition of informal economy participants to the formal economy.

### **7.3.1 *Dynamic Private Sector Through Enhanced Competition***

The current competition framework was introduced in 2002 and has since been one of the key drivers in stimulating increased level of private sector led growth in the economy. However, there is yet more to be achieved. As part of this ongoing effort and commitment, the Government will continue to monitor, review and realign existing policies, including the introduction of new policies to promote private sector growth.

In 2014, the Government commenced the Competition and Consumer Framework Review. This review is due for completion in mid-2015. It will take a system wide approach to assess future reform needs and will inform the on-going development of the competition framework in PNG. The outcome from the review will provide a roadmap for future reforms to the competition landscape in PNG.

In addition, a number of key reforms are currently being undertaken to improve and enhance the competitive environment including the information and communication sector and the electricity industry.

#### **7.3.1.1 *Information and Communication***

Reforms to the regulation, licensing and administration of the information and communications technology sector will be undertaken throughout 2015. Through these reforms the Government will set the policy framework to facilitate increased access, increase affordability and provide for appropriate use of information and communication technology (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 appropriate recommendations for Government consideration. To enhance NICTA's functions and provide improved services, the *National Information and Communications Technology Act 2009* is being reviewed and as part of the broader competition and consumer policy review, which is planned for completion in 2015.

The Government is committed to increasing access to internet services for the community. In 2015, the Government will continue its investment program in the national fibre optics network infrastructure. The network infrastructure will link Port Moresby to selected hub centres in PNG and connect to the rest of the world from Madang.

Furthermore, in 2015 the Government, will continue to make ICT services accessible to remote parts of PNG, rolling out telecommunications infrastructure to rural areas through private sector operators via a bidding process. This will provide reliable and affordable telecommunications services to remote rural communities and help to bridge the "digital



divide". The Government will continue reforms to separate the provision of wholesale and retail services in the sector. The separation of retail from wholesale operations will encourage innovation and participation by small to medium enterprises (SME) including through infrastructure sharing arrangements.

### **7.3.1.2      *Electricity***

In 2015, the Government will continue the implementation of key Electricity Industry Policy (EIP) action items. These include establishment of the Electricity Trust Fund (ETF); development of the National Electricity Roll-Out Plan (NEROP); and delegating the technical regulatory role from PNG Power to the Department of Petroleum and Energy (DPE).

The Government, through the Independent Consumer and Competition Commission (ICCC), has completed the development of a "third-party access" code to encourage greater private sector participation in power generation. The ICCC and PNG Power will commence the implementation of this code in 2015.

The Government remains committed to encouraging private sector participation in the provision of electricity services. This approach will enhance competition and encourage innovation ultimately making electricity services more accessible, particularly to rural areas. Appropriately framed regulatory frameworks and incentives will be a focus of the Government's continued efforts in working towards the goals of the EIP.

### **7.3.2    *Improved Economic Regulation***

Throughout 2015, the Government through the ICCC will continue to implement price control arrangements covering ten industry sectors. Ongoing pricing reviews will continue to inform this process for services offered by State Owned Enterprises (SOEs) such as those supplying electricity, water, third party motor vehicle insurance, postal and ports services, and for specific regulated products like rice, sugar, flour and petroleum. Two new regulatory contracts were signed for PNG Power and Motor Vehicle Insurance Limited (MVIL) in 2014. Significant changes were made to these contracts to help improve efficiency and reduce costs to industry and consumers. The Government expect to see the benefits from these and similar changes in the form of increased economic efficiency throughout 2015. In addition the ICCC is undertaking mid-term reviews for PNG Power and MVIL as well as reviewing Petroleum regulation throughout 2015.

#### **7.3.2.1      *Consumer Protection***

Generally, regulation of markets should take into account consumer safety and protection. Under current regulations, the ICCC has responsibility for consumer protection in general and substantial responsibilities for product safety. The ICCC is taking a proactive approach, particularly in terms of developing and enforcing consumer product safety standards.

This proactive approach includes efforts to take on businesses that market unsafe goods or engage in misleading business promotions. The ICCC will continue to use its powers to monitor products so as to quickly detect those that it considers unsafe to consumers and remove them from sale by imposing interim or permanent bans on products.

The Government through the ICCC will continue to inform the public on their consumer protection rights through direct media placements and will consider other forms of communication to inform consumers and business of their rights and obligations. ICCC will intensify its efforts in addressing misleading or deceptive promotions by businesses and continue to investigate consumer complaints which fall within its area of responsibility. Consumer complaints that fall under other laws will be referred to the relevant agencies.

### **7.3.2.2      *Competition and Fair Trading***

One of the Government's key roles through the ICCC is to promote competition. That is, the ICCC actively monitors the market place for anti-competitive behaviour and investigates complaints or matters it believes it should pursue of its own volition.

In some circumstances, potentially anti-competitive conduct could benefit the community. In such instances the ICCC could authorize such conduct, providing immunity from legal action either by the Commission or third parties under the ICCC Act. The authorizations in the oil palm industry and international aviation sector for code-share arrangements are examples of such exemptions.

Business acquisition is prohibited under the ICCC Act if the acquisition would have the effect of substantially lessening competition. The ICCC has a process for assessing such acquisitions providing enhanced certainty for business. Education and consultation can reduce contraventions of the ICCC Act relating to anti-competitive conduct. The ICCC plans to expand its education and consultation program during 2015.

### **7.3.3      *Developing More Effective and Efficient Markets***

In developing more effective and efficient markets, the Government will continue to focus its reforms that improve access to land, encourage property development and provide improved access to finance (discussed in detail in the financial section).

#### **7.3.3.1      *National Land Development Program (NLDP)***

Access to land is a key factor 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.

The program's implementation plan will start in 2015 and maps out 2 years of activities. A committee will be established in 2015 to review the program. The land reform is now being generally accepted throughout PNG, particularly the aspect of customary land registration, representing a significant reform achievement. This reform is anticipated to bring substantial benefits to the economy.

#### **7.3.3.2      *Property Sector Development***

The Government is committed to finding suitable and sustainable solutions to housing shortages in urban areas and the high cost of property development. In 2015, the Government will continue the programs already undertaken.

The housing shortage is very pressing and requires both short and long-term solutions. The National Affordable Housing Ministerial Committee will provide oversight into achieving the immediate housing shortage. The Property Sector Development Taskforce will provide the strategic direction to address structural aspects that will increase supply and make properties affordable to ordinary Papua New Guineans in the long-term.

#### **7.3.3.3      *Reducing Impediments to business***

The Government will continue to improve the business regulatory environment to make it more efficient and effective including in relation to the operations of the Investment Promotion Authority (IPA). The reforms will enhance protection for investors and make company registration process more efficient. The implementation of the online company and

business registration system will provide high quality, fast and efficient services to clients of the IPA.

The IPA is currently implementing its Strategic Plan 2014-2017. This plan supports the SME policy and a number of other government policies including the recent amendments made to the Companies Act. The ongoing implementation of this plan will enable the IPA to deliver services more effectively to clients.

The Government remains committed to encouraging more SMEs to join the formal sector and will continue to undertake a systematic review of our legislation and broader regulatory framework impacting businesses currently operating in the informal economy. The objective of this work is to create an environment conducive to transitioning to the formal sector. The Constitutional Law Reform Commission is leading this important project.

The Government will continue to focus on SMEs small to medium enterprises to grow the economy, away from the mining and resource sector. The key aim is to address agriculture and tourism sector where majority of Papua New Guineans live in order to generate income earning opportunities.

The National Working Group on Improving Business Climate will continue in 2015 to engage in co-ordinating reform agendas and activities that will provide enabling conditions for 'ease of doing businesses'.

## **7.4 FINANCIAL SERVICES**

The Government recognises that to start, consolidate or grow a business there is often a need for financial capital and that access to finance has not always been readily available for people in PNG, particularly for the SME sector. Access to financial services is critical to all.

The Government remains committed to promoting the Financial Inclusion and Financial Literacy Strategy and facilitating access to finance through: promoting microfinance; facilitating secured lending through the Personal Properties Security Register (PPSR) and establishing the Centre for Excellence in Financial Inclusion (CEFI).

### **7.4.1 Financial Sector Review**

Encouraging a progressive, competitive and customer friendly financial sector is a key to increasing access to Finance. The Financial Sector Services Review will provide concrete options for further reforms so that the momentum and progress currently occurring under the Financial Inclusion and Financial Literacy Strategy is supported into the future.

One key area the Financial Services Review will examine will be how to utilise the financial services sector to improve transparency, security and accountability of revenue transfers between levels of Government and to end beneficiaries.

### **7.4.2 Personal Properties Securities Act Implementation**

Through the Secured Lending Reform, the Government has developed a user-friendly legal framework to improve access to finance by providing greater confidence to lenders in order to encourage more secured lending arrangements. The legal framework, the Personal Property Security Act (PPSA) was enacted by Parliament in late 2011. A key element of the legislation is the establishment of a single "asset registry" so that information regarding collateral offered by prospective borrowers can be made available to lending institutions. The Government believes that the PPSA provides a consistent, modern, up-to-date legal framework for all loans that are secured by personal property.

The Government will continue implementing the PPSA throughout 2015 including the completion of the PPS Registry, development of the PPS Regulations and conducting a major awareness campaign of this important reform.

#### **7.4.3 Access to finance**

In 2013 the Government, through the Bank of Papua New Guinea, developed a national strategy on the financial inclusion and financial literacy. This is part of various components of the microfinance expansion project (ceasing in 2017). The objective of this strategy is to provide low income people, micro and small businesses access to a diverse range of financial products and services. The strategy has a target of reaching an additional one (1) million low-income 'unbanked' people by the end of 2015 of which 50 per cent will be women. Throughout 2014, a number of provincial financial services expos were undertaken leading to considerable progress towards reaching the Government's goal.

The ongoing implementation of the strategy involves a wide range of stakeholders including financial service providers, regulators, industry networks and the broader community. The strategy is making strong progress in reducing the number of Papua New Guineans without access to financial services. This work is critical to ensuring PNG citizens are financially competent and have access to a diverse range of financial products. The Government will continue to implement the Strategy objectives in 2015 to ensure that the Strategy realizes its set target.

