

2016 NATIONAL BUDGET

VOLUME 1 ECONOMIC AND DEVELOPMENT POLICIES

For the year ending 31 December 2016

PRESENTED BY

HON. PATRICK PRUAITCH, CMG, MP

TREASURER

ON THE OCCASION OF THE PRESENTATION OF THE 2016 NATIONAL BUDGET



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TREASURER

FOREWORD

“Supporting Economic Growth through Fiscal Discipline”

It is my great pleasure to deliver the O'Neill-Dion Government's 2016 National Development Budget.

The 2016 Budget is set within the Government's overarching development frameworks, including the Vision 2050, the Development Strategic Plan 2030, and Medium Term Development Plan II. The 2016 Budget is also designed to *support economic growth through fiscal discipline*.

These are challenging times, not only for PNG, but for many economies around the world. The 2016 Budget has been framed amidst a weak global economy, relatively slower economic growth that has been constrained by the current El Nino drought and low commodity prices. To negate these factors, the O'Neill-Dion Government has adopted prudent fiscal policies to safeguard PNG's 14-year growth record and medium-term prospects. These policies will continue to address PNG's development agenda, as well as insulate PNG from declining government revenues.

The 2015 Supplementary Budget contains the Government's initial fiscal policy response to the deteriorating economic conditions through the inclusion of a number of targeted savings and additional revenue measures. These measures were endorsed by the National Executive Council two months ago, in preparation for this sitting of Parliament. The 2015 Supplementary Budget that is accompanying the 2016 Budget is necessary to respond to the forecasted fall in National Government revenues this year of K2.5 billion, as reported in Treasury's July Mid-Year Economic and Fiscal Outlook Report.

Whilst much has been said about the risks of a blowout of the budget deficit, I can provide the assurance that the O'Neill-Dion Government has been assessing the situation since early this year. We avoided panic measures that would have adversely impacted on current policies and programs and the economy.

By September we were able to gain wide acceptance within Government of measures that needed to be taken to protect the 2015 Budget. Indeed, we have achieved an outcome that has been beyond the expectations of the IMF's Article IV delegation that took a close look at the PNG financial situation in August.

The 2015 Supplementary Budget contains cuts of K1,376.8 million. These cuts are being applied to projects that are behind schedule in terms of implementation and have idle funds that had not been used. Key policy platform priorities such as tuition fee free education and free primary health care remain unaffected.

The 2015 Supplementary Budget includes additional tax and non-tax revenue measures totalling K1,101.6 million for the 2015 Budget. This brings the revised 2015 Revenue to K12,471.7 million. With the expenditure reduction of K1,376.9 million, the revised 2015 Total Expenditure and Net Lending now amounts to K15,129.7 million.

These actions will keep the Budget deficit close to the original Budget projections of 4.5 per cent of GDP. Debt to GDP will remain within the Fiscal Responsibility Act limit of 35 per cent, a significant achievement under difficult circumstances. The 2015 Supplementary Budget demonstrates that PNG can continue to enjoy a robust climate for private sector investment and growth.

In the 2016 Budget, the Government undertook a major reform to improve the reporting of its finances by moving to the updated international standard of reporting Government Finance Statistics (GFS 2014). This has resulted in some re-categorisation of revenues and expenditures. Appendix 3 provides an explanation of changes that were made in adopting GFS 2014.

The 2016 Budget is set at K14,762.6 million against a revenue envelope of K12,650.1 million. This translates into a net borrowing of K2,112.5 million, or 3.8 per cent of GDP, and will bring total debt in 2016 to 35.8 per cent of GDP.

The Government remains committed to ongoing fiscal discipline, structural reforms, new revenue measures and expenditure efficiency gains that will move the country's debt-to-GDP ratio onto a downward trajectory and enable a return to a balanced budget by 2020. In particular, the Government will implement the following policy measures:

- further budget process reforms to achieve expenditure prioritisation and improved quality of spending;
- structural reforms among State Owned Enterprises (SOEs) and the size and efficiency of the public sector;
- the effective implementation of major projects through improved design, scoping and implementation processes, as well as open and competitive tenders;
- the completion of an extensive independent review of PNG's tax system with the overarching aim of improving the lives of the people of PNG through a more effective tax system;
- support for key policy priorities in education, health, infrastructure, agriculture, law and order, and Small and Medium Sized Enterprises (SMEs); and
- management of the Government debt profile through capital markets, structural reforms and the issuance of a Sovereign Bond.

Although the 2016 Budget is K613.4 million lower than 2015 revised budget, key Government priorities are not affected, with improved outcomes likely to flow from better management and expenditure controls.

Free education for our children, free primary health care, assistance for agriculture and SMEs are core programs that will continue to receive full Government support. Transport infrastructure continues to be funded to support longer-term prospects for economic growth and to ensure our people receive adequate services. Investment in Law and Order is maintained to contribute to a safe and just society.

Funding is also provided for PNG to host domestic and international events such as the African Caribbean and Pacific Group (ACP) meeting; the 2017 National Elections and the APEC summit in 2018. This follows the huge success in hosting the Pacific Games and creation of a range of world-class sporting facilities.

The Government debt profile will be managed by expanding sources of finance, including issuance of a Sovereign Bond to ease pressure on the domestic debt market. A significant proportion of proceeds from the issuance of PNG's first Sovereign Bond will be used to reposition the Government's debt portfolio in accordance with prudent guidelines. To assist enhanced debt management, the Government, in conjunction with an IMF Technical Assistance team, will be undertaking a debt sustainability review. New debt benchmarks for 2017 and subsequent years will be determined following the outcome of this review and included in an updated Medium-Term Public Debt Management Strategy.

I am pleased to confirm that revenue will start to flow to PNG's Sovereign Wealth Fund in 2016. Revenues flowing into the Stabilisation Fund will be drawn down into the Budget to fund key priority policy areas. Designed as a long-term investment vehicle, the Sovereign Wealth Fund will serve PNG for decades to come, reducing PNG's vulnerability to external shocks, such as the current fall in commodity prices. The Sovereign Wealth Fund has been designed to provide the highest standards of accountability and good governance. Funding has been allocated in 2016 for the appointment of an experienced and well-qualified Board and a SWF Secretariat. In 2016, the Government will issue the Board with its investment mandate and Government expectations on management of funds.

PNG became an Extractive Industries Transparency Initiative (EITI) candidate country in 2014. The implementation of EITI will show the direct and indirect contributions of resource companies in PNG; improve public understanding of revenue flows in the extractive industry; strengthen revenue generation and collection; and provide a platform for effective engagement between various stakeholders. Work on the first EITI report has commenced and is scheduled to be completed in December 2015.

The importance of micro-economic reform as an engine for sustainable growth has led the O'Neill-Dion Government to endorse key reviews into the financial services sector and a competition policy framework for the economy. These are expected to be completed in 2016. The financial services sector review is covering ways to improve the integrity of financial flows between levels of Government and its citizens and encourage growth and expansion of a sound debt market (financial capital market). The complementary competition policy review will consider how the Government can enhance consumer protection, and address barriers and impediments to competition.

The Government is about to undertake the largest restructure of State assets since the establishment of the Independent Public Business Corporation in 2002. The Kumul Consolidation Agenda (KCA) will manage all State assets, including SOEs and mining and petroleum interests.

The Government will also continue to promote more efficient SOEs through policies that require them to operate in accordance with commercial principles. These principles include responding to shareholders' expectations to receive dividends as a

return on their investment. In the case of SOEs the shareholders are the people of Papua New Guinea. To support this outcome the Government has recently endorsed a dividend policy that will apply to SOEs and statutory authorities going forward. The policy provides enhanced transparency and predictability around the State's expectations as the shareholder. It sets out what relevant boards need to consider in managing State investments and in declaring dividends.

The Government is working to create an improved climate for growth of the private sector by continuing to work on the establishment of the Public Private Partnership (PPP) centre to maximise available avenues for delivery of improved infrastructure and public services.

By adopting a conservative stance on the 2015 and 2016 national budgets, the Government has continued to build on the foundations of a strong and vibrant economy that will provide improved opportunities and higher living standards for our people.

I commend the 2016 Budget to the Honourable Members and to the people of Papua New Guinea.



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HON. PATRICK PRUITICH, CMG, MP

TREASURER

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CHAPTER 1: BUDGET OVERVIEW

1.1 ECONOMIC OUTLOOK

In 2016, the global economy is projected to improve, growing by 3.6 per cent from 3.1 per cent in 2015. Consistent with this outlook, commodity prices are also expected to increase slightly. The PNG economy is projected to grow at 4.3 per cent in 2016 driven by a rebound in the mining and non-mining sectors after the disappointing performance in 2015, while the oil and gas sector, which provided a significant boost to the overall growth in 2014 and 2015, is expected to revert back to the trend of natural decline after absorbing the impact of the first LNG production in 2014 and 2015, respectively.

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 and supported by the continued expansion of the private sector.

In 2016, inflation is expected to increase to around 5.7 per cent, reflective of the expected improvement in global economy and the pickup in commodity prices. Over the medium term, inflation is projected to ease around 5.0 per cent, assuming effective and coordinated management of 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.

PNG's trade activity with the rest of the world has moderated in 2015 reflecting the weak global activity and low commodity prices. Despite these developments, PNG's current account balance has recorded a huge surplus of K7,154.0 million in the first half of 2015 compared to a deficit of K518.0 million recorded over the same period in 2014. This improvement reflects the huge surpluses in the goods balance and transfer balance offsetting the deficits in the services and income balances.

1.2 FISCAL STRATEGY

The 2016 Budget is framed against two dominant adverse influences. Firstly, a relatively weak world economic environment that is still adjusting to a lower commodity prices outlook. Secondly, lower than anticipated growth within the domestic economy due in part to the effects of drought in many parts of the country.

The Government is consciously ensuring its policy settings are broadly consistent with the *Fiscal Responsibility Act 2006*, the Medium Term Fiscal Strategy and other overarching policy frameworks such as Vision 2050, the Development Strategy Plan and the Medium Term Development Plan II.

1.3 REVENUE

In 2016, Total Revenue is projected at K12,650.1 million. This is K12.2 million above the 2015 Supplementary Budget estimate. The increase is attributable to Tax Revenue and Grants, which more than offset a decrease in Other Revenue. Project Grants support from Donors are expected to be lower in 2016.

Total Supplementary Budget Revenue is expected to be lower by K1,504.7 million compared to the original 2015 Budget projection and this reflects a lower Tax Revenue in spite of the additional Supplementary Budget revenue measures of K1,106.6.0 million.

1.4 EXPENDITURE

Total expenditure in 2016 is estimated to be K14,762.6 million of which K12,698.3 million is Government funded, K922.0 million is loans and K1,142.2 million is donor funded. The total expenditure represents a K367.2 million, or 2.4 per cent reduction from the 2015 Supplementary Budget of K15,129.7 million.

The 2016 expenditure provides a lower fiscal ceiling compared to previous years. Therefore, a clear prioritisation of expenditures guided the formulation of the 2016 Budget. The following are the main Budget priorities:

- hosting the African, Caribbean and Pacific (ACP) Group of States meeting in 2016, facilitating the 2017 National Elections and hosting the APEC Summit in 2018;
- placing more emphasis on monitoring, evaluation and compliance so as to achieve improved development outcomes;
- assisting our large rural population through adequate and targeted drought assistance;
- continuing to support policy priorities in the education, health, infrastructure, agriculture and Small and Medium-sized Enterprise (SME) sectors; and
- further promoting the efficient and effective implementation of major projects through improving design, scoping and implementation processes.

The Government will take further steps in 2016 to address inefficiencies in the public sector. This includes measures to be taken on freezing staffing restructures, unattached officers to be redeployed or made redundant, efficiencies between agencies and others.

1.5 STATUS OF TRUST ACCOUNTS

Since 2005 a total of K9,230.7 million, up to and including the 2015 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.

A total of K1,205.0 million was appropriated for trust accounts in the 2015 Budget. Of this, K929.3 million has been paid into trust accounts as at 30th September 2015, with the remainder to be paid when funds become available later in 2015. A total of K145.0 million was reduced in appropriations for budget funded trust accounts in the 2015 Supplementary Budget and a total of K792.0 million was appropriated for budget funded trust accounts in the 2016 Budget.

1.6 FINANCING AND DEBT STRATEGY

The stock of Central Government debt continued to increase in 2015 as the Government accessed the domestic and international markets to fund its National Budget. Interest rates were largely unchanged over 2015, despite a noticeable reduction in the demand for inscribed stock over the latter half of the year. Demand remained strong for the Government's Treasury Bills and Central Bank Bills throughout the year.

In the coming months the Government will consider raising funds in offshore debt markets via a sovereign bond. If and when these funds are raised they will be used to restructure the domestic debt portfolio which represents a significant part of the Central Government's stock of debt. Restructuring of the portfolio, which is expected to occur over the next five years, will reduce the current high level of Treasury Bills to more prudent levels. Furthermore, it will lead to a reduction in refinancing risk and increase the average maturity of the domestic portfolio. Whilst the debt-to-GDP ratio is expected to rise slightly to around 36 per cent in 2016 and 2017, it is projected to fall thereafter reaching a low of 31 per cent in 2020.

1.7 NATIONAL REFORM AGENDA

The Government recognises the importance of ongoing reforms to enhancing outcomes for Papua New Guineans. Accordingly, the Government will continue its ambitious reform agenda throughout 2016.

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. 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 Government is also committed to public sector reforms that will enhance the efficiency and effectiveness of the public sector. In addition, the Government will monitor existing reforms to ensure they achieve their objectives and explore areas for further reform.

1.8 IMPROVING PUBLIC ENTERPRISES

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.

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. The Government's Kumul Consolidation framework seeks to address some of the deficiencies of the past and ensure that resources are utilised effectively for the benefit of the country.

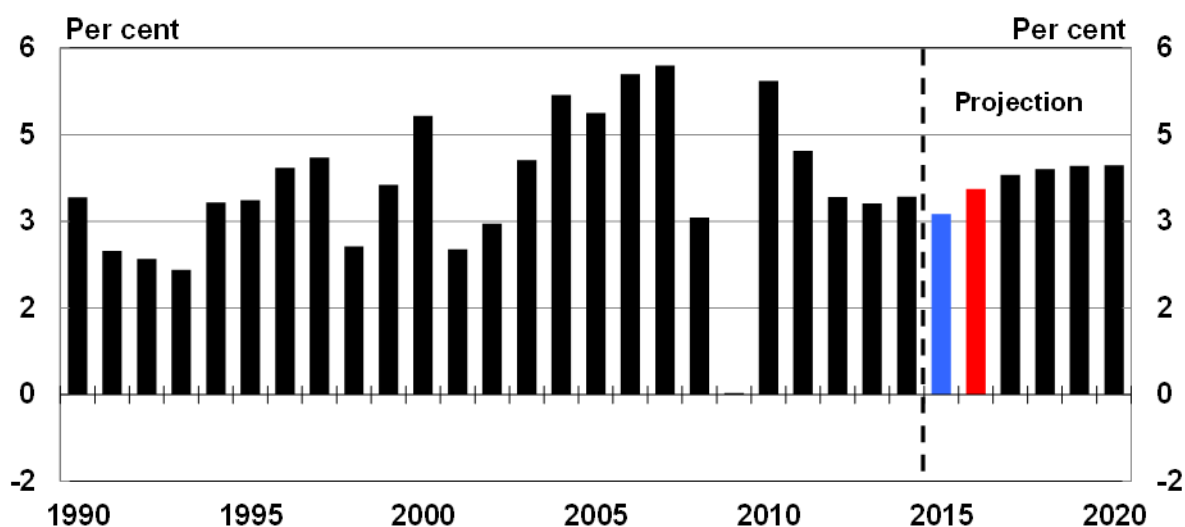
CHAPTER 2: ECONOMIC DEVELOPMENTS AND OUTLOOK

2.1 WORLD ECONOMIC GROWTH OUTLOOK

The global economy has weakened in 2015. According to the 2015 October World Economic Outlook (WEO) report published by the International Monetary Fund (IMF), the global economy is projected to grow by 3.1 per cent in 2015. This is a downward revision of 0.2 percentage points from the July WEO projection of 3.3 per cent and a downward revision of 0.4 percentage points from the April WEO of 3.5 per cent. The downward revision to the global economic outlook from the July WEO is driven by a further slowdown in emerging market economies and a weaker recovery in advanced economies.

The slowdown in emerging market economies is reflective of a combination of weaker growth in oil exporting economies, the easing Chinese economy and a weaker outlook for exporters of other commodities, including those in Latin America. Emerging market and developing economies are projected to grow at 4.0 per cent in 2015, a downward revision of 0.2 percentage points from the July WEO update. Advanced economies are projected to grow by 2.0 per cent in 2015, a downward revision of 0.1 percentage point from the July WEO update. The recovery in advanced economies is expected to be supported by the decline in oil prices and accommodative monetary policies. Recovery is expected to continue in the United States, supported by lower energy prices, reduced fiscal drag, strengthened balance sheets, and an improving housing market. These are expected to offset the impact of the appreciation of the US dollar on net exports.

Chart 1: World Economic Growth (1990-2020)



Source: International Monetary Fund, World Economic Outlook (October 2015)

Note: World economic growth in 2009 was 0.028 per cent

In 2016, the global economy is projected to improve, growing by 3.6 per cent with advanced economies in particular the United States, Japan and the Euro area expected to strengthen further. Emerging and developing economies such as Brazil, Russia, India and some other economies in Latin America and the Middle East are expected to improve. On the other hand, China's growth is projected to continue to ease.

Over the medium term, global growth is forecast to increase, reflective of a further improvement in emerging and developing economies. Distressed economies and economies

that are growing below their potential are forecast to gradually return to trend. A stabilising of growth at sustainable rates for China and India are expected to contribute to the medium term outlook.

On the other hand, growth in advanced economies is projected to remain at 2.3 per cent, as output gaps gradually close, before declining to below 2.0 per cent. This reflects the gradual effects of demography on labour supply and hence on potential output.

However there are risks to the global economic outlook, in particular for emerging market and developing economies. The risks relate to China's growth transition as it becomes less reliant on investment, protracted global commodity market rebalancing, increased foreign-currency exposure of corporate balance sheets and capital flow reversal associated with disruptive asset price shifts. In advanced economies, risks from Greece related events to other Euro area economies remain a concern, as do risks from protracted weak demand and low inflation. On the upside, the oil price decline could imply some upside risks to growth in domestic demand in oil importing economies.

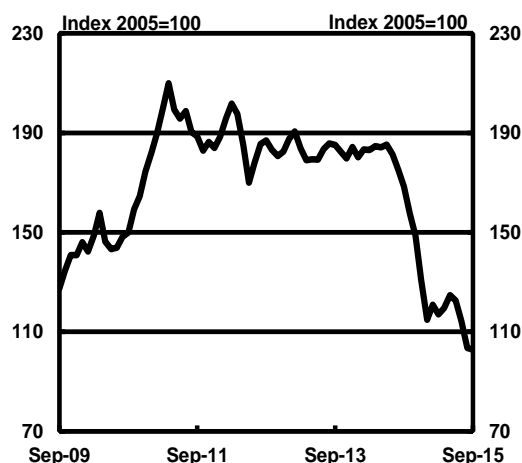
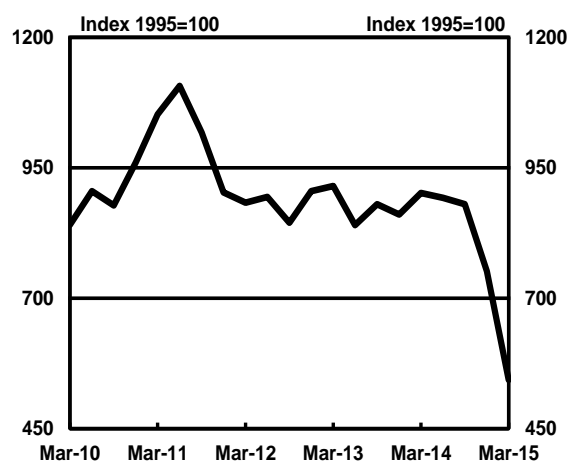
2.1.1 Inflation

Global inflation is estimated at 3.3 per cent in 2015, a slight increase of 0.1 per cent from the July WEO update reflective of a mild inflation in emerging market and developing economies. Inflation in emerging market and developing economies is projected at 5.6 per cent reflective of very high inflation in Venezuela and Ukraine. On the other hand, inflation in advanced economies is projected at 0.3 per cent, a downward revision of 0.05 percentage points, reflecting primarily the impact of lower oil prices. In 2016, global inflation is projected to increase slightly to 3.4 per cent reflective of the rise in inflation in advanced economies to 1.2 per cent, up from 0.3 per cent in 2015, while inflation in emerging and developing economies is projected to moderate to 5.1 per cent from 5.6 per cent projected in 2015.

2.1.2 Commodity Prices

Commodity prices have trended lower with developments in the global economy in 2015. The unexpected slowdown in global growth over the course of the year has hindered world demand resulting in substantial declines in metal prices. China's currency devaluation and stock market correction in the second half of 2015 raised concerns over the strength of metal demand. Demand for gold and crude oil was no different, with the latter appearing volatile on short-term changes in production levels from both the Organisation of Petroleum Exporting Countries (OPEC) and non-OPEC oil producers. According to the IMF's All Commodity Price Index, prices of commodities, while volatile, have disappointed in 2015. In September 2015, prices fell by 10.5 per cent, compared to prices at the beginning of the year, and were lower by 39.0 per cent compared to a year ago.

In assessing the effect of international price fluctuations on the PNG economy, the Bank of PNG All Price Index is the more relevant indicator. According to the March update from the quarterly economic statistics, prices of PNG's major exports were down by 27.7 per cent since the beginning of the year, and down 39.7 per cent compared to a year ago.

Chart 2: IMF All Commodity Price Index**Chart 3: PNG All Commodity Price Index**

Source: International Monetary Fund (IMF) & BPNG

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

2.1.3 Copper

Copper prices dropped at the start of 2015, falling by 14 per cent in January to US\$5,390.5 per tonne. According to IMF's February Commodity Market Report, the decline in copper prices in the beginning of the year was attributed to concerns about rising inventories, weak demand and increased global supply. Towards mid-May, copper prices recovered to US\$6,448 tonne. The rebound was driven by tightening in copper supply and falling inventories, supported by seasonal demand. However, prices plummeted again in late August as demand faded amidst concerns of weakening demand from the largest consumer (China), due to the expected devaluation of the Yuan against the US dollar.

According to the International Copper Study Group (ICSG), copper usage over the first half of the year declined around 2.0 per cent, with China accounting for 50 per cent of the decline. The transition in China from an investment-led economic growth model to more sustainable consumption-led model has impact on copper demand. The influence of China has played a vital role in the global copper market over the course of the year as has general supply and inventory conditions.

Copper prices are currently in a trading range of between US\$4,888 per tonne and US\$5,761 per tonne. From the beginning of 2015 to October, copper prices have averaged around US\$5,667 per tonne which is 18.0 per cent lower than a year ago.

Chart 4: Copper Prices

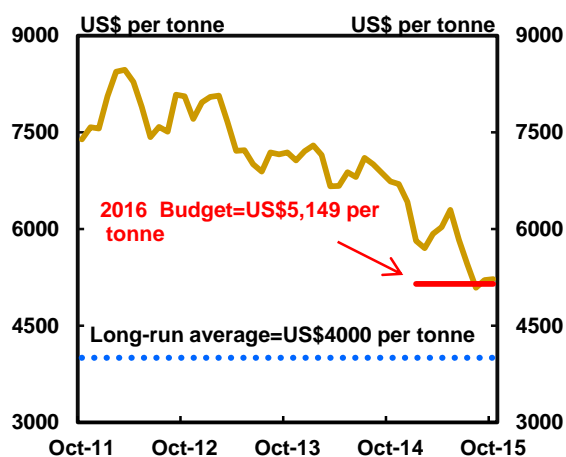
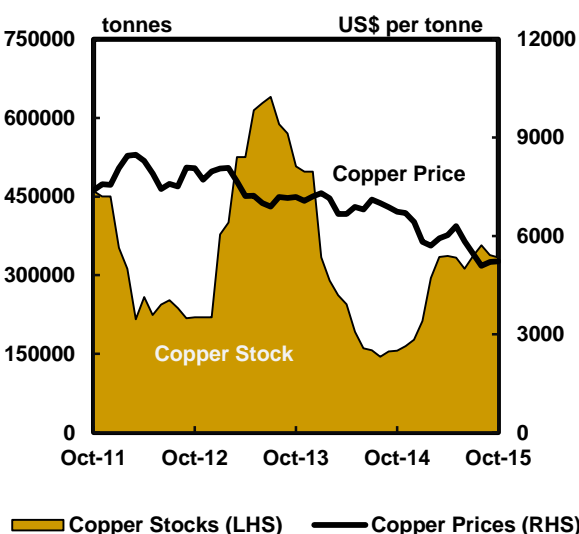


Chart 5: Copper Prices against Stocks



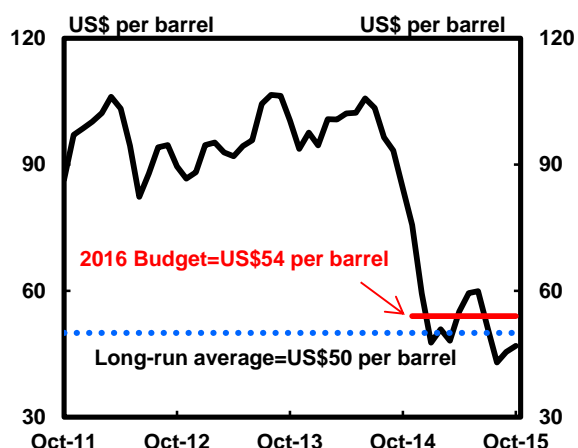
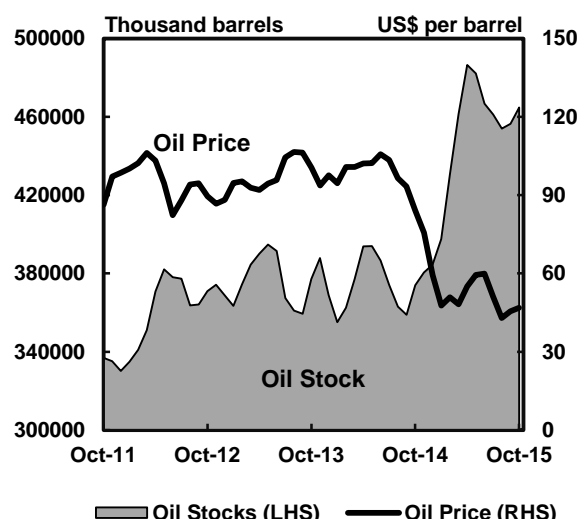
Source: International Monetary Fund (IMF) & London Metal Exchange

Looking ahead to 2016, the copper market is expected to remain heavily influenced by developments in the Chinese economy. Furthermore, new mine supplies are expected to keep the global market in surplus. Consistent with this outlook, the 2016 Budget assumption for copper prices is US\$5,149 per tonne.

2.1.4 Crude Oil

Crude oil prices remain subject to changes in underlying supply and demand fundamentals, the strength of the US dollar and geopolitical risks. Supply and demand conditions remain the key determinants in the oil market in 2015. On the supply side there is strong competition to maintain market share, whilst on the demand side there is weakness in global demand.

Crude oil prices fell by more than 50 per cent to a six-year low in early 2015 with changes in underlying supply and demand conditions. This was amplified in the short term by a sharp appreciation in the US dollar, a shift in OPEC policy to focus on maintaining market share, and abating geopolitical risks. In the second quarter, however, prices briefly recovered reflecting lower US production due to a sharp drop of investment in the shale sector, supported by increased seasonal demand. However, prices declined once more in the third quarter due to increased production from both OPEC and non-OPEC producers, as well as improved sentiment surrounding the potential return of Iran's oil to the export market which is anticipated to add onto the already oversupplied oil market. According to the International Energy Agency's (IEA) October Oil Market Report, global oil demand is expected to ease as temporary price support fades. Crude oil prices are currently locked in a trading range between US\$43 per barrel and US\$50 per barrel. Since the beginning of the year to October, crude oil prices have averaged around US\$51 per barrel which is 48.6 per cent lower than a year ago.

Chart 6: Crude Oil Prices**Chart 7: Crude Oil Prices against Stocks**

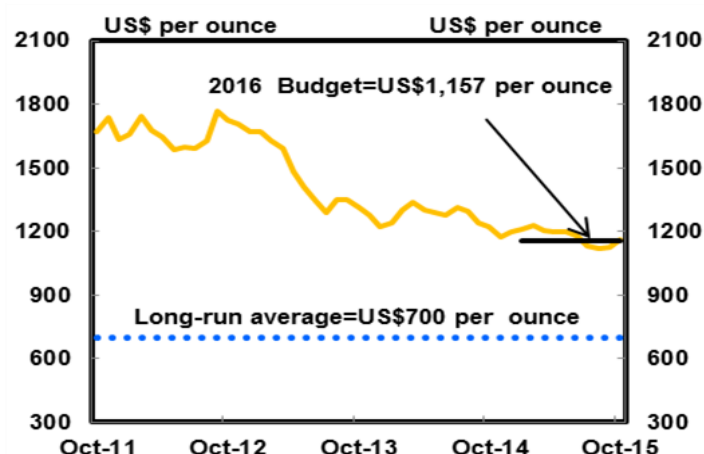
Source: International Monetary Fund (IMF) & US Energy Information Administration (EIA)

In 2016, crude oil prices are expected to continue to closely track developments in underlying fundamentals. On the downside, persistent strong production from members of OPEC and resilience in non-OPEC output, particularly in the US, are expected to maintain world oil supply at high levels amidst an easing global oil demand. On the upside, should activity in non-OPEC producers falter unexpectedly and geopolitical tensions intensify in the Middle East, this would lend support to oil prices. Based on this outlook, the 2016 Budget assumption for crude oil prices is US\$54 per barrel.

2.1.5 Gold

Gold prices closely tracked developments in the US economy in 2015. Lack of safe-haven demand in the second quarter left prices increasingly vulnerable to a strengthening US dollar and market sentiment surrounding prospects of higher US interest rates.

At the beginning of the year, gold prices averaged around US\$1,252 per ounce supported by increased safe-haven demand. However, gold prices declined in the second quarter, as underlying drivers including the appreciation of the US dollar and expectations of a US interest rate hike in September, dampened investor concerns surrounding a possible Greek exit from the Euro area. The devaluation of the Chinese yuan and China's economic slowdown contributed to higher gold prices in September. Since the beginning of the year to October, gold oil prices have averaged around US\$1,176 per ounce which is 8.3 per cent lower than a year ago.