The Government is also creating a microfinance Risk Share Facility (RSF), which will be implemented in 2015. This facility with its objective of sharing some of the risks associated with lending will encourage financial institutions, especially microfinance institutions, to expand micro and small enterprise lending portfolio.

## CHAPTER 8. IMPROVING PUBLIC ENTERPRISE

The State has substantial interests in enterprises in PNG. Its interests consist of public enterprises and listed investments. Public enterprises are referred to as state owned enterprises (SOEs) and are engaged in the provision of essential services such as telecommunication, aviation, sea port, electricity, water, banking and postal services. The State owns majority stakes in SOEs and hence it is in a position to influence its management. State investments include commercial investments in private companies in the banking, mining, petroleum and agriculture sectors. The State owns minority stakes in these investments and is thus not in a position to influence the management to the same degree.

SOEs are critical in determining development outcomes by virtue of their central role in delivering utility and communication infrastructure. Only with disciplined, transparent governance frameworks and strong guiding policies can SOEs operate to efficiently deliver essential goods and services.

### 8.1 PUBLIC ENTERPRISE AND STATE INVESTMENT PERFORMANCE

The State has twelve SOEs with the recent inclusion of the National Petroleum Company of PNG (NPCP), DataCo and Ok Tedi Mining Limited, however Ok Tedi's nationalisation is subject to legal challenge. These SOEs are vested with the Independent Public Business Corporation (IPBC) through its role as trustee and manager of the General Business Trust (GBT). The National Airport Corporation (NAC) was created after separating the policy, regulatory and commercial functions of the Department of Civil Aviation and the Government is currently considering whether the NAC should appropriately sit within the GBT.

Table 29 lists the GBT assets as at 31 July 2014. The valuation of total General Business Trust Assets at 31 July 2014 was K7.7 billion. Of the total assets the value of investments in unlisted equities (predominantly state owned enterprises) was K5.7 billion and investment in listed equities was K749 million. This represents a total change in asset value of K1.45 billion largely due to the increase in asset value of NPCP and PNG Ports.

**Table 29: General Business Trust Assets, as at 31st July 2014**

<b>PARTICULARS</b>	<b>SHAREHOLDING (%)</b>
<b>Unlisted Equity Investments in GBT K5.7 billion</b>	
Air Niugini Ltd	100
Eda Ranu Ltd	100
Motor Vehicle Insurance Ltd	100
National Development Bank	100
PNG Ports Corporation Ltd	100
PNG Power Ltd	100
PNG DataCo	100
Water PNG	100
Post PNG Ltd	100
Telikom PNG Ltd	100
Bmobile	85
National Petroleum Company PNG	100
PNG Dams Ltd	100
Port Moresby Private Hospital Ltd	100
<b>Other Unlisted Investments K1.2 billion</b>	
<b>Listed Equity Investments in GBT ( non-controlling shareholding) K749 million</b>	
Bank of South Pacific Ltd	

Highlands Pacific Ltd	
Oil Search Ltd	
New Britain Palm Oil Ltd	
<b>TOTAL ASSETS K7.7 billion</b>	

Source: Independent Public Business Corporation (IPBC)

Table 30 lists trust accounts maintained by IPBC for funds provided by Government. The table shows balances as of 12 September 2014 and expected completion dates.

**Table 30: IPBC Impact Projects**

Particulars	Balance as at 12th September 2014	2014 Pending PIP Funding from GoPNG	Reimbursement from State	Pending 2014 Payments	Total Expected Balance as at 31-Dec-2014	Expected Completion Date
<b>IPBC Managed Projects</b>						
Lae Ports Development Project	100,835,889	144,966,243	5,600,000	150,000,000	101,402,132	2014
Port Moresby Sewage Upgrade	24,902,556		58,000,000	3,500,000	79,402,566	2018
PNG LNG Project related funds	319,260,268			162,847,969	156,412,299	
GoPNG PIP Funding-Bemobile						2015
GoPNG PIP Funding - POMSSUP						
GoPNG PIP Funding-POM Port Relocation						2018
GoPNG PIP Funding-Lae Port Project						2014
GoPNG PIP Funding - Naoro Brown						Contingent of feasibility
GoPNG PIP Funding-Ramu II Hydro						2014
GoPNG PIP Funding-Agriculture Project						N/A
<i>GoPNG PIP Fundings SOE Projects</i>						
PNG DataCo (Fibre Optic Program)						2014
Water PNG- Rural or district towns water supply projects & Water and Sanitation Program						
Water PNG- Lae Major Water & Sewage Upgrade						N/A
Water PNG- Central Province water Supply						N/A
Water PNG-Lorengau Sewage Development						N/A
Water PNG - Arawa Water and Sewage Restoration						N/A
Eda Ranu- Refurbishment of Treatment Plant						N/A
Eda Ranu-Construct sludge Digester & Methane gas extractor & Assoc Works						N/A
Eda Ranu- Increase						N/A

Particulars	Balance as at 12th September 2014	2014 Pending PIP Funding from GoPNG	Reimbursement from State	Pending 2014 Payments	Total Expected Balance as at 31-Dec-2014	Expected Completion Date
water capacity in NCD- The full design and quote will be received in 2015						
Telikom- Increased retail broadband under the united Mobile Network						2016
<b>Grand Total</b>	<b>444,998,713</b>	<b>144,966,243</b>	<b>63,600,000</b>	<b>316,347,969</b>	<b>337,216,997</b>	

Source: Independent Public Business Corporation

Table 31 shows the dividend income received by IPBC in respect of both listed and unlisted equities since 2012 and includes expected receipts for 2014 and a projection for 2015. The dividend estimate to the state represents 98 per cent of IPBC's estimated operating surplus.

Total IPBC income for 2015 is expected to be K 725 million compared to a 2014 revised estimate of K577 million, resulting in an increase of 26 per cent or K148 million. IPBC income is predominantly dictated by the performance of investments and the ability of the SOEs to pay dividends.

**Table 31: Dividend Income from SOEs and other Equity Investments**

Year	Dividends received (kina millions)	Total income	Expenditure	Operating Surplus	Dividends paid to the State	Payout ratio
2012	89	114	25	89	50	56%
2013	101	111	47	65	-	-
2014	672	577	544	553	520	94%
2015	707	725	61	665	656	98%

\*Source: Independent Public Business Corporation and Department of Treasury

Only two (2) of twelve (12) State Owned Enterprises are expected to make any material dividend contribution in 2014 being MVIL and NPCP. The vast bulk of projected dividends for both 2014 and 2015 are attributable to NPCP whose primary asset is an interest in the PNG LNG project. The Bank of the South Pacific continues to be a high performing listed equity and is expected to contribute approximately K55 million in dividend income to IPBC for 2014.

The Government's various overarching policies which are currently being developed will improve the performance and commerciality of SOEs.

## 8.2 STATE OWNED ENTERPRISE POLICY

The Government expects SOEs to operate as a successful business and to that end to be as profitable as comparable businesses not owned by the State.

SOEs in PNG are caught in the dichotomy of aspiring to operate on commercial principles on the one hand and attempting to honour the State's primary responsibility of basic service delivery on the other.

While these objectives may appear conflicting they are in fact consistent. Policies that promote commercial decision making, greater transparency, good governance, and

enhanced competition support better service delivery to the community and higher returns to the State.

It is important to note that SOEs have a critical role to play in contributing to the development objectives laid out in the Medium Term Development Plan 2011-2015 (MTDP 2015), the PNG Development Strategic Plan 2010-2030 (DSP 2030) and PNG Vision 2010-2050 as well as in other supporting sectoral plans and strategies.

The Government's expectation of SOEs is guided by the agenda for "reconciliation, resilience, unity and hope in the government and the country", announced by the Government in 2012. This agenda seeks to create an environment of stability and prosperity for economic growth, rural development, empowerment through human resource development, and poverty reduction.

The following are four broad measurable objectives for state investments endorsed by the Government:

- 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, government investments, and public enterprises assets.
- enhance the governance frameworks supporting SOEs and government investments; and
- improve recapitalisation of SOEs and government investments.

These objectives have been promoted to encourage cost-effective performance, enhance competitiveness and embed accountability by SOEs. SOEs must work in close collaboration with government agencies, the private sector, and other strategic partners in pursuit of PNG's ultimate development agenda: "improved standard of living and quality of life of all Papua New Guineans".

The Government's SOE policy imperatives provide the broad guidance in managing and administering SOEs and enabling them to actively participate in the economy. The specific SOE policies include Community Services Obligation Policy (currently in the pilot stage), the Dividend Policy, the Guarantee and On-Lending Policy, and the Public Private Partnership Policy.

The on-lending, dividend and guarantee policies aim to ensure subsidies are not provided to SOEs through discounted equity finance, or cheap credit enhancement. Community service obligation is particularly important to ensure that Papua New Guineans are able to obtain access to vital public infrastructure that they are unable to afford. It ensures that Parliament can transparently use tax payer money to provide services if appropriate.

### **8.3 KUMUL CONSOLIDATION AGENDA**

The Kumul Consolidation Agenda will involve the implementation over 2015 of a structure for holding and managing state assets such as those currently held in the General Business Trust (GBT). As a result of this agenda, the GBT will be replaced with a Kumul holding entity, and the IPBC will cease to exist.

Although the Kumul Consolidation Agenda has the potential to improve the management of the State's assets, the design takes on even greater importance given the much broader scope of assets it will hold. The greatest source of dividends to the Kumul Consolidated



entity will come from the State's equity in the PNG LNG project and the OK Tedi mine, both of which did not pay dividends to the GBT prior to 2014. Future State equity investments and those that are currently being developed will be managed under the Kumul Consolidated entities.

It is envisaged that the Kumul Consolidation Agenda will address the deficiencies of the current IPBC structure and will embrace good governance, transparency and efficiency.

In pursuit of these objectives, the specific SOE policies the Government will further develop and implement over 2015 include the Community Services Obligation Policy (currently in the pilot stage), the Dividend Policy, Guarantee and On-Lending Policy, and Public Private Partnership Policy.