Chart 8: Gold Price Movements

Source: Department of Treasury, IMF and Bank of England

In 2016, the expected timing of an increase in US interest rates and continued positive growth prospects for the US economy means gold prices are expected to remain tilted to the downside. Conversely, should economic growth in the US falter unexpectedly, gold's safe-haven appeal could come to the fore increasing prices. Consistent with the outlook, the 2016 Budget assumption for the gold price is US\$1,157 per ounce.

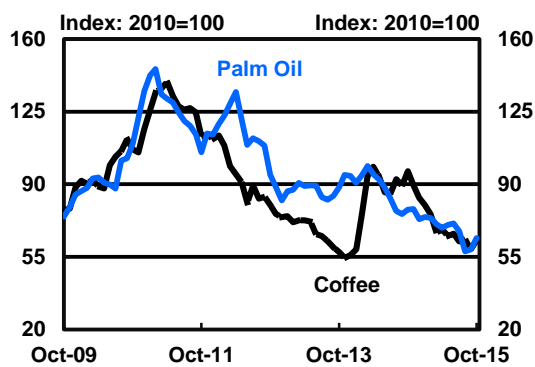
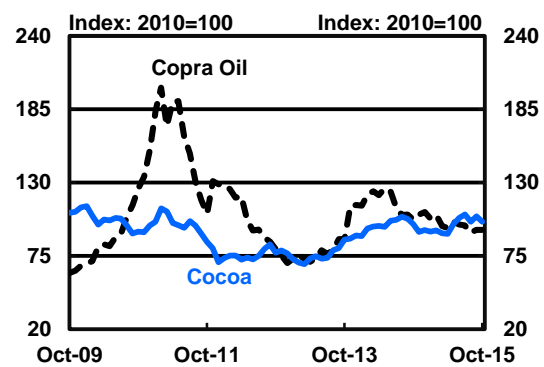
2.1.6 Agriculture Commodities

Prices for PNG's agricultural export commodities have been subjected to weakening global demand, adequate supply for most commodities, and concerns over an intensifying El Nino.

The weakening in global economic growth over the course of 2015 has affected overall demand which in turn has triggered declines in consumption of agricultural commodities. The weak demand environment with relatively sufficient harvest has negated the impact of earlier expectations for a reduced crop and an anticipated rebound in prices in 2015, particularly with respect to coffee. Although the 2015 crop was low in Brazil – the world's largest coffee producer – on-time rains brought hope for a sufficient harvest amidst a slowdown in consumption driven largely by the downturn in emerging market economies. In addition, depreciation of the Brazilian real against a strong US dollar proved to be an influential factor encouraging exports out of Brazil. Looking at next year's crop, the return of dry conditions in some areas of Brazil have added some uncertainty to the market.

The El Nino has also added an element of risk and helped to underpin cocoa prices with support from a sizable drop in Ghana's production. These developments have more than offset bearish factors and put cocoa prices on a rising trend in 2015. In 2016, anticipation of a slow recovery in production in Ghana as well as short term factors including elections in the top cocoa producer – Ivory Coast – are expected to influence the global cocoa market.

Other PNG cash crops including palm oil and copra are mainly influenced by developments in Southeast Asia. Palm oil prices declined in 2015 owing to increased production from leading producers (Malaysia and Indonesia) amidst a general edible oil supply glut. In addition, concerns surrounding the slowdown in the Chinese economy are expected to curb demand, exerting more downward pressure on prices.

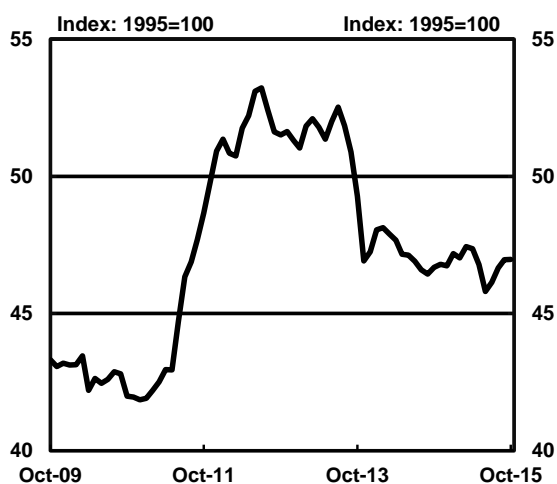
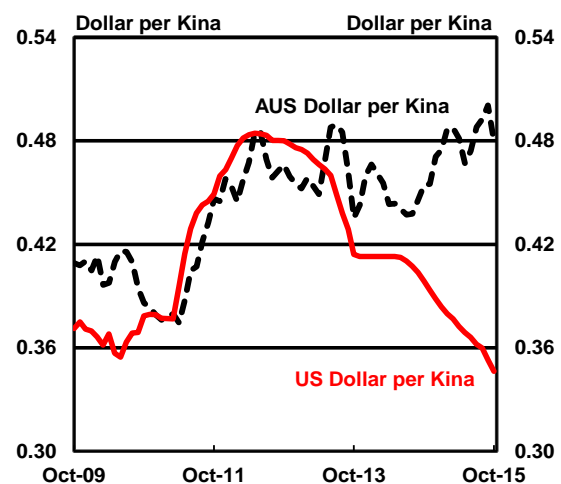
Chart 9: Price Index of Palm Oil & Coffee Price**Chart 10: Price Index of Copra & Cocoa Price**

Source: International Monetary Fund (IMF) and Reuters

Since the beginning of the year, coffee prices have decreased by 22.4 per cent, palm oil 13.9 per cent and copra prices 8.3 per cent, while cocoa prices increased by 8.6 per cent. Over the year to October, coffee prices have averaged around US\$3,355 per tonne, cocoa prices US\$3,090 per tonne, copra oil prices US\$1,103 per tonne and palm oil prices US\$580 per tonne.

2.2 EXCHANGE RATE DEVELOPMENTS

PNG's Trade Weighted Index (TWI)¹ remains subdued with a rise in the index at the second half of the year partially offsetting a sharp decline in the first half of the year. As shown in Chart 11, PNG's TWI declined slightly by 0.52 per cent over the year to October, compared to the corresponding period last year. The decline in the TWI was driven by the depreciation of the Kina against the US dollar. The Kina depreciated by 10.2 per cent against the US dollar over the year to October.

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

Source: Bank of PNG

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

The PNG Kina also depreciated against other key trading currencies including: the Singapore Dollar (-2.7 per cent), Chinese Renminbi (-8.8 per cent), Hong Kong Dollar (-10.2 per cent), and Philippines Peso (-8.6 per cent), while it appreciated against the Australian Dollar (7.9 per cent), Japanese Yen (5.4 per cent), New Zealand Dollar (7.1 per cent), Malaysian Ringgit (4.5 per cent), and the Euro (9.2 per cent).

The depreciation of the Kina against most of PNG's major trading currencies is due to ongoing strengthening of the US dollar over the first ten months of 2015 as well as the persistent mismatch in supply and demand for foreign currency within the PNG Foreign Exchange Market. According to the BPNG September Monetary Policy Statement (MPS), less LNG-related inflows including lower receipts from LNG exports and accelerated asset depreciation also explains this depreciation. The appreciation of the Kina against the Australian dollar was attributed to cross currency movements as the Australian dollar weakened against a stronger US dollar on the back of weaker iron ore prices and reduced interest rate differentials between the US and Australia. Any further depreciation in the Kina against the currencies of major trading partners is likely to flow through to higher import prices.

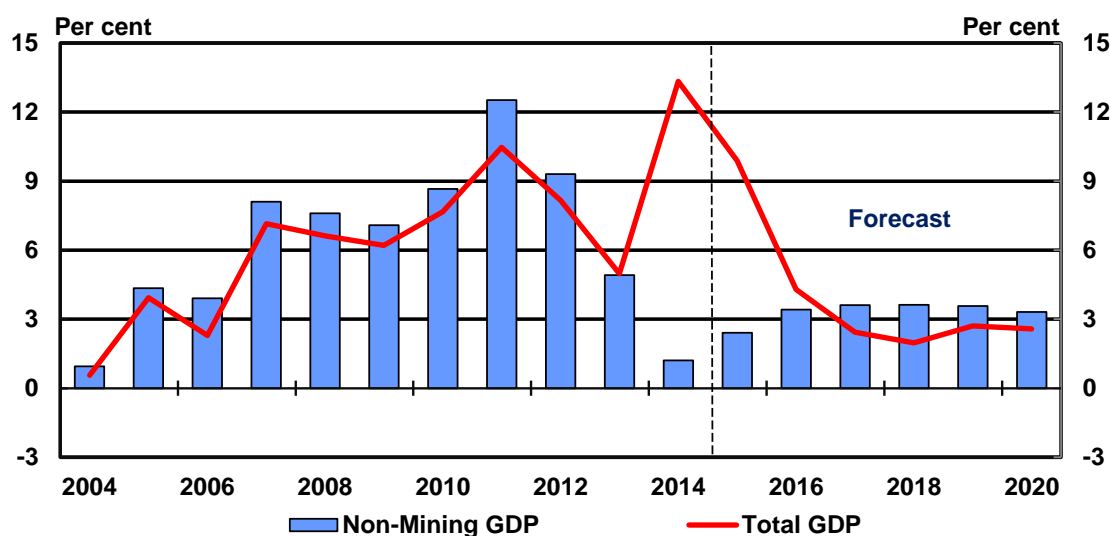
2.3 DOMESTIC ECONOMIC DEVELOPMENTS AND OUTLOOK

2.3.1 2015 Economic Update

The PNG economy is expected to grow at 9.9 per cent in 2015, a downward revision from the MYEFO estimate of 11.0 per cent and the 2015 Budget estimate of 15.5 per cent. The downgrade is due to the contraction in the mining and quarrying sector and lower than anticipated growth in other sectors of the economy, mainly the agriculture forestry and fisheries sector due to low commodity prices, the adverse effects of the drought, and the shut-down of the Ok Tedi mine since July 2015. In addition, the reduction in government stimulus spending in the economy is also a cause of concern and is having an impact on businesses in 2015. Despite these setbacks, the ramp up of full year of LNG production in 2015 has been the main driver of growth in 2015.

The oil and gas sector is estimated to grow at 67.9 per cent in 2015 after historic growth of 1,101.5 per cent in 2014 with the commencement of first LNG production in May 2014, several months ahead of schedule.

Chart 13: Economic Growth 2004 – 2020



Source: Department of Treasury

On the other hand, the mining and quarrying sector contracted in 2015 due to low commodity prices, rising input costs and unfavourable weather conditions, in particular the prolonged drought which led to the shutdown of the Ok Tedi mine in July 2015. While mines are managing the impact of the low commodity prices through cost cutting measures, the impact of the Ok Tedi mine shut-down has significantly downgraded growth in the mining and quarrying sector in 2015. The sector is estimated to contract by 3.7 per cent in 2015 compared to growth of 10.8 per cent estimated at MYEFO and the 2015 Budget estimate of 12.0 per cent. It is assumed that the mine will remain closed until early 2016.

With depressed commodity prices, and the reduction in government expenditure, activities in the non-mining sectors appears to have slowed, most notably in the agriculture, forestry and fisheries, manufacturing, construction, wholesale retail and trade, and community social and personal services sectors. On the upside there has been increased activity in the transport, communication, finance, and electricity sectors in 2015. As a result of these developments, total non-mining GDP has been revised down to 2.4 per cent in 2015 from 3.3 per cent growth estimated at MYEFO and the 2015 Budget estimate of 4.0 per cent.

Developments in the agriculture, forestry and fisheries sector continue to be impacted by low commodity prices, old-aged trees, crop diseases, unfavourable weather conditions and poor market infrastructure. The sector is expected to grow at 2.1 per cent in 2015, a downgrade from the MYEFO estimate of 3.2 per cent and the 2015 Budget estimate of 3.6 per cent. The downgrade is due to lower than anticipated coffee, cocoa and copra production which more than offset a higher palm oil production mainly coming from the newly planted areas. The impact of the low commodity prices is more evident in coffee, cocoa and copra production given that these commodities are mostly produced by smallholders who are price sensitive. Another contributing factor to the downgrade of growth in 2015 is the adverse effect of the prolonged drought. The drought has devastated food crops and export commodities in the drought affected areas forcing the government to provide relief assistance. The full impact of the drought on the export commodities is expected to be realised in the 2016 harvest.

The manufacturing sector is expected to grow at 2.5 per cent in 2015, a downward revision from the 4.5 per cent growth estimated at MYEFO and the Budget. The downgrade is due to the temporary closure of a major oil refinery in Port Moresby for a period of around six months in 2015. In addition, the depreciating Kina exchange rate and the lack of foreign exchange at the Bank of PNG to facilitate import demand are affecting businesses.

Activities in the wholesale retail and trade sector were affected by low commodity prices and the adverse effect of the drought. Rural households were severely affected and had to rely on relief assistance from the Government. Most businesses have indicated that sales have remained fairly flat and lower than expected in 2015. This has led to businesses consolidating their operation rather than expanding. Growth in 2015 has been revised down to 2.5 per cent from 4.5 per cent estimated at MYEFO and the Budget.

The construction sector is expected to grow at 1.5 per cent in 2015, a downward revision from the MYEFO estimate of 2.0 per cent. The downgrade is due to the reduction in government expenditure in 2015. The same also applies to activities in the community, social and personal services sector with growth in this sector revised down to 2.5 per cent from the 3.0 per cent growth estimated at MYEFO.

The electricity, gas and water sector is expected to grow at 6.0 per cent in 2015, an upward revision from the 5.0 per cent growth estimated at MYEFO. The upward revision is due to the government's ongoing investment in PNG Power Limited. Some of these investments include the purchase of two 26 Megawatts (MW) power generators in 2014. While the first generator is already in use in Port Moresby, the second 26-MW gas turbine has been recently

commissioned in Lae and is expected to provide immediate relief to consumers and businesses in Lae. In addition, ExxonMobil had agreed to provide up to 25 MW of electrical power to Port Moresby in 2015 from its LNG plant outside Port Moresby after an MOU was signed between the State and ExxonMobil in 2015. These developments are expected to relieve the ongoing capacity issues faced by PNG Power Limited.

The transport, storage and communication sector is expected to grow at 5.0 per cent in 2015 driven by the expansion in the communication and transport sector. Businesses in the transport sector appear to have benefited from the low cost of fuel associated with the low international oil prices. A key contributor to growth in 2015 is the expansion of Air Niugini Ltd with the introduction of more flights and the expansion of its coverage to the rural areas of PNG through the Link PNG Service. The expansion in the communication sector reflects Digicel PNG diversifying into television services and mobile banking services.

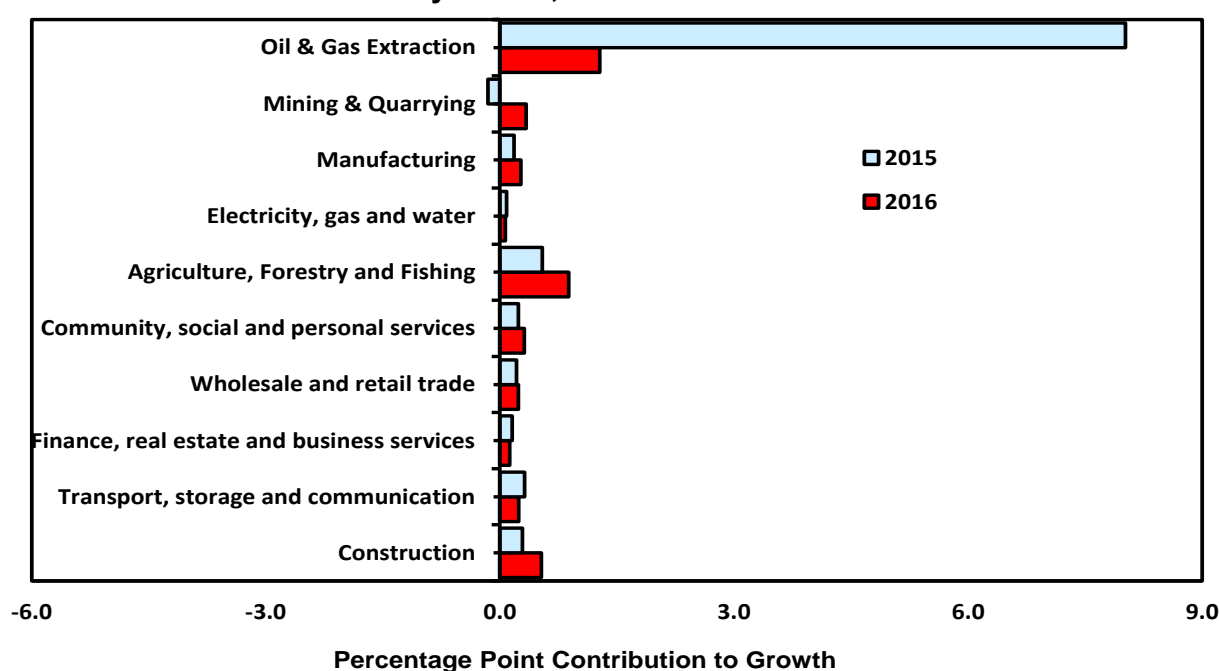
2.4 2016 ECONOMIC OUTLOOK

In 2016, the PNG economy is projected to grow at 4.3 per cent driven by a rebound in the mining and non-mining sectors after the disappointing performance in 2015. On the other hand, the oil and gas sector, which provided a significant boost to the overall growth in 2014 and 2015, is expected to revert back to the trend of natural decline after absorbing the impact of the first LNG production in 2014 and 2015 respectively.

Further supporting growth in 2016 is the anticipated improvement in the global economy. This will assist commodity prices to improve and stimulate activities in the domestic economy. Other factors also considered to boost activity in 2016 include the preparations for the 2018 APEC meetings. Total non-mining GDP is expected to grow at 3.4 per cent in 2016 from growth of 2.4 per cent in 2015, driven by a rebound in the non-mining sector.

Chart 14 shows the contribution each sector makes to overall economic growth in 2015 and 2016.

Chart 14: Contribution to Growth by Sectors, 2015 and 2016



Source: Department of Treasury

In regards to each sector's growth rate, the mining and quarrying sector is expected to rebound and grow strongly at 9.3 per cent in 2016 reflecting the Ok Tedi mine resuming operation in 2016. This will be supported by the ramp up of production from new mines including the full production from the Ramu Nickel and Cobalt mine in 2016. In addition, commodity prices are expected to pick up slightly providing a much needed relief to the mining sector in 2016.

Growth in the oil and gas sector is expected to be minimal in 2016 after absorbing the huge impact of the first gas production in 2014 and 2015 respectively. The sector is expected to grow at 7.1 per cent in 2016. The outlook after 2016 reflects the natural decline of oil associated with maturing oil fields.

The rebound in the non-mining sector in 2016 is expected to be driven by increased activities in the agriculture, forestry and fisheries sector, the manufacturing and retail trade sectors, the construction sector and the community social and personal services sector.

The agriculture sector is expected to grow at 3.8 per cent in 2016 due to favourable weather conditions and an improved growing environment for coffee, cocoa and copra supported by increased palm oil production from newly planted areas. This forecast also captures the impact of the 2015 drought on the 2016 production.

The manufacturing sector and the wholesale and retail trade sector are expected to grow at 4.0 per cent and 3.0 per cent respectively in 2016 benefiting from increased activities in the agriculture and the mining sectors. In addition, impediments to businesses are expected to be addressed thereby creating an environment that is conducive for growth.

The construction sector is expected to grow at 3.0 per cent in 2016 driven by the construction of infrastructure for the 2018 APEC meetings and the Government's ongoing capital expenditure programs. Other activities expected to support growth in 2016 include the construction of phase two of the Lae Port Redevelopment at a cost of K300 million. This follows the completion of phase one of the port's development in December 2014 at a cost of K700.0 million.

The community social and personal services sector is expected to grow at 3.5 per cent in 2016 due to the Government's ongoing expenditure programs.

2.4.1 Medium Term Outlook

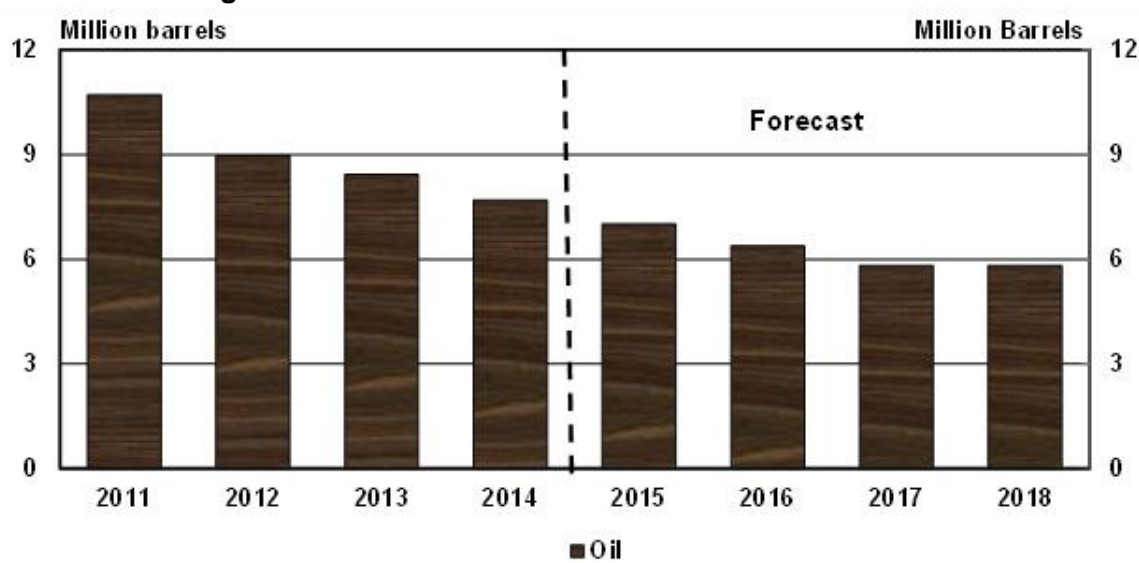
Over the medium term, the PNG economy is expected to adjust to traditional drivers of the economy in the non-mining sectors, an aftermath of the boom and bust periods of the construction and production phase of the PNG LNG project. This adjustment is expected to set in after the economy absorbs peak levels of LNG production in 2015 and 2016.

The agriculture, forestry and fisheries sector is projected to be a major driver of growth over the medium term. While the recovery in global economy 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 and the continued expansion of existing operations. 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 businesses.

The mining and quarrying sector is expected to moderate over the medium term, as Ok Tedi mine continues mine life extension activities. This outlook does not capture the new pipeline projects including the Wafi-Golpu project, the Frieda River project and the Nautilus Deep Sea Mining project. These projects will be factored into the projections when they are confirmed to commence operation. Adjusting for these should provide some upside to the growth projections over the medium term.

The oil and gas sector is expected to decline 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 2015-2016. LNG and condensate production after ramping up to full capacity in 2016 is expected to occur at steady rates from 2017 onwards. This outlook does not capture the prospect of the second LNG project coming on board over the medium term due to limited information.

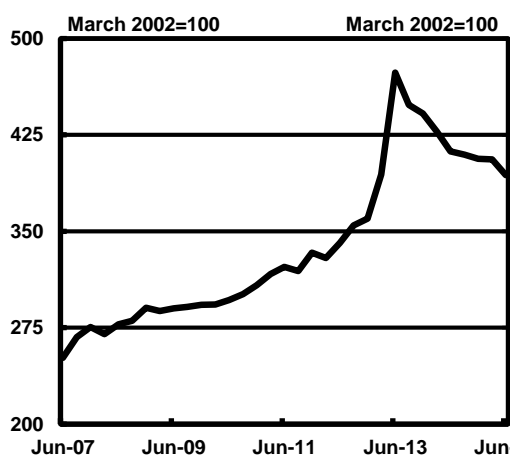
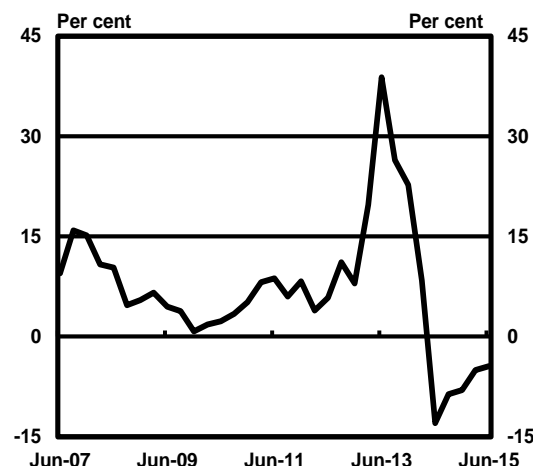
Chart 15: Declining Oil Production over the Medium Term



Source: Department of Treasury and Department of Petroleum and Energy

2.5 LABOUR MARKET

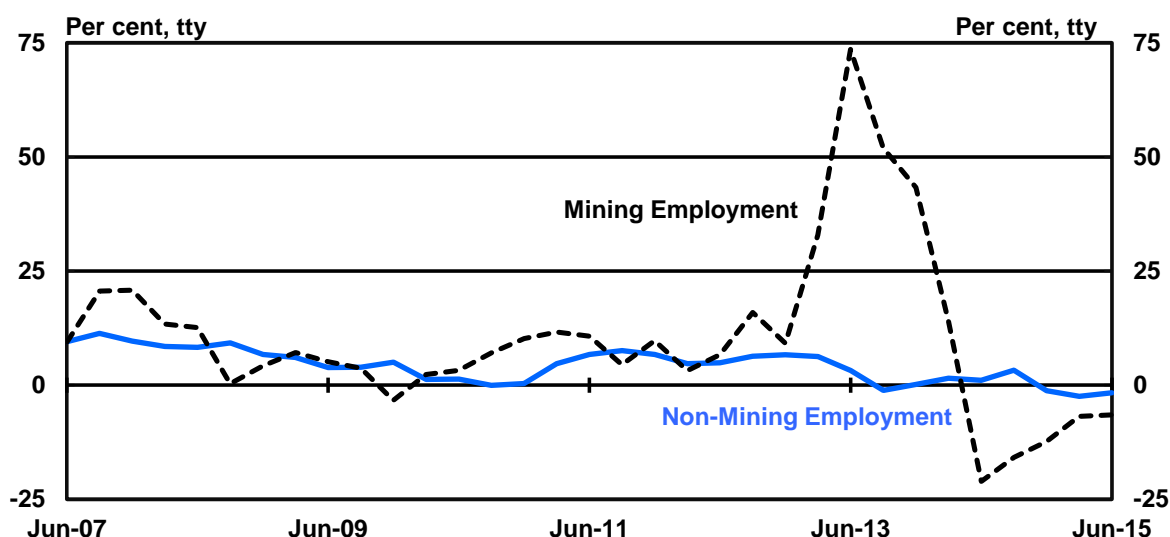
Total employment in Papua New Guinea continued to decline in line with developments in the domestic economy in 2015, down by 4.4 per cent through-the-year to the June quarter. The decline reflects underlying factors including low international commodity prices and the impact of El Nino affecting activities in the mining and non-mining sectors of the economy.

Chart 16: Employment Index**Chart 17: Total Employment Growth**

Source: Department of Treasury and Bank of PNG

It is estimated that total level of employment in the non-mining sector decreased by 1.6 per cent through-the-year to the June quarter 2015. This is reflective of the decline in employment growth in the retail, wholesale, manufacturing, building and construction and transportation sectors of the economy.

Compared to the March quarter 2015, employment in the non-mining sector is estimated to have increased by 0.9 per cent in the June quarter. This growth was largely due to increased employment in the Agriculture, Forestry and Fisheries (7.1 per cent) and Retail sector (1.2 per cent). Partially offsetting this growth were the declines in employment in the building and construction (6.1 per cent), and wholesale (2.0 per cent) sectors.

Chart 18: Mining and Non-Mining Employment Growth

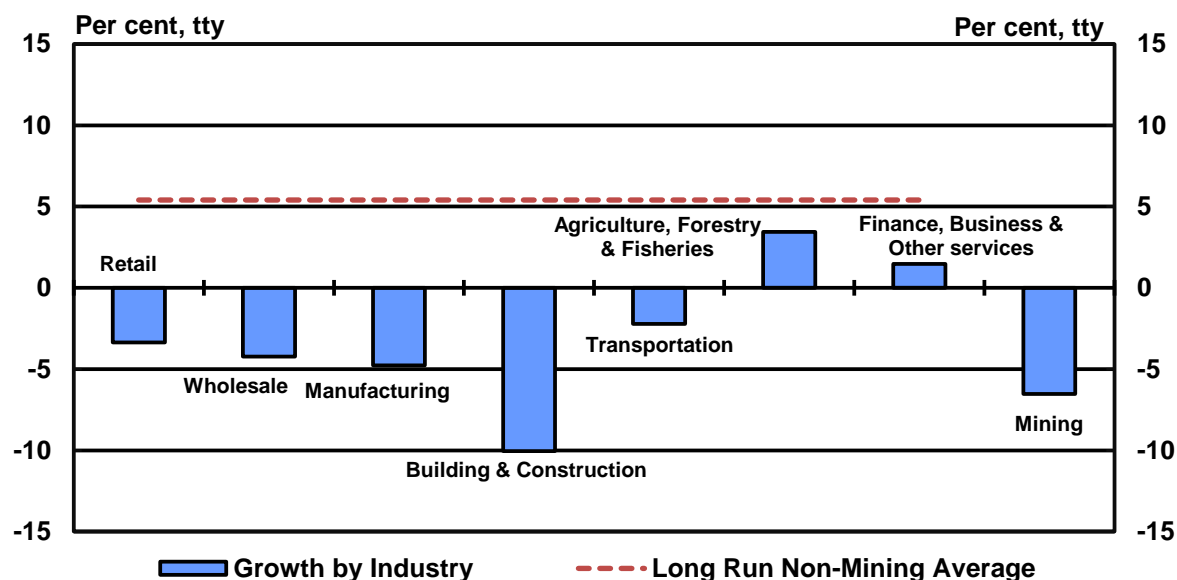
Source: Department of Treasury and Bank of PNG

Employment in the mining sector declined by 6.5 per cent through the year to June quarter 2015.² On a quarterly basis, employment growth in the mining sector is estimated to have declined by 5.8 per cent in the June quarter. The decline reflects the completion of a work

² Data reported here does not capture the shutdown of Ok Tedi in late July.

experience program at one of the major mines, as well as, the redundancy exercise undertaken by a small gold mine following its closure.

Chart 19: Industrial Employment Growth – Through the Year to June 2015



Source: Department of Treasury and Bank of PNG

2.5.1 Nominal Salary and Wages

Nominal salary and wages have continued to increase following three consecutive phases of positive adjustments over the last decade. The increasing trend is reflective of a record 14 consecutive years of growth in the PNG economy. While much of the growth has been led by the boom in the mining and petroleum sectors, associated spin-offs from this boom have also translated into salary and wage pressures in the non-mining sectors.