### **8.3.1 Dividend Policy**

The Government is committed to having a comprehensive dividend policy. The Kumul Consolidation Agenda seeks to harness the efficiencies of the corporate structure to optimally manage assets and guide investment decisions. Critical to the effectiveness of any board is its commitment to act in the best interests of its shareholders. Like any shareholder, it is critical that the State sends a clear message to the respective Kumul boards about its expectations in terms of a return on investment.

The purpose of the dividend policy is to provide SOEs and other State nominee companies with the necessary guidance on the Government's expectation of returns. It is the role of the State as a shareholder to seek a reasonable return on equity as an important contribution to its overall fiscal strategy and to ensure that assets are used effectively.

The dividend policy seeks to ensure that the right balance is reached between reinvesting a portion of profits derived from State investments back into those same entities and making a portion of profits available to meet other State funding priorities. Implicit in this is that public enterprises are expected to make capital investment decisions that aim to maximize the return to that capital, like any profit-maximizing business not owned by the State.

### **8.3.2 On-lending and Guarantee Policy**

On-lending policy seeks to ensure that private and public enterprises compete for capital on equal terms. The Government has endorsed an on-lending policy in 2014, whereby State lending to public enterprises must be done on terms as close as possible to commercial terms. This has the effect of removing State debt subsidies. As grants are not offered on commercial terms, the Government's policy position is that grants and subsidies will also not be provided to public enterprises in the form of free State credit. Over 2015 as on-lending policy is fully implemented the Government will also develop a guarantee policy to ensure that public enterprises compete with the private sector on an equal footing and do not receive free credit enhancement.

The guarantee policy will relate to the terms on which the State will guarantee the borrowings of SOEs. Similar to the on-lending policy, this policy relates to the debt financing activities of SOEs. Total guarantees and liabilities, including debt, must not exceed the 60 per cent of GDP limit set by the MTFS 2013 – 2017 and the *Fiscal Responsibility Act, 2006*.

### **8.3.3 Community Service Obligation (CSO) Policy**

CSO policy promotes both competition and transparency regarding the provision of goods and services by SOEs. SOEs frequently explain that their ability to generate a comparable

level of profit to private sector companies is curtailed by directions that they provide goods or services to the community at a cost that renders those activities unprofitable.

The CSO policy will require that all CSOs are carefully defined in a contract and fully costed. The costing will include a profit margin to ensure the SOEs can manage their capital stock over time.

Removing the need for SOEs to cross subsidize CSO activities from the profitable arms of their operation will enable the Government to develop an enhanced view of the true cost of delivering CSOs, thus placing the Government in a better position to assess the scope for private sector involvement.

The Government endorsed Working Group is working in partnership with all key stakeholders and development partners in progressing this important policy reform. The policy has been approved by NEC and a pilot program has commenced with three selected SOEs (PNG Ports Corporation Ltd, National Airlines Corporation and PNG Power Ltd). Lessons from the pilot program will inform the legislation to enable the broader roll-out of this policy in 2015.

## **8.4 MANAGING THE MINING AND PETROLEUM ASSETS**

The Mining and Petroleum Sector plays an important role in the PNG economy and represents a significant portion of the State's asset holdings. The Government recognises the importance of effectively managing this sector in order to maximise benefits for the community and ensure resource revenues are optimally utilised to assist in meeting our Development objectives. Papua New Guinea is on the verge of transforming natural resources management and 2015 will see a culmination of policy reforms to enhance management and investment frameworks.

As is the case with State Owned Enterprises, 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.

### **8.4.1 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, fighting corruption, attracting investment and enhancing public debate and decision making through access to quality information.

The EITI represents 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 committed Multi-Stakeholder Group (the MSG), the membership of which is comprised of representatives from these three groups.

As a candidate country, PNG will now move to produce its first report throughout 2015. In order to support the work of the MSG in producing the first PNG EITI report the Government is establishing an EITI National Secretariat. The recruitment exercise to identify quality staff for this important function is progressing well. An announcement of the Head of the National secretariat is expected prior to the end of 2014.

#### **8.4.2 State Equity Participation**

The *Mining Act, 1992* Review and the Tax Review will consider the fiscal regimes applying to the mining and petroleum sector in PNG. The findings of these reviews are expected to include recommendations around the level and terms on which the State should seek to participate in resource projects. The Government looks forward to considering these findings and distilling them into principles to guide state equity participation.

These principles will form the basis of a State Equity Participation policy allowing the state to consistently assess the risks and benefits of state equity participation against a robust framework. The Government will develop this policy throughout 2015.

#### **8.4.3 Transparency through Standardised template agreements**

Increased transparency surrounding the Government's participation in a project will improve certainty for investors and the community. One way of achieving this is through utilising a standardized template agreement for the resource sectors. Standard template agreements will also support competition into the future as investors can have greater certainty that they are facing a similar fiscal environment to their competitors. Work on standardising project agreements both in mining and petroleum resource sectors will continue throughout 2015 and will include consultation with the industry.

#### **8.4.4 Domestic Energy Needs**

As PNG considers its domestic development and energy needs into the future, consideration needs to be given to Domestic Market Obligation (DMO) policy. DMO provisions exist under the *Oil and Gas Act, 1998* and allow for the quarantining of a proportion of production from a project for domestic use. Similar provisions are being considered under the Mining Act Review. A policy is needed in this area to determine the proportion of production to be made available domestically, the pricing of the resource and the term of the obligation. The policy will need to balance domestic needs against broader considerations regarding competition and our commitments as a member of the World Trade Organisation.

The Government will embark on developing a DMO policy in 2015.

### **8.5 PUBLIC PRIVATE PARTNERSHIP (PPP) POLICY**

It is important to emphasise that the objective of the Public Private Partnerships (PPP) policy and legislative framework is to enhance procurement and delivery of infrastructure and services to the public. This will be achieved through cooperation between a public institution and one or more private sector enterprises via a contractual agreement. The construction and maintenance of a highway is an example of a project that could be implemented through a PPP arrangement. It is important to note that Government subsidies paid to deliver services are not PPPs - they are Government grants.

The Parliament passed the PPP legislation on the 26<sup>th</sup> of August 2014. The enactment of the PPP law facilitates the implementation of the PPP Policy. The law creates three important functions namely; the PPP Centre, the PPP Steering Group and the PPP Forum.

The PPP Centre will manage and coordinate the implementation of the PPP policy, program and projects. It will advise and assist public bodies in analysing and assessing infrastructure projects with a view to identifying projects that will be procured under PPP arrangements and those that will be implemented through the traditional means of public procurement under the *Public Finance (Management) Act, 1995*.

The PPP Steering Group will oversee the implementation of the PPP policy. It comprises of the Departmental Heads of Treasury, National Planning & Monitoring and the State Solicitor.

The PPP Forum will provide an opportunity for stakeholders from outside the public sector to respond and provide recommendations on PPP matters.

The PPP Law makes the principles of good governance, transparent decision making competition and efficiency central to the PPP procurement and tendering process.

The Government has promoted this legislation recognising that private sector participation in infrastructure and service delivery will lead to efficiencies as the Government utilises private sector capital, management, innovation and technology. Greater use of PPP arrangements can help improve SOE efficiency and profitability.

The PPP Centre will be operational in 2015 once the PPP regulation is endorsed by the National Executive Council (NEC). These regulations are currently being drafted and will be considered by NEC in the first quarter of 2015.

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## **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	Est 2009	Est 2010	Actual 2011	Actual 2012	Actual 2013	Est 2014
Total Mining & Petroleum Taxes Paid		1,947	2,334	1,991	749	1,476	2,073	981	667	767
Mining & Petroleum Taxes Paid by Companies involved in ITC	1,077	1,947	2,334	1,991	744	605	1,926	981	647	744
Total ITC Claimed & Allowed <sup>1</sup>	20	23	21	25	92	60	87	50	40	162
Expenditure Incurred on Approved ITC Projects <sup>2</sup>	85	63	62	39	70	70	25	64	93	162
Tax Credit Claimed as Percentage of Mining & Petroleum Taxes Paid	1.9	1.2	0.9	1.3	12.3	9.9	4.2	5.0	6.0	21.1
Excess Credits Carried Forward (from prior years) <sup>3</sup>	na	na	na	na	na	na	na	na	na	na

## Notes:

1. Actual deductions for tax credits to Mining and Petroleum companies involving in the scheme. These numbers are derived from the Treasury Management System (TMS) thus represents actual impact on the government's cash flow in each fiscal year.
2. Actual expenditures incurred by the companies participating in the tax credit scheme. Some portion of the credits will be carried forward for deductions against income in the next year.
3. The level of excess credits carried forward will fully be determined next year once this scheme is being reviewed.