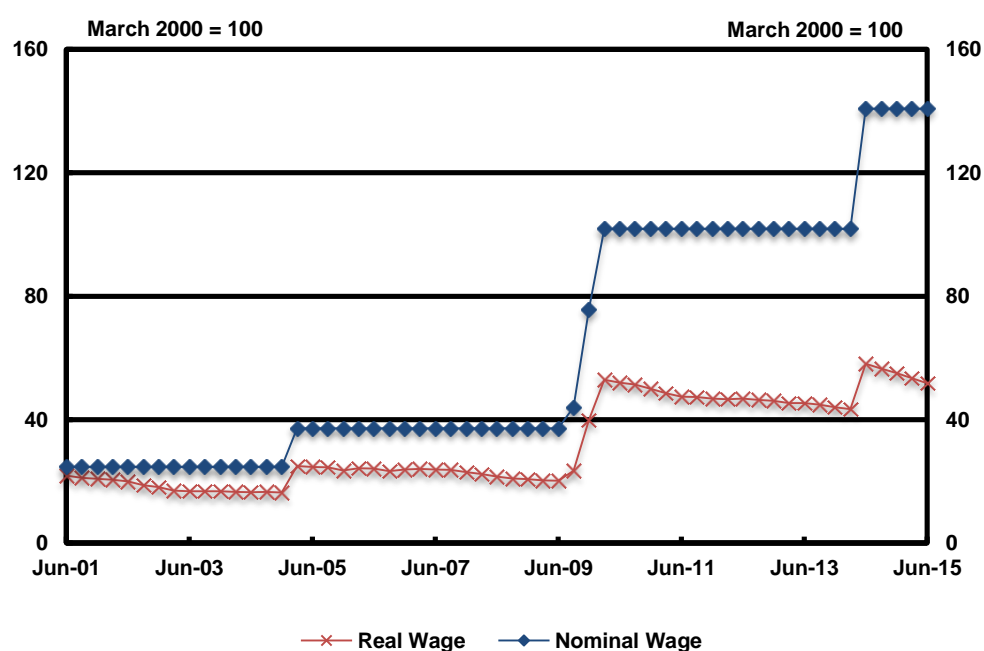
The first phase of adjustment in nominal salary and wages experienced in 2004 was mainly attributed to external factors, particularly the international commodity price boom. This increased business activities translated into a sharp increase in nominal wages.

The second phase of increased in nominal salary and wages in March quarter 2010 was relatively more pronounced. This spike was largely attributed to the construction phase of the PNG LNG project. The strong demand for skill 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 offered very generous increases in nominal wages to keep their prized employees.

The third adjustment in nominal salary and wages in June quarter 2014 reached an all-time high of K140.80 per week. This adjustment was based on a new Determination by the Minimum Wages Board (MWB) on new wage rates that was approved by the Government in mid-2014. The new wage rates are being implemented in three phases over a three year period from 2014 to 2016.

Nominal salary and wages per week has remained constant at K140.80 per week since June quarter 2014. On a real basis, minimum wages in the June quarter of 2015 have decreased from June 2014 by 10.8 per cent due to the impact of inflation on real incomes.

Chart 20: Wages Index

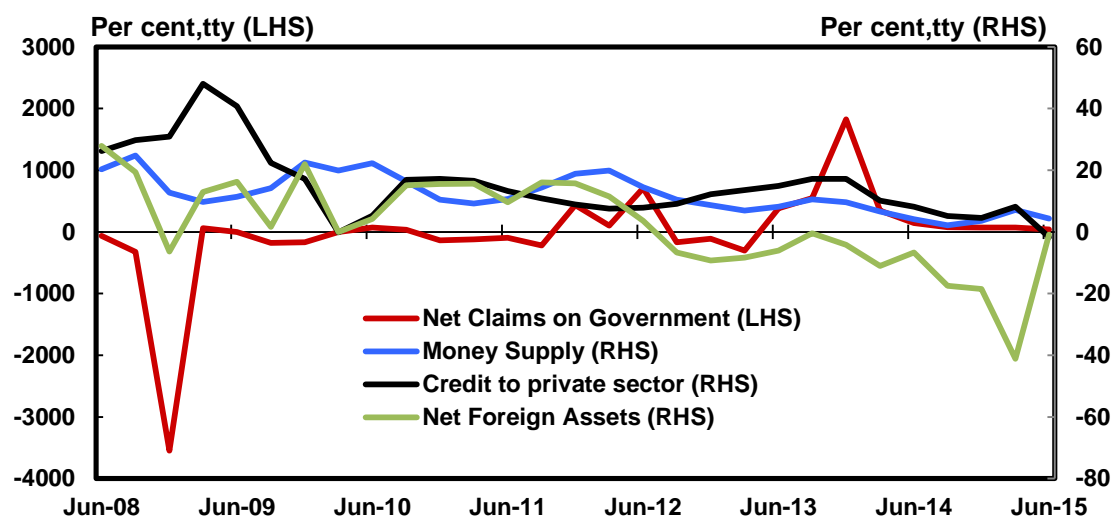


Source: Department of Treasury, Bank of PNG and National Statistical Office

2.6 MONETARY DEVELOPMENTS

The Central Bank continued its monetary policy stance by maintaining its Kina Facility Rate (KFR) at 6.25 per cent aimed at supporting domestic economic activity. The broad money supply over the twelve months to June quarter 2015 rose on average by 4.0 percent. This was primarily due to net claims on Central Government increasing by 37.0 per cent. The increase in the net claims on the Central Government is reflective of the continuous issuance of securities to finance the 2014 and 2015 Budget. On the other hand, credit to the Private Sector and Net Foreign Assets declined on average by 1.7 per cent and 0.9 per cent respectively.

Chart 21: Monetary and Credit Growth (through the year % growth)



Source: Bank of PNG

According to the 2015 September Monetary Policy Statement (MPS), broad money supply is projected to increase by 9.2 per cent in 2015 compared to 1.2 per cent growth in 2014 reflective of the increase in net credit to the Government. The Bank projected net claims on Government to increase by 40.1 per cent in 2015. Credit to the Private sector is projected to increase by 3.9 per cent with businesses utilizing own cash to fund activities, high lending rates and funding by the Government for specific infrastructure projects. Net Foreign Assets are projected to decrease by 2.3 per cent, an improvement from a decline of 16.0 per cent in 2014. The monetary base is projected to increase by 8.9 per cent reflective of higher commercial bank deposits at the Central Bank.

In 2016, the Bank projected a moderate increase in money supply of 6.8 per cent with net claims on Government projected to decline by 11.8 per cent. Credit to the private sector is projected to increase by 5.4 per cent while Net Foreign Assets to continue decrease by 2.1 per cent. Monetary base in 2016 is projected to moderately increase by 5.3 per cent.

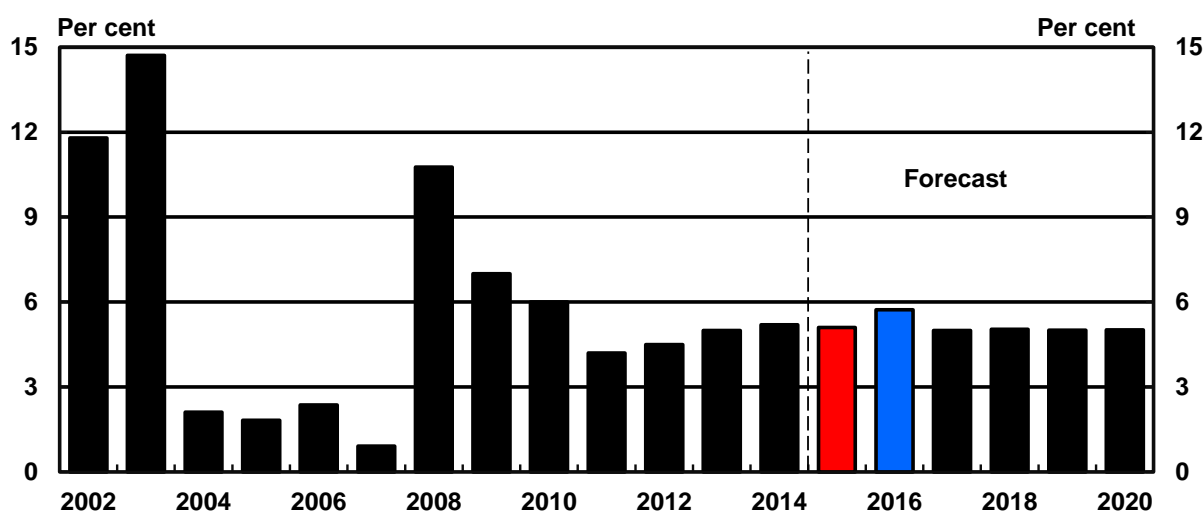
2.7 CONSUMER PRICE INDEX

2.7.1 2015 Inflation Update

Headline inflation is estimated to be 5.1 per cent in 2015, a downward revision from the 2014 inflation outcome of 5.2 per cent and the 2015 Budget estimate of 5.5 per cent but slightly higher than the 2015 MYEFO estimate of 4.9 per cent. The downgrade in forecast since the Budget reflects low commodity prices, weak global demand, and low imported inflation as well as the impact of the continued Tariff Reduction Program in 2015.

The upward revision in forecast since the MYEFO is due to the effect of the ongoing depreciation of the Kina exchange rate against the US dollar which is expected to offset the impact of the low commodity prices, low imported inflation and the reduction in government spending in 2015. In addition, domestic inflationary pressures are rising due to supply constraints and high costs of doing business among others. According to the June quarter CPI report, prices of most domestic goods and services continue to remain high especially fruits and vegetables, housing rents, hotel accommodation, alcoholic beverages and tobacco and betel-nut. Should this trend continue, it will increase inflation going forward.

Chart 22: Inflation outcome and projection-2002-2020



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

In 2016, inflation is expected to pick up to around 5.7 per cent reflective of the expected improvement in global economy and the pickup in commodity prices. Over the medium term, inflation is projected to ease around 5.0 per cent assuming effective and coordinated management of 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.

2.8 BALANCE OF PAYMENTS AND INTERNATIONAL RESERVES

2.8.1 2015 Update

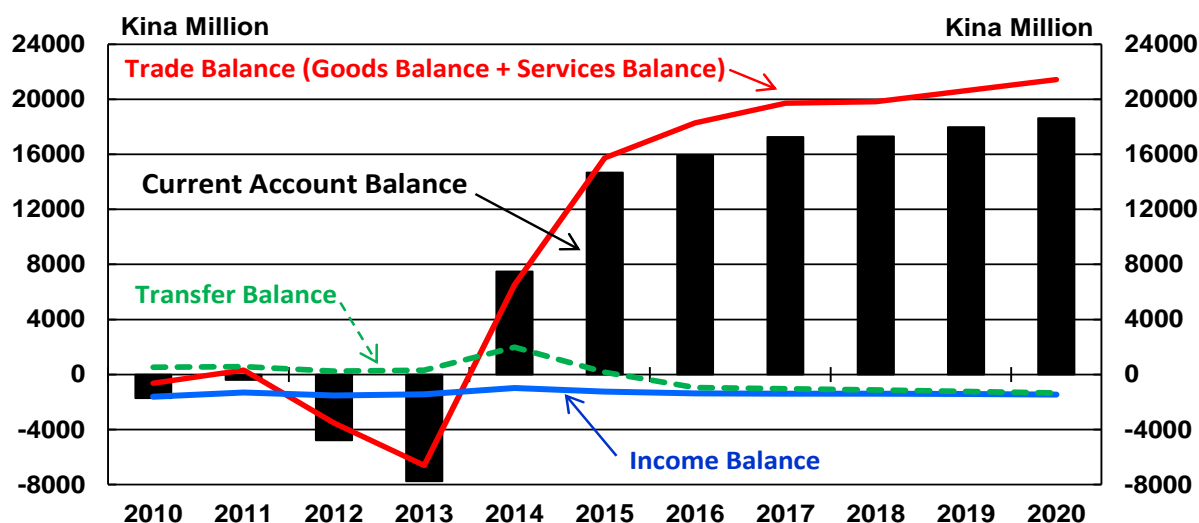
PNG's trade activity with the rest of the world has moderated in 2015 reflecting the weak global activity and low commodity prices. Despite of these developments, PNG's current account balance has recorded a huge surplus of K7,154 million in the first half of 2015 compared to a deficit of K518 million recorded over the same period in 2014. This improvement reflects the huge surpluses in the goods balance and transfer balance offsetting the deficits in the services and income balances.

The goods balance recorded a huge surplus of K8,995.7 million in the first half of 2015, an increase of 196 per cent compared to a smaller surplus of K3,039.0 million recorded over the same period in 2014. The reason behind this huge improvement is two-fold. First, is the general decline in imports by 37.5 per cent associated with the rationing of foreign exchange to finance import payments and second, is the huge improvement in exports by 48.7 per cent driven by increased export volume of gas with the full year of PNG LNG production in 2015. The increased volume of LNG produced in 2015 has more than offset the impact of the low commodity prices and the low production from the mining and agriculture sectors. In addition, the transfer balance recorded a surplus of K310.0 million in the first half of 2015, compared to a smaller surplus of K167.0 million recorded over the same period in 2014. 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 K1,520.2 million and K630.8 million respectively in the first half of 2015. The deficit in the net service account was reduced by 53.2 per cent due to lower payments for services associated with the general decline in imports while the high income deficit has increased by 33.1 per cent from the corresponding period of 2014 due to high dividend payments which more than offset income receipts during the period.

The financial balance recorded a net outflow of K7,546.0 million in the first half of 2015, compared with the net inflow of K470 million recorded in the corresponding period of 2014. The outcome was due to net outflows in other investments reflecting investments in short term money market instrument, build up in net foreign assets of domestic banking system and foreign currency account balances of mineral companies and net government loan repayments.

As a result of these developments, the overall balance of payments recorded a deficit of K388.3 million in the first half of 2015, compared to a smaller deficit of K16.0 million in the corresponding period of 2014.

Chart 23: Balance of Payments

Source: Bank of BPNG

2.8.2 2016 Outlook

In 2016, the current account balance is expected to be a surplus of K15,955.0 million or 28.9 per cent of GDP compared to an estimated surplus of K14,665.7 million or 28.7 per cent of GDP in 2015. The huge surplus in the current account balance reflects the resumption of operations at the Ok Tedi mine. Strong growth is also expected from the new mines including the Ramu Nickel and Cobalt mine as they ramp up production. In addition, a rebound in production is expected from the agriculture sector after the disappointing performance of 2015. This is based on the assumption that commodity prices will pick up and growing conditions will improve in 2016.

On the other hand, income payments abroad from 2016 are expected to increase as the inflows from the sale of PNG LNG results in income and dividend payments to shareholders overseas. This is expected to expand the deficits in the income balance. The income deficit is projected to be 2.5 per cent of GDP in 2016.

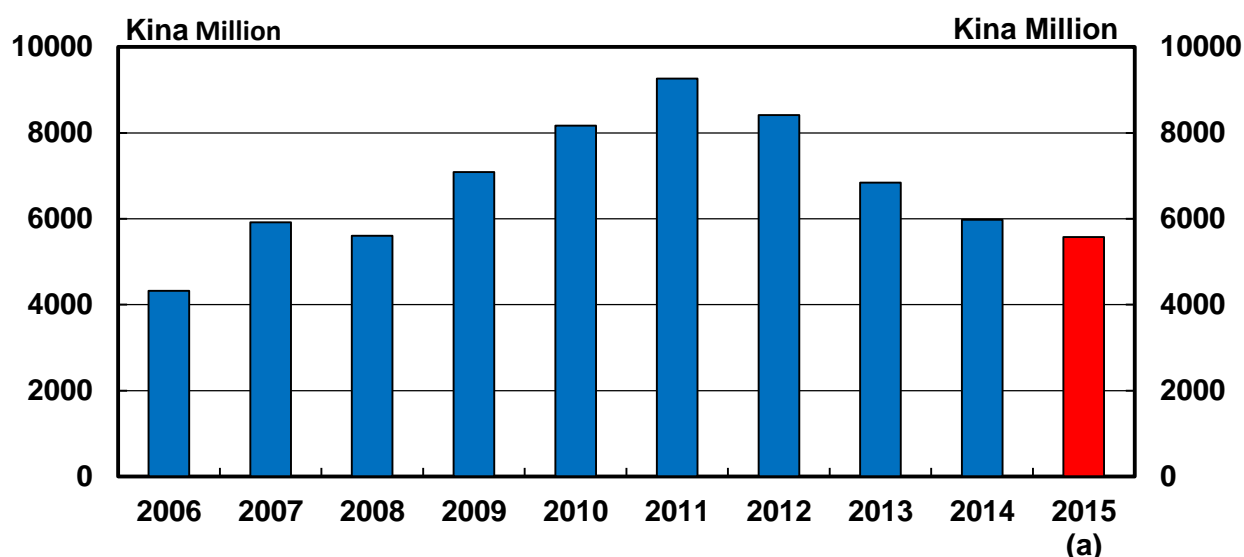
2.8.3 Medium Term Outlook

Over the medium term, the current account balance will continue to maintain a large surplus position fuelled by the full level of gas and condensate production as well as improvements in the agriculture sector, especially coffee, cocoa and palm oil. The impact of the Productive Partnership in Agriculture Product (PPAP) is expected to result in increased coffee and cocoa production over the medium term while palm oil will continue to benefit from the replanting programs and the expansion of the industry. These are expected to boost exports leading to an improvement in the current account balance.

While the main drivers of growth in the current account reflects activities in the real sector, the emergence of the services sector is also worth noting given the government's increased funding on infrastructure, health, education and law and order amongst others. This sector is deemed to have accounted for a fair share of the import demand in PNG both directly and indirectly. Nevertheless, exports associated with the real sector growth are expected to offset the rise in imports associated with 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 (mainly dividend payments to shareholders overseas) from major investments in the country. The income deficit is projected to average at around 2.2 per cent of GDP from 2017 to 2020.

Chart 24: International Reserves



Source: Bank of PNG

(a) Includes reserve levels up to 28th September 2015

International reserves totalled K5,980.3 million at end of December 2014 and have fallen by 6.7 per cent to K5,579.4 million (US\$1.97 billion) as at 28 September 2015 (Chart 24). By the end of 2015, the level of gross foreign exchange reserves is projected to be K5,394.7 million (US\$1.92 billion), sufficient for 7.9 months of total and 15.6 months of non-mineral import covers. The decrease in foreign reserves reflects lower foreign currency inflows and the intervention by the Central Bank in the foreign exchange market. This projection does not take into account any proceeds from the planned Sovereign Bond issuance or the anticipated sale of the 4.27 per cent of Government's equity in the PNG LNG project to Provincial Governments and landowners.

2.9 RISKS TO THE ECONOMIC AND FISCAL OUTLOOK

Key risks to the 2016 and the medium-term economic and fiscal outlook include:

- Recent global economic developments continued to impact PNG through low commodity prices translating into the low export earnings for the country and lower than expected receipts for the Government; as well as, posing a threat to economic activities in PNG's two biggest sectors:- the agriculture, forestry & fishing sector and mining and quarrying sector.
- Approving of tax exemptions to individual tax payers without a guiding policy or on an ad hoc basis as well as approving Infrastructure Tax Credits without proper costing and policy advice will result in revenue forgone to the Government.
- Heavy reliance of the Budget on domestic borrowings has also increased financing risks associated with interest rate and refinancing risks, as well as, face a major risk of crowding out of private investment.

- Natural phenomena such as the current El Nino event and its impact on 2016 crop for PNG's agricultural commodities, as well as, water and electricity supply in the capital city and other parts of the country.

CHAPTER 3. FISCAL STRATEGY AND OUTLOOK

3.1 2015 BUDGET UPDATE

The 2015 Budget has been significantly impacted by a sharp fall in commodity prices. Downward revisions to tax and non-tax revenue receipts, particularly from the Mining and Petroleum sector, have required a firm policy response. The focus has been on reducing expenditure and finding additional revenues to maintain net lending close to the 2015 Budget forecast.

Total revenue for 2015 is estimated to be K12,637.9 million, a decrease of K1,455.6 million (or 10.3 per cent) from the 2015 Budget projection of K14,093.5 million.

Total expenditure (expenses plus the gross investment in non-financial assets) in 2015 is anticipated to be K15,129.7 million, K1,377.1 million lower than the 2015 Budget estimate.

The fall in revenue and expenditure has led to a slight increase in the level of net borrowing and the debt level in 2015. These result in an expected net borrowing of K2,491.8 million (or 4.9 per cent of GDP) in 2015. The debt-to-GDP ratio is expected to be 34.7 per cent of GDP in 2015, which is below the ceiling of 35 per cent as set out in the Fiscal Responsibility Act.

These figures reflect that Total Government expenditure and revenue projections for the 2015 are now based on the Government Finance Statistics (GFS) 2014 classification. It also reflects the 2015 Supplementary Budget, which includes reductions in appropriations of K1,376.9 million, and additional Revenue Measures of K1,101.6 million.

3.2 THE 2016 BUDGET STRATEGY AND OUTLOOK

The 2016 Budget will be framed against two dominant adverse influences. Firstly, a relatively weak world economic environment that is still adjusting to a lower commodity prices outlook. Secondly, lower than anticipated growth within the domestic economy due in part to the effects of drought in many parts of the country.

Total revenue in 2016 is projected to be K12,650.1 million. This is K12.2 million higher than the 2015 Supplementary Budget estimate. This slight increase, which is attributed to tax revenue and grants, more than offsets the decrease in other revenue.

In 2016, total expenditure is projected to be K14,762.6 million, which is K367.2 million lower than the 2015 Supplementary Budget estimate of K15,129.7 million. The 2016 Budget strikes a balance between the need to maintain broad-based economic growth through funding key priority expenditures, such as the 2018 APEC summit and the 2017 National Elections, against a fairly weak revenue profile.

Overall, all this is expected to result in net borrowing of K2,112.5 million or 3.8 per cent of GDP in 2016 (see Table 1), a reduction from 4.9 per cent for 2015. This results in a debt-to-GDP ratio of 35.8 per cent (an estimated debt stock of K19,745.2 million in 2016).

Table 1: Budget Balance 2014–2016 (Kina million)

	2014 Actual	2015 Budget	2015 Revised	2016 Budget
Revenue	11,874.9	14,093.5	12,637.9	12,650.1
Expenditure	15,453.9	16,506.8	15,129.7	14,762.6
Net Borrowing (-)	-3,579.0	-2,413.3	-2,491.8	-2,112.5
% of GDP	-8.3%	-4.7%	-4.9%	-3.8%
% of Debt to GDP	35.5%	27.8%	34.7%	35.8%

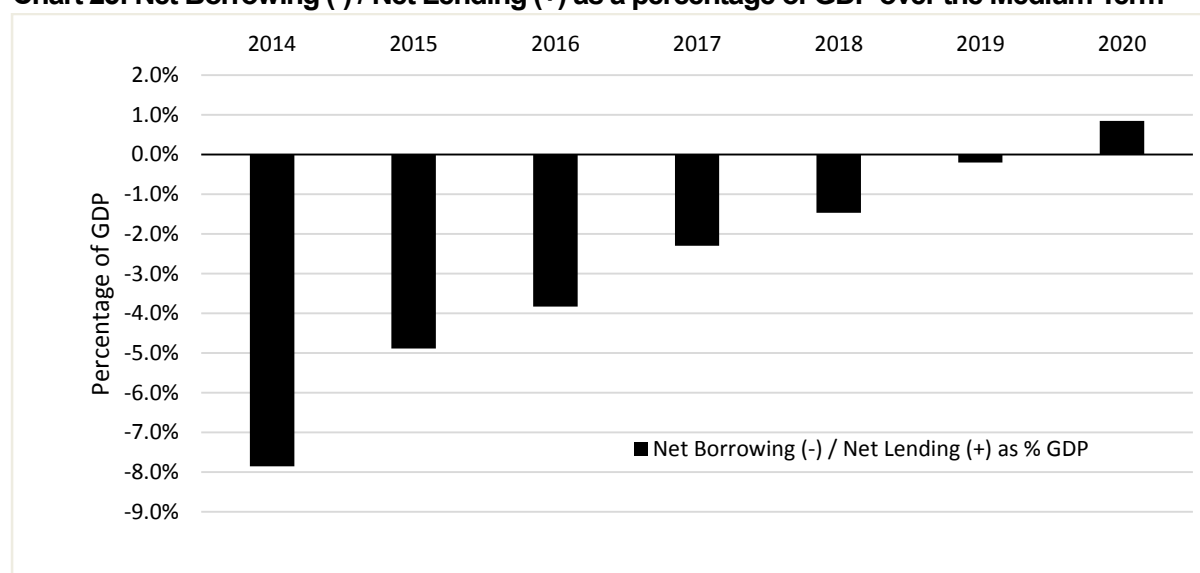
Source: Department of Treasury.

Financing of the 2016 Budget will be achieved through development partner loans and domestic financing, through the issuance of Kina-denominated securities, although foreign capital markets may also be accessed to support expenditure levels.

The 2016 Budget has been guided by the Government's economic development strategies: Vision 2050; the PNG Development Strategic Plan 2010-2030; the Medium Term Development Plan II; the Medium Term Debt Strategy; the Strategy for Responsible Sustainable Development (StaRS); the Medium Term Fiscal Strategy (MTFS) (2013-2017); and the *Fiscal Responsibility Act 2006*.

3.3 THE MEDIUM TERM FISCAL OUTLOOK

The 2016 Budget will be K14,762.6 million. This will lead to a net borrowing of 3.8 per cent of GDP and a debt-to-GDP ratio of 35.8 per cent in 2016. Over the medium term, from this base level, the level of net borrowing is projected to gradually reduce, to reach a surplus (net lending) in 2020. This demonstrates a measured but ambitious medium-term fiscal consolidation path in real terms, with the aim of safeguarding fiscal and macroeconomic sustainability.

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

Source: Department of Treasury

The pace of fiscal consolidation over the medium term needs to be carefully managed to accommodate high-priority expenditure projects that will continue to promote broad-based economic growth and employment. This means that deficit levels over the medium term need to be gradually reduced until the budget returns to balance by 2020. This will involve controlling expenditure, implementing efficiency savings, and reprioritising existing commitments.

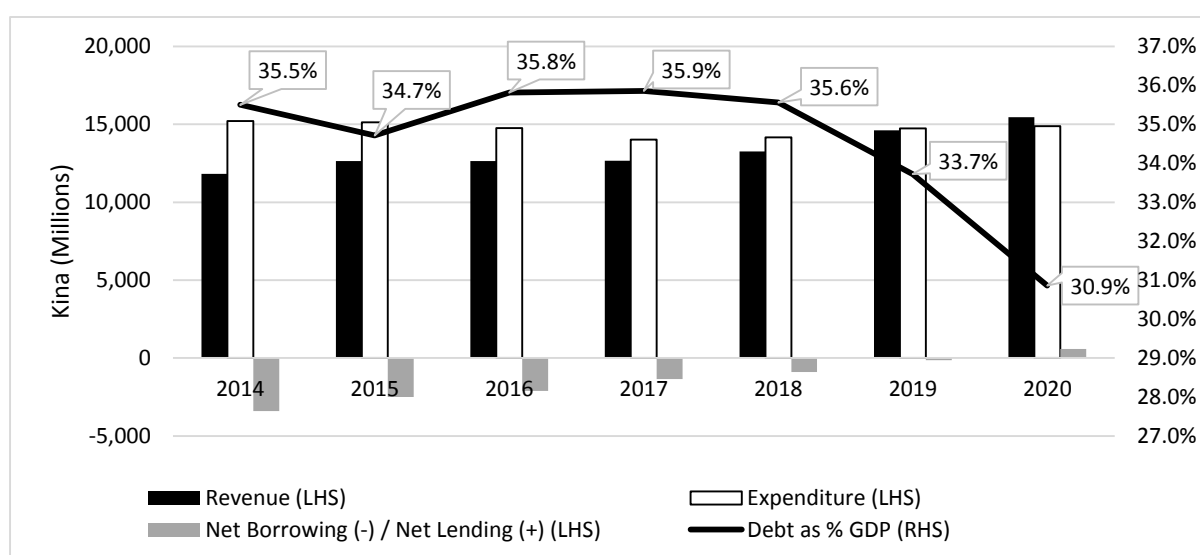
Reducing net borrowing to sustainable levels will also enable the Government to better respond to future external shocks.

This approach will provide the necessary capacity to fund priority expenditures such as holding the African, Caribbean and Pacific (ACP) Group of States meeting in 2016, the 2017 General Elections and the APEC Summit in 2018, while maintaining the Government's commitments to the core development enablers of health, education, law and order, agriculture, and infrastructure.

The 2016 Budget has been framed within a fiscally responsible strategy in light of adverse external circumstances, and a lower revenue profile. The Budget has balanced the need to reduce the level of debt as a percentage of GDP over the medium term with ensuring macroeconomic stability and supporting development. In this regard, the return to a balanced Budget is now expected in 2020. In the short term, however, debt is estimated to increase as a proportion of GDP to reach 35.9 per cent in 2017, before then easing towards a return to the Fiscal Responsibility Act legislated limit of 30 per cent.

In nominal terms, revenue is projected to increase modestly from 2015 to 2017, before growing more strongly over the medium term driven by LNG-related revenue.

Chart 26: Medium Term Fiscal Outlook



Source: Department of the Treasury

Overall, this Budget seeks to restrain expenditure in the medium term, while prioritizing funding to key sectors, and maintaining the record of macroeconomic stability of recent years that is required for sustainable economic growth.

The 2016 Budget has been framed under the guiding principles of 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.

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

Table 2: Budget Balance 2014–2020 (Kina million)

	2014	2015	2016	2017	2018	2019	2020
2016 Budget Net Borrowing (-) / Net Lending (+)	-3,579.0	-2491.8	-2,112.5	-1,346.2	-898.7	-133.6	582.7
Net Borrowing (-) as % GDP	-8.3%	-4.9%	-3.8%	-2.3%	-1.5%	-0.2%	0.8%
Debt as % GDP	35.5	34.7	35.8	35.9	35.6	33.7	30.9
MTFS 2013–2017 Budget Balance (per cent of GDP)	-5.9	-1.6	-0.6	0.1	0	0	0
MTFS 2013–2017 implied debt to GDP	34.6	28.9	27.5	25.4			

Source: Department of Treasury.

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

3.4 MEDIUM TERM FISCAL STRATEGY 2013-2017

The Medium Term Fiscal Strategy 2013-2017 sets out the guiding principles by which the Government is to adhere. These have been designed to ensure ongoing confidence in the Government's fiscal position and in the PNG economy as a whole.