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

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**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	Grand 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	4	169,401	1	60,473			3,471,266
35A	Fishing Operations																					
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			58,011,402
45I	Rural Development		4 3,592,213		4 2,144,577		1 161,206	1	618,105									1	19,509,048			26,025,149
45N	Bougainville Incentive																					
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									208,363
69C	Gifts to Law, Order and Justice		1 261											1	17,600							17,861
69E	Gifts to Charities		4 9,646		1 450		3 16,389	2	24,920	4	23,143	2	23,000	3	11,865							109,413
69I	Gifts to National Day Celebrations				2 23,603		1 60,000			3	10,555			1	5,000							99,158
69H	Gifts Law and Order projects		1 261																			261
69J	Gifts to PNGSC 2000 Olympics											1	1,440									1,440
70A	Deduction for Education Expenses		35 814,961		26 426,101		3 5,759			1	6,600	1	4,144									1,257,565
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		1 29,423			26,550,918
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					5,383,187
95	Research and Development - 150%														2 52,632,782		2 13,963,352					66,596,134
97A	Primary Production Development Expenditure		2 2,848,016		1 4,149,637			4 249,272														7,246,925
97B	Agriculture Extension Services - 150%																					
CH 119	Pioneer Industries																					
<b>Total</b>		<b>119</b>	<b>36,450,439</b>	<b>90</b>	<b>36,468,373</b>	<b>36</b>	<b>7,202,139</b>	<b>51</b>	<b>5,546,794</b>	<b>58</b>	<b>11,717,419</b>	<b>44</b>	<b>7,732,399</b>	<b>19</b>	<b>1,251,605</b>	<b>22</b>	<b>68,906,502</b>	<b>22</b>	<b>39,221,660</b>	<b>1</b>	<b>29,423</b>	<b>214,526,753</b>

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		2005		2006		2007		2008		2009		2010		2011		2012		2013		2014		Total Amount
		Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	
68A	Solar Heating					1	5,796							1	11,712,956	1	15,752							11,718,752
73(3)	Depreciation 20% loading	2	19,978	3	3,824,267	7	396,272	2	89,426	1	1018	1	14100	1	3,345,605	1	100,178			2	152,031			7,927,757
73(6)	Depreciation non-oil fired plant			1	2,430,499					2	12,385,337			1	1022									12,385,337
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	1	575,028	41,701,294
73(9)	Depreciation - Primary Production	2	1,192,744	3	2,128,907	2	402,220	2	5,384,171	1	3870253	1	4268451	7	19,470,870	1	4,817,293	1	1,375,403	3	7,037,176			35,616,088
		<b>8</b>	<b>5,986,367</b>	<b>14</b>	<b>14,381,517</b>	<b>15</b>	<b>5,135,341</b>	<b>6</b>	<b>5,696,392</b>	<b>6</b>	<b>18,813,532</b>			<b>12</b>	<b>43,429,043</b>	<b>5</b>	<b>6,769,877</b>	<b>6</b>	<b>19,064,664</b>	<b>9</b>	<b>13,541,774</b>	<b>1</b>	<b>575,028</b>	<b>109,349,228</b>

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**

<b>Schedule 1</b>	<b>Descriptions of Exemptions</b>	<b>2010 Number</b>	<b>Amount</b>	<b>2011 Number</b>	<b>Amount</b>	<b>2012 Number</b>	<b>Amount</b>	<b>2013 Number</b>	<b>Amount</b>	<b>2014 Number</b>	<b>Amount</b>
Item 5	First Time Home Buyers Exemption	635	1,389,746	254	818,185	377	1,760,219	305	1,856,953	577	3,078,381
Item 5	Charities	5	110,030	3	1,222,510	4	101,476	6	152,785	9	139,989
Item 8	Wills	4	107,530	10	188,135	6	111,918	3	92,514	16	400,177
Item 16A	Transfers of Marketable Securities	—	—	—	—	—	—	0	-	0	-
Section 6	Purchase of Property by State & Instrumentalities of state	6	283,580	4	338,450	7	923,450	6	758,125	18	3,115,136
<b>Total</b>		<b>650</b>	<b>1,783,356</b>	<b>271</b>	<b>2,567,280</b>	<b>394</b>	<b>2,897,063</b>	<b>320</b>	<b>2,860,377</b>	<b>620</b>	<b>6,733,683</b>

Note:

Number means number of transactions  
 2010 Figures are from January to December  
 2011 Figures are from January to December  
 2012 Figures are from January to December  
 2013 figures are from Jan-October  
 \_ means no exemptions were granted

Source: Internal Revenue Commission

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## **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 Governments Grants To Provincial and LLG Governments ( Kina Thousands)

Budget Agency		Personal Emoluments						Goods and Services										Grand Total
Code	Description	PS Salaries	Teachers Salaries	PS Leave Fares	Teachers Leave Fares	Village Court	Sub-Total PE	Health Function	Education Function	Transport Infrastructure	Primary Production	Village Courts	Other Service	Admin Function	Total Provincial	Total LLG	Sub-Total G&S	
571	Fly River Provincial Government	20,782.4	25,713.4	247.6	1,593.6		48,337.0	1,579.5	1,394.0	2,199.1	567.4	102.1	212.1	89.4	5,576.2		5,576.2	53,913.2
572	Gulf Provincial Government	13,858.0	15,758.1	565.1	937.7		31,118.9	5,086.9	3,966.4	6,085.9	1,681.4	360.5	2,570.6	2,023.1	20,093.4		20,093.4	51,212.3
573	Central Provincial Government	13,850.4	35,157.5	422.9	2,316.8		51,747.6	6,112.3	6,328.1	10,734.6	2,031.3	423.5	3,270.7	2,038.8	28,908.0		28,908.0	80,655.6
574	National Capital District					195.1	195.1											195.1
575	Milne Bay Provincial Government	5,490.6	34,922.3	461.7	1,163.7	316.9	42,355.2	7,489.6	7,719.5	7,348.4	2,340.9	498.5	4,530.1	1,871.1	29,457.3		29,457.3	71,812.5
576	Oro Provincial Government	12,269.3	16,578.9	926.4	1,478.0	138.2	31,390.8	4,800.2	4,145.4	4,298.1	2,009.1	341.2	2,241.8	1,105.0	16,931.8		16,931.8	48,322.5
577	Southern Highlands Provincial Government	30,602.7	49,948.6	463.8	890.4		81,905.5	4,104.8	4,378.3	3,942.8	991.8	384.9	1,469.9	615.1	14,895.8		14,895.8	96,801.3
578	Enga Provincial Government	18,229.1	32,086.7	260.0	1,068.0		51,643.8	4,954.8	5,186.7	10,527.2	1,144.2	387.1	3,016.5	1,846.2	25,918.5		25,918.5	77,562.3
579	Western Highlands Provincial Government	9,888.8	64,065.3	483.4	1,311.3		75,748.8	3,102.8	4,645.8	6,151.2	911.8	331.9	1,463.8	416.6	16,112.1		16,112.1	91,860.9
580	Simbu Provincial Government	15,288.4	50,424.1	241.5	978.5		66,932.5	7,532.9	9,285.6	10,433.1	1,862.2	673.0	3,380.7	2,787.0	34,092.3		34,092.3	101,024.8
581	Eastern Highlands Provincial Government	15,430.5	66,846.2	752.0	1,156.5		84,185.2	6,233.2	9,579.1	15,207.3	2,133.8	585.3	3,715.1	2,485.3	37,805.3		37,805.3	121,990.5
582	Morobe Provincial Government	40,855.0	120,500.0	1,411.5	7,008.1		169,774.6	1,275.8	2,000.0	2,266.3	465.3	157.0	967.5	585.3	7,251.9		7,251.9	177,026.5
583	Madang Provincial Government	22,226.2	45,080.7	955.4	1,711.5	453.2	70,426.9	9,153.6	9,022.7	12,522.4	3,455.7	567.7	3,715.2	3,441.7	38,423.3		38,423.3	108,850.2
584	East Sepik Provincial Government	21,570.1	43,424.7	1,250.0	1,163.7	481.6	67,890.1	11,529.1	12,464.1	20,491.5	3,675.8	838.6	3,722.2	3,160.9	52,206.5		52,206.5	120,096.6
585	Sandaun Provincial Government	17,253.0	44,321.3	854.3	1,296.6		63,725.2	10,354.3	9,675.6	8,050.9	3,835.9	397.3	2,884.9	3,737.6	35,100.6		35,100.6	98,825.8
586	Manus Provincial Government	13,324.0	19,847.7	513.6	614.3		34,299.6	2,642.7	3,092.9	4,758.9	1,148.6	431.7	2,164.0	2,056.0	15,146.2		15,146.2	49,445.8
587	New Ireland Provincial Government	23,423.0	44,601.8	366.7	890.7		69,282.2	783.7	555.4	496.1	230.8	27.7	50.9	25.3	1,939.1		1,939.1	71,221.3
588	East New Britain Provincial Government	22,737.0	57,840.0	504.7	1,490.4		82,572.1	3,751.5	6,127.4	4,356.7	1,554.8	201.5	3,286.6	146.6	17,870.3		17,870.3	100,442.4
589	West New Britain Provincial Government	16,565.8	40,643.9	1,500.0	3,567.6		62,277.3	2,544.2	3,713.0	1,954.8	1,992.6	180.9	1,391.6	101.7	9,886.2		9,886.2	72,163.5
590	Bougainville Autonomous Government	37,460.1	47,245.7	531.2	2,100.9		87,337.9	3,383.6	2,009.7	2,215.4	760.4	148.2	1,120.7	1,236.0	10,113.6		10,113.6	39,396.5
591	Hela Provincial Government	11,087.9	17,687.2	173.9	333.9		29,282.9	2,502.6										
592	Jiwaka Provincial Government	6,243.7	24,175.6	193.4	524.5		31,137.2		3,660.3	5,480.3	825.8	260.1	1,299.2	416.1	13,618.6		13,618.6	44,755.8
TOTAL		388,435.9	896,869.7	13,079.1	33,596.7	1,585.0	1,333,566.4	98,918.2	108,950.0	139,521.0	33,619.7	7,298.8	46,474.2	30,184.8	431,347.0		431,347.0	1,764,913.4

Source: National Economic and Fiscal Commission (NEFC) and Department of Treasury