Table 3: Performance against the MTFS 2013-2017

MTFS 2013-2017 Guiding Principles	Performance against the Principles
Expenditure	
1) Increase the share of the total Budget allocated to the key enablers of the Medium Term Development Plan.	Excluding expenditure on provinces, the share of the 2015 Budget allocated to the key enablers sectors of community and culture, education, health, law and order, transport, utilities and the economic Sector was 44.7 per cent. In the 2016 Budget, this has decreased to 44.1 per cent, due to the fall in revenue that has necessitated reduced expenditures.
2) Improve spending agencies' focus on expenditure effectiveness and transparency in expenditure reporting and public accountability.	The Government has issued a number of non-financial instructions to improve agency performance, accountability and transparency. The Government remains concerned with the lack of progress made in 2015. The Government has endorsed improved reporting in 2016.
3) No new infrastructure programs should be funded unless they have gone through a proper design and costing process.	Little progress has been made in 2015 to ensure that new infrastructure projects are screened to see if they complied with the mandated two-stage process. The Department of National Planning and Monitoring will produce a template for Stage 1 and 2 that can assist agencies in their design and costing process.
4) Ensure CSTB procurement processes are within Budget appropriations	As part of a procurement process, where an Authority to Pre-Commit is being issued, adequate budget appropriation must first be confirmed with the Department of Treasury.

MTFS 2013-2017 Guiding Principles	Performance against the Principles
<p>Revenue</p> <ol style="list-style-type: none"> 1) Maintain equitable taxation regimes with a focus on compliance. 2) Restrict taxation exemptions and special arrangements. 3) Broaden and strengthen the Government's tax and non-tax revenue base 	<p>The review of PNG's tax system concluded in 2015. The review has made a number of recommendations seeking to improve the efficiency and competitiveness of the tax system. The Government is considering the Tax Review's recommendations and this will form the basis for tax reforms going forward.</p> <p>The Government is considering reform options, including to taxation exemptions and special arrangements.</p> <p>The Government is introducing measures to remove tax exemptions (removal of discretionary GST exemptions by Head of State) with a view to broaden the tax base to encourage a level playing field for all tax payers.</p>
<p>Debt</p> <ol style="list-style-type: none"> 4) Maintain a gross Government debt to GDP ratio at prudent levels of near 35 per cent in 2016 5) Limit gross Government liabilities to less than 60.0 per cent of GDP. 6) Greatly increase the Government's average debt maturity profile. 	<p>The Government is meeting its debt commitments.</p> <p>The current estimates show that the gross Central Government debt-to-GDP ratio in 2016 will be 35.8 per cent. Whilst this is above the limit of 35 per cent set under the <i>Fiscal Responsibility Act 2006</i>, the Government is introducing fiscal measures going forward that will see the level fall to 30.9 per cent by 2020.</p> <p>Gross Government liabilities will be below the 60 per cent of GDP ratio limit at end 2015. This follows the removal, during 2015, of the State's share of the PNG LNG project owners' completion guarantees given to debt holders of the LNG project.</p> <p>The average maturity (years) of the Government's domestic debt portfolio fell from 4.1 in 2014 to 3.8 in 2015. This is expected to rise to 4.4 years in 2016.</p>
<p>Deficits</p> <ol style="list-style-type: none"> 7) Return to a balanced Budget by 2020. 	<p>The Government remains committed to reducing the levels of net borrowing in a fiscally responsible way. The plan in this Budget is to reduce the level of net borrowing to 3.8 per cent of GDP in 2016 and to gradually reduce this over the medium term.</p>

3.5 IMPLEMENTATION OF THE SOVEREIGN WEALTH FUND

The Papua New Guinea Sovereign Wealth Fund (SWF) is an important mechanism to manage external shocks to the economy, to support the Budget to fund priority areas such as education, health and infrastructure, and to invest for the benefit of future generations.

The *Organic Law on the Sovereign Wealth Fund* was passed by the Parliament in July 2015 and the Fund will come into operation in 2016. The SWF has two funds: the Stabilisation Fund and the Savings Fund.

Tax revenues received from mining and petroleum projects, including the PNG LNG project, will be directed to the Stabilisation Fund, and be available to be drawn down into the Budget to fund expenditure needs. When revenue flows are large, the excess will be deposited into the Savings Fund, according to the SWF Organic Law.

The Stabilisation Fund and the Savings Fund will each receive a proportion of the mining and petroleum dividends paid by state-owned enterprises. The Savings Fund will also receive some of the proceeds of state-owned assets that the Government agrees to sell.

The SWF Board will invest these funds offshore. Given that, in the short term, most of the revenue streams flowing into the SWF will be drawn back into the Budget, under the SWF withdrawal rules, investments are likely to be short term and highly liquid.

In 2016, the Government will appoint an experienced and well-qualified Board and set up a secretariat to support the Board. The Government will provide an investment mandate to the Board, expressing the Government's expectations for the management of the funds.

Funding has been allocated in the 2016 Budget to set up the administrative secretariat. The secretariat will be within the Bank of PNG in the initial years of operation.

In June 2015, the Parliament passed legislation to establish Kumul Petroleum Holdings Limited, Kumul Minerals Holdings Limited and Kumul Consolidated Holdings Limited. These entities will pay dividends directly into the SWF, after deducting operational funding to meet the requirements of their approved annual plans.

Revenues generated from mining and petroleum exploitation fluctuate with movements in international commodity prices. In years when commodity prices and tax receipts are low, any revenues flowing into the Stabilisation Fund will be drawn down into the Budget in the same year to meet expenditure needs. When commodity prices rise again, a greater revenue flows will be directed into the Savings Fund, ensuring that inflation is kept under control and excess funds are saved for the benefit of future generations.

The fall in oil prices in 2015 significantly affected revenue flows from the mining and petroleum sector, including the PNG LNG project.

As a result, inflows into the Stabilisation Fund are expected to be substantially lower than projected in the 2015 Budget. Mining and petroleum receipts into the Stabilisation Fund are projected to be below K400 million in 2016 and increase slowly until the late 2020s, when tax revenues peak at around K1.7 billion, based on current commodity price assumptions.

The Savings Fund is expected to have a small positive balance in 2016, from the receipt of dividends from the Kumul state-owned enterprises.

The Government is clarifying its expectations for the proportion of profits it expects to be paid out as dividends by state-owned enterprises into the SWF through a dividend policy. In 2016, the Government expects that the Kumul entities will pay a minimum of 70 per cent of after-tax profits into the SWF, retaining no more than 30 per cent of their profits to meet operating costs. The deposit and withdrawal rules in the SWF Organic Law act to moderate mining and petroleum taxation and dividend flows into the Budget. Expenditure decisions are overseen by Parliament through the Budget process. The SWF's investment performance will be reported in the SWF Board's Annual Report to be tabled in Parliament, and through quarterly

public reporting. This ensures that there is a high level of accountability and transparency in how revenues received from PNG's mining and petroleum resources are invested for the benefit of the people.

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

CHAPTER 4. REVENUE

4.1. 2015 AND 2016 REVENUE DEVELOPMENT AND OUTLOOK

Total Government Revenue and Grant projections for 2016 and the medium term are now based on the Government Finance Statistics (GFS) 2014 classification. Under this new reporting system, revenues are classified under these four categories: Tax Revenue, Social Contributions, Grants and Other Revenue. PNG does not have revenues under Social Contributions.

In 2016, Total Revenue is projected at K12,650.1 million (Table 5). This is K12.2 million above the 2015 Supplementary Budget estimate. The increase is attributable to Tax Revenue and Grants which more than offset a decrease in Other Revenue. Project Grants support from Donors are expected to be lower in 2016.

Table 4: Total Revenue and Grants Kina million

	2014 Actual	2015 Budget	2015 Supplementary Budget	2016 Budget	Variation
Tax Revenue	10,232.1	11,681.9	10,093.3	10,525.6	432.4
<i>Per cent of GDP</i>	24	23	21	20.3	0.0
Grants	867.5	1,396.1	1,396.1	1,513.2	117.1
<i>Per cent of GDP</i>	2.0	2.7	2.9	2.9	0.0
Other Revenue	775.3	1,064.6	1,148.5	611.3	-537.2
<i>Per cent of GDP</i>	1.8	2.1	2.4	1.2	0.0
Total Revenue	11,874.9	14,142.6	12,637.9	12,650.1	12.2
<i>Per cent of GDP</i>	27	28	27	24.3	0.0

Source: Department of Treasury.

*Includes SWF Transfer to Budget of K379.1 million in 2016. Donor Grants component, K1,134.1 million.

Total Supplementary Budget Revenue is expected to be lower by K1,504.7 million compared to the original 2015 Budget projection and this reflects a lower Tax Revenue.

4.1.1 Tax Revenue

Tax Revenue is projected at K10,525.6 million in 2016, an increase of K432.4 million from the 2015 Supplementary Budget estimate. The increase is from Taxes on Income Profits and Capital Gain and Taxes on Goods and Services, which are projected to increase by K239.9 million and K196.3 million respectively. These are expected to more than offset a decrease in Taxes on International Trade.

Table 5: Tax Revenue, Kina million

	2014 Actual	2015 Budget	2015 Supplementary Budget	2016 Budget	Variation
Taxes on Income, Profits & Capital Gain	6,778.9	8,110.6	6,524.5	6,764.4	239.9
Taxes on Payroll & Workforce	14.6	7.5	15.6	17.0	1.4
Taxes on Property	0.0	0.0	0.0	0.0	0.0
Taxes on Goods & Services	2,883.6	2,998.9	2,941.1	3,137.4	196.3
Taxes on International Trade & Transactions	555.0	564.8	612.1	606.8	-5.3
Other Taxes	0.0	0.0	0.0	0.0	0.0
Total Tax Revenue	10,232.1	11,681.8	10,093.3	10,525.6	432.4

Source: Department of Treasury.

Total Supplementary Budget Tax Revenue is estimated to be lower by K1,588.5 million than the 2015 Budget projection. This is a result of lower Taxes on Income, Profits and Capital Gain and to a lesser extent Taxes on Goods and Services. These are expected to offset a small increase in Taxes on International Trade and Taxes on Payroll and Workforce.

Taxes on Income, Profits and Capital Gain

The increase in Taxes on Income, Profits and Capital Gain in 2016 is expected to be primarily driven by higher Personal Income Tax and Company Tax and to a lesser extent Dividend Withholding Tax.

Personal Income Tax and Company Tax receipts are projected to increase by K233.3 million and K170.6 million respectively in 2016. The increases are expected from a positive growth in the domestic economy and supported by additional revenue raising efforts expected from Internal Revenue Commission (IRC) and Customs. IRC is expected to collect additional K350.0 million and Customs to collect additional K50.0 million in 2016.

Dividend Withholding Tax is projected to increase slightly by K16.8 million in 2016. The increase reflects the positive growth in the domestic economy. Interest Withholding Tax is maintained at 2015 estimate.

Mining and Petroleum Tax projection is significantly lower at K259.8 million in 2016, reflective of the low commodity prices. This has significantly reduced MPT in 2015, resulting in an estimate of K300.0 million in the 2015 Supplementary Budget compared to the K1,749.6 million projected in the 2015 Budget. Up to October, a total of around K200 million was collected in MPT. The projection for MPT in 2016 is now low, at K259.8 million. Of the K259.8 million, 50 per cent will be transferred to SWF Stabilisation Fund.

Table 6: Taxes on Income, Profits and Capital Gain

	2014 Actual	2015 Budget	2015 Supplementary Budget	2016 Budget	Variation
Taxes on Income, Profits and Capital Gains	6778.9	8110.6	6524.5	6764.4	239.9
Personal Income Tax	3195.1	3303.1	3278.4	3511.7	233.3
Company Tax	2522.4	2746.1	2622.5	2793.2	170.6
Mining and Petroleum Taxes	794.2	1749.2	300.0	129.9*	-170.1
Royalties Tax	22.4	21.9	24.0	26.0	2.0
Management Tax	14.9	10.8	30.2	17.4	-12.9
Dividend Withholding Tax	186.1	238.7	216.0	232.7	16.8
Interest Withholding Tax	43.1	38.9	52.7	52.7	0.0
Tax Related Court Fines	0.0	0.0	0.0	0.0	0.0
Sundry IRC Taxes & Income	0.7	2.0	0.7	0.8	0.1

Source: Department of Treasury.

* 50 per cent of MPT is shown under Tax Revenue and 50 per cent is shown in SWF receipts under Grants from Other General Government Units.

In 2015, Taxes on Income, Profits and Capital Gains are estimated to be lower by K1,586.1 million than the original 2015 Budget estimate. The decrease largely results from lower Mining and Petroleum Taxes, which are now estimated at K300 million for 2015, a significant downward revision from the 2015 Budget estimate of K1,749.2 million.

Company Tax is also expected to contribute to the decrease by K123.6 million. The expected decreases in MPT and Company Tax have been partially offset by an upward revision to Personal Income Tax, though the revised estimate for Personal Income Tax is still lower than the 2015 Budget projection. IRC is expected to raise K100.0 million in revenue measures from this tax head for the 2015 Supplementary Budget.

Taxes on Payroll and Workforce

Taxes on Payroll and Workforce are projected to be K17.0 million in 2016, from the Training Levy, an increase of K1.4 million from the 2015 Supplementary Budget estimate of K15.6 million.

Table 7: Taxes on Payroll and Workforce

Tax on Payroll & Workforce	2014 Actual	2015 Budget	2015 Supplementary Budget	2016 Budget	Variation
Training Levy	14.6	6.9	15.6	17.0	1.4
Total	14.6	6.9	15.6	17.0	1.4

Source: Department of Treasury.

Taxes on Goods and Services

Taxes on Goods and Services are projected at K3,137.4 million in 2016, an increase of K196.3 million from the 2015 Supplementary Budget estimate of K2,941.1 million. The increase is expected from Excise Duty and Good and Services Tax (GST) and to a lesser extent Import Excise and other Taxes on Goods and Services.

Excise Duty is projected to increase by K78.6 million from the 2015 Supplementary Budget estimate. The increase in Excise Duty is reflective of return to normal production from a domestic refinery and additional collection efforts by Customs of K50.0 million.

GST includes all collections from ports and provinces and net of refunds. In 2016, GST is projected to increase by K94.2 million from the 2015 Supplementary Budget estimate. The increase is due to positive growth in the domestic economy. GST transfers to provinces would result in net GST to the Waigani Public Account projected for 2016 at K1,218.0 million. Import Excise is projected to increase by K13.4 million from the 2015 Supplementary Budget estimate. The increase is due to positive growth in the domestic economy.

Table 8: Taxes on Goods and Services

	2014 Actual	2015 Budget	2015 Supplementary Budget	2016 Budget	Variation
Taxes on Goods and Services	2,883.8	2,998.8	2,941.1	3,137.5	196.4
GST ¹	1,668.8	1,789.8	1,664.8	1,759.0	94.2
Stamp Duties	137.3	68.8	110.0	117.8	7.8
Excise Duty	638.6	663.8	656.2	734.8	78.6
Import Excise	250.6	297.3	303.3	316.7	13.4
Bookmakers' Turnover Tax	12.8	10.3	13.6	14.9	1.3
Gaming Machine Turnover Tax	158.1	148.1	169.9	176.5	6.6
Departure Tax	5.8	6.9	6.2	6.8	0.6
Motor Vehicle Registration	7.1	-	7.1	6.2	-0.9
Commercial Vehicle Licenses	1.2	1.0	1.2	1.0	-0.2
Other taxes on use of goods and on permission to use goods or perform activities	1.0	-	1.0	0.9	-0.1
Other taxes on goods and services	2.5	12.8	7.8	2.9	-4.9

Source: Department of Treasury.

1. GST represents the total of collections by Provinces, PNG Ports and less Refunds.

In 2015, GST is estimated at K1,664.8 million, a downward revision of K125.0 million from the 2015 original Budget projection. GST transfer to the provinces would result in net GST to the Waigani Public Account for 2015 estimated at K1,158.2 million. GST in the 2015 Supplementary Budget includes revenue measures of K150.0 million to be collected by IRC. Excise Duty for the 2015 Supplementary Budget is estimated at K656.2 million, an increase of K7.6 million from the 2015 Budget estimate of K663.8 million. The upward revision is mainly from the revenue raising measure for the 2015 Supplementary Budget, with Customs expected to collect an additional K58.5 million.

The Import Excise for 2015 is estimated at K303.3 million, an increase of K6.0 million from the 2015 Supplementary Budget estimate. The upward revision is mainly from the revenue raising measure for the 2015 Supplementary Budget with Customs expected to collect an additional K33.7 million.

Taxes on International Trade and Transactions

Taxes on International Trade and Transactions are projected at K606.8 million in 2016, comprising of Import Duty at K328.3 million, Export Taxes at K274.5 million and Other Import Taxes at K4.1 million. Overall, Taxes on International Trade and Transactions is a slight decrease of K5.3 million from the 2015 Supplementary Budget estimate. This is reflective of low projections for Export Tax and Other Import Taxes being offset by higher projection for Import Duty.

Import Duty is projected at K328.3 million, an increase of K25.2 million from the 2015 Supplementary Budget estimate, and is reflective of the positive growth in the domestic economy in 2016.

Table 9: Taxes on International Trade and Transactions

	2014 Actual	2015 Budget	2015 Supplementary Budget	2016 Budget	Variation
Taxes on International Trade & Transactions	555.0	577.6	612.1	606.8	- 5.3
Import Duty	273.2	296.4	303.0	328.3	25.2
Other Import Taxes	7.3	12.8	7.9	4.1	- 3.8
Export Tax	274.5	268.4	301.2	274.5	- 26.7

Source: Department of Treasury.

In 2015, Taxes on International Trade and Transactions are estimated at K612.1 million, an increase of K34.5 million from the 2015 Budget estimate. The increase is due to upward revisions to Export Tax and Import Duty, and to a lesser extent Other Import Tax. The upward revisions are mainly from the revenue raising measures for the 2015 Supplementary Budget, with Customs expected to collect an additional K32.8 million in Export Tax and K22.1 million in Import Duty.

4.1.2 Grants

Grants for 2016 are projected at K1,513.2 million, an increase of K117.1 million from the 2015 Supplementary Budget estimate of K1,396.1 million. While donor grants are projected to be K1,134.1 million, which is slightly lower than the 2015 Supplementary Budget estimate, an increase in overall grants is expected from the category Grant from Other General Government Units, and is reflective mainly of the contribution from SWF receipts of K379.1 million.

Of the donor projection of K1,134.1 million, K998.8 million or 88 per cent are grants from Foreign Governments and K135.3 million or 12 per cent are grants from International Organisations.

Grants for current expenses are projected at K674.3 million and Grants for capital expenses are projected at K459.8 million. Of the current grants, K65.5 million or 10 per cent are in cash and K608.8 million or 90 per cent are in kind. Of the capital grants, K25.1 million or 5.0 per cent are in cash and K434.7 million or 95 per cent are in kind.

Table 10: Grants- Kina million

	2014 Actual	2015 Budget	2015 Supplementary Budget	2016 Budget	Variation
GRANTS	867.5	1396.1	1396.1	1513.2	117.1
From Foreign Governments	767.3	1234.9	1234.9	998.8	-236.2
Current	422.3	679.7	679.7	549.8	-129.9
Cash	9.5	15.3	15.3	12.4	-2.9
In-Kind	412.8	664.4	664.4	537.3	-127.0
Capital	345.0	555.2	555.2	449.0	-106.2
Cash	19.3	31.0	31.0	25.1	-5.9
In-Kind	325.7	524.2	524.2	423.9	-100.3
From International Organizations	100.2	161.2	161.2	135.3	-25.8
Current	91.9	147.8	147.8	124.5	-23.3
Cash	40.6	65.3	65.3	53.1	-12.2
In-Kind	51.3	82.5	82.5	71.5	-11.1
Capital	8.3	13.3	13.3	10.8	-2.5
Cash	0.0	0.0	0.0	0.0	0.0
In-Kind	8.3	13.3	13.3	10.8	-2.5
From Other General Government Units	0.0	0.0	0.0	379.1	379.1
Current	0.0	0.0	0.0	379.1	379.1
Cash	0.0	0.0	0.0	379.1	379.1
In-Kind	0.0	0.0	0.0	0.0	0.0
Capital	0.0	0.0	0.0	0.0	0.0
Cash	0.0	0.0	0.0	0.0	0.0
In-Kind	0.0	0.0	0.0	0.0	0.0

Source: Department of Treasury.

Donor Grants for 2015 are maintained at the 2015 Budget estimate of K1,396.1 million.

4.1.3 Other Revenue

In 2016, Other Revenue is projected at K611.3 million, comprising of Property Income at K516.9 million, Sales of Goods and Services at K85.4 million, Fines, Penalties and Profits at K0.8 million and Transfers Not Elsewhere Classified at K8.2 million.

The projected K611.3 million for Other Revenue is a decrease of K537.2 million from the 2015 Supplementary Budget estimate. The decrease is reflective of a lower projection for Property Income, mainly mining and petroleum dividends, dividends from statutory authorities and dividends from state owned enterprises and other state entities. These have offset the slight increase in the projection for Rents, in particular land lease rentals. Additional revenue measures in 2016 comprise National Fisheries Authority (K25.0 million), Motor Vehicle Insurance (K25.0 million), Bank of Papua New Guinea (K20.0 million), Kumul Consolidated Holdings Ltd (K310.0 million) and the National Petroleum Company (K542.9 million). Of the K542.9 million, K300.00 million is additional to the projected K249.2 million expected to flow to SWF before being drawn down to the Budget.

Sales of Goods and Services, mainly Departmental Fees and Charges, are projected at K85.4 million, an increase of K15.9 million from the 2015 revised estimate of K69.5 million. The increase is mainly from higher projections for incidental sales by non-market establishment, specifically migration fees projected at K50.0 million. Other small increases are from Transfers not elsewhere classified, an increase of K5.7 million.

Including recoveries of fees and charges and asset sales, the overall projection for Departmental Fees and Charges is K205.3 million for 2016.³

Table 11: Other Revenue

	2014 Actual	2015 Budget	2015 Supplementary Budget	2016 Budget	Variation
OTHER REVENUE	775.3	1064.6	1148.5	611.3	-537.2
Property Income	696.0	803.5	1074.7	516.9	-557.7
Interest	0.0	4.0	4.0	4.0	0.0
Dividends	665.8	778.5	1045.0	480.0	-565.0
<i>Mining Petroleum and Gas Dividends</i>	507.2	698.5	0.0	0.0	0.0
<i>Dividends from Statutory Authorities</i>	152.0	55.0	220	70	-150
<i>Shares in Private Enterprise</i>	6.6	0.0	0.0	0.0	0.0
<i>Dividends from State Owned Enterprises</i>	0.0	0.0	370.0	110.0	-260.0
<i>Other Dividends</i>	0.0	25.0	450	300	-150
Withdrawals from income of quasi-corporations	0.0		0.0	0.0	0.0
Property income from investment income disbursements	0.0		0.0	0.0	0.0
Rent	30.2	21.0	25.7	32.9	7.3
Sales of goods and services	75.0	47.8	69.5	85.4	15.9
<i>Sales by market establishments</i>	0.0	0.0	0.0	0.0	0.0
<i>Administrative fees</i>	31.0	38.9	25.5	31.1	5.7
<i>Incidental sales by nonmarket establishments</i>	44.1	8.9	44.1	54.3	10.2
Imputed sales of goods and services	0.0	0.0	0.0	0.0	0.0
Fines, penalties, and forfeits	1.9	2.2	1.9	0.8	-1.1
Transfers not elsewhere classified	2.5	211.1	2.5	8.2	5.7
<i>Current transfers not elsewhere classified</i>	2.5	211.1	2.5	8.2	5.7
<i>Capital transfers not elsewhere classified</i>	0.0	0.0	0.0	0.0	0.0
Premiums, fees and claims related to nonlife insurance and standardised guarantee schemes	0.0	0.0	0.0	0.0	0.0

Source: Department of Treasury.

In 2015, Other Revenue is estimated at K1,148.5 million and is due to an upward revision to Other Property Income, mainly dividends from state entities. A total K701.6 million is expected from state entities in 2015.

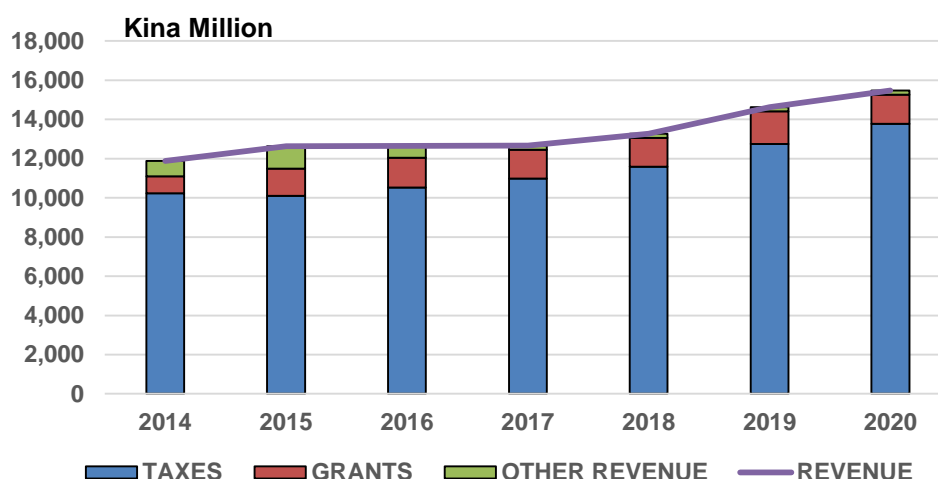
4.2 MEDIUM TERM REVENUE OUTLOOK

Total Revenue is projected to increase from K12,650.1 million in 2016 to K15,465.3 million in 2020.

4.2.1 Tax Revenue

Tax revenue is projected to increase from K10,525.6 million to K13,769.3 million in 2020. Removing GST to provinces, Tax Revenues are projected to increase from K9,826.6 million in 2016 to K13,165.6 million in 2020.

³ Recoveries from former years and asset sales are not classified as revenue under GFS 2014.

Chart 27: Total Revenue and Grants 2014-2020

Source: Department of Treasury.

4.2.2 Grants

Donor 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 donor grants projections for the medium term are projected to remain below the 2015 projection of K1,396.1 million.

4.2.3 Other Revenue

Other Revenue is projected to decrease from K611.3 million in 2016 to K211.3 million over the medium term reflective of lower projections for statutory dividends and departmental fees and charges.

4.3 SWF REVENUE FLOWS

PNG's Sovereign Wealth Fund (SWF) will commence operations in 2016. The projected revenue and drawdown flows of the SWF's Stabilisation and Savings Fund are based on Treasury's mining and petroleum revenue forecasts. These forecasts are shown in Fiscal Table 8 in the Appendix for the years 2016 to 2020.

4.3.1 Stabilisation Fund

In 2016, in line with the current trend in commodity prices, the Stabilisation Fund is projected to receive a total revenue of K379.2 million, of which K129.9 million is from mineral and petroleum taxes and K249.0 million is from mineral and petroleum dividends. The K249.0 million dividend payment is seventy-five per cent of the dividends that are expected to be received by the State from the mining and petroleum State Owned Enterprises (SOEs). The expectation is that SOEs will adhere to a dividend payout ratio to the State of 70 per cent of after-tax profits between 2016 and 2020.

In line with the SWF Budget drawdown rule, a total of K379.1 million is expected to be transferred to the Budget in 2016, in line with the Budget stabilisation objective of the Stabilisation Fund.

From 2017 to 2020, revenue deposited into the Stabilisation Fund is projected to be below K800.0 million per annum. In line with the SWF Budget drawdown rule, the Budget is expected

to receive between K350 million and K720 million annually over this period. No transfers are expected from the Stabilisation Fund to the Savings Fund over the same period. The closing balance in the Stabilisation Fund from 2017 to 2020 is projected to be zero, in accordance with the deposit and withdrawal rules and reflecting the environment of low commodity prices. Details of the Stabilisation Fund revenue and expenditure flows are provided in Appendix Fiscal Table 14.

4.3.2 Savings Fund

In 2016, the Savings Fund is projected to receive K83.1 million, from mineral and petroleum dividends and interest on those dividends. The Savings Fund is expected to receive 25 per cent of the mineral and petroleum dividends due to the State.

From 2017 to 2020, total revenue deposited into the Savings Fund each year is projected to be below K150.0 million each year. The closing balance is projected to be K485.0 million in 2020.

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

4.4 TAXATION MEASURES AND DEVELOPMENTS

The Tax Review has recently provided the Government with a far-reaching report that can bring a substantial change to the taxation landscape in PNG over time. The Government is committed to acting on the reforms proposed in the Tax Review report; however, imposing changes that have wide impacts requires consultation with those affected and also requires a lead time for taxpayers to prepare for the changes. The Government will be working with stakeholders in 2016 on the first of these changes.

The Government is introducing several taxation policy measures and a number of minor technical and administrative amendments in this Budget as part of the Government's ongoing effort to refine the tax system and improve its efficiency and competitiveness.

The Government is introducing two Goods and Services Tax (GST) related measures. The first is a GST deferral scheme for imports to improve the cash flow for importers and to reduce the administrative burden on the Internal Revenue Commission (IRC) and PNG Customs. The second is the removal of the discretionary powers of the Head of State acting on the advice of NEC to exempt goods from GST or reduce the GST rate to zero. This is to encourage a level playing field for all taxpayers and prevent revenue leakage.

To improve the exchange of taxpayer information, the Government will continue to support PNG's membership of the Multilateral Convention on Mutual Administrative Assistance in Tax Matters. This will be done while the Government suspends negotiations of any Double Taxation Agreements (DTAs) until after the Base Erosion Profit Shifting (BEPS) report by the OECD/G20 countries has been fully considered by PNG.

There are also a number of minor technical and housekeeping amendments that will clarify the law, increase administrative efficiency and correct technical errors. These amendments are not changes to Government policy.

4.4.1 Papua New Guinea Taxation Review

The Tax Review Committee undertook an extensive review of PNG's taxation system, with the aim of improving the lives of the people of PNG through a more effective tax system. The

Committee's report is designed to serve as a road map for future reform of PNG's tax system and economic development more broadly.

The Tax Review applied five principles in guiding its consideration of reforms for a better tax system. The Government will apply these principles as it considers and implements recommendations from the Tax Review's final report. These principles are that the tax system should:

- raise sufficient revenue to enable the Government to deliver services that meet the community's expectations;
- promote economic growth creating more jobs, higher incomes, less poverty and more services;
- treat taxpayers fairly;
- be as simple as possible to understand and comply with; and
- build trust in the Government and support Government accountability.

The timing of the Tax Review's report gives the Government the opportunity to consult with stakeholders during 2016 to bring a set of reforms forward for the 2017 Budget to support the Government to deliver on its commitment to return the Budget to surplus in the medium term.