**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	9,923.4	7,000.7	0.0	48,444.5	1,811.8	<b>67,180.4</b>
Gulf	24,630.3	231.8	0.0	1,670.0	1,785.8	<b>28,317.8</b>
Central	32,918.8	1,982.7	0.0	2,046.7	7,839.4	<b>44,787.5</b>
NCD*	0.0	274,174.0	4,697.3	0.0	0.0	<b>278,871.3</b>
Milne Bay	34,547.5	7,126.9	0.0	0.0	894.4	<b>42,568.8</b>
Oro	21,162.6	2,268.4	0.0	0.0	56.7	<b>23,487.7</b>
Southern Highlands	19,015.9	10,364.0	0.0	37,605.3	947.5	<b>67,932.7</b>
Hela	12,549.2	0.0	0.0	0.0	0.0	<b>12,549.2</b>
Enga	29,315.0	1,280.9	0.0	18,957.2	390.9	<b>49,944.0</b>
Western Highlands	19,177.8	26,818.2	1,423.7	0.0	4,538.0	<b>51,957.8</b>
Jiwaka	15,282.1	0.0	0.0	0.0	0.0	<b>15,282.1</b>
Simbu	37,745.9	1,583.6	0.0	0.0	1,697.3	<b>41,026.9</b>
Eastern Highlands	42,583.4	14,988.5	393.3	0.0	3,681.2	<b>61,646.5</b>
Morobe	14,650.4	95,697.5	1,015.6	2,398.0	10,777.9	<b>124,539.4</b>
Madang	46,262.1	11,610.8	1,024.8	0.0	2,470.7	<b>61,368.3</b>
East Sepik	60,664.6	8,529.2	0.0	0.0	2,281.0	<b>71,474.7</b>
Sandaun	43,319.7	1,358.5	0.0	0.0	2,127.1	<b>46,805.3</b>
Manus	17,017.3	1,192.9	0.0	0.0	1,546.2	<b>19,756.5</b>
New Ireland	3,502.8	7,624.9	0.0	22,523.9	626.6	<b>34,278.3</b>
East New Britain	22,309.1	17,414.4	207.0	0.0	5,385.0	<b>45,315.5</b>
West New Britain	13,792.5	11,909.3	0.0	0.0	8,398.5	<b>34,100.4</b>
Bougainville	0.0	3,421.9	0.0	0.0	0.0	<b>3,421.9</b>
<b>TOTAL</b>	<b>520,370.3</b>	<b>506,579.2</b>	<b>8,761.7</b>	<b>133,645.7</b>	<b>57,256.2</b>	<b>1,226,613.1</b>

**Notes**

1) GST is based on 60% of the 2013 net inland GST collections, to be distributed to each province in 2015

Special distribution arrangements apply for Bougainville (Autonomy Arrangements), Estimate from IRC

2) 100% of 2013 net collections to be distributed to provinces in 2015

3) NEFC estimate based on 2013 actual collections which includes dividends from equity shares of mining and petroleum resource projects

4) NEFC estimate based on 2013 actuals Own Sources Revenue collections

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

6) Revenue Sources for Hela and Jiwaka are not known.

However the G&S Funding under the Recurrent Budget is calculated based on a percentage split of NEFC's Cost Estimate from the mother provinces (SHP and WHP) respectively

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## **APPENDIX 3: TABLES ON ECONOMIC AND FISCAL DATA**

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

	2013 Est	2014 Proj	2015 Proj	2016 Proj	2017 Proj	2018 Proj	2019 Proj
<b>Agriculture, Forestry and Fishing</b>							
nominal	9242.2	10260.3	11097.1	12002.8	12840.1	13758.5	14747.7
deflator	230.3	246.1	257.0	268.1	278.7	288.7	296.6
real	4012.4	4169.0	4317.5	4476.8	4607.9	4765.2	4971.7
rate of real growth	1.9	3.9	3.6	3.7	2.9	3.4	4.3
<b>Oil and Gas Extraction</b>							
nominal	1364.8	5394.7	12380.4	13863.3	13780.0	13813.4	13912.0
deflator	847.2	470.4	421.3	426.6	431.8	437.5	444.4
real	161.1	1146.8	2938.8	3249.8	3191.1	3157.5	3130.7
rate of real growth	-2.8	611.9	156.3	10.6	-1.8	-1.1	-0.8
<b>Mining and Quarrying</b>							
nominal	3248.1	3431.7	3897.2	4041.6	3753.0	3559.6	3760.3
deflator	467.0	466.0	472.4	475.6	476.5	479.2	490.4
real	695.6	736.4	825.1	849.9	787.6	742.8	766.8
rate of real growth	9.9	5.9	12.0	3.0	-7.3	-5.7	3.2
<b>Manufacturing</b>							
nominal	2448.6	2696.2	2971.4	3246.1	3544.6	3870.7	4226.8
deflator	215.3	228.0	240.4	252.6	265.2	278.4	292.4
real	1137.2	1182.7	1235.9	1285.3	1336.7	1390.2	1445.8
rate of real growth	3.5	4.0	4.5	4.0	4.0	4.0	4.0
<b>Electricity, gas and water</b>							
nominal	803.5	901.8	998.6	1101.4	1214.2	1338.7	1475.9
deflator	353.0	373.7	394.1	414.0	434.7	456.4	479.2
real	227.7	241.3	253.4	266.0	279.3	293.3	308.0
rate of real growth	9.0	6.0	5.0	5.0	5.0	5.0	5.0
<b>Construction</b>							
nominal	7359.6	7293.5	7984.8	8722.8	9525.0	10401.3	11358.2
deflator	218.8	231.6	244.3	256.6	269.4	282.9	297.0
real	3364.1	3148.8	3268.8	3399.5	3535.5	3676.9	3824.0
rate of real growth	11.9	-6.4	3.8	4.0	4.0	4.0	4.0
<b>Wholesale and retail trade</b>							
nominal	3350.3	3742.3	4183.5	4614.1	5086.9	5608.3	6183.1
deflator	248.8	263.4	277.8	291.8	306.4	321.7	337.8
real	1346.6	1420.7	1505.9	1581.2	1660.2	1743.3	1830.4
rate of real growth	5.0	5.5	6.0	5.0	5.0	5.0	5.0
<b>Transport, storage and communication</b>							
nominal	1247.3	1373.4	1520.8	1677.4	1849.2	2038.8	2247.8
deflator	125.5	132.9	140.2	147.2	154.6	162.3	170.5
real	993.5	1033.2	1084.9	1139.1	1196.1	1255.9	1318.7
rate of real growth	3.6	4.0	5.0	5.0	5.0	5.0	5.0
<b>Finance, real estate and business services</b>							
nominal	1707.9	1862.5	2052.6	2253.2	2472.2	2712.6	2976.4
deflator	244.9	259.3	273.5	287.3	301.6	316.7	332.5
real	697.3	718.2	750.6	784.3	819.6	856.5	895.1
rate of real growth	3.0	3.0	4.5	4.5	4.5	4.5	4.5
<b>Community, social and personal services</b>							
nominal	2911.6	3206.1	3482.6	3768.0	4074.9	4407.0	4766.2
deflator	193.7	205.1	216.3	227.2	238.5	250.4	263.0
real	1503.3	1563.4	1610.3	1658.7	1708.4	1759.7	1812.5
rate of real growth	6.0	4.0	3.0	3.0	3.0	3.0	3.0
<b>TOTAL GDP*</b>							
nominal	34321.6	40800.3	51207.0	55928.4	58777.8	62146.6	66292.1
rate of nominal growth	8.6	18.9	25.5	9.2	5.1	5.7	6.7
deflator	237.3	260.2	282.7	294.2	302.3	311.3	321.4
real	14465.2	15682.0	18112.5	19012.1	19444.0	19962.8	20625.1
rate of real growth	5.0	8.4	15.5	5.0	2.3	2.7	3.3
<b>Total non-mining GDP</b>							
nominal	29708.7	31973.9	34929.4	38023.5	41244.8	44773.6	48619.8
rate of nominal growth	9.9	7.6	9.2	8.9	8.5	8.6	8.6
deflator	218.3	231.7	243.4	255.0	266.7	278.7	290.7
real	13608.6	13798.8	14348.6	14912.4	15465.3	16062.4	16727.6
rate of real growth	4.9	1.4	4.0	3.9	3.7	3.9	4.1

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

Source: Actual data for 2008 to 2011: National Statistical Office. Estimates and projections: Department of Treasury.



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

	2013 Actual	2014 Est	2015 Proj	2016 Proj	2017 Proj	2018 Proj	2019 Proj
Agriculture, Forestry and Fishing	0.5	1.1	0.9	0.9	0.7	0.8	1.0
Oil and Gas Extraction	0.0	6.8	11.4	1.7	-0.3	-0.2	-0.1
Mining and Quarrying	0.5	0.3	0.6	0.1	-0.3	-0.2	0.1
Manufacturing	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Electricity, gas and water	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Construction	2.6	-1.5	0.8	0.7	0.7	0.7	0.7
Wholesale and retail trade	0.5	0.5	0.5	0.4	0.4	0.4	0.4
Transport, storage and communication	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Finance, real estate and business services	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Community, social and personal services	0.6	0.4	0.3	0.3	0.3	0.3	0.3
<b>TOTAL GDP*</b>	<b>5.0</b>	<b>8.4</b>	<b>15.5</b>	<b>5.0</b>	<b>2.3</b>	<b>2.7</b>	<b>3.3</b>
<b>Total Non-mining GDP</b>	<b>4.9</b>	<b>1.4</b>	<b>4.0</b>	<b>3.9</b>	<b>3.7</b>	<b>3.9</b>	<b>4.1</b>

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

Source: Actual data for 2008 to 2011: National Statistical Office. Estimates and projections: Department of Treasury.



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

	2013	2014	2015	2016	2017	2018	2019
	Actual	Est	Proj	Proj	Proj	Proj	Proj
<b>AGRICULTURE</b>							
Copra	835	970	984	984	984	984	984
Cocoa	5321	7560	7809	7704	6868	6621	6364
Coffee	6940	10603	11092	11239	11368	11368	11368
Palm Oil	1854	1917	1829	1867	1811	1683	1547
Rubber	5704	4864	5592	4070	3691	3362	2993
Tea	3585	3435	3611	3461	3461	3461	3461
Copra Oil	1814	2106	2137	2137	2137	2137	2137
Logs (K/m <sup>3</sup> )	211	220	224	224	224	224	224
<b>MINERALS</b>							
Gold (US\$/oz)	1411	1273	1277	1298	1311	1330	1370
Silver (US\$/oz)							
Copper (US\$/ton)	7331	6904	6947	7038	7144	7163	7198
Oil (Kutubu Crude: US\$/barrel)	104	95	90	93	94	93	92
LNG (US\$ per thousand cubic feet)		12.3	12.5	12.9	13.3	13.6	14.0
Condensate (US\$/barrel)		85	87	89	91	94	96
Nickel (US\$/tonne)	15030	17255	18000	18000	18000	18000	18000
Cobalt (US\$/tonne)	24600	32623	30000	30000	30000	30000	30000

Source: Actuals from BPNG. Projections from IMF, Consensus and Department of Treasury.