The Government is aware that it will be important to implement reforms in a way that has the least cost for taxpayers, particularly businesses. Future reforms of PNG's taxation system will work toward taxpayers paying their fair share of tax, while providing a stable and profitable business environment. The move to a tax system that provides greater benefit to Papua New Guineans requires moving toward more efficient tax bases. This will require reducing taxation concessions and also reducing workforce participation disincentives.

4.4.2 Tax Policy Measures

Introduction of a GST deferral scheme for imports

In this Budget, the Government is introducing a GST deferral scheme to improve the operation of the GST refund system.

The current GST Act provides for GST to be imposed on goods that are imported. The GST paid by importers is later refunded to the taxpayer after they lodge their GST return where the good is used as an input to create a final good that has GST applied. Hence the GST imposed on those goods results in no net revenue to the Government.

The requirement for taxpayers to pay GST on importation and subsequently seek to have the same GST refunded by the IRC reduces cash flow for businesses and creates unnecessary administration costs for IRC and PNG Customs.

Implementation of a GST deferral scheme should reduce administration costs for the IRC and PNG Customs and address cash flow concerns for businesses that may be deterring investment in PNG. Under this scheme, the payment of a GST liability on imports would be delayed until the business lodges its next GST return with the IRC, at which time there would be a GST credit available.

This measure will have no cost to revenue, but will reduce administration costs. This measure will come into effect on 1 January 2016.

Removal of discretionary GST exemptions by the Head of State

The Head of State, acting on the advice of NEC, is currently able to exempt from GST the supply of any good or service attracting GST and substitute a reduced rate of GST.

In this Budget, the Government is repealing the discretionary powers of the Head of State to exempt goods from GST or reduce the GST rate to zero. This is to ensure that the application of GST remains efficient, non-distortionary and prevents revenue leakage.

Given certain supplies of goods or services are already exempted or zero-rated and GST is paid by the end user on final consumables, the provision to exempt or lower the rate of GST narrows the tax base and may have distortionary effects. Furthermore, these provisions can reduce transparency as the exemption is not provided in the GST Act.

This measure will have no cost to revenue, but will prevent revenue leakage. This measure will come into effect on 1 January 2016.

Suspension of the negotiation of Double Tax Agreements (DTAs)

DTAs are designed to remove double taxation that can act as a barrier to international investment. These agreements facilitate collaboration between tax authorities, especially through providing the legal basis for exchange of taxpayer information. PNG has DTAs with Australia, Canada, China, Fiji, Malaysia, Singapore, Korea and the United Kingdom.

There has been a growing concern among countries that DTAs could potentially result in the unintended outcome of not taxing income in any jurisdiction. This concern is being examined by OECD/G20 countries as part of the broader focus on BEPS.

In light of this, the Government will postpone entering into new DTA negotiations until after the BEPS report can be fully considered. Once the BEPS report has been fully considered, it may also be appropriate to renegotiate PNG's existing DTAs to ensure PNG gets its fair share from the treaties.

The Multilateral Convention on Mutual Administrative Assistance in Tax Matters

In a globalised economy, where taxpayers are increasingly operating across borders, it is critical for there to be collaboration between tax administrators to address offshore tax evasion. In addition to DTAs setting the basis for exchange of taxpayer information, PNG could obtain information more efficiently by becoming a member of the Multilateral Convention on Mutual Administrative Assistance in Tax Matters.

PNG has recently become a member of the Global Forum on Transparency and Exchange of Information, which is a prerequisite to joining the Multilateral Convention. The Government will continue to support this work to improve the integrity of PNG's tax system.

Minor Technical and Housekeeping Amendments

The 2016 Budget introduces minor technical and administrative amendments to correct drafting errors, remove doubt in the law and ease administrative procedures.

- a) Repeal of section 6A of the *Income Tax Act 1959* (ITA). Section 6A of the ITA provides for the removal of the Commissioner General from office. This is now provided for in the *Internal Revenue Commission Act 2014* (IRC Act) and should have been repealed when the IRC Act commenced. This amendment will repeal section 6A of the ITA to remove the duplication of the removal process of the Commissioner General.
- b) Repeal of section 6B of the ITA. Section 6B provides for the appointment of the Commissioner for Taxation. This is now provided for in the IRC Act. This amendment will repeal section 6B of the ITA to remove the duplication of the appointment process for the Commissioner for Taxation.

- c) Amend Section 196B of the ITA to replace the reference 'Section 196D(1)' with the word 'Division'. This will make the law clear that income that derived from a prescribed contract defined in Division 14A is income sourced in PNG and is subject to PNG tax.
- d) Amend the Income Tax Regulation 1959 (IT Regulation) by repealing regulation 91A(2) and paragraph (b) of the definition of 'eligible payment' in section 354K. When changes were made in 2013 to limit the industries that required a Certificate of Compliance, Regulation 91A(2) was inadvertently not removed. Contracts for the hire or leasing of equipment no longer require a Certificate of Compliance.
- e) Amend the GST Act paragraphs 72(1)(a) and 72(1)(b) to clarify that the IRC has four years to amend a GST return from either the date the return is lodged or the date of the assessment, whichever is the earlier.

CHAPTER 5. EXPENDITURE

5.1 OVERVIEW

Total Government Expenditure projections for 2016 and the medium term are now based on the Government Finance Statistics (GFS) 2014 classification. Under this new reporting system, expenditure consists of expense and net acquisition of non-financial assets.

Total expenditure in 2016 is estimated to be K14,762.6 million, of which K12,698.3 million is Government funded, K922.0 million is loans and the remainder is donor funded. The total expenditure represents a K367.2 million, or 2.4 per cent, reduction over the 2015 Revised Budget of K15,129.7 million.

The 2016 expenditure provides a lower fiscal ceiling compared to previous years. Therefore, a clear prioritisation of expenditures guided the formulation of the 2016 Budget. The following are the main Budget priorities:

- hosting the African, Caribbean and Pacific (ACP) Group of States meeting in 2016, facilitating the 2017 National Elections and hosting the APEC Summit in 2018;
- placing more emphasis on monitoring, evaluation and compliance so as to achieve improved development outcomes;
- assisting our large rural population through adequate and targeted drought assistance;
- continuing to support policy priorities in the education, health, infrastructure, agriculture and Small and Medium Sized Enterprise (SME) sectors; and
- further promoting the efficient and effective implementation of major projects through improving design, scoping and implementation processes.

The Government will take further steps in 2016 to address inefficiencies in the public sector. This includes measures to be taken on freezing staffing restructures, unattached officers to be redeployed or made redundant, efficiencies between agencies, and other reforms as outlined under the Non-Financial Instructions in this chapter.

The 2016 Budget reflects the Government's commitment to our future. The 2016 Budget categorises expenditure under the following sectors: Administration, Economic, Education, Health, Transport, Law & Order, Community and Culture, Utilities and Provinces. These are summarised in Table 12.

Table 12: Expenditure by Sectors

Sectors	2015 Rev	2016	2017	2018	2019
Administration	3,085.6	2,548.8	2,473.7	2,526.3	2,618.1
Community & Culture	145.5	156.4	90.9	93.2	96.3
Economic	485.8	610.6	263.3	270.4	277.4
Education	1,554.0	1,312.5	1,066.4	1,097.20	1,150.9
Health	1,492.3	1,565.9	993.4	1,132.30	1,090.3
Law & Justice	1,244.1	1,240.9	1,058.0	1,107.40	1,173.3
Provinces*	4,137.9	4,215.8	4,550.3	4,667.90	4,805.0
Transport	1,586.3	1,254.1	915.9	687.4	612.9
Utilities	267.9	378	299.7	208.3	612.9
<i>Debt Services</i>	1,130.1	1,479.6	1,393.2	1,461.7	1,553.6
Unallocated			908.4	917.6	761.2
Total	15,129.7	14,762.5	14,013.4	14,169.7	14,752.0

Source: Department of Treasury.

*Provinces include GST and bookmakers turnover tax to provinces.

5.2 DONOR FUNDING FROM DEVELOPMENT PARTNERS

In 2016 grants from development partners are K1,134.1 million, or 8.0 per cent of total expenditure. Given the reduction in the overall expenditure ceiling, and the requirement to scale down activities funded directly by the Government, Development Partner assistance increases in importance to strengthen sectoral development agendas. Development Partner grants will continue to provide valuable contributions among others in constructing and maintaining critical transport infrastructure, building technical capacity in Government agencies, investing in human capital by supporting the health and education sectors, aiding to strengthen the rule of law, and enabling growth in the economic sector.

The largest share of grants is provided by the Australian Government, with K921.7 million or 81.3 per cent of total donor grants. An additional K63.9 million is provided by the Department of Foreign Affairs and Trade (DFAT) through contributing funds to other multilateral development partners. The continued high value of grants provided by DFAT can be seen as a strong commitment to PNG, as the overall Budget of the Australian Aid program decreases globally. Major projects under this agreement in 2016 include K131.2 million for Phase 2 of the Transport Sector Support Program, K118.0 million for the Health and Education Procurement Facility, K80.8 million for the Strongim Gavman Program (SGP) and the K46.7 million for the PNG Education Program. The Redevelopment of Angau Memorial Hospital will represent a major upcoming commitment under the Joint Understanding.

5.2.1 Relationship between Government and Donor Expenditure

The renewed and decisive leadership provided by the Government in ensuring development partners are providing support according to their respective comparative advantage is having tangible impacts. With the introduction of the new PNG Development Cooperation Policy in 2015, the process to facilitate and access donor resources is becoming more streamlined. The introduction of this policy will drive the coordination and facilitation of all development partner programs.

The Government will hold its first ever High Level Forum on Development Effectiveness together with the development partners. For the first time, civil society organisations, philanthropic organisations, the private sector and churches will participate in this new development platform. This provides a strategic and high-level opportunity for the partners and the Government to discuss and address significant global commitments and issues on development cooperation and how best different stakeholders can address these at national and sub-national level. It illustrates the Government's commitment on maintaining a strong relationship with our development partners and to addressing global issues related to aid and development effectiveness. It also demonstrates that all the partners are key in the development of this nation and agents of aid delivery.

Regarding the implementation of donor funding, the Government will strive towards more budgetary support and will identify strategies and initiatives to apply this approach. The Government aims to identify innovative and effective aid delivery modalities in order to improve the impact of aid at the community level. Importantly, the development partners are appreciating the leadership and vision of the Government in guiding the allocation of external resources.

The Government is also committed to ensuring greater transparency in aid delivery and therefore has worked closely with all development partners to introduce reporting that supports the introduction of the Government Finance Statistics (GFS) 2014 standard across government. The launching of the Public Expenditure Financial Assessment (PEFA) by the Government should provide confidence to development partners to gradually rely on government systems.

5.3 2018 ASIA PACIFIC ECONOMIC COOPERATION MEETING

The Government is committed to hosting APEC in 2018. This is a significant undertaking that stands to bring wide-ranging benefits to Papua New Guinea, not least through exposing the leaders, Ministers and officials of the 21 APEC member countries to the abundant opportunities present in PNG. The APEC forum plays an important role in facilitating a dialogue between business and industry leaders and Ministers. The Government will work to strengthen these ties throughout its host year to ensure the opportunities to enhance trade and investment outcomes are fully captured.

As hosts, Papua New Guinea will conduct around 180 APEC meetings over the course of 2018 on a wide range of topics, including the economy, security, energy, trade and investment, infrastructure and the environment. This will result in an unprecedented influx of international officials and business leaders and will require significant forward planning.

Venue preparations, accommodation and security are just some of the broad areas that will require investment from now through to the conclusion of 2018. In 2019, when Chile hosts APEC, PNG as the former chair will continue to support a number of work streams. Therefore, APEC-specific expenditure, while greatly reduced, will continue into 2019. The majority of this expenditure will be coordinated by the PNG APEC Authority.

In 2016, APEC expenditure will be K80.0 million. Of this, K35.0 million will be APEC security preparation.

5.4 SECTOR EXPENDITURE

5.4.1 Administration Sector

The Administration Sector aims to attain high standards of public sector performance and management at all levels and institutions of government, and to improve and strengthen public

sector reforms, institutional structures and human resource capacity. Innovative approaches to improving institutional and human resource capacity include public financial management reforms, the use of public-private-partnerships and church-state-partnerships, as well as improvements to electoral processes and systems.

The public sector has undergone significant institutional transformation and public service delivery reforms to improve basic service delivery to the citizens of PNG. The Government's development partners have been encouraged to support and enhance these initiatives through grants targeted at capacity development and institutional strengthening at the national and sub-national level. The Government of Australia, through DFAT, is the most significant contributor to governance programs and capacity building programs. The SGP, the Incentive Fund and the Economic and Public Sector Program (EPSP) support capacity building efforts in key agencies of government and strengthen their ability to execute effectively their roles and responsibilities.

The Administration Sector consists of thirty-one (31) 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 of the Government. The other two non-tax revenue agencies are PNG Immigration (immigration fees) and the Department of Labour & Industrial Relations (work permit fees). These two agencies retain 50 per cent of the revenue that they collect, whilst 50 per cent is remitted to the Waigani Public Account.

Total expenditure for the Administration Sector in 2016 is estimated to be K2,548.8 million or 17.9 per cent of the total expenditure. Many costs captured under this sector are not administrative in nature. For example, the Department of National Planning holds funding for several major National Development projects such as the National Identity Card and the Land and Housing Program. The K1,051.6 million for Division 207 (Treasury and Finance Miscellaneous) includes several large cross-agency items such as Employer Superannuation contributions of K200 million and Office Accommodation of K200.0 million. Division 207 has also been allocated funding for public service Retrenchments at K30.0 million. For greater clarity, Public Debt Interest expenditure (K1,479.6 million) is shown as a separate line item in Table 13 in this chapter.

In 2016, the Administration Sector will include two additional large spending items — APEC-related activities and the 2017 General Elections. The Government has allocated K80.0 million for APEC expenditure of which K35 million is for 2017 General Elections and APEC Security preparations. The other key spending item is in relation to the General Election with K10.0 million being distributed to agencies affected by the elections.

Table 13: Administration Sector 2015-2019 Expenditure (Kina million)

Administration	2015	2016	2017	2018	2019
201 National Parliament	165.7	147.5	138.9	145.7	154.9
Operational	165.7	147.5	138.9	145.7	154.9
202 Office of Governor-General	7.2	5.2	4.9	5.2	5.5
Operational	7.2	5.2	4.9	5.2	5.5
203 Department of Prime Minister & NEC	133.9	165.9	139.6	137.3	141.3
Operational	95.9	83.3	78.5	82.3	87.5
Capital	38	82.5	61.2	55	53.8
204 National Statistical Office	9.5	10.4	6	6.3	6.7
Operational	9.5	6.4	6	6.3	6.7
Capital	0	4	0	0	0
205 Office of Bougainville Affairs	5	3.4	3.2	3.3	3.6
Operational	5	3.4	3.2	3.3	3.6
206 Department of Finance	60.4	66	46.5	40.2	31.4
Operational	35.4	29.4	27.7	29	30.8
Capital	25	36.6	18.9	11.2	0.6
207 Treasury and Finance - Miscellaneous	1,196.0	1,051.6	990.1	1,038.90	1,104.20
Operational	1,196.00	1,051.60	990.1	1,038.90	1,104.20
208 Department of Treasury	186.6	155.7	160.9	156.8	156.5
Operational	30.2	29.3	27.6	29	30.8
Capital	156.4	126.4	133.2	127.8	125.7
209 Registrar For Political Parties	9.2	7.8	7.3	7.7	8.1
Operational	9.2	7.8	7.3	7.7	8.1
211 PNG Customs Service	54.2	59.6	46.7	49	52.1
Operational	50.2	49.6	46.7	49	52.1
Capital	4	10	0	0	0
212 Information Technology Division	20.5	18.3	17.3	18.1	19.2
Operational	20.5	18.3	17.3	18.1	19.2
213 Fire Services	24.8	29	17	17.8	18.9
Operational	24.8	18	17	17.8	18.9
Capital	0	11	0	0	0
215 PNG Immigration and Citizenship Services	12.9	10	9.4	9.9	10.5
Operational	12.9	10	9.4	9.9	10.5
216 Internal Revenue Commission	76.6	75	51.8	54.3	57.7
Operational	60.6	55	51.8	54.3	57.7
Capital	16	20	0	0	0
217 Department of Foreign Affairs and Trade	75.8	60.8	57.5	60.2	62.9
Operational	75.8	59.9	56.4	59.2	62.9
Capital	0	0.9	1	1	0
219 PNG Institute of Public Administration	8.9	10.2	6.7	7.1	7.5
Operational	8.9	7.2	6.7	7.1	7.5
Capital		3			

220 Department of Personnel Management	28.3	146.6	157.6	158.6	160
Operational	25.3	22.1	20.8	21.8	23.2
Capital	3	124.5	136.8	136.8	136.8
221 Public Service Commission	8.4	6.4	6.1	6.4	6.8
Operational	8.4	6.4	6.1	6.4	6.8
227 Provincial Treasuries	48.3	45.2	42.5	44.6	47.4
Operational	48.3	45.2	42.5	44.6	47.4
229 Department of National Planning and Monitoring	587.5	192.8	282.1	273.7	271.1
Operational	22	16.6	15.6	16.4	17.4
Capital	565.5	176.2	266.5	257.3	253.7
230 Electoral Commission	26.9	22.4	21.2	22.3	23.6
Operational	26.9	21.7	20.5	21.5	22.8
Capital	0	0.7	0.8	0.8	0.8
232 Provincial and Local Government Affairs	17.3	81.7	85.9	86.7	87.7
Operational	17.3	16.2	15.3	16	17
Capital	0	65.4	70.6	70.6	70.6
262 Department of Industrial Relations	33.9	33.4	29.6	31.1	33
Operational	28.9	31.4	29.6	31.1	33
Capital	5	2	0	0	0
263 National Tripartite Consultative Council	1	0.9	0.8	0.9	0.9
Operational	1	0.9	0.8	0.9	0.9
267 Department of Implementation and Rural Development	68	65.6	65	65.5	66.1
Operational	12.5	10.1	9.5	10	10.6
Capital	55.5	55.5	55.5	55.5	55.5
268 Central Supply & Tenders Board	2.8	2.7	2.6	2.7	2.9
Operational	2.8	2.7	2.6	2.7	2.9
506 National Training Council	3.1	40.1	43.7	43.8	44
Operational	3.1	2.5	2.3	2.5	2.6
Capital	0	37.6	41.4	41.4	41.4
509 Border Development Authority (BDA)	11.2	7.1	6.9	5.2	4.6
Operational	5.2	4.2	3.9	4.1	4.4
Capital	6	2.9	3	1	0.2
502 Office of the Auditor-General	29	23.9	22.5	23.6	25.1
Operational	29	23.9	22.5	23.6	25.1
507 National Economic & Fiscal Commission	4.2	3.5	3.3	3.5	3.7
Operational	4.2	3.5	3.3	3.5	3.7
Total	2,917.1	2,548.8	2,473.7	2,526.3	2,618.1

Source: Department of Treasury

5.4.2 Economic Sector

Economic development and growth in Papua New Guinea is often linked to the performance of the Agriculture Sector, which is part of the Economic Sector. Agriculture is a catalyst of economic growth and sustains the livelihoods of many Papua New Guineans. In 2016, the Economic sector is allocated K610.6 million, or 4.3 per cent of the total expenditure.

Key policy agencies in this sector are the Departments of Agriculture and Livestock, Mineral Policy and Geohazards Management, and Lands and Physical Planning.

The Department of Agriculture and Livestock has developed the National Agriculture Development Plan 2007-2016 to guide policy development and implementation in this sector. The Government's major investments in this sector are K61.5 million for the National Development Bank to assist Small and Medium Sized Enterprises (SMEs), K35.0 million for the Pacific Marine Industrial Zone, K50.0 million for the Tourism Infrastructure Program and K100.0 million for the Agriculture Commercialization Equity Fund (ACEF). The resources allocated for the ACEF are aimed at attracting investors in the coffee, cocoa, oil palm, rubber and livestock industries. Other key projects include Special Economic Zone – Sepik Plains at K5.0 million and Pacific Marine Industrial Park at K31.9 million.

The Commerce and Industry Sector includes the Department of Commerce and Industry, which has a number of statutory bodies covering commerce, manufacturing, industrialisation and regulation. SMEs in this sector are aimed at encouraging people to participate fully in economic development.

The semi-commercial bodies play a role in economic growth. In 2016, the Government allocated K227.4 million for these agencies to implement government programs. The sector, particularly manufacturers, relies on the agricultural and resource-based industries for the export of commodities such as palm oil, timber, petroleum, LNG and fisheries. Another key department in this sector is Lands and Physical Planning, to which the Government allocated K39.6 million in 2016. This allocation is for the purpose of administering land in PNG.

Table 14: Economic Sector 2015-2019 Expenditure (Kina million)

Economic	2015	2016	2017	2018	2019
245 Conservation and Environment Protection Authority	29.6	64.8	21.1	23.5	21.1
Operational	22.6	13.5	12.7	13.4	14.2
Capital	7	51.2	8.3	10.2	6.9
247 Department of Agriculture and Livestock	19	43.3	35.4	32.9	33.9
Operational	15.7	15.8	14.9	15.6	16.6
Capital	3.3	27.5	20.5	17.3	17.3
252 Department of Lands and Physical Planning	58.9	39.6	37.3	39.1	41.6
Operational	38.9	39.6	37.3	39.1	41.6
Capital	20	0	0	0	0
254 Department of Mineral Policy and Geohazards Management	9.7	11.7	8.2	8.6	9.1
Operational	9.7	8.7	8.2	8.6	9.1
Capital	0	3	0	0	0
255 Department of Petroleum and Energy	21.9	47.5	18.7	19.6	20.8
Operational	21.9	19.8	18.7	19.6	20.8
Capital		27.7			
261 Department of Commerce and Industry	19.4	62.4	21	19.1	16.4
Operational	15.8	15.6	14.7	15.5	16.4
Capital	3.6	46.7	6.3	3.6	0
269 Office of Tourism Arts and Culture	2.1	51.8	1.7	1.8	1.9
Operational	2.1	1.8	1.7	1.8	1.9
Capital	0	50			
511 Papua New Guinea Climate Change Authority	9.2	15.1	8	8.4	9
Operational	9.2	8.5	8	8.4	9
Capital	0	6.5	0	0	0
531 Small Business Development Corporation	3.4	4.6	2.9	3.1	3.3
Operational	3.4	3.1	2.9	3.1	3.3
Capital	0	1.5	0	0	0
535 Mineral Resources Authority	68.3	26.4	0	0	0
Capital	68.3	26.4	0	0	0
536 Kokonas Industry Corporation	1.2	6.5	1.9	2	2.1
Operational	1.2	2	1.9	2	2.1
Capital	0	4.5	0	0	0
541 National Housing Corporation	0.3	7.2	0.2	0.2	0.2
Operational	0.3	0.2	0.2	0.2	0.2
Capital		7			
543 National Development Bank	50	61.5	0	0	0
Capital	50	61.5	0	0	0
549 Office of Coastal Fisheries Development Agency	27.9	25.6	2.5	2.6	2.7
Operational	2.9	2.6	2.5	2.6	2.7
Capital	25	23	0	0	0
550 Cocoa Coconut Institute Ltd	8.3	6.7	6.3	6.6	7
Operational	8.3	6.7	6.3	6.6	7
Capital	0	0	0	0	0

551 National Fisheries Authority	20	1	0	0	0
Operational	0	0	0	0	0
Capital	20	1	0	0	0
553 Fresh Produce Development Company	6.6	11.4	6.3	6.6	7
Operational	6.6	6.7	6.3	6.6	7
Capital	0	4.7	0	0	0
554 PNG Coffee Industry Corporation	3.4	10	2.8	3	3.2
Operational	3.4	3	2.8	3	3.2
Capital	0	7	0	0	0
557 PNG National Forest Authority	31.6	37.6	30.7	32.1	32.9
Operational	31.6	29.4	27.7	29	30.8
Capital	0	8.2	3.1	3.1	2.1
558 Tourism Promotion Authority	11.6	9.8	9.3	9.7	10.3
Operational	11.6	9.8	9.3	9.7	10.3
Capital	0	0	0	0	0
559 PNG Oil Palm Industry Corporation	0	0	0	0	0
Capital	0	0	0	0	0
562 National Agriculture Research Institute	11.3	13.5	10.8	11.4	12.1
Operational	11.3	11.5	10.8	11.4	12.1
Capital	0	2	0	0	0
563 National Agriculture Quarantine & Inspection Authority	5.1	10.4	7.9	8.3	8.8
Operational	5.1	8.4	7.9	8.3	8.8
Capital	0	2	0	0	0
566 Cocoa Board	4.7	16.8	6.4	6.8	7.2
Operational	4.7	6.8	6.4	6.8	7.2
Capital	0	10	0	0	0
568 Livestock Development Corporation	0	0	0	0	0
Capital	0	0	0	0	0
501 Konebada Petroleum Park Authority	5.4	6.4	6.1	6.4	6.8
Operational	5.4	6.4	6.1	6.4	6.8
530 Investment Promotion Authority	4	3	2.8	2.9	3.1
Operational	4	3	2.8	2.9	3.1
532 National Institute of Standards & Industrial Technology	4.1	3.5	3.3	3.4	3.6
Operational	4.1	3.5	3.3	3.4	3.6
533 Industrial Centres Development Corporation	3.4	2.6	2.4	2.5	2.7
Operational	3.4	2.6	2.4	2.5	2.7
569 Independent Consumer and Competition Commission	11.8	9.8	9.2	9.7	10.3
Operational	11.8	9.8	9.2	9.7	10.3
Total	452.3	610.6	263.3	270.4	277.4

Source: Department of Treasury.

5.4.3 Education Sector

The primary role of the Education Sector is to deliver primary, secondary and tertiary education through the Departments of Education (DOE), Higher Education, and the national universities. Total funding for the Education sector in 2016 is K1,312.5 million, which is 9.2 per cent of the total 2016 Budget expenditure.

In 2016, the Department of Education will receive funding of K953.4 million, which is 72.1 per cent of the Education sector budget to further the current Government's considerable commitment to education. This funding includes a capital component of K266.3 million to fund ongoing education projects. The subsidies paid to support the Tuition Fee Free policy continue to be a major, but essential, cost of K602.0 million, a slight drop of K3.0 million from 2015. While access to education has improved significantly, the quality of education has become a concern as the school population has increased and the system has struggled to adequately plan for, fund and administer those increases. There is ongoing pressure in vital areas such as infrastructure and teacher numbers, standard based teacher training, school materials and distribution, and the capacity at all levels to monitor and administer the education system. The Government through the Department of Education and the Provinces is mindful of these issues and will work towards addressing them in 2016 and beyond.

The Tuition Fee Free education funds are no longer warranted to Department of Education, but through the Department of Finance before being dispersed to schools throughout the country. The Department of Education still remains the custodian of Tuition Fee Free policy and its implementation.

In 2016, there are 10,318 schools in PNG, including elementary schools, primary schools, high schools, vocational schools, flexible open distance education schools, national high schools, permitted schools and special education schools.

A total of K30.2 million will be provided for primary schools operations, K2.4 million for curriculum development materials, which includes the procurement of text and resource books for teachers in elementary and primary schools. In 2016, K20.2 million is appropriated for technical schools operations, K19.6 million for secondary school equipment and K16.1 million for national examinations for grades 8, 10 and 12.

Higher education institutions have made significant contributions to nation building over recent years. The universities and colleges have adequately met extraordinary demands that have been placed on them. In 2016, higher education is allocated K137.2 million. This amount includes K10 million each for nursing college rehabilitation, teachers college rehabilitation, technical and business college rehabilitation, the Trade Skills program and K3.0 million to the Tertiary Education Subsidy Assistance Scheme (TESAS).

Table 15: Education Sector 2015-2019 Expenditure (Kina million)

Education	2015	2016	2017	2018	2019
235 Department of Education	951.1	953.4	877	898.5	939.8
Operational	924.5	845.1	795.7	834.9	887.4
Capital	26.6	108.3	81.3	63.6	52.4
236 Department of Higher Education Research Science & Technology	282.5	137.2	51.1	53.6	57
Operational	85	54.2	51.1	53.6	57
Capital	197.5	83	0	0	0
251 PNG Science & Technology Secretariat	4.2	4.2	4	4.2	4.4
Operational	4.2	4.2	4	4.2	4.4
Capital	0	0	0	0	0
505 National Research Institute	5.4	7.2	6.7	7.1	7.5
Operational	5.4	7.2	6.7	7.1	7.5
Capital	0	0	0	0	0
512 University of Papua New Guinea	52.9	77.5	44.7	46.9	49.8
Operational	52.9	47.5	44.7	46.9	49.8
Capital	0	30	0	0	0
513 University of Technology	47	65.2	42.6	44.7	47.5
Operational	47	45.2	42.6	44.7	47.5
Capital	0	20	0	0	0
514 University of Goroka	21.2	34.4	18.3	19.2	20.4
Operational	21.2	19.4	18.3	19.2	20.4
Capital	0	15	0	0	0
515 University of Environment & Natural Resources	28.9	28.6	17.5	18.3	19.5
Operational	18.9	18.6	17.5	18.3	19.5
Capital	10	10	0	0	0
518 PNG Maritime College	4.5	4.8	4.5	4.7	5
Operational	4.5	4.8	4.5	4.7	5
Total	1,397.8	1,312.5	1,066.4	1,097.2	1,150.9

Source: Department of Treasury

5.4.4 Health Sector

The Health Sector encompasses the key policy agency of the Department of Health as well as delivery agencies such as Hospital Management Services and the Provincial Health Authorities. One of the Government's key policies, Free Health Care, is driven by the Department of Health. The total funding for the sector in 2016 is K1,565.9 million, or 11.0 per cent of the total 2016 expenditure (including donor and grant funding of K280.9 million).

In 2016, donor funding is to cover the Health and Education Procurement Facility K118.0 million, HIV/AIDS Prevention and Control in Rural Development Enclaves K0.89 million, PNG Health and HIV Financing Program K30.4 million, Rural Primary Health Sector delivery K53.5 million, Strengthening HIV/AIDS services K8.5 million and UN Assistance to Health Sector K11.8 million. These are vital services for health delivery in Papua New Guinea.

The Government is committed to rebuilding and/or rehabilitating our hospitals. In 2016, a total of K40.3 million will be provided for major works at the Angau Memorial Hospital and the

Mt Hagen Provincial Hospital Rehabilitation. The Government will continue to subsidise free health care at K20.0 million. Other key projects are the Port Moresby Specialised Referral Hospital Rehabilitation at K20.0 million and the new Central Provincial Hospital Redevelopment at K20.0 million. A further K327.3 million will be distributed for capital works across the remaining provincial hospitals.