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

	2013 Actual	2014 Est	2015 Proj	2016 Proj	2017 Proj	2018 Proj	2019 Proj
<b>AGRICULTURE</b>							
Copra	15.8	40.3	34.1	31.1	30.3	33.9	32.3
Cocoa	38.7	40.3	43.0	44.3	45.6	53.0	60.3
Coffee	48.5	46.0	53.5	59.4	60.6	62.3	65.8
Palm Oil	487.2	461.3	580.8	626.7	638.7	660.6	681.5
Rubber	3.4	3.6	3.8	4.0	4.3	4.5	4.8
Tea	2.9	3.4	3.4	3.4	3.4	3.4	3.4
Copra Oil	13.5	7.2	17.8	14.5	13.8	14.2	15.9
Logs	3297.4	3022.0	3022.0	3022.0	3022.0	3022.0	3022.0
Marine products	73.2	75.4	77.7	80.0	82.4	0.0	0.0
<b>MINERAL</b>							
Gold (tonnes)	55.0	53.5	56.6	58.2	54.3	46.8	47.1
Silver (tonnes)							
Copper (tonnes)	92.9	97.2	96.3	90.4	71.6	73.9	89.5
Oil (million barrels)	5.7	8.0	6.7	5.3	3.8	2.6	1.8
LNG (Tbtu)		100.5	298.2	339.4	338.5	338.5	338.5
Condensate (MB)		3.9	10.6	10.6	9.9	9.5	9.1
Nickel (tonnes)	15,884	21,824	29,340	32,600	32,600	32,600	32,600
Cobalt (tonnes)	1,405	2,184	2,934	3,260	3,260	3,260	3,260

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

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

	2013 Actual	2014 Est	2015 Proj	2016 Proj	2017 Proj	2018 Proj	2019 Proj
<b>AGRICULTURE, FORESTRY, FISHERIES</b>							
Copra	13.2	39.1	33.5	30.6	29.8	33.4	31.8
Copra Oil	24.5	15.3	38.0	31.1	29.4	30.3	34.1
Cocoa	206.0	304.8	335.8	341.2	313.3	350.7	383.9
Coffee	336.6	488.2	593.1	667.3	688.7	708.1	747.6
Palm Oil	903.5	884.2	1062.2	1169.9	1156.7	1111.8	1054.1
Rubber	19.4	17.4	21.2	16.3	15.7	15.2	14.3
Tea	10.4	11.5	12.1	11.6	11.6	11.6	11.6
Other Agriculture (a)	252.6	243.9	232.9	245.0	237.7	225.7	212.0
Forest Products	724.1	665.4	677.3	677.3	677.3	677.3	677.3
Marine Products	234.4	337.3	366.4	396.4	428.7	428.7	428.7
<b>Total Agricultural, Forestry, Fishing Exports</b>	<b>2724.7</b>	<b>3007.0</b>	<b>3372.4</b>	<b>3586.8</b>	<b>3588.9</b>	<b>3592.8</b>	<b>3595.5</b>
<b>MINERAL</b>							
Gold	5414.6	5352.2	5758.7	6021.6	5679.8	4961.4	5141.9
Copper	1524.8	1593.6	1611.0	1532.1	1231.6	1274.4	1551.1
Silver	102.4	77.6	72.4	79.5	84.0	82.5	89.2
Oil	2030.9	1981.2	1576.2	1285.2	926.2	632.5	425.4
LNG		3015.1	9205.3	10891.8	11169.5	11444.3	11730.9
Condensate		811.5	2282.8	2346.3	2233.0	2204.0	2172.2
Nickel	426.9	920.5	1309.5	1455.0	1455.0	1455.0	1455.0
Cobalt	129.1	174.2	218.2	242.5	242.5	242.5	242.5
Refined Petroleum Products	978.5	478.2	464.8	493.0	505.2	512.1	517.0
<b>Total Mineral Exports</b>	<b>10607.2</b>	<b>14404.0</b>	<b>22499.0</b>	<b>24347.0</b>	<b>23526.8</b>	<b>22808.7</b>	<b>23325.2</b>
<b>TOTAL EXPORT VALUE</b>	<b>13331.9</b>	<b>17410.9</b>	<b>25871.4</b>	<b>27933.8</b>	<b>27115.7</b>	<b>26401.5</b>	<b>26920.6</b>

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

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

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

	2013 Actual	2014 Est	2015 Proj	2016 Proj	2017 Proj	2018 Proj	2019 Proj
<b>CURRENT ACCOUNT BALANCE</b>	<b>-7769.8</b>	<b>-943.0</b>	<b>7114.2</b>	<b>9854.5</b>	<b>10378.9</b>	<b>10737.2</b>	<b>11683.8</b>
<b>Balance of Trade in Goods and Services</b>	<b>-6618.5</b>	<b>750.5</b>	<b>9522.5</b>	<b>12566.8</b>	<b>13240.6</b>	<b>13797.6</b>	<b>15024.4</b>
<i>Goods Balance</i>	1170.2	6580.3	15929.9	19277.0	19333.7	19353.1	20441.1
Credit (Exports)	13331.9	17410.9	25871.4	27933.8	27115.7	26401.5	26920.6
Debit (Imports)	-12161.7	-10830.6	-9941.4	-8656.8	-7782.0	-7048.4	-6479.5
<i>Services Balance</i>	-7788.7	-5829.8	-6407.5	-6710.2	-6093.1	-5555.5	-5416.7
Services Credit	937.2	926.6	1014.7	1101.3	1184.0	1276.8	1384.7
Services Debit	-8725.9	-6756.4	-7422.2	-7811.5	-7277.2	-6832.3	-6801.4
<b>Income Balance</b>	<b>-1448.4</b>	<b>-1927.4</b>	<b>-2585.4</b>	<b>-2818.7</b>	<b>-2895.7</b>	<b>-3014.3</b>	<b>-3177.2</b>
Income Credit	86.5	56.1	61.7	66.6	85.3	89.7	95.8
Income Debit	-1534.9	-1983.5	-2647.2	-2885.3	-2980.9	-3104.0	-3272.9
<b>Transfers Balance</b>	<b>297.1</b>	<b>233.9</b>	<b>177.1</b>	<b>106.5</b>	<b>34.1</b>	<b>-46.1</b>	<b>-163.5</b>
Transfers Credit	1203.4	1209.3	1242.7	1266.4	1292.3	1319.7	1319.7
Transfers Debit	-906.3	-975.4	-1065.6	-1160.0	-1258.2	-1365.9	-1483.2
<b>CAPITAL AND FINANCIAL ACCOUNT<sup>(a)</sup></b>	<b>7769.8</b>	<b>943.0</b>	<b>-7114.2</b>	<b>-9854.5</b>	<b>-10378.9</b>	<b>-10737.2</b>	<b>-11683.8</b>
NET ERRORS AND OMISSIONS	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Current account balance as percentage of Gross Domestic Product (GDP)</b>	<b>-22.6</b>	<b>-2.3</b>	<b>13.9</b>	<b>17.6</b>	<b>17.7</b>	<b>17.3</b>	<b>17.6</b>

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

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

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

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>Annual</b>	<b>Annual</b>	<b>Annual</b>	<b>Annual</b>	<b>Jun Qtr</b>
Retail	129.5	134.2	154.1	168.0	166.7
Wholesale	172.6	192.6	197.7	217.3	214.8
Manufacturing	163.8	176.0	185.4	198.7	195.9
Building and Construction	187.5	172.0	188.2	214.3	259.9
Transportation	122.1	151.1	165.3	177.1	175.8
Agriculture, Forestry, Fisheries	156.5	168.8	173.7	168.3	177.0
Financial and Business	132.6	136.6	139.9	133.0	127.6
<b>TOTAL NON-MINERAL</b>	149.7	159.1	168.2	171.8	178.9
<b>MINERAL</b>	150.1	162.3	177.9	267.7	231.8

Source: BPNG

**TABLE 8: CENTRAL GOVERNMENT REVENUE AND GRANTS**  
(Kina Million)

	2013	2014	2015	2016	2017	2018	2019
	Actual	Proj	Proj	Proj	Proj	Proj	Proj
<b>TAX REVENUE</b>	<b>8588.5</b>	<b>9762.8</b>	<b>11257.8</b>	<b>9809.4</b>	<b>10565.6</b>	<b>11429.6</b>	<b>12343.8</b>
TAX ON INCOME AND PROFITS	6081.3	7079.6	8352.3	6786.3	7318.5	7895.9	8520.9
Personal Income Tax	2808.4	3076.5	3303.1	3368.0	3620.6	3892.2	4184.1
Company tax	2060.5	2692.7	2746.1	2826.1	3065.5	3327.8	3613.6
DWT	244.5	204.8	238.7	259.9	281.9	306.0	332.3
Mining and Petroleum Taxes	666.7	766.5	1749.2	0.0	0.0	0.0	0.0
Interest withholding tax	38.5	38.9	38.9	38.9	38.9	38.9	38.9
Other Direct	118.1	162.5	128.3	134.2	140.5	147.1	154.2
Gaming Tax	144.6	137.8	148.1	159.2	171.1	184.0	197.8
DOM. TAXES ON GOODS AND SERVICES	1765.8	1857.7	2043.4	2108.3	2277.6	2504.2	2728.0
Excise	541.9	651.9	663.8	730.6	802.1	882.1	971.3
GST	1217.2	1194.1	1366.8	1363.8	1460.4	1605.7	1738.9
Mining Levy	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Indirect	6.7	11.7	12.8	13.9	15.1	16.4	17.8
TAXES ON INTERNATIONAL TRADE	741.3	825.4	862.2	914.8	969.5	1029.5	1094.9
Import Duty	257.2	284.8	296.4	322.7	350.0	380.0	412.6
Export Duty	211.7	268.4	268.4	268.4	268.4	268.4	268.4
Excise Duty on Imports	272.5	272.2	297.3	323.7	351.1	381.2	413.9
<b>NON TAX REVENUE</b>	<b>273.9</b>	<b>1195.5</b>	<b>1065.6</b>	<b>2508.6</b>	<b>2268.8</b>	<b>2124.8</b>	<b>2170.5</b>
PROPERTY INCOME	55.0	943.3	778.5	2221.5	1981.7	1837.7	1883.4
Dividends	55.0	337.9	80.0	80.0	80.0	80.0	80.0
Mining and Petroleum Dividends	0.0	189.9	202.6	0.0	0.0	0.0	0.0
Other*/ LNG dividend	0.0	415.6	495.9	0.0	0.0	0.0	0.0
STABILIZATION FUND DRAWDOWN (15YMA)	0.0	0.0	0.0	2141.5	1901.7	1757.7	1803.4
INTEREST AND FEES FROM LENDING	0.0	4.0	4.0	4.0	4.0	4.0	4.0
OTHER NON TAX REVENUE	218.9	248.1	283.1	283.1	283.1	283.1	283.1
INJECTIONS FROM TRUST ACCOUNTS	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ASSET SALES	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>TOTAL REVENUE</b>	<b>8862.4</b>	<b>10958.2</b>	<b>12323.4</b>	<b>12318.0</b>	<b>12834.4</b>	<b>13554.4</b>	<b>14514.3</b>
% of GDP	<b>25.8%</b>	<b>26.9%</b>	<b>24.1%</b>	<b>22.0%</b>	<b>21.8%</b>	<b>21.8%</b>	<b>21.9%</b>
INFRASTRUCTURE TAX CREDITS	92.8	161.6	207.8	115.1	110.8	125.9	124.0
GRANTS	877.5	1555.0	1396.1	1396.1	1396.1	1396.1	1396.1
Budgetary Support	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project Support Grants	877.5	1555.0	1396.1	1396.1	1396.1	1396.1	1396.1
<b>TOTAL REVENUE AND GRANTS</b>	<b>9832.7</b>	<b>12674.8</b>	<b>13927.3</b>	<b>13829.2</b>	<b>14341.3</b>	<b>15076.4</b>	<b>16034.4</b>
% of GDP	<b>28.6%</b>	<b>31.1%</b>	<b>27.2%</b>	<b>24.7%</b>	<b>24.4%</b>	<b>24.4%</b>	<b>24.4%</b>

Source: Department of Treasury.

TABLE 9: CENTRAL GOVERNMENT EXPENDITURE

Kina, Millions

	2013 Act	2014 Est	2015 Proj	2016 Proj	2017 Proj	2018 Proj	2019 Proj
<b>National Departments</b>	<b>6,490.7</b>	<b>7,302.0</b>	<b>7,946.0</b>	<b>7,365.9</b>	<b>6,843.0</b>	<b>7,582.0</b>	<b>8,363.0</b>
Personnel Emoluments	1,463.4	1,794.3	2,137.7	1,981.6	1,840.9	2,039.8	2,249.9
Goods & Services	1,919.7	1,957.9	2,333.8	2,163.5	2,009.9	2,226.9	2,456.3
Utilities, Rentals and Property Costs	555.1	594.6	542.3	502.7	467.0	517.5	570.8
Grants Subsidies and Transfers	1,285.3	1,063.6	1,045.9	969.5	900.7	998.0	1,100.7
Acquisition of Existing Assets	26.0	55.2	18.4	17.0	15.8	17.5	19.4
Capital Formation	868.1	1,836.4	1,867.9	1,731.6	1,608.6	1,782.4	1,966.0
Other	373.2	0.0	0.0	0.0	0.0	0.0	0.0
<b>Provincial Governments</b>	<b>2,813.4</b>	<b>3,279.7</b>	<b>3,577.6</b>	<b>3,316.4</b>	<b>3,081.0</b>	<b>3,413.7</b>	<b>3,765.3</b>
Personnel Emoluments	1,006.3	1,016.5	0.0	0.0	0.0	0.0	0.0
Goods & Services	931.0	920.6	1,297.9	1,203.2	1,117.7	1,238.4	1,366.0
Grants Subsidies and Transfers	745.8	1,168.6	2,221.2	2,059.0	1,912.8	2,119.4	2,337.7
Capital Formation	137.3	174.0	58.5	54.2	50.4	55.8	61.6
Other (write offs and depreciations)	-6.8	0.0	0.0	0.0	0.0	0.0	0.0
<b>Autonomous Bougainville Government</b>	<b>228.3</b>	<b>247.0</b>	<b>326.0</b>	<b>302.2</b>	<b>280.7</b>	<b>311.0</b>	<b>343.1</b>
Personnel Emoluments	56.1	64.7	0.0	0.0	0.0	0.0	0.0
Goods & Services	4.0	0.0	105.0	97.3	90.4	100.2	110.5
Grants Subsidies and Transfers	70.3	182.3	213.0	197.4	183.4	203.2	224.2
Capital Formation	98.0	0.0	8.0	7.4	6.9	7.6	8.4
Other	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
<b>Commercial &amp; Statutory Authorities</b>	<b>1,001.0</b>	<b>1,157.9</b>	<b>722.1</b>	<b>669.4</b>	<b>621.8</b>	<b>689.0</b>	<b>760.0</b>
Personnel Emoluments	276.5	262.9	281.8	261.2	242.7	268.9	296.6
Goods & Services	149.4	228.5	157.8	146.2	135.9	150.5	166.0
Utilities, Rentals and Property Costs	41.9	40.0	37.5	34.8	32.3	35.8	39.5
Grants Subsidies and Transfers	133.1	106.0	26.1	24.2	22.4	24.9	27.4
Acquisition of Existing Assets	0.4	0.0	2.0	1.9	1.7	1.9	2.1
Capital Formation	399.8	520.4	217.0	201.1	186.8	207.0	228.3
Capital Transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Interest Payments</b>	<b>484.9</b>	<b>751.3</b>	<b>1,130.1</b>	<b>1,137.3</b>	<b>1,163.7</b>	<b>1,168.4</b>	<b>1,192.2</b>
Domestic Interest Payments	442.7	687.4	1,044.1	1,044.8	1,059.6	1,053.6	1,069.8
Foreign Interest Payments	42.2	63.9	86.0	92.5	104.1	114.8	122.4
<b>Infrastructure Tax Credits</b>	<b>92.8</b>	<b>161.6</b>	<b>207.8</b>	<b>115.1</b>	<b>110.8</b>	<b>125.9</b>	<b>124.0</b>
<b>Grants</b>	<b>877.5</b>	<b>1,555.0</b>	<b>1,396.1</b>	<b>1,396.1</b>	<b>1,396.1</b>	<b>1,396.1</b>	<b>1,396.1</b>
<b>Concessional loans</b>	<b>516.5</b>	<b>871.2</b>	<b>886.3</b>	<b>923.4</b>	<b>840.4</b>	<b>383.9</b>	<b>86.1</b>
<b>LNG Equity Purchase</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>2014 Savings Exercise</b>		<b>-1,070.0</b>					
<b>2014 Supplementary Budget</b>		<b>879.3</b>					
<b>Total Expenditure and Net Lending</b>	<b>12,505.1</b>	<b>15,103.8</b>	<b>16,199.1</b>	<b>15,227.4</b>	<b>14,341.3</b>	<b>15,076.4</b>	<b>16,034.4</b>
%GDP	36.4%	37.0%	31.6%	27.2%	24.4%	24.3%	24.2%
<b>AMORTIZATION</b>	<b>4,361.0</b>	<b>5,905.4</b>	<b>8,794.5</b>	<b>4,469.5</b>	<b>3,897.8</b>	<b>2,826.0</b>	<b>3,028.5</b>
Domestic	4,188.0	5,721.5	8,618.6	4,284.2	3,685.5	2,591.5	2,605.3
External	173.0	183.9	175.8	185.3	212.3	234.5	423.2
<b>LNG Equity Purchase</b>	<b>305.0</b>						
<b>LOAN REPAYMENTS</b>	<b>1.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>
<b>TOTAL PAYMENTS</b>	<b>17,172.1</b>	<b>21,013.2</b>	<b>24,997.6</b>	<b>19,700.9</b>	<b>18,243.1</b>	<b>17,906.4</b>	<b>19,066.9</b>
%GDP	50.0%	51.5%	48.8%	35.2%	31.0%	28.8%	28.8%