Table 16: Health Sector 2015-2019 Expenditure (Kina million)

Health	2015	2016	2017	2018	2019
238 Milne Bay Provincial Health Authority	28.5	29.8	28.1	29.5	31.3
Operational	28.5	29.8	28.1	29.5	31.3
239 Western Highlands Provincial Health Authority	33.8	32.7	30.8	32.3	34.4
Operational	33.8	32.7	30.8	32.3	34.4
244 Eastern Highlands Provincial Health Authority	31.6	35	32.9	34.6	36.7
Operational	31.6	35	32.9	34.6	36.7
253 West New Britain Provincial Health Authority	0	36.2	34	35.7	38
Operational	0	36.2	34	35.7	38
256 Manus Provincial Health Authority	0	17.7	16.7	17.5	18.6
Operational	0	17.7	16.7	17.5	18.6
260 Enga Provincial Health Authority	0	29.7	27.9	29.3	31.1
Operational	0	29.7	27.9	29.3	31.1
266 Sandaun Provincial Health Authority	0	27	25.4	26.6	28.3
Operational	0	27	25.4	26.6	28.3
240 Department of Health	361.8	619.9	416.3	426.8	446.7
Operational	355.4	310.7	292.5	306.9	326.2
Capital	6.4	309.2	123.8	119.9	120.5
241 Hospital Management Services	630	715.8	361.1	378.9	402.7
Operational	497.3	383.5	361.1	378.9	402.7
Capital	132.7	332.3	0	0	0
519 National Aids Council Secretariat	8.8	9.8	8.4	8.8	9.4
Operational	8.8	8.9	8.4	8.8	9.4
Capital	0	0.9	0	0	0
520 Institute of Medical Research	10.1	12.4	11.6	12.2	13
Operational	10.1	12.4	11.6	12.2	13
Grand Total	1104.5	1565.9	993.4	1032.3	1090.3

Source: Department of Treasury.

5.4.5 Community and Culture Sector

Improvements to community and social development require strong sector policies, sufficient laws and adequate resources. Public policy interventions include effective policies and programs on gender equality and violence, children and youth, disability and support to the elderly. Public policy often works in tandem with PNG's traditional values and culture embodied in the wantok system.

The Community and Culture Sector in 2016 will receive K156.4 million, or 1.1 per cent of the Budget (including K61.0 million in donor grants). In 2016, K60.0 million is allocated to Department of Community Development, of which K24.2 million is targeted for programs

relating to gender equality and gender-based violence. The PNG Sports Foundation is allocated K54.3 million and the National Museum and Art Gallery K22.9 million, of which K11.0 million is for the National Museum and Art Gallery Refurbishment.

The Government has continued its support to the Church State Partnership Program, providing K2.0 million. Supporting church-delivered programs has proven to be an efficient and cost-effective use of government funding for improving delivery of basic health and welfare services in the country.

Table 17: Community & Culture Sector 2015-2019 Expenditure (Kina million)

Community & Culture	2015	2016	2017	2018	2019
233 Office of Censorship	3.7	3.7	3.5	3.6	3.9
Operational	3.7	3.7	3.5	3.6	3.9
237 PNG National Commission for UNESCO	4.4	3.1	2.9	3	3.2
Operational	4.4	3.1	2.9	3	3.2
243 National Volunteer Services	2.8	1.9	1.8	1.9	2
Operational	2.8	1.9	1.8	1.9	2
246 Office of Urbanization	2	1.8	1.7	1.7	1.8
Operational	2	1.8	1.7	1.7	1.8
242 Department of Community Development	21.1	60	55.6	56.2	56.9
Operational	16.1	11.9	11.2	11.8	12.5
Capital	5	48.1	44.4	44.4	44.4
516 PNG Sports Foundation	22.6	54.3	9.9	10.4	11
Operational	17.6	10.5	9.9	10.4	11
Capital	5	43.8	0	0	0
521 National Youth Commission	5	4.1	3.9	4.1	4.3
Operational	5	4.1	3.9	4.1	4.3
539 National Museum and Art Gallery	10.7	22.9	7.3	7.7	8.2
Operational	8.7	7.8	7.3	7.7	8.2
Capital	2	15.1	0	0	0
542 National Cultural Commission	5.1	4.7	4.4	4.6	4.9
Operational	5.1	4.7	4.4	4.6	4.9
Grand Total	77.3	156.4	90.9	93.2	96.3

Source: Department of Treasury.

5.4.6 Transport Sector

The Transport Sector continues to receive significant funding as it enables the provision of critical goods and services and supports economic growth. Significant improvements to transport infrastructure have been made in all three sub-sectors of land, air and water transport in the past few years. This is due to the Government's commitment to this sector and the continued collaboration with donors and development partners.

In 2016, the Transport Sector will be allocated K1,254.1 million, or 8.8 per cent of the total 2016 expenditure. Some major donor-funded projects include the Road Maintenance & Rehabilitation Project K82.8 million, Highlands Region Road Improvement Investment Program K84.2 million and the Transport Sector Support Program Phase 2 K151.21 million. The fully Government-funded projects include the Highlands Highway, Lae Nazab Road K45.0 million; Highlands Highway, Lae–Komo Upgrading and Sealing K100.0 million; total

Missing Link roads at K5.0 million each totaling K20.0 million; and the Port Moresby International Terminal Upgrade at K10.0 million.

Table 18: Transport Sector 2015-2019 Expenditure (Kina million)

Transport	2015	2016	2017	2018	2019
264 Department of Works and Implementation	935.9	1,064.40	773.5	609.3	552.5
Operational	392.9	319.9	301.2	316	335.9
Capital	543	744.5	472.3	293.2	216.6
259 Department of Transport	25.6	46.1	23.3	24.4	25.9
Operational	25.6	24.7	23.3	24.4	25.9
Capital	0	21.4	0	0	0
526 National Maritime Safety Authority	13.9	40.8	59.9	22.7	8.3
Operational	7.9	3.3	3.1	3.3	3.5
Capital	6	37.5	56.8	19.4	4.9
537 National Airports Corporation	56	70.8	35.8	6.4	0
Capital	56	70.8	35.8	6.4	0
538 PNG Air Services Limited	0	0	0	0	0
Capital	0	0	0	0	0
548 PNG Harbours Board	0	0	0	0	0
Capital	0	0	0	0	0
567 National Road Authority	15	9.5	2.4	2.5	2.6
Operational	0	2.5	2.4	2.5	2.6
Capital	15	7	0	0	0
523 PNG Accidents Investigation Commission	7.4	5.6	5.3	5.5	5.9
Operational	7.4	5.6	5.3	5.5	5.9
545 Rural Airstrip Authority	5.9	4.5	4.2	4.4	4.7
Operational	5.9	4.5	4.2	4.4	4.7
565 Civil Aviation Safety Authority	14.3	12.3	11.6	12.1	12.9
Operational	14.3	12.3	11.6	12.1	12.9
Grand Total	1,074.00	1,254.10	915.9	687.4	612.9

Source: Department of Treasury.

5.4.7 Law and Order Sector

The Law & Order Sector consists of thirteen agencies, with the inclusion of the National Intelligence Organisation. The major agencies within the Law & Order Sector are the Royal PNG Constabulary, Department of Defence, National Judiciary Services, Correctional Institute Services and Department of Justice & Attorney General.

In 2016, the sector is allocated K1,240.9 million, or 8.7 per cent of the total 2016 expenditure. This comprises a K1,061.0 million operational component, a K126.0 million Government capital investment, and a K53.9 million donor component.

In line with Government's directives under the MTDP II, force (manpower) growth will continue with further recruitment of 750 new Police recruits, 480 new Defence recruits and 200 new CIS recruits at a total of K15.2 million. The Government will also provide K46.0 million for the Village Court Officials & Land Mediators Allowances.

Table 19: Law & Justice Sector 2015-2019 Expenditure (Kina million)

Law & Justice	2015	2016	2017	2018	2019
218 Office of the Public Prosecutor	8.6	7.4	7	7.3	7.8
Operational	8.6	7.4	7	7.3	7.8
Capital	0	0	0	0	0
222 Office of the Public Solicitor	19.2	12.6	11.8	12.4	13.2
Operational	14.2	12.6	11.8	12.4	13.2
Capital	5	0	0	0	0
223 Judiciary Services	340	227.3	138.7	145.5	154.7
Operational	150	147.3	138.7	145.5	154.7
Capital	190	80	0	0	0
224 Magisterial Services	40.3	38.3	36.1	37.9	40.2
Operational	40.3	38.3	36.1	37.9	40.2
Capital	0	0	0	0	0
225 Department of Attorney-General	118.1	159.4	152	156.6	162.7
Operational	111.1	98.5	92.8	97.3	103.5
Capital	7	60.9	59.2	59.2	59.2
226 Department of Corrective Institutional Services	139.2	139.7	122.1	128.1	136.2
Operational	129.2	129.7	122.1	128.1	136.2
Capital	10	10	0	0	0
228 Department of Police	367.2	361.3	335.5	352	374.1
Operational	367.2	356.3	335.5	352	374.1
Capital	0	5	0	0	0
231 National Intelligence Organisation	5.9	4.7	4.4	4.6	4.9
Operational	5.9	4.7	4.4	4.6	4.9
Capital	0	0	0	0	0
234 Department of Defence	266.2	256.5	223.6	234.6	249.4
Operational	261.2	237.5	223.6	234.6	249.4
Capital	5	19	0	0	0
503 Ombudsman Commission	22.2	20.4	17.3	18.1	19.3
Operational	22.2	18.4	17.3	18.1	19.3
Capital	0	2			
510 Legal Training Institute	13.6	4.9	2.7	2.8	3
Operational	3.6	2.9	2.7	2.8	3
Capital	10	2	0	0	0
522 Constitutional and Law Reform Commission	3.7	4.1	2.9	3.1	3.2
Operational	3.7	3.1	2.9	3.1	3.2
Capital	0	1	0	0	0
517 National Narcotics Bureau	4.6	4.4	4.1	4.3	4.6
Operational	4.6	4.4	4.1	4.3	4.6
Total	1,348.8	1,240.9	1,058.2	1,107.4	1,173.3

Source: Department of Treasury.

Major investment in the sector in 2016 includes: Waigani Court House Complex Redevelopment K80.0 million, Correctional Services Infrastructure Development K10.0 million, Defence Infrastructure K10.0 million, and Police Housing and Infrastructure

Project K5.0 million. In addition, K35.0 million is allocated to fund security preparations for the 2017 National Election and 2018 APEC Summit.

5.4.8 Provincial Sector

Despite a challenging fiscal environment, funding levels have been maintained to Provincial Administrations and Local Level Governments Government in the 2016 Budget. The Provincial Sector is allocated K4,215.8 million in the 2016 Budget, comprising K2,114.7 million operational expenditure, K1,547.4 million capital expenditure and K553.7 million Goods and Services Tax and bookmakers turnover tax.

The operational funding to the Provinces includes the Administration and Function Grants, Public Servants' salaries, Teachers' salaries, Teachers' leave fares, Public Servants' leave fares and LLG grants.

Table 20: Provincial Sector 2015-2019 Expenditure (Kina million)

Provinces	2015	2016	2017	2018	2019
571 Fly River Provincial Administration	119	114	129.9	133.1	137.4
Operational	58.5	69.1	65	68.2	72.5
Capital	60.5	44.9	64.9	64.9	64.9
572 Gulf Provincial Administration	91.8	95.1	101.4	104.4	108.3
Operational	56	63.1	59.4	62.4	66.3
Capital	35.8	32	42	42	42
573 Central Provincial Administration	176.7	145.2	169.8	174.1	179.9
Operational	89.7	93.6	88.1	92.4	98.3
Capital	87	51.6	81.6	81.6	81.6
574 National Capital District	98.9	169.1	86.2	86.4	86.6
Operational	3.8	3.3	3.1	3.3	3.5
Capital	95.1	165.8	83.1	83.1	83.1
575 Milne Bay Provincial Administration	157.5	153.4	177.5	182.2	188.5
Operational	95.9	101.8	95.9	100.6	106.9
Capital	61.6	51.6	81.6	81.6	81.6
576 Oro Provincial Administration	83.9	87.9	94.6	97.2	100.7
Operational	53	57	53.7	56.3	59.8
Capital	30.9	30.9	40.9	40.9	40.9
577 Southern Highlands Provincial Administration	222.4	174.1	208	212.8	219.3
Operational	101.2	104.6	98.5	103.3	109.8
Capital	121.2	69.5	109.5	109.5	109.5
578 Enga Provincial Administration	174.5	162.4	184.2	188.1	193.5
Operational	81.2	85.7	80.7	84.6	90
Capital	93.3	76.7	103.5	103.5	103.5
579 Western Highlands Provincial Administration	186.7	169.7	183.3	188.3	195.1
Operational	95.8	108.8	102.4	107.4	114.2
Capital	90.9	60.9	80.9	80.9	80.9

Provinces	2015	2016	2017	2018	2019
580 Simbu Provincial Administration	197	183.2	226.7	231.8	238.7
Operational	105	111.2	104.7	109.8	116.7
Capital	92	72	122	122	122
581 Eastern Highlands Provincial Administration	256	233.8	295.5	302.1	310.8
Operational	127.1	141.4	133.1	139.7	148.4
Capital	128.9	92.4	162.4	162.4	162.4
582 Morobe Provincial Administration	327.2	300.8	367.1	376.1	388.2
Operational	184.9	194.7	183.3	192.3	204.4
Capital	142.3	106.2	183.8	183.8	183.8
583 Madang Provincial Administration	239.3	228.3	269.1	276.4	286.1
Operational	147.4	156.4	147.2	154.5	164.2
Capital	91.9	71.9	121.9	121.9	121.9
584 East Sepik Provincial Administration	222.1	209.8	251.8	258.2	266.7
Operational	129.5	137.2	129.2	135.6	144.1
Capital	92.6	72.6	122.6	122.6	122.6
585 Sandaun Provincial Administration	169	175.7	189.1	194.4	201.4
Operational	107.3	114	107.4	112.7	119.7
Capital	61.7	61.7	81.7	81.7	81.7
586 Manus Provincial Administration	67.7	72.5	69.5	71.9	75.1
Operational	51.5	51.3	48.3	50.7	53.9
Capital	16.2	21.2	21.2	21.2	21.2
587 New Ireland Provincial Administration	123.1	115.8	121	124.8	129.8
Operational	73	80.9	76.1	79.9	84.9
Capital	50.1	34.9	44.9	44.9	44.9
588 East New Britain Provincial Administration	167	172.7	190.6	195.9	203.1
Operational	105.2	115.5	108.8	114.1	121.3
Capital	61.8	57.2	81.8	81.8	81.8
Provinces	2015	2016	2017	2018	2019
589 West New Britain Provincial Administration	107.4	120.5	125.3	129.4	135
Operational	76.3	89.4	84.2	88.3	93.9
Capital	31.1	31.1	41.1	41.1	41.1
590 Autonomous Bougainville Administration	289	344	365.3	371.1	363.1
Operational	128	128	120.5	126.5	134.4
Capital	161	216	244.7	244.7	228.7
591 Hela Provincial Administration	104.7	133.4	107.6	109.9	112.9
Operational	42.1	48.3	45.5	47.8	50.8
Capital	62.6	85.1	62.1	62.1	62.1
592 Jiwaka Provincial Administration	92.8	100.7	117.2	120	123.7
Operational	46.6	59.5	56	58.8	62.5
Capital	46.2	41.2	61.2	61.2	61.2
Total	3,673.60	3,662.10	4,030.70	4,128.60	4,244.00

Source: Department of Treasury.

Note that bookmakers' turnover tax and GST transfers to provinces are not included in this table.

In 2016, the Land Mediators Allowances will now be administered along with Village Courts Allowances by the Department of Justice and Attorney General (Village Courts Secretariat) for effective and efficient monitoring.

The operating budgets of the Provinces have been increasing substantially in many cases, to enable the recruitment of additional teachers and health workers to meet increased demands. The capital funding to the Provinces includes K10.0 million per year in direct funding to the Provincial Services Improvement Program (PSIP), K10.0 million per District under the District Services Improvement Program (DSIP) and K100,000 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.

In addition, the K225.0 million PSIP previously under the Provincial sector has now been moved to the Transport sector to fund the Hospital Infrastructure program. The move is due to project management capability.

5.4.9 Utilities Sector

A strong and sustainable Utilities Sector is required to provide households and businesses with critical basic services such as reliable electricity, safe and clean water, sanitation, and modern information and communications infrastructure, through a coordinated effort of State Owned Enterprises (SOEs) and the private sector.

Improved access to Water and Sanitation and Hygiene (WaSH) forms the basis of healthy lives, as it reduces sickness and mortality through diarrhoea, typhoid and cholera, improves school attendance and supports economic activities. The recently published WaSH policy sets ambitious goals for improving access to better drinking water sources and improving sanitation facilities in urban and rural areas, including educational institutions. The current unreliable electricity network in rural and urban areas will be strengthened through interventions of the Government's State Owned Enterprises with the aid of development partners.

Infrastructure investments in Information and Communications Technology (ICT), in both the public and private sectors, aim to provide cost-efficient, reliable and effective services to households and businesses, and thus enable economic activity and access to information across PNG's vast and often remote geography.

In 2016, the Utilities Sector is allocated K378.0 million. This is an increase of K110.0 million from the 2015 revised budget.

The major projects in the Utilities Sector are the National Broadband Network (K170.3 million), Port Moresby Grid Development (K64.2 million), PNG Town's Electricity Investment Project (K47.6 million) and Upgrading Power Distribution – Ramu Grid (K26.9 million).

Table 21: Utilities Sector 2015-2019 Expenditure (Kina million)

Utilities	2015	2016	2017	2018	2019
257 Department of Public Enterprises	8.3	7.8	7.3	7.7	8.2
Operational	8.3	7.8	7.3	7.7	8.2
258 Department of Information and Communication	8	16.7	13.1	4.2	4.5
Operational	5	4.3	4	4.2	4.5
Capital	3	12.5	9.1	0	0
524 Independent Public Business Corporation	8	178.7	31.4	62.4	59.1
Capital	8	178.7	31.4	62.4	59.1
525 National Broadcasting Commission	43.4	25.2	23.8	24.9	26.5
Operational	43.4	25.2	23.8	24.9	26.5
540 Water PNG	0	0	0	0	0
546 PNG Power Limited	29	149.5	224.1	109.1	55.4
Capital	29	149.5	224.1	109.1	55.4
547 Telikom (PNG) Limited	0	0	0	0	0
Grand Total	96.6	378	299.7	208.3	153.7

Source: Department of Treasury.

5.5 NON-FINANCIAL INSTRUCTIONS

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

The Government has noted with concern the high levels of agency non-compliance of some of the NFIs issued in the 2015 Budget. Less than five (5) per cent of government agencies have adhered to the NFIs provided in 2015. In 2016, Treasury will publish fewer NFIs than in 2015 to assist agencies with compliance and reporting.

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. Agencies are expected to report on the status of implementation of the NFIs in April 2016.

The 2016 Budget NFIs are:

All agencies

1. Freezing Staffing Restructures

The Government is committed to an efficient public sector. Over the past five years, the size and remits of the National Government and sub-national governments has changed considerably as the Government moved to devolve service delivery to the sub-national level. In light of this, and given the tight resource envelope in 2016, the Government will take the necessary action to freeze the new structures of all Agencies, including Statutory Authorities and Provincial Governments that receive Budget funding for personnel emoluments. The freeze is effective from the day of passing the 2016 Budget until 31 December 2016. Claims for back dating of these pay structures will not be considered.

2. Unattached officers – Redeployed/Redundant

There has been a recent increase in the number of unattached officers. The Department of Personnel Management (DPM) has identified several thousand unattached officers. The large number of unattached officers has contributed to Departmental budget overruns and needs to be reduced. Treasury and DPM have agreed that:

- all agencies are to provide a plan on the number of officers to be redeployed through reskilling or retrenchment to DPM by 31st March 2016;
- DPM to provide this report to Treasury by 30th April;
- agencies to implement training or a retrenchment exercise by 30th June; and
- DPM and Treasury to report on the outcome by 30th September 2016.

3. Efficiencies between agencies

In the 2013 National Budget, four modest changes to Agencies were agreed to by NEC. Those were: absorbing the Public Service Commission into Department of Personnel Management; absorbing the Office of UNESCO into the Department of Education; combining the Tourism Promotion Authority with the Office of Tourism and Culture into the Department of Tourism; and combining the Department of Implementation and Rural Development with the Department of National Planning and Monitoring.

In addition, NEC agreed to amalgamate the following agencies in the 2014 Budget: Coastal Fisheries Development Agency into the National Fisheries Authority; the National Economic and Fiscal Commission into the Department of Treasury; and the National Aids Council into the Department of Health. No amalgamations were proposed in the 2015 Budget.

As an initial step, these Agencies' appropriations for 2016 will be placed under the larger agency but be separately identifiable. The Departments of Treasury, Finance and DPM will form a Working Group to complete the work on amalgamations as per the decisions made by NEC, and report to NEC by 31st March 2016. Agencies will be expected to make efficiencies in overhead costs, including through colocation and sharing of utilities and corporate services.

4. Staff on Strength

There is inconsistency with the staff on strength figures in the payroll reports produced by Finance and the agency's records. This has led to frequent budget overruns. A mechanism is needed to achieve consistency in the staff on strength numbers.

In the first quarter 2016, DPM, the Department of Finance and Treasury will meet with all government agencies to address the discrepancy. Agencies must report to Treasury and DPM by 31st April 2016.

5. Central point for loan arrangements

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 requests for loan financing from government departments or agencies to any multilateral, bilateral or other financial institutions be channelled through the Department of Treasury, and that Treasury is solely responsible for determining the type of loan financing and negotiating the loans for any government-sponsored projects or programs. Also, all agencies currently pursuing financing from multilateral, bilateral or other financial institutions to cease and refer everything to the Departments of Treasury and National Planning and Monitoring.

6. Integrated Financial Management System (IFMS) Reporting

The Department of Works, all trust accounts and all other Government agencies who are located in the National Capital District are to be connected and using the Integrated Financial Management System by 30 June 2016.

Agency Specific

7. Free Primary Health Care and Subsidized Specialist Services Policy

The Free Primary Health Care Policy is a positive step forward in achieving a healthy nation. However, implementation of the policy has been delayed and is expected to be achieved in 2016. A total of K20 million has been allocated to implement the Free Primary Health Care and Subsidized Specialist Services Policy, and an implementation plan must be provided to Treasury as part of Health's first quarter Budget review. The implementation plan must clearly outline the activity plans, timeframe and milestones to be achieved, as well as the costs associated with the activities.

8. Fee Free Education Policy

The Fee Free Education Policy has been introduced to improve the quality of education through improving access to schools (especially for girls); improve retention; improve the quality of education; strengthen education management; and improve access to schooling across the country. Considerable pressures are emerging in vital areas such as infrastructure, teacher numbers, teacher training, school materials and distribution, and the capacity at all levels to monitor and administer the education system. The Department of Education is to provide to Treasury a report on the below statistics as part of its first quarter Budget review.

- average number of children to one teacher;
- the number of teachers, classrooms and teacher accommodation in the country and how many more is needed;
- the costs of increasing the number of teachers, classrooms and teacher accommodation;
- the number of females and males accessing schools; and
- the yearly retention rate of students.

9. Funding of new projects

The Department of National Planning & Monitoring (DNPM) is to update NEC on their progress made to date on Budget reforms; and, based on physical audits, to report in general on Monitoring and Evaluation of activities under the capital budget, and specifically on projects that are 50 per cent or more complete by 30 April 2016.

In addition, DNPM is to provide to Treasury, as part of its first quarter Budget review, the below information:

- the total number of projects;
- the number of projects below and above 50 per cent complete;
- the reason for any delays in completion against original milestones; and
- the expected time of completion for each project.

10. Control of conditional contracts

Issuing conditional contracts by CSTB has been placing financial stress on the National Budget. NEC has directed to cease issuing of all conditional contracts.

In addition, in 2016 CTSB is to provide Treasury, as part of its first quarter Budget review, the below information:

- tender number;
- value of the contract; and
- milestone payments (value and timing).

11. Diesel Levy Charges – National Road Authority

The Government ceased to fund the National Road Authority's operational funding from 2011 as the agency receives off-budget revenue from road user charges to meet its running costs. The road user charge of 4 toea per litre diesel levy is charged to meet these running costs. The road user charge is collected on behalf of the NRA by PNG Customs and held in an off-budget account.

The NRA is required to provide Treasury a quarterly Budget review report, including information on developing user charges based on vehicle type and developing a mechanism for applying the charges.

5.6 2015 BUDGET REFORMS

The Budget reforms seek to provide a cohesive presentation of the Government's expenditure plan as a single integrated budget. The 2016 Budget process was amended to provide for greater Ministerial engagement through the Ministerial Economic Committee and National Executive Council (NEC), and more efficient administration of the Budget through a two-stage review process. The Integrated Financial Management System (IFMS) was also adjusted to accommodate process variations in the system.

Early Ministerial direction operationalises the Government's objectives to align an agency's work plans with that of the Ministry an agency falls under. This ensures Government priorities are addressed through the Budget.

The first stage assessed the broad sector priorities, the fiscal envelope for 2016 and the medium term, and the expenditure ceilings. The first stage required agencies to submit only new activity proposals and offer savings in 2016, to be appraised for inclusion in the 2016 Budget.

Building on the outcomes of stage one, agencies were then required to submit complete submissions of their ongoing activities in the second stage. An overall budget ceiling or funding limit was issued to each agency. Each agency was expected to prioritise its activities between

the ongoing and newly approved activities within this limit. In managing an overall ceiling, agencies were expected to align their capital and operational expenditure to ensure plans over the medium term can be realised with the available resources.

In implementing these changes, a network of technical officers was established for information dissemination. The Budget Officers Technical Network (BOTN) was initiated to provide a forum for open communication between agencies. This forum allows open discussion (and understanding) on the reforms and direct dissemination of budget information. The BOTN met three times in 2015. The 2016 Budget also introduced the Budget Management Framework (BMF) to raise the profile of review processes in a bid to improve Budget compliance.

The introduction of the BMF brings the Non-Financial Instructions (NFIs) and the Consolidated Budget Operational Rules (CBORs) to the attention of agencies and reiterates the importance of quarterly reviews and Budget circulars. The BMF raises the importance of compliance as a means of improving agency performance, accountability and transparency.

Treasury looks to continue its cooperation with Government Departments, Statutory Authorities and Provincial Administrations as partners in the implementation of Budget reforms. Information on the reforms will be made available to all stakeholders through the BOTN, with regular information sessions and to the public through quarterly publications in the major newspapers and on the Department of Treasury website.

5.7 CONSOLIDATED BUDGET OPERATING RULES

The Government put in place a set of budgeting rules detailing Government budget policies and processes. These are to be adopted by agencies through the financial year and when preparing budget submissions. The 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 are updated annually by the Departments of Treasury and National Planning and Monitoring. All queries relating the CBORs should be directed in the first instance to the Budget Coordination and Analysis Division of the Department of Treasury.

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

5.8 TRUST ACCOUNTS

This section provides a summary of the balances for Budget-funded trust accounts as at 30 September 2015.

Budget-funded 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 design implementation strategies.

A total of K9,230.7 million, to 30 September 2015, 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. Table 22 provides a summary on the movement of funds in and out of Budget-funded trust accounts from 2005 to 2015.

Table 22: Summary of Trust Account movements since 2005 – 2015 (Kina Million)

Year	Deposits from SBE and APE	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		76.0	1,207.0
2008	1,501.4	36.5	480.5	1,057.4
2009	0.0	627.2	2,365.9	-1,738.7
2010	0.0	887.2	818.3	68.9
2011	628.5	598.2	1,426.3	-199.6
2012	398.0	428.0	1,095.0	-269.0
2013	247.6	450.0	537.1	160.5
2014	240.0	209.2	827.9	-378.7
2015*		384.5		

Source: Department of Finance and Department of Treasury.

*For 2015 deposits from annual Budget up to 30 September. Spending from trust accounts in 2015 will be updated with the 2015 Final Budget Outcome.

The last column of Table 22 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 provided through trust accounts include PNG LNG Additional Equity, LNG Infrastructure Development Grants, LNG High Impact, and the 2015 Pacific Games. The quality and effectiveness of spending from trust accounts is unclear as there is a lack of detailed expenditure reports from implementing agencies.

5.9 APPROPRIATION FOR TRUST ACCOUNTS: 2015 - 2016

A total of K600.0 million was appropriated for trust accounts in the 2015 Budget. Of this, K384.5 million was paid into trust accounts as at 30 September 2015, with the remainder to be paid when funds become available later in 2015. A total of K792.0 million is appropriated for Budget-funded trust accounts in the 2016 Budget.

Table 23: Appropriation for each trust account: 2015 - 2016 (Kina Million)

Expenditure Programs	2015 Budget	2015 Supplementary Budget	Paid	Yet to be released
2015 BUDGET				
2015 Pacific Games	360.0	270.0	300.0	-30.0
Infrastructure Development Grant (USBA)	120.0	100.0	84.5	15.5
Special Intervention Fund (ABG)	70.0	50.0	0.0	50.0
High Impact Projects (USBA)	50.0	30.0	0.0	30.0
TOTAL	600.0	455.0	384.5	70.7
2016 BUDGET				
Tuition Fee Free Education Subsidies	602.0		-	-
Infrastructure Development Grant	120.0		-	-
Special Intervention Fund (ABG)	70.0		-	-
TOTAL	792.0			

Source: Department of Treasury.

5.10 TRUST ACCOUNT FUND MOVEMENTS IN 2015

The opening balance of Budget-Funded trust accounts at 1 January 2015 totalled K328.2 million and the closing balance at 30 September 2015 totalled K273.2 million.

Table 24 shows the Budget-funded trust account balances at 1 January 2015 and at 30 September 2015. Details of the transactions (credit and debits) in the trust accounts for the period could not be provided. A more detailed report on trust accounts, including credit and debit information for 2015, will be provided in the 2015 Final Budget Outcome (FBO) report.

Table 24: Trust Account Movements from 1 January to 30 September 2015

Description	Balance at 1 Jan 15	Balance at 30 Sept 15
2015 Pacific Games Sub. Trust A/C	75,020	74,707
2015 South Pacific Games T/A	1,022,800	11,022,800
Coastal Vessels Trust A/C	140,000	140,000
Cooperative Societies Establishment Trust Account	460	343
District Offices Rehabilitation Subsidiary T/A	371,046	371,083
District Service Improvement Program T/A	27,682,082	21,402,314
Education Sector Infrastructure Rehabilitation Trust Account	770,308	770,191
Govt's Funding of Resettlement of Volcan	154,759	154,749
Higher Education Sector Infrastructure Rehabilitation Trust Account	5,717,413	1,776,871
Highlands Highway Rehabilitation Trust Account	47,729	47,639
Hospital and Health Care Centre Rehab. Trust Pom General Hospital	251,845	251,860
Infrastructure Development Grants (UBSA) T/A	58,528,000	49,115,200
Infrastructure Development (UBSA) Sub Trust	1,386,590	1,386,941
Kokopau - Arawa Road Upgrading & Bitumen T/A	35,093	35,099
Lae City Roads Rehabilitation Subsidiary Trust Account	2,134,381	2,134,970
Madang Marine Park Development Trust Account	8,428,964	3,926,623
Mining Legal Costs Subsidiary T/A	106,644	106,564
Outstanding MOA Liabilities Subsidiary T/A	27,442	27,352
Outstanding Special Support Grant	50,000	50,000
Petroleum Outstanding MOA Commitments Trust	38,334	38,244
PNG LNG Additional State Equity Financing T/A	699,344	699,344
PNG LNG Development Cost Trust Account Subsidiary	1,755,571	1,179,744
PNG LNG High Impact Infrastructure Project T/A	418,810	416,908
PNG LNG High Impact Infrastructure Subsidiary Trust Account	681,162	681,295
PNG LNG Project Development Cost	5,600	5,600
Port Moresby City Road	322,874	322,757
Port Moresby Roads Trust A/C	-	3,449,648

REDD Program Subsidiary T/A	7,229	7,139
Regional Finance & District Administration Offices Establishment Trust	188,202	188,112
Rehabilitation of Housing for Nurses Trust Account	239,622	239,532
Rehabilitation of Housing for Police Trust Account	20,251,649	15,858,291
Restoration & Development T/A	100,000,000	-
Restoration And Development Grant Sub. Trust A/C	8,289,188	2,099,613
Rural Airstrips Rehabilitation & Maintenance Program GoPNG T/A	1,277,491	1,277,491
Trade Skills Scholarships	8,917,691	9,751,019
Trans East - West New Britain Highway Trust A/C	72,371	72,371
Transport Sector - Central City Redev.	34,961,454	34,911,414
Transport Sector - National & Rural Bridges	918,709	918,911
Transport Sector - National Roads	116,837	116,747
Transport Sector - POM Wharf Redevelopment	50,590	50,500
Transport Sector - Provincial Feeder Roads	3,655	3,565
Transport Sector - Wewak Roads	53,725	53,635
Transport Sector - Wewak Wharf	7,212,776	7,216,046
Transport Sector Infra. Maint. & Rehab. Trust (District Roads)	23,081	22,991
Tuition Fee Free Education Subsidiary Trust Account	33,845,474	33,321,026
Tuition Fee Free Education T/A	-	66,607,561
Urbanisation Pilots T/A - Sub 3 TD	852,490	852,490
Urbanisation Pilots T/A - Sub 5 TD	11,148	11,148
Urbanisation Pilots T/A - Sub 7 TD	11,203	11,203
Varirata National Park Subsidiary Trust Account	1,043	963
TOTAL	328,157,898	273,180,612

Source: Department of Finance and Department of Treasury.

5.12 DISTRICT SERVICE IMPROVEMENT PROGRAM TRUST ACCOUNTS

Since 2013 all districts have been funded their District Service Improvement Program funds directly through the Budget to their District Treasury Operating Accounts.

Prior to this, from 2008 until the 2012 Budget, a total of K1,780.0 million was appropriated for the District Service Improvement Program (DSIP). During that period DSIP appropriation was

paid into the 89 DSIP Trust Accounts. For ease of management, separate bank accounts for each of the 89 Districts were established.

The opening balance as at 1 January 2015 of funds remaining in the 89 DSIP Trust Accounts was K27.7 million and the closing balance as at 30 September 2015 was K21.4 million. Table 25 below shows the balances of the DSIP subsidiary trust accounts.

Table 25: Balances of the 89 District Service Improvement Program Bank Accounts

District	Total Paid into Trust 2006-2012	Balance as at 1st Jan 15	Balance as at 30th Sep 15
Abau	20,000,000.00	0	0
Goilala	20,000,000.00	2,730.50	2,640.50
KairukuHiri	20,000,000.00	34,723.24	34,633.24
Rigo	20,000,000.00	1,382.07	1,292.07
Gazelle	20,000,000.00	26,125.74	26,035.74
Kokopo	20,000,000.00	14,059.82	13,969.82
Pomio	20,000,000.00	7,814.38	7,724.38
Rabaul	20,000,000.00	470,186.90	456,406.42
Ambunti-Drekirkir	20,000,000.00	26,960.02	26,870.02
Angoram	20,000,000.00	2,274,367.97	2,274,931.00
Maprik	20,000,000.00	408,944.19	408,984.18
Wewak	20,000,000.00	1,905,785.91	1,906,301.76
Wosera-Gawi	20,000,000.00	69,943.83	69,773.83
Yangogoru-Saussia	20,000,000.00	0	0
Daulo	20,000,000.00	35,383.00	35,293.00
Goroka	20,000,000.00	57,385.72	57,295.72
Henganofi	20,000,000.00	4,915.03	4,825.03
Kainantu	20,000,000.00	1,063.63	973.63
Lufa	20,000,000.00	14,186.75	14,096.75
Obura-Wanenara	20,000,000.00	0	0
Okapa	20,000,000.00	4,987.50	4,897.50
Unggai-Bena	20,000,000.00	0	0
Kandep	20,000,000.00	13,228.29	13,138.29
Kompam-Ambun	20,000,000.00	6,620.56	6,530.56
Lagaip-Porgera	20,000,000.00	1,644.26	1,554.26
Wabag	20,000,000.00	26,825.35	26,735.35
Wapenamanda	20,000,000.00	0	0
Kerema	20,000,000.00	12,669.01	12,579.01
Kikori	20,000,000.00	3,968.00	3,851.00
Bogia	20,000,000.00	292,184.44	292,187.32
Madang	20,000,000.00	233,411.62	233,321.62
Middle Ramu	20,000,000.00	2,080.46	1,990.46
Raikos	20,000,000.00	1,849.85	1,759.85
Sumkar	20,000,000.00	0	0
Usino-Bundi	20,000,000.00	73,102.89	73,012.89
Manus	20,000,000.00	5,003,248.04	5,004,268.55
Alotau / Rabaraba	20,000,000.00	16,621.02	16,531.02
Esa'ala	20,000,000.00	351,073.33	351,094.92
Kiriwina	20,000,000.00	210,041.45	209,941.45
SamaraiMurua	20,000,000.00	3,726.11	3,636.11
Bulolo	20,000,000.00	21,583.57	21,438.57
Finschafen	20,000,000.00	2,332,374.89	2,011,917.82
Huon Gulf	20,000,000.00	151,514.46	51,383.15

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Kabwum	20,000,000.00	0	0
Lae	20,000,000.00	399.44	309.44
Markham	20,000,000.00	534,352.77	534,432.63
Menyamyia	20,000,000.00	112,534.71	12,439.71
Nawaeb	20,000,000.00	136,535.31	136,418.31
Tewa-Siassi	20,000,000.00	1,912,884.78	946,016.22
Moresby North East	20,000,000.00	121,061.89	120,971.89
Moresby North West	20,000,000.00	42.18	0
Moresby South	20,000,000.00	32,487.18	32,397.18
Kavieng	20,000,000.00	295,464.37	295,313.28
Namatanai	20,000,000.00	853,420.28	853,571.57
Central Bougainville	20,000,000.00	5,948.85	10,162.20
North Bougainville	20,000,000.00	8,140.39	8,020.39
South Bougainville	20,000,000.00	96,690.82	96,560.82
Ijivitari	20,000,000.00	17,586.29	3,379.33
Sohe	20,000,000.00	24,321.97	24,231.97
Aitape-Lumi	20,000,000.00	28,979.09	28,862.09
Nuku	20,000,000.00	63.14	0
Telefomin	20,000,000.00	0	0
Vanimo-Green	20,000,000.00	3,829,633.07	3,825,133.02
Chuave	20,000,000.00	13,060.19	12,905.19
Gumine	20,000,000.00	0	0
Karamui-Nomane	20,000,000.00	25,684.76	31,891.76
Kerowagi	20,000,000.00	1,211.40	1,048.40
Kundiawa-Gembogl	20,000,000.00	22,085.10	21,910.10
Sinasina-Yongumugl	20,000,000.00	724.9	0
Ialibu-Pangia	20,000,000.00	1,641.20	1,578.64
Imbongu	20,000,000.00	19,949.42	19.42
Kagua-Erave	20,000,000.00	74,395.42	74,285.42
Komo-Magarima	20,000,000.00	0	0
Koroba-L/Kopiago	20,000,000.00	28,531.14	28,401.14
Mendi	20,000,000.00	0	0
Nipa-Kutubu	20,000,000.00	8,441.37	8,351.37
Tari-Pori	20,000,000.00	1,000,270.36	29,376.81
Kandrian	20,000,000.00	142,987.83	0
Talasea	20,000,000.00	2,486.44	2,396.44
Middle Fly	20,000,000.00	168,134.03	168,044.03
North Fly	20,000,000.00	19,681.99	19,591.99
South Fly	20,000,000.00	859.12	1,165.07
Dei	20,000,000.00	251,449.42	251,439.35
Hagen	20,000,000.00	3,644,454.88	11,368.95
Jimi	20,000,000.00	0	0
Mul/Bayer	20,000,000.00	124,635.43	124,545.43
North Wagi	20,000,000.00	670.61	580.61
South Wagi	20,000,000.00	0	0
Tambul-Nebiler	20,000,000.00	1,466.76	1,376.76
TOTAL	1,780,000,000	27,682,082.10	21,402,313.72

Source: Department of Finance.

The Department of Finance, in consultation with the Department of National Planning and Monitoring and the Office of Rural Development, developed a Financial 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.

CHAPTER 6. FINANCING & DEBT STRATEGY

6.1 OVERVIEW

The stock of Central Government debt continued to increase in 2015 as the Government accessed the domestic and international markets to fund its National Budget. Interest rates were largely unchanged over 2015, despite a noticeable reduction in the demand for Inscribed Stock over the latter half of the year. Demand remained strong for the Government's Treasury Bills and Central Bank Bills throughout the year.

In the coming months the Government will consider raising funds in offshore debt markets via a sovereign bond. If and when these funds are raised they will be used to restructure the domestic debt portfolio which represents a significant part of the Central Government's stock of debt. Restructuring of the portfolio, which is expected to occur over the next five years, will essentially reduce the current high level of Treasury Bills to more prudent levels. Furthermore, it will lead to a reduction in refinancing risk and increase the average maturity of the domestic portfolio.

Whilst the debt-to-GDP ratio is expected to rise slightly to around 36 per cent in 2016 and 2017, it is projected to fall thereafter reaching a low of 30.9 per cent in 2020.

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 2016.

6.2 FINANCING DEVELOPMENT

Net borrowing is estimated to be K2,112.5 million in 2016. Over the next four years, net borrowing is expected to decline gradually, with net lending forecast in 2020.

Towards the end of 2015 and early 2016 the Government will consider undertaking an offshore debt raising (i.e. sovereign bond) that will be used to buy back stock from investors with the purpose of restructuring the domestic debt portfolio. The Government will engage market participants in the coming months to determine the best way to achieve this task in a systematic and efficient manner, using a combination of buybacks, switches and reverse auctions. Such a move by the Government will provide the following benefits.

1. a reduction in the Government's heavy reliance on the use of short term debt (Treasury Bills) to finance the Budget deficit. This will lead to a decrease in the refinancing risk and increase in the average term to maturity;
2. a consolidation of the current twenty-three Inscribed Stock (Treasury Bonds) lines into larger and more liquid lines of bonds. Larger lines would potentially increase the number of investors in each individual line, and promote secondary market transactions;
3. rejuvenate the primary domestic debt market by freeing up funds ready for reinvestment back into government securities; and
4. a reduction in domestic interest expenses that will partially offset the interest costs associated with a Sovereign Bond.

During 2016 the Government will examine ways of broadening the range of financing tools. It will also introduce measures and improvements that will lead to greater efficiencies and functionality in the primary and secondary securities markets.

6.2.1 Foreign currency denominated loans and bond issuance

The Government's predominant form of foreign currency borrowing was through concessional loans from bilateral and multilateral development partners. These are generally repayable over 20-32 years with concessional interest rates.

In terms of their contribution to the financing requirement in 2016, the Government intends to undertake net financing through concessional loans of K731.6 million comprising expected gross borrowings of K930.1 million and repayments of K198.5 million.

As part of its financing options for the forthcoming year the Government will consider the option of conducting a sovereign bond raising in offshore markets later this year or early 2016.

6.2.2 Inscribed Stock issued via tender

The Government, as part of its financing program in February this year, set a target of issuing K1,800.0 million in Inscribed Stock (Treasury Bonds) in 2015. Following a lack of demand for Inscribed Stock and an investor preference for shorter dated stock, it appears unlikely that the Government will achieve its target. This lack of demand has been evidenced by a drop in the average coverage ratio from 1.42 times in 2014 to 0.94 times in 2015. The fall in the coverage ratio can be attributed to the reduced investor base and inability of a smaller market to absorb large amounts of Kina denominated stock. Given this, the Government will continue to look at a range of options aimed at broadening the investor base and expanding the number of available financing methods to raise funds. Despite reduced demand yields across the range of maturities have remained largely unchanged over the course of 2015.

In 2016, gross issuance of inscribed stock is estimated to be K900.0 million with maturities of K464.0 million. As part of its stock consolidation plan the Government will aim to buyback a number of small inscribed stock lines during 2016.

Issuance in 2016 will be on a monthly basis commencing 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 across a range of tenors (63, 91, 182 and 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 investors.

The demand for Treasury Bills during 2015 has been strong to date, and is expected to remain so for the remainder of the year. There has been a quantum shift by the major investors away from Inscribed Stock and into Treasury Bills and Central Bank bills. Treasury Bill yields have remained largely steady over the year, with 91, 182 and 364 day rates currently trading around 2.42, 4.52 and 7.39 per cent respectively. Yields at the end of 2014 for 182 and 364 days yields were 4.67 and 7.42 per cent respectively. The average coverage ratio for tenders for the 2015 year to date is around 0.95 times, compared with 0.77 times in 2014.

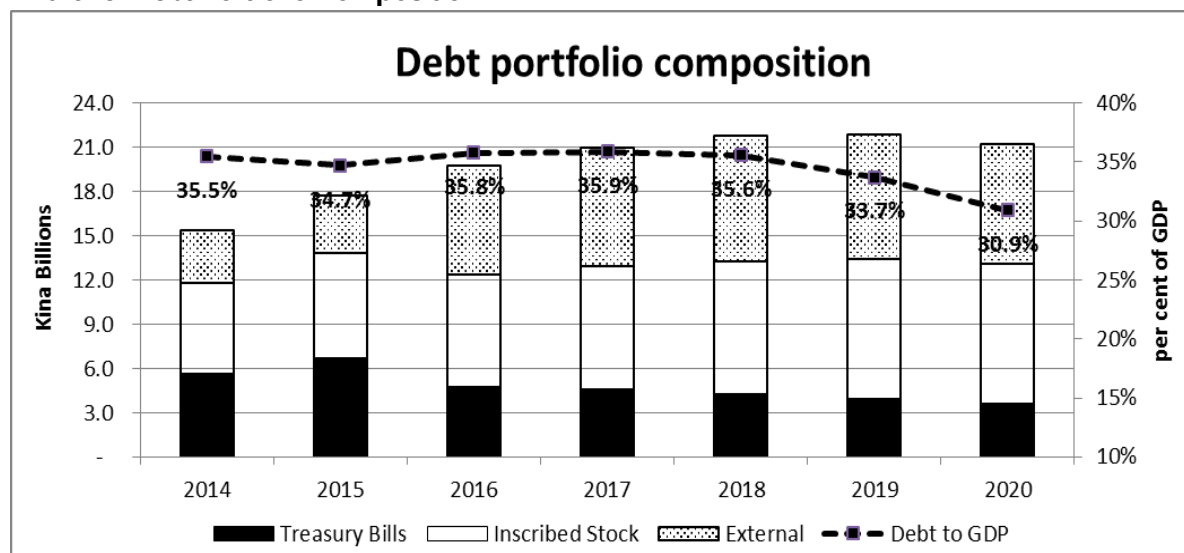
In 2016, gross issuance of Treasury Bills is estimated to be K7,250.0 million, with maturities of K9,188.0 million. Net amortisations is projected to be K1,938.0 million for 2016.

Given the current high demand for Treasury Bills, it is expected that issuance will occur most weeks of the year across a range of maturities.

6.3 PUBLIC DEBT

Total public debt is estimated to increase from K17,715.6 million in 2015 to K19,745.2 million at the end of 2016. In the terms of the debt targets outlined in the *Fiscal Responsibility Act 2006*, debt as a share of nominal GDP is projected to increase from 34.7 per cent in 2015 to 35.8 per cent in 2016.

Chart 28: Debt Portfolio Composition



Source: Department of Treasury

6.3.1 Domestic Debt

Total domestic debt at the end of 2015 is expected to be K13,863.4 million, an increase of K2,035.5 million from the previous year. The level of domestic debt is expected to fall over the course of 2016 by around K1,502 million, as the proceeds from the Sovereign Bond are used to retire Treasury bills and Inscribed Stock debt. New issuance of Treasury bills and Inscribed Stock will continue to occur throughout the year.

The domestic debt portfolio, which comprises Treasury Bills and Inscribed Stock, seeks to maintain a prudent balance between short and long term debt to reduce the level of refinancing within the portfolio whilst benefitting from the interest savings offered by short-term debt.

At the end of 2015 Treasury Bills are expected to comprise 48.1 per cent of the domestic debt portfolio, well above the target of 15 to 30 percent set under the Medium Term Debt Strategy. Over the course of 2016 the domestic debt portfolio will be restructured to reduce the amount of short-term debt and in turn increase the average debt to maturity profile of the portfolio.

6.3.2 External Debt

External debt at the end of 2015 is expected to be K3,852.2 million, an increase of K315 million or 8.9 per cent from the previous year. Should the Government proceed with a large offshore borrowing in 2016, the level of external debt is expected to increase sharply. Details pertaining to the contribution that an external bond raising may have towards meeting the 2016 financing task will depend on a successive bond closure taking place as well as the underlying market conditions at the time of the launch.

Whilst the proceeds from a Sovereign Bond would assist in meeting the Government's funding task in 2016, additional external debt of PNG will continue 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.

Table 26: 2016 Central Government Borrowing

Financing Source	Est. Balance 2015 end	Est. Repayment 2016	Est. Borrowing 2016	Est. Balance 2016 end	Net Change 2016
Domestic Debt	13,863.4	9,652.0	8,150.0	12,361.4	-1,502.0
Treasury Bills	6,667.2	9,188.0	7,250.0	4,729.2	-1,938.0
Inscribed Stock	7,196.3	464.0	900.0	7,632.3	436.0
External Debt	3,852.2	198.5	3,730.1	7,383.8	3,531.6
International					
Agencies	3,852.2	198.5	930.1	4,583.8	731.6
Foreign bonds (a)	0.0	0.0	2,800.0	2,800.0	2,800.0
Total	17,715.6	9,850.5	11,880.1	19,745.2	2,029.6
<i>% of Nominal GDP</i>	34.7%			35.8%	

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

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.

In terms of the requirements under the FRA, the Government continues to be cognisant of its requirement to meet debt-to-GDP targets as stipulated by the FRA. Whilst this ratio is projected to remain around 35 percent in the next three years, it is nevertheless expected to fall below this key level in 2019 and 2020.

The Government will be undertaking a debt sustainability review in conjunction with the International Monetary Fund in the near future. It is expected that this review will produce a revised set of debt benchmarks and targets that will be incorporated into an updated Medium Term Debt Strategy.

Table 27: Debt sustainability measures

Measure	2013 Actual	2014 Actual	2015 Est	2016 Proj	2017 Proj	2018 Proj	2019 Proj	2020 Proj
Debt to GDP %	34.6%	35.5%	34.7%	35.8%	35.9%	35.6%	33.7%	30.9%

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 instrument and average maturity targets to control the resulting portfolio risk.

Foreign Currency Risk

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

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. In the event the Government proceeds with a sovereign bond the level of foreign denominated debt to Central Government debt is expected to increase from 21.7 per cent in 2015 to 37.4 per cent in 2016.

Table 28: Percentage of Foreign Currency Debt to total Central Government Debt

Target	2013 Actual	2014 Actual	2015 Est	2016 Proj	2017 Proj	2018 Proj	2019 Proj	2020 Proj
Up to 40%	25.5%	23.0%	21.7%	37.4%	38.4%	39.1%	38.8%	38.3%

Source: Department of Treasury.

Interest Rate Risk

Represents the risk that debt servicing cost outcomes vary due to changes in interest rates. Domestic debt currently issued is all fixed interest rate 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.

Whilst interest rates rose sharply over the course of 2014, yields have remained largely unchanged during 2015 meaning that in relative terms debt servicing costs have stabilised. Interest rate risk was significantly lower in 2015 compared with 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.

Table 29: Percentage of Treasury Bills to Domestic Debt Portfolio

Target	2013 Actual	2014 Actual	2015 Est	2016 Proj	2017 Proj	2018 Proj	2019 Proj	2020 Proj
15 to 30%	47.5%	47.5%	48.1%	38.3%	35.5%	32.0%	29.2%	27.6%

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 five years for the domestic debt portfolio and at about twelve years for foreign-currency debt.

The Government 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 40 per cent by the end of 2016. Further restructuring of the domestic debt portfolio in the outer years will lead to a reduction below 30 per cent in 2019 and 2020. Reductions in the level of short-term debt relative to long-term debt will lead to a drop in refinancing risk.

Table 30: Average Maturity of the Domestic Debt Portfolio

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

Source: Department of Treasury.

The Government has reviewed its targets for the use of long-term fixed-rate debt relative to short-term variable-rate debt, and plans to increase Inscribed Stock on issue from K7.2 billion at the end of 2015 to K9.5 billion in 2020.

Operational Risk

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

The Government currently has a number of operational risks that it is endeavouring to manage. These include the development and retention of 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). The Government will continue to focus on mitigating these operational risks going forward.

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 coming years.

Over the course of 2016 and the forward years, the Government will focus on continuing to develop strong relationships with existing market participants and potential new customers. Regular investor contact allows for new investors to become aware of and current investors to remain up-to-date on the PNG economy and the Government's fiscal and debt strategies. The Government will endeavour to keep the market fully informed of developments and improvements in the Government securities as they arise.

In 2016, the Government will aim to establish a retail investor facility whereby small and medium investors can buy and sell Treasury Bills and Inscribed Stock. This will broaden the investor base of the Government's domestic debt portfolio. Secondly, the Government over the coming months will finalize the establishment of a repurchase facility in between BPNG and market participants.

The Government intend to set up a project team in 2016 to progress the key recommendations from a review of PNG's Government Bond and Capital Markets by development partners.

CHAPTER 7. NATIONAL REFORM AGENDA

7.1 OVERVIEW

The Government recognises the importance of on-going reforms to enhancing outcomes for Papua New Guineans. Accordingly, the Government will continue its ambitious reform agenda throughout 2016.

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 and the PNG Development Strategic Plan 2010 – 2030 (DSP). The recently established Medium Term Development Plan II (MTDP II) outlines the process of translating Vision 2050 into key strategic directions and making decisions to allocate resources to achieve those strategies. The MTDP II proposes immediate interventions and investments in key economic sectors to develop a sustainable economy.

The Government is also committed to public sector reforms 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 2016. 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 2016 Budget is an integrated multi-year National Budget. This enables the agencies and the public to have a clear idea of the appropriated 2016 expenditure and future year expenditure estimates over the period 2017 to 2020 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 salaries and wages; goods and services; utilities and rentals, grants and capital expenditure, as well as spending on 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

The Government’s Vision 2050 strategy document envisaged further devolution of responsibilities from the national government to the provinces. The Medium Term Development Plan II (MTDP II) provides agencies at all levels of Government with guidance for meeting new service delivery standards.

This Budget focuses on entrenching a number of key reforms that are consistent with these high-level strategy documents.

7.2.1 Public Sector Efficiency Review

During the Vision 2050 consultations, districts reported that they lacked the capacity to deliver government services and that arrangements between national and provincial governments were not conducive to good service delivery by district authorities and local level governments. In the 2015 Budget, the Government commissioned an Efficiency Review to report on whether national and sub-national agencies are providing efficient and cost-effective services. This important review will be conducted early in 2016 to examine whether the balance is right between the national and sub-national levels of government. It will report on ways to improve the effectiveness of government expenditure, including options for greater efficiencies in departments and agencies, statutory authorities and state-owned enterprises.

7.2.2 Mergers of National Departments and Agencies

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

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

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

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

In 2016, the Departments of Treasury, Finance and Personnel Management will form a Working Group to complete the work on amalgamations agreed by the Government. It will examine the potential for colocation of agencies and whether efficiencies could be found in merging corporate areas.

7.2.3 Recruitment and payroll reforms

The high and persistent overspending in the public sector wage bill continues to be a major concern for the Government. In 2015, the Department of Personnel Management instituted a recruitment freeze to address a K300 million pay deficit. This freeze will continue in 2016 for agencies that have unattached officers, including those in the provinces, until they have been redeployed or retrenched.

There were several thousand unattached officers across all agencies in 2015. Agencies are required to address this issue by redeploying or retrenching unattached officers. Some funding has been allocated in the Budget to assist with retrenchments. The Government will also examine ways to reskill officers to ensure that they are able to be redeployed within their agencies or moved to other agencies.

Agencies are also carrying nearly 10,000 funded vacancies, many of which have not been filled for several years. In 2016, Treasury will reduce funded vacancies by 50 per cent for agencies with over 500 vacancies and by 30 per cent for those with 100-499 vacancies.

The continued rollout in 2016 of the Government's financial management system, the Integrated Financial Management System (IFMS), will help improve and strengthen payroll controls.

7.2.4 Superannuation

Members of the Defence Force Retirement Benefits Fund will be given the choice of moving from a defined benefit scheme to an accumulation scheme from 1 January 2016. The State's superannuation contribution of 8.4 per cent will then be remitted through the Government's payroll system to members' accounts on a fortnightly basis.

This change is in response to a vote from members who expressed a strong preference for having a similar scheme to other public servants. The defined benefit scheme will be closed to new members to ensure that it does not place a burden on future governments. The Government will meet as much as possible of the unfunded defined benefit liability from the surplus within the fund, but there may be some liability to be met in future years.

The Government will consider further reforms to the Defence Force Retirement Benefits Fund in 2016 once this first important change to the fund has been achieved.

The unfunded State liability for Nambawan Super remains on the Government's balance sheet. The Government will work with Nambawan Super to examine how this liability can be addressed.

The Government recognises the complexity involved in the taxation of superannuation. In 2016, the Government will consider setting up a team to review the Government's retirement income policy, including the review of tax in relation to superannuation. In addition, the Government will review unregulated superannuation funds during 2016.

7.2.5 Improving leadership and governance

On 14 December 2014, the Government signed a memorandum with Australia to establish the Pacific Leadership and Governance Precinct. The Precinct is a five-year program of support to the School of Business and Public Policy at the University of PNG and the PNG Institute of Public Administration. The precinct will help build the capacity of public servants to deliver high-quality government services.

7.3 A COMPETITIVE AND DYNAMIC PRIVATE SECTOR

A competitive, dynamic and diverse private sector is a key driver of economic growth and the challenge for any government is to provide a supportive environment for private sector participation.

Two reviews that will be fundamental to create the right conditions for private sector growth will continue until mid-2016. These are the Competition Framework Review and the Financial Services Sector Review. The outcomes of these two reviews will assist the Government to improve the operating environment for both the private and public sector.

The on-going implementation of a number of initiatives including the Public Private Partnership (PPP) framework, community service obligation pilot program, on-lending policy, and transparency and governance reforms will improve the competitive environment in PNG. The PPP framework will encourage private sector participation in public infrastructure development. In addition, the Community Service Obligation Policy, and the On-Lending Policy aim to apply competitive pressure in markets dominated by public enterprises.

The microeconomic reform agenda announced in the 2014 Budget will continue until 2020. These reforms aim to:

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 areas of PNG such as tourism and agriculture;
4. reduce the cost of doing business, by removing regulatory impediments to private sector growth and facilitating the development of small and medium-sized enterprises (SMEs); and
5. encourage the operation 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 Government remains committed to developing an environment that is conducive to private sector development, including through encouraging innovation and supporting competitive markets. As part of this ongoing commitment, the Government is continuing its review of the competition framework, which is expected to be completed by mid-2016.

The review will publish issues papers and hold public hearings to gather views from interested parties. The first issues paper released in July 2015 covered Consumer Protection and the Economic Empowerment of Women. Other issues papers will include Competition and Economic Environment and Regulated Industries, Pricing and Productivity.

The review will provide a report to government outlining a roadmap for future reforms.

Information and Communications Technology

Reforms of the regulation, licensing and administration of the information and communications technology (ICT) sector will continue in 2016. Through these reforms, the Government will set the policy framework to facilitate increased access, affordability and use of ICT.

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

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

Electricity

The Government remains committed to encouraging private sector participation in the provision of electricity services. In 2016, the Government will continue the implementation of key Electricity Industry Policy (EIP) action items. These include the implementation of the

National Electricity Roll-Out Plan (NEROP) and the resourcing of the technical regulatory unit within the Department of Petroleum and Energy (DPE).

In 2016, the Independent Consumer and Competition Commission (ICCC) will enforce technical requirements under the Grid Code for third party access to the existing grids. This approach will enhance competition and encourage innovation, ultimately making electricity services more accessible, particularly to rural areas. Appropriate 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

The Government, through the ICCC, will continue to implement price control arrangements for certain regulated industries and the SOEs. These include those supplying electricity, water and sewerage, compulsory third-party motor vehicle insurance, postal services and port services, and for specific regulated products like rice, sugar, flour and petroleum.

The postal services regulatory contract review will be conducted in 2016, with a view to having price control arrangements for the next regulatory period commencing from January 2017. Significant changes are being made to the new contracts to help improve efficiency and reduce costs to industry and consumers. The Government expects to see the benefits from these and similar changes in the form of increased economic efficiencies.

In 2016, the ICCC is also considering undertaking productivity inquiries in other sectors. This is to ensure that the sector is applying charges that are fair and reasonable, and not having any detrimental effect on the consumers and the economy as a whole.

Consumer Protection

The ICCC has broad responsibilities for consumer protection and product safety. It has an ongoing program in developing and enforcing consumer product safety standards. It liaises with other government agencies to investigate and penalise 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. It is jointly working with the PNG Customs Service and others to ensure a holistic approach to consumer protection, especially in preventing imports of banned products into the country. The Government, through the ICCC, will continue to inform and educate the public on consumer rights and business obligations.