Source: Department of Treasury

**TABLE 10: CENTRAL GOVERNMENT FINANCING**  
(Kina Million)

	2013 Actual	2014 Est	2015 Proj	2016 Proj	2017 Proj	2018 Proj	2019 Proj
TOTAL REVENUE AND GRANTS	9,832.7	12,674.8	13,927.3	13,829.2	14,341.3	15,076.4	16,034.4
TOTAL EXPENDITURE AND NET LENDING	12,505.1	15,103.8	16,199.1	15,227.4	14,341.3	15,076.4	16,034.4
<b>DEFICIT (-) / SURPLUS (+)</b>	<b>- 2,672.4</b>	<b>- 2,429.0</b>	<b>- 2,271.8</b>	<b>- 1,398.2</b>	<b>-</b>	<b>-</b>	<b>-</b>
% of GDP	-7.8%	-5.9%	-4.4%	-2.5%	0.0%	0.0%	0.0%
<b>FISCAL FINANCING</b>							
<b>NET EXTERNAL FINANCING</b>	<b>343.5</b>	<b>687.3</b>	<b>811.0</b>	<b>738.2</b>	<b>628.0</b>	<b>149.3</b>	<b>-337.2</b>
CONCESSIONAL FINANCING	395.1	743.0	853.4	770.2	663.1	183.6	-301.5
New Borrowing	516.5	871.2	986.8	923.4	840.4	383.9	86.1
Less Amortisation	-121.4	-128.2	-133.4	-153.2	-177.2	-200.3	-387.5
COMMERCIAL FINANCING	-14.2	-14.6	0.0	0.0	0.0	0.0	0.0
New Borrowing	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Less Amortisation	-14.2	-14.6	0.0	0.0	0.0	0.0	0.0
EXTERNAL EXTRAORDINARY FINANCING	-37.4	-41.1	-42.4	-32.1	-35.1	-34.2	-35.7
New Borrowing	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Less Amortisation	-37.4	-41.1	-42.4	-32.1	-35.1	-34.2	-35.7
<b>NET DOMESTIC FINANCING</b>	<b>2,328.8</b>	<b>1,741.7</b>	<b>1,461.2</b>	<b>660.0</b>	<b>- 628.0</b>	<b>- 149.3</b>	<b>337.2</b>
DOMESTIC MARKET BORROWING	2,726.6	1,923.0	- 1,038.8	660.0	- 628.0	- 149.3	337.2
New Borrowing	6,609.6	7,644.5	7,579.8	4,944.2	3,057.5	2,442.2	2,942.5
Investment Financing	305.0	-	-	-	-	-	-
Less Amortisation	- 4,188.0	- 5,721.5	- 8,618.6	- 4,284.2	- 3,685.5	- 2,591.5	- 2,605.3
MRSF NET DRAWDOWN	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TEMPORARY ADVANCE	0.0	0.0	0.0	0.0	0.0	0.0	0.0
End period balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0
less: Beginning period balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ASSET SALES FINANCING	0.0	0.0	2,500.0	0.0	0.0	0.0	0.0
OTHER DOMESTIC FINANCING	-397.8	-181.3	0.0	0.0	0.0	0.0	0.0
Change in cash balances	-397.8	-181.3	0.0	0.0	0.0	0.0	0.0
<b>TOTAL FINANCING REQUIREMENT</b>	<b>2,672.3</b>	<b>2,429.0</b>	<b>2,272.2</b>	<b>1,398.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
% of GDP							
<b>GROSS BORROWING</b>	<b>7,431.1</b>	<b>8,515.7</b>	<b>8,566.7</b>	<b>5,867.6</b>	<b>3,897.9</b>	<b>2,826.1</b>	<b>3,028.6</b>
Domestic	6,914.6	7,644.5	7,579.8	4,944.2	3,057.5	2,442.2	2,942.5
External	516.5	871.2	986.8	923.4	840.4	383.9	86.1
Concessional	516.5	871.2	986.8	923.4	840.4	383.9	86.1
Commercial	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Extraordinary	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>GROSS AMORTIZATION</b>	<b>4,361.0</b>	<b>5,905.4</b>	<b>8,794.5</b>	<b>4,469.4</b>	<b>3,897.9</b>	<b>2,826.0</b>	<b>3,028.5</b>
Domestic	4,188.0	5,721.5	8,618.6	4,284.2	3,685.5	2,591.5	2,605.3
External	173.0	183.9	175.8	185.2	212.3	234.5	423.2
Concessional	121.4	128.2	133.4	153.2	177.2	200.3	387.5
Commercial	14.2	14.6	0.0	0.0	0.0	0.0	0.0
Extraordinary	37.4	41.1	42.4	32.1	35.1	34.2	35.7

Source: Department of Treasury.



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

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>June Qtr</b>
Domestic Credit	7169.4	7703.8	8833.6	10106.7	10642.4
% Change	7.6	7.5	14.7	14.4	5.3
Net Credit to Central Government	-202.8	-1076.8	297.0	2755.5	3185.6
% Change	-135.3	431.0	-127.6	827.8	15.6
Credit to Private Sector	6945.4	7519.0	8434.3	9913.5	9708.1
% Change	17.7	8.3	12.2	17.5	-2.1
Money Supply	13175.7	15292.2	16966.8	18103.9	18068.4
% Change	11.4	16.1	11.0	6.7	-0.2
Money Velocity (M3*) (average)	2.0	1.9	1.9	1.9	2.3

Source: BPNG

\*through -the -year change

**TABLE 12: PUBLIC DEBT**  
**(Kina Million, unless otherwise stated)**

	2013	2014	2015	2016	2017	2018	2019
	Actual	Est	Proj	Proj	Proj	Proj	Proj
<b>Domestic</b>	<b>8,845.2</b>	<b>10,768.1</b>	<b>9,729.3</b>	<b>10,389.4</b>	<b>9,761.4</b>	<b>9,612.0</b>	<b>9,949.2</b>
Treasury Bills	4,200.7	4,564.3	2,816.5	2,740.6	1,838.4	1,525.6	1,942.5
Inscribed Stock	4,644.5	6,203.8	6,912.8	7,648.8	7,923.0	8,086.5	8,006.8
Other Domestic debt**	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt as % GDP	25.8%	26.4%	19.0%	18.6%	16.6%	15.5%	15.0%
<b>External</b>	<b>3,032.5</b>	<b>3,720.3</b>	<b>4,531.3</b>	<b>5,269.4</b>	<b>5,897.4</b>	<b>6,046.8</b>	<b>5,709.6</b>
International Agencies	3,018.4	3,720.3	4,531.3	5,269.4	5,897.4	6,046.8	5,709.6
Commercial Loans	14.1	0.0	0.0	0.0	0.0	0.0	0.0
Other Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External debt as % GDP	8.8%	9.1%	8.8%	9.4%	10.0%	9.7%	8.6%
<b>Total Public Debt Outstanding</b>	<b>11,877.7</b>	<b>14,488.4</b>	<b>14,260.6</b>	<b>15,658.8</b>	<b>15,658.8</b>	<b>15,658.8</b>	<b>15,658.8</b>
As % GDP	34.6%	35.5%	27.8%	28.0%	26.6%	25.2%	23.6%

**Source:** BPNG and Department of Treasury.

\*\*Includes Temporary Advance Facility

**TABLE 13: OTHER MAJOR ASSUMPTIONS UNDERLYING THE BUDGET**

	2013	2014	2015	2016	2017	2018	2019
	Actual	Est	Proj	Proj	Proj	Proj	Proj
<b>Inflation</b>							
Average on Average (%)	5.0	5.9	5.5	5.0	5.0	5.0	5.0
Dec on Dec (%)	2.9	8.3	4.4	5.0	4.3	7.2	5.2
<b>Exchange rate</b>							
Real Exchange Rate Index (2007 = 100)	164.1	155.1	157.3	161.2	165.2	169.2	173.3
<b>Interest rate</b>							
Kina Rate Facility (KFR)	6.25	6.25	6.25	6.25	6.25	6.25	6.25
Inscribed Stock (3 year yield)	8.0	8.0	8.0	8.0	8.0	8.0	8.0
<b>Mineral Prices</b>							
Gold (US\$/oz)	1411	1273	1277	1298	1311	1330	1370
Copper (US\$/tonne)	7331	6904	6947	7038	7144	7163	7198
Oil (Kutubu Crude: US\$/barrel)	104	95.5	89.7	93.3	93.7	93.1	92.1
LNG (US\$ per thousand cubic feet)		12.3	12.5	12.9	13.3	13.6	14.0
Condensate (US\$/barrel)		85	87	89	91	94	96
Nickel (US\$/tonne)	15030	17255	18000	18000	18000	18000	18000
Cobalt (US\$/tonne)	24600	32623	30000	30000	30000	30000	30000

Source: Department of Treasury

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

	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<b>Proj</b>	<b>Proj</b>	<b>Proj</b>	<b>Proj</b>
<b>REVENUE</b>				
TAX REVENUE	1928.2	1705.4	1573.2	1640.7
TAX ON INCOME AND PROFITS	<b>1928.2</b>	<b>1705.4</b>	<b>1573.2</b>	<b>1640.7</b>
Mining and Petroleum Taxes	1928.2	1705.4	1573.2	1640.7
NON TAX REVENUE	213.7	196.7	184.8	163.0
PROPERTY INCOME	<b>212.2</b>	<b>195.4</b>	<b>183.6</b>	<b>161.8</b>
Mining, Petroleum and Gas Dividends	212.2	195.4	183.6	161.8
Transfer from Savings Fund	0.0	0.0	0.0	0.0
INTEREST	1.4	1.3	1.2	1.2
<b>TOTAL REVENUE</b>	<b>2141.9</b>	<b>1902.1</b>	<b>1758.0</b>	<b>1803.7</b>
% of GDP				
TOTAL REVENUE AND GRANTS	2141.9	1902.1	1758.0	1803.7
<b>EXPENDITURE</b>				
SERVICE DELIVERY FUNDING	2141.9	1902.1	1758.0	1803.7
Goods and Services	0.4	0.4	0.3	0.3
Transfer to Budget	2141.5	1901.7	1757.7	1803.4
<b>TOTAL EXPENDITURE &amp; NET LENDING</b>	<b>2141.9</b>	<b>1902.1</b>	<b>1758.0</b>	<b>1803.7</b>
<b>DEFICIT (-) / SURPLUS (+)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
% of GDP	0.0	0.0	0.0	0.0
<i>Balance of Stabilisation Fund at 31 December</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>

Source: Department of Treasury

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

	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<b>proj</b>	<b>proj</b>	<b>proj</b>	<b>proj</b>
<b>REVENUE</b>				
NON TAX REVENUE	81.7	78.1	76.2	70.4
PROPERTY INCOME	<b>81.6</b>	<b>75.2</b>	<b>70.6</b>	<b>62.2</b>
Mining, Petroleum and Gas Dividends	81.6	75.2	70.6	62.2
Transfer from Stabilisation Fund	0.0	0.0	0.0	0.0
INTEREST	0.055	2.9	5.6	8.2
ASSET SALES	0.0			
<b>TOTAL REVENUE</b>	<b>81.7</b>	<b>78.1</b>	<b>76.2</b>	<b>70.4</b>
% of GDP				
<b>TOTAL REVENUE AND GRANTS</b>	<b>81.7</b>	<b>78.1</b>	<b>76.2</b>	<b>70.4</b>
<b>EXPENSE</b>				
SERVICE DELIVERY FUNDING	0.0	0.8	1.6	2.3
Goods and Services	0.02	0.8	1.6	2.3
Transfer to Stabilisation Fund	0.0	0.0	0.0	0.0
<b>TOTAL EXPENDITURE &amp; NET LENDING</b>	<b>0.0</b>	<b>0.8</b>	<b>1.6</b>	<b>2.3</b>
<b>DEFICIT (-) / SURPLUS (+)</b>	<b>81.7</b>	<b>77.2</b>	<b>74.6</b>	<b>68.1</b>
% of GDP	0.1%	0.1%	0.1%	0.1%
<i>Balance of Savings Fund at 31 December</i>	<i>81.7</i>	<i>158.9</i>	<i>233.5</i>	<i>301.6</i>

Source: Department of Treasury