The outcomes of the Competition Framework Review will provide the Government with recommendations that will enable an improvement in the consumer protection provisions of the ICCC and NICTA laws.

Competition and Fair Trading

The ICCC is tasked to promote and facilitate competitive markets, so as to increase economic efficiency, thereby generating lower prices, increased choice and greater economic growth, leading to overall enhancement of the welfare of Papua New Guineans. The ICCC monitors market behaviour, investigates complaints and initiates inquiries regarding potential anti-competitive behaviour.

In some circumstances, conduct that is potentially anti-competitive could bring net benefits to the community. In such instances, the ICCC could authorise such conduct, providing immunity

from legal action either by the Commission or by third parties under the ICCC Act. The authorisations in the palm oil industry for collective negotiation between small growers and millers on fresh fruit prices and in the international aviation sector for code-share arrangements are examples of such exemptions.

Certain business acquisitions are prohibited under the ICCC Act if the acquisitions would have anti-competitive effects in a market. However, the prohibition is not absolute. The ICCC, under its pre-merger notification processes, can assess any proposed acquisition that would have anti-competitive effects and allow the proposed acquisition to proceed or disallow it. In 2016, the ICCC will expand its education and consultation program on issues that consumers and businesses need to be aware of under its mandated roles and responsibilities.

Furthermore, a peer review of the competition laws of PNG and Fiji has been completed. This report will be used by the Consumer and Competition Framework Review Team to help the Government bring about improvements to the competition and consumer regulatory environment in PNG.

National Land Development Program

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 started in 2015 and will continue into 2016. This plan maps out two years of activities, which in 2016 include a land summit and the review of the land reform program. Customary land ownership comprises about 95 per cent of the total land mass in PNG. Unleashing additional available land through the land reform program will support the development goals of the Government in providing much needed public goods and services for its people. It is expected that, once the program realises its full potential, customary landowners will become participants in economic development.

Property Sector Development

The Government remains committed to finding suitable and sustainable solutions to housing shortages in urban areas that are due to the high cost of property development and will continue its current programs in 2016.

The Affordable Housing and Land Program will continue its work in addressing the immediate housing shortage. The Property Sector Development Taskforce will support this work by providing the strategic direction to address structural aspects in the supply of housing, with the aim of making properties more affordable to ordinary Papua New Guineans.

7.4 FINANCIAL SERVICES

The Government recognises that to start, consolidate or grow a business there is a need for financial capital. However, the necessary capital has not always readily available for business people, particularly in the SME sector, and for the more vulnerable, especially women and the rural population.

In 2016, the Government will continue with its microfinance activities, including the Financial Inclusion and Financial Literacy Strategy. In addition, it will complete the implementation of the Personal Property Security Registry.

7.4.1 Financial Services Sector Review

Following from the PNG Financial Sector Assessment Program (FSAP) in 2011 by the World Bank, the Government commissioned a comprehensive review of the financial services sector. The aim of the review is to develop a coordinated financial services development strategy (FSDS) to support inclusive growth in PNG.

In launching the review in September 2015, the Treasurer nominated four key areas on which recommendations should be made:

1. expanding the government securities market, and creating a secondary market for Central Bank Bills and Treasury Bills;
2. ensuring the effective use of national payment systems;
3. advancing financial inclusion and literacy; and
4. developing an appropriate legal and regulatory framework for the supervision of the financial sector

The review is expected to be completed by mid-2016.

7.4.2 Personal Property Security Act Implementation

The Personal Property Security Act allows individuals and businesses to use personal property such as motor vehicles, savings accounts and business inventories) as collateral to access loans, rather than fixed properties as is the current practice.

The web-based Personal Property Security Registry, which will record and make available information regarding the collateral offered by borrowers, is expected to be operational by December 2015.

As part of the implementation phase, the Government will conduct training and awareness programs on the use of the registry.

CHAPTER 8.IMPROVING PUBLIC ENTERPRISES

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 a majority stake in the SOE and hence, it is in a position to influence its management. State investments also include commercial investments in private companies in the banking, mining, petroleum and agriculture sectors. The State owns equity interests in these investments, at a variety of levels, alongside private investors and thus is 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. The Government's Kumul Consolidation framework seeks to address some of the deficiencies of the past and ensure that resources are utilised effectively for the benefit of the country.

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

8.1 PUBLIC ENTERPRISE AND STATE INVESTMENT PERFORMANCE

The State's assets have recently undergone a significant reorganisation through the Kumul Consolidation Agenda. These Kumul reforms have seen the State's assets placed under three Kumul entities. Kumul Consolidated Holdings is the entity that houses the States infrastructure and service provision SOEs. It is the entity holding the assets formerly managed by the Independent Public Business Corporation (IPBC) with the exception of National Petroleum Company of PNG (NPCP).

Kumul Minerals Holdings Limited is the entity that will hold the States mining interests including those previously held by Petromin. The third entity Kumul Petroleum Holdings Limited holds the State's interests in petroleum projects including the PNG LNG project.

The policy objective of the Kumul arrangements is to allow for a greater focus on industry expertise to drive commercial decision making in these entities leading to better financial returns and service delivery to the people.

Table 31 lists the General Business Trust (GBT) assets as at 30 September 2015. The valuation of total GBT Assets at 30 September 2015 was K8.8 billion. Of the total assets the value of investments in unlisted equities (predominantly state owned enterprises) was K7.0 billion. Other unlisted investments were K1.2 billion and investment in listed equities (non-controlling shareholding) was K606.5 million. This represents a total increase in asset value of K1.1 billion from K7.7 billion in 2014.

Under the Kumul arrangement, the investment in NPCP will be transferred to Kumul Petroleum Holdings Ltd by the end of 2015. This will result in the total asset value of the GBT reducing by K3.9 billion and a corresponding increase in Kumul Petroleum Holdings.

Table 31: General Business Trust Assets, as at 30 September 2015

PARTICULARS	SHAREHOLDINGS (%)
UNLISTED EQUITY INVESTMENTS IN GBT K7.0 billion	
Air Niugini Ltd (100 per cent)	100
Eda Ranu Ltd (100 per cent)	100
Motor Vehicle Insurance Ltd (100 per cent)	100
National Development Bank (100 per cent)	100
PNG Ports Corporation Ltd (100 per cent)	100
PNG Power Ltd (100 per cent)	100
PNG DataCo (100 per cent)	100
Water PNG (100 per cent)	100
Post PNG Ltd (100 per cent)	100
Telikom PNG Ltd (100 per cent)	100
Bmobile (85 per cent)	85
National Petroleum Company PNG (100 per cent)	100
PNG Dams Ltd (100 per cent)	100
Port Moresby Private Hospital Ltd (100 per cent)	100
Other Unlisted Investments K1. 2 billion	
LISTED EQUITY INVESTMENTS IN GBT (non-controlling shareholding) K606.5 million	
Bank of South Pacific Ltd	18.0
Highlands Pacific Ltd	3.3
TOTAL ASSETS K8.8 billion	

Source: Kumul Consolidated Holdings

Table 32 lists trust accounts maintained by Kumul Consolidated Holdings (KCH) for funds provided for major projects. Major projects managed by KCH include the Lae Port Development projects (phase 1 and 2), Port Moresby Sewerages Upgrade project and the PNG LNG project. The table shows balances as of 30 September 2015 and expected completion dates.

Table 32: KCH Major Impact Projects

List of Trust Accounts maintained by KCH for Funds provided by Government						
Particulars	Balance as at 30th September 2015	2015 Pending PIP Funding from GoPNG	Pending Reimbursement from GoPNG	Pending 2015 Payments	Total Expected Balance as at 31-Dec-2015	Expected Completion Date
Lae Ports Development Project	89,692,949	23,600,000	5,600,000	18,300,000	100,592,949	Phase 1 completed and Phase 2 to commence
Port Moresby Sewage Upgrade	44,224,620	50,600,000	68,000,000	<i>Construction yet to commence</i>	162,824,620	2018
PNG LNG Project related funds	112,208,169			94,436,100	17,772,069	2015

Source: Kumul Consolidated Holdings (KCH)

Table 33 shows the dividend income received by KCH in respect of both listed and unlisted equities since 2012 and includes receipts for 2015. The dividend estimate to the State represents 79 per cent of KCH's estimated operating surplus.

Total KCH income for 2015 is expected to be K190.0 million compared to a 2014 income of K462.0 million, resulting in a significant drop in income of K272.0 million. KCH income is predominantly dictated by the performance of investments and the ability of the SOEs to pay dividends.

Table 33: Dividend Income from SOEs and other Equity Investments (Kina millions)

Year	Dividends received by KCH	Total income	Expenditure	Operating Surplus	Dividends paid to the State	Payout ratio
2015 (YTD 30th October)	165	190	68	122	160*	131%
2014	458	462	328	134	438	327%
2013	101	111	47	65	53	81%
2012	89	124	50	74	106	143%

Source: Kumul Consolidated Holdings (KCH) and Department of Treasury.

*NPCP has made a transfer of an additional K450 million to the State in 2015.

KCH has paid a total dividend of K150 million as of October 2015. The breakup of the dividends is shown in the table below.

Table 34: Dividend from SOEs and Kumul Consolidated Holdings Ltd

State Owned Enterprise	Dividends (K million)
Air Niugini Limited	20.0
Motor Vehicle Insurance Limited (MVIL)	50.0
Telikom PNG Ltd	20.0
PNG Ports Corporation Ltd	8.5
Water PNG Ltd	5.6
Eda Ranu	2.0
Post PNG Ltd	0.7
National Development Bank	1.0
Dividends from SOEs	K107
Dividends from KCH	K43.0
Total	K150*

Source: Kumul Consolidated Holdings (KCH) and Treasury

*KCH is expected to pay an additional K200 million by the end of 2015.

All SOEs, State Authorities and other equity investments are expected to make dividend contributions in 2016. The bulk of projected dividends for 2016 are attributable to NPCP whose primary asset is an interest in the PNG LNG project.

The Government's various overarching policies, which are currently being developed and the recently endorsed dividend policy will improve the performance and commerciality of SOEs, and State Authorities.

8.2 STATE OWNED ENTERPRISE POLICY

The Government expects SOEs to operate on commercial terms similar to businesses not owned by the State.

The Government will continue to develop policies that promote commercial decision making, greater transparency, good governance, and enhanced competition to 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 MTDPII, the PNG Development Strategic Plan 2010-2030 (DSP 2030) and PNG Vision 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, as 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 Government endorsed the following four broad measurable objectives.

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

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

The Government's Kumul arrangements gives further clarity and provides broad guidance in managing and administering SOEs and enabling them to actively participate in the economy. The specific SOE policies which will guide Government's expectation include Community Services Obligation Policy (currently in the pilot stage), the Dividend Policy, On-Lending Policy, and the Public Private Partnership Policy.

The On-Lending, Dividend and CSO policies aim to ensure SOEs are subject to the same competitive environment for capital as their private sector peers. For instance, the policies seek to reduce subsidies provided to SOEs through discounted equity finance. The Community Service Obligation policy is particularly important to ensure that Papua New Guineans are able to obtain access to vital public infrastructure and services delivered in a transparent, accountable and effective manner by SOEs whilst not impacting on their financial performance.

8.2.1 Dividend Policy

The Government is undertaking a broad reform program to improve the performance of State Owned Enterprises. Relevant to the broader reform program of SOEs is how the State communicates its expectations as a shareholder to SOE Boards and management. One method of communicating these expectations, particularly as they relate to the State's return on its investment, is through a Dividend Policy.

Central to SOE policies is that they should conduct their business as an independent commercial entity would. Commercial decision making subject to competitive pressure, drives efficiency and ultimately should improve both financial outcomes for the entity and service delivery outcomes for the public.

Independent commercial boards respond to numerous incentives to maximize profit within varying operating mandates. All commercial boards, however, seek to meet the expectations of their major shareholders.

The policy seeks to ensure smooth interaction between the Kumul entities and the Sovereign Wealth Fund to balance the State's expectation of maximizing flows into the fund with the commercial requirements of the Kumul entities.

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

The Dividend Policy, approved by NEC in October 2015, will serve as a guide to the Kumul entities, informing them of what the State as shareholder expects them to consider in determining a dividend.

8.3.2 Community Service Obligation (CSO) Policy

SOEs are frequently faced with the challenge of generating a comparable level of profit to private sector companies while providing goods or services to the community at a cost that renders those activities unprofitable. The CSO policy promotes both competition and transparency in the provision of goods and services by SOEs.

The CSO policy requires that all CSOs are fully costed and defined in a contract. This will ensure CSOs are delivered in a manner that is transparent, brings greater accountability and improves SOE performance. This will further enable the government to better monitor the performance of the SOEs and their delivery of CSOs.

Removing the need for SOEs to cross subsidize CSO activities from the profitable arms of their operation also enables the Government to understand the true cost of delivering CSOs, thus placing the Government in a better position to assess the scope for private sector involvement.

A pilot program is currently underway with the National Airports Corporation under this policy. Lessons from the pilot program will inform the legislation to enable the broader roll-out of this policy in 2016 and onwards.

8.3 MANAGING MINING AND PETROLEUM ASSETS

The mining and petroleum sectors play an important role in the PNG economy and represents a significant portion of the State's asset holdings. In the past three years, economic growth has been driven by activities in the mining and petroleum sectors and supported by the associated high levels of construction. The Government recognises the importance of effectively managing these sectors in order to maximise benefits for the community and ensure resource revenues are optimally utilised to assist in meeting our development objectives. This is why Papua New Guinea transformed its natural resources management frameworks through the introduction of the Kumul Legislation in 2015.

In 2016, mining and petroleum revenues are expected to commence flowing into the SWF and drawdowns into the Budget will be consistent with the formula in the SWF Organic Law. This ensures that the SWF plays its important stabilisation role.

In the medium term, potential major mining and petroleum projects such as the Elk-Antelope, Stanley Gas, Wafi-Golpu and the Frieda River mining projects and the expansion of the PNG LNG (Pn'yang gas) are expected to contribute to the domestic economy and government revenue.

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.

8.3.1 Extractive Industries Transparency Initiative (EITI)

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

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

The key deliverable of EITI is to produce annual EITI Reports. The content of the report includes a reconciliation of payments from companies and revenues received by the State. The report also includes contextual information about the extractive sector, laws, regulations and fiscal regime. PNG's first EITI Report will be published in December 2015 and will report on revenue generated from PNG's oil, gas and mining sector in 2013. The MSG is expected to use the report in 2016 to conduct an education and awareness campaign aimed at promoting greater transparency and accountability in the extractive industry.

8.3.2 State Equity Participation

The *Mining Act 1992* Review and the Tax Review have considered the fiscal regimes applying to the mining and petroleum sector in PNG. The Tax Review lodged their report with Government in October 2015. The findings include recommendations around the level and terms on which the State should seek to participate in resource projects. The Government 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 continue the development of this policy initiated in 2015 into 2016. Further development of the policy will include wider consultation with external stakeholders.

8.4 PUBLIC PRIVATE PARTNERSHIP (PPP) POLICY

The Parliament passed the PPP legislation on the 26th of August 2014. The PPP legislation provides an assessment process that will assist in prioritising projects and ensuring they are

progressed through modalities that offer the best outcomes and value for money. The enactment of the PPP law facilitates the implementation of the broader PPP framework. 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. Considerable work has progressed over the course of 2015 around the detailed design of the centre including consideration of the expertise needed. Recruitment is expected in early 2016.

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

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 ¹	20	23	21	25	92	60	87	50	40	162
Expenditure Incurred on Approved ITC Projects ²	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) ³	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

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

Section	Description	2005 Number	2005 Amount	2006 Number	2006 Amount	2007 Number	2007 Amount	2008 Number	2008 Amount	2009 Number	2009 Amount	2010 Number	2010 Amount	2011 Number	2011 Amount	2012 Number	2012 Amount	2013 Number	2013 Amount	2014 Number	2014 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	5	234,710	1	60,473			3,536,575
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	3	185,541	26,707,036
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							1	2,055,675					9,302,600
97B	Agriculture Extension Services - 150%															1	27,810					
CH 119	Pioneer Industries																					
Total		119	36,450,439	90	36,468,373	36	7,202,139	51	5,546,794	58	11,717,419	44	7,732,399	19	1,251,605	25	71,055,296	22	39,221,660	3	185,541	216,831,665

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

Source: Internal Revenue Commission

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

Section	Description	2004 Number	Amount	2005 Number	Amount	2006 Number	Amount	2007 Number	Amount	2008 Number	Amount	2009 Number	Amount	2010 Number	Amount	2011 Number	Amount	2012 Number	Amount	2013 Number	Amount	2014 Number	Amount	Total 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	4	3,396,152	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
		8	5,986,367	14	14,381,517	15	5,135,341	6	5,696,392	6	18,813,532			12	43,429,043	5	6,769,877	6	19,064,664	9	13,541,774	4	3,396,152	109,349,228

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

Source: Internal Revenue Commission

Table 1.4: Exemptions under Stamp Duties Act

Schedule 1	Descriptions of Exemptions	2010		2011		2012		2013		2014	
		Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Item 5	First Time Home Buyers Exemption	635	1,389,746	254	818,185	377	1,760,219	305	1,856,953	286	2,393,504
Item 5	Charities	5	110,030	3	1,222,510	4	101,476	5	152,785	8	185,130
Item 8	Wills	4	107,530	10	188,135	6	111,918	3	92,514	5	98,620
Item 16A	Transfers of Marketable Securities	—	—	—	—	—	—	0	-	0	0
Section 6	Purchase of Property by State & Instrumentalities of state	6	283,580	4	338,450	7	923,450	6	758,125	8	965,231
Total		650	1,783,356	271	2,567,280	394	2,897,063	319	2,860,377	307	3,642,485

Note:

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 January to December
 2014 Figures are from January to December
 2015 Figures yet to be compiled
 _ means no exemptions were granted

Source:

Internal Revenue Commission

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
(in Thousands of Kina)

Budget Agency		Personal Emoluments						Goods and Services										Grand Total
Code	Description	PS Salaries	Teachers Salaries	PS Leave Fares	Teachers Leave Fares	Village Court Allowance*	Sub-Total PE	Health Function Grants	Education Function Grant	Transport Infrastructure Maint. Funtion	Primary Production Function Grant	Village Courts Function Grant	Other Service Delivery Function	Adm in Function Grant	Total Provincial Govt Grants	Total LLG Grants	Sub Total G&S	
571	Fly River Provincial Government	20,482.8	25,713.7	2,106.0	3,571.0		51,873.5	3,814.3	2,980.0	4,434.0	1,216.3	174.2	561.8	161.5	12,125.8	3,782.0	15,907.8	67,781.3
572	Gulf Provincial Government	14,897.4	17,719.2	500.0	800.0		33,916.6	6,115.1	4,844.6	7,199.8	2,461.1	403.4	2,613.4	2,410.8	23,587.1	3,075.7	26,662.8	60,579.4
573	Central Provincial Government	16,962.8	41,186.2	422.9	2,316.8		60,888.7	6,073.2	6,289.0	10,695.5	2,031.3	404.0	3,137.7	1,917.5	28,516.9	2,063.7	30,580.6	91,469.3
574	National Capital District																	
575	Milne Bay Provincial Government	10,597.5	54,291.1	400.0	1,500.0		66,788.6	7,608.2	7,804.2	7,437.3	2,417.2	500.6	4,538.6	1,913.5	29,802.4	2,746.0	32,548.4	99,337.0
576	Oro Provincial Government	13,189.4	18,692.7	800.0	1,400.0		34,082.1	5,206.8	4,426.9	4,642.2	2,321.9	356.8	2,249.6	1,292.6	18,174.9	2,338.7	20,513.6	54,595.7
577	Southern Highlands Provincial Government	32,897.9	54,943.4	400.0	800.0		89,041.3	3,926.3	3,414.1	3,050.1	634.7	313.5	720.1	258.0	11,682.1	3,182.4	14,864.5	103,905.8
578	Enga Provincial Government	19,596.2	35,295.3	200.0	900.0		55,991.5	5,000.0	5,231.8	10,572.4	1,189.4	389.3	3,036.3	1,868.8	26,098.6	2,338.8	28,437.4	84,428.9
579	Western Highlands Provincial Government	10,630.4	70,471.8	400.0	1,100.0		82,602.2	4,467.3	6,092.9	8,701.0	1,325.2	400.8	1,946.2	967.9	22,576.0	2,180.4	24,756.4	107,358.6
580	Simbu Provincial Government	16,435.0	55,466.0	200.0	800.0		72,901.0	7,680.9	9,362.2	10,576.0	1,882.6	688.3	3,416.5	2,848.2	34,572.0	1,724.5	36,296.5	109,197.5
581	Eastern Highlands Provincial Government	16,587.7	73,530.8	700.0	1,000.0		91,818.5	7,594.9	10,811.4	17,590.3	2,865.8	653.5	4,055.6	3,166.2	43,871.9	2,737.4	46,609.2	138,427.7
582	Morobe Provincial Government	43,919.1	129,550.6	1,400.0	5,000.0		179,869.7	1,275.8	2,000.0	2,266.3	465.3	157.0	967.5	585.3	7,251.9	6,999.4	14,251.3	194,121.0
583	Madang Provincial Government	33,232.1	72,321.4	800.0	1,700.0		108,053.5	9,534.3	9,450.8	12,998.2	3,807.8	601.0	3,772.3	3,613.0	39,969.6	4,477.9	44,447.5	152,501.0
584	East Sepik Provincial Government	23,187.8	48,647.2	1,200.0	1,000.0		74,035.0	11,941.2	12,755.0	21,291.5	4,184.9	887.1	3,782.9	3,451.8	54,109.5	4,810.2	58,919.7	132,954.7
585	Sandaun Provincial Government	18,546.9	48,753.3	700.0	1,100.0		69,100.2	10,696.0	10,061.8	8,392.5	4,073.6	404.7	2,914.6	3,871.3	36,340.9	4,443.1	40,784.0	109,884.2
586	Manus Provincial Government	14,323.3	21,832.4	500.0	550.0		37,205.7	2,492.7	2,977.9	4,059.0	998.6	281.7	1,419.1	1,066.1	12,296.5	746.2	13,042.7	50,248.4
587	New Ireland Provincial Government	25,179.6	49,062.0	350.0	850.0		75,441.6	1,051.1	965.5	1,013.2	453.7	45.5	211.4	203.6	3,490.3	1,395.0	4,885.3	80,326.9
588	East New Britain Provincial Government	24,442.2	63,082.4	500.0	1,100.0		89,124.6	4,290.2	6,567.7	6,129.8	1,897.5	235.8	3,217.6	504.1	20,945.2	3,475.0	24,420.2	113,544.8
589	West New Britain Provincial Government	17,808.2	44,708.0	1,250.0	3,000.0		66,766.2	4,794.1	5,868.1	3,829.8	2,854.6	353.3	1,822.6	963.7	17,631.6	2,074.6	19,706.2	86,472.4
590	Bougainville Autonomous Government	40,269.6	51,970.2	300.0	1,500.0		94,039.8											94,039.8
591	Hela Provincial Government	11,919.4	19,455.9	150.0	250.0		31,775.3	4,387.3	2,673.3	2,912.1	1,125.4	198.0	1,319.7	1,567.8	13,058.2	2,312.9	15,371.1	47,146.3
592	Jiw aka Provincial Government	6,711.9	26,593.1	100.0	400.0		33,805.0	4,568.5	5,622.9	9,317.8	1,135.7	353.0	1,893.2	1,872.5	23,627.9	875.0	24,503.0	58,308.0
TOTAL		431,817.2	1,023,286.7	13,378.9	30,637.8		1,499,120.6	112,518.2	120,200.0	157,108.8	39,342.5	7,801.5	47,596.6	34,504.1	479,729.2	57,778.9	537,508.1	2,036,628.7

* Its administered under Attorney General so will not be reflected under the provinces.

Source: Treasury and NEFC

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

Province	Total Grants and Transfers	Non-Grant tax transfers				Total
	Recurrent Budget	GST (1)	Bookmakers Tax (2)	Mining & Petroleum Royalties/Dividends (3)	Own Source Revenues (4)	
Western	17,200.0	7,449.0	0.0	26,400.0	7,318.3	58,367.2
Gulf	29,199.6	302.0	0.0	50.0	250.2	29,801.8
Central	32,677.0	5,567.0	0.0	56.5	1,261.8	39,562.3
NCD*	0.0	264,830.0	5,050.5	0.0	0.0	0.0
Milne Bay	35,032.8	9,148.0	0.0	0.0	1,929.8	46,110.6
Oro	22,908.3	2,294.0	0.0	0.0	318.2	25,520.5
Southern Highlands	15,564.1	18,373.0	0.0	27,216.1	3,913.5	65,066.6
Hela	16,569.7	457.0	0.0	0.0	0.0	17,026.7
Enga	29,692.4	1,734.0	0.0	19,651.9	3,196.0	54,274.3
Western Highlands	26,160.4	27,290.0	585.0	0.0	4,271.8	58,307.3
Jiwaka	25,714.0	90.0	0.0	0.0	0.0	25,804.0
Simbu	38,254.3	2,894.0	0.0	0.0	1,697.3	42,845.6
Eastern Highlands	49,550.3	16,845.0	480.6	0.0	2,475.5	69,351.3
Morobe	14,781.6	102,143.0	1,446.5	2,000.1	11,308.6	131,679.7
Madang	48,325.1	13,878.0	1,001.3	0.0	2,747.9	65,952.3
East Sepik	63,181.7	9,621.0	0.0	0.0	3,048.2	75,850.9
Sandaun	44,930.0	2,139.0	0.0	0.0	2,338.2	49,407.1
Manus	14,106.3	16,987.0	0.0	0.0	679.9	31,773.2
New Ireland	5,412.8	5,425.0	0.0	21,277.9	1,862.0	33,977.7
East New Britain	26,392.5	19,559.0	301.6	0.0	5,797.6	52,050.7
West New Britain	22,638.7	11,177.0	0.0	0.0	2,937.3	36,753.0
Bougainville	0.0	2,776.0	0.0	0.0	0.0	2,776.0
TOTAL	578,291.4	540,978.0	8,865.5	96,652.4	57,352.0	1,012,258.8

1) GST is based on 60% of the 2014 net inland GST collections, to be distributed to each province in 2016

Special distribution arrangements apply for Bougainville (Autonomy Arrangements), Estimate from IRC

2) 100% of 2014 net collections to be distributed to provinces in 2016

3) NEFC estimate based on 2014 actual collections which includes dividends from equity shares of mining and petroleum resource projects

4) NEFC estimate based on 2014 actuals Own Sources Revenue collections

APPENDIX 3: TABLES ON ECONOMIC AND FISCAL DATA

Table 1:	Gross Domestic Product by Economic Activity at Current and Constant Prices
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Government Finance Statistics

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

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

Changes between the GFSM 1986 and GFSM 2014

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

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

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

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

Balancing items

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

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

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

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

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

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

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

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

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

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

General Government Debt

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

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

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

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

	2014 Est	2015 Est	2016 Proj	2017 Proj	2018 Proj	2019 Proj	2020 Proj
Agriculture, Forestry and Fishing							
nominal	10184.4	10728.7	11679.1	12605.4	13550.0	14511.9	15572.3
deflator	245.6	253.3	265.8	277.5	287.8	296.2	308.0
real	4146.0	4234.9	4393.9	4542.7	4708.5	4899.0	5055.5
rate of real growth	3.3	2.1	3.8	3.4	3.6	4.0	3.2
Oil and Gas Extraction							
nominal	8405.2	14169.0	15009.2	14928.2	14160.5	14074.6	14019.0
deflator	434.2	436.0	431.3	446.6	451.1	453.1	454.4
real	1935.6	3249.4	3480.0	3342.9	3139.1	3106.5	3085.3
rate of real growth	1101.5	67.9	7.1	-3.9	-6.1	-1.0	-0.7
Mining and Quarrying							
nominal	3119.1	2924.2	3139.2	3528.4	3735.0	3817.2	3905.6
deflator	462.5	450.4	442.3	453.8	458.8	466.4	474.8
real	674.4	649.3	709.7	777.5	814.1	818.5	822.6
rate of real growth	-1.7	-3.7	9.3	9.5	4.7	0.5	0.5
Manufacturing							
nominal	2679.0	2886.2	3173.5	3465.3	3785.6	4134.0	4514.9
deflator	226.5	238.1	251.7	264.3	277.6	291.5	306.1
real	1182.7	1212.2	1260.7	1311.1	1363.6	1418.1	1474.9
rate of real growth	4.0	2.5	4.0	4.0	4.0	4.0	4.0
Electricity, gas and water							
nominal	896.0	998.3	1108.2	1210.1	1321.9	1443.6	1576.6
deflator	371.3	390.3	412.6	433.2	455.1	477.8	501.8
real	241.3	255.8	268.6	279.3	290.5	302.1	314.2
rate of real growth	6.0	6.0	5.0	4.0	4.0	4.0	4.0
Construction							
nominal	7246.7	7731.1	8419.1	9148.9	9898.5	10705.5	11579.4
deflator	230.1	241.9	255.7	268.5	282.1	296.2	311.0
real	3148.8	3196.1	3292.0	3407.2	3509.4	3614.7	3723.1
rate of real growth	-6.4	1.5	3.0	3.5	3.0	3.0	3.0
Wholesale and retail trade							
nominal	3665.4	3949.0	4300.4	4740.9	5204.0	5682.9	6206.5
deflator	261.7	275.1	290.9	305.4	320.8	336.8	353.7
real	1400.5	1435.5	1478.5	1552.5	1622.3	1687.2	1754.7
rate of real growth	4.0	2.5	3.0	5.0	4.5	4.0	4.0
Transport, storage and communication							
nominal	1364.6	1506.0	1655.9	1808.2	1984.8	2167.5	2367.2
deflator	132.1	138.8	146.8	154.1	161.9	170.0	178.5
real	1033.2	1084.9	1128.3	1173.4	1226.2	1275.3	1326.3
rate of real growth	4.0	5.0	4.0	4.0	4.5	4.0	4.0
Finance, real estate and business services							
nominal	1895.5	2062.1	2245.6	2428.4	2652.9	2852.5	3067.4
deflator	257.7	270.8	286.3	300.6	315.8	331.6	348.2
real	735.7	761.4	784.3	807.8	840.1	860.3	880.9
rate of real growth	5.5	3.5	3.0	3.0	4.0	2.4	2.4
Community, social and personal services							
nominal	3185.6	3432.0	3755.5	4081.1	4436.9	4821.9	5240.8
deflator	203.8	214.2	226.4	237.7	249.7	262.2	275.4
real	1563.4	1602.5	1658.6	1716.7	1776.8	1838.9	1903.3
rate of real growth	4.0	2.5	3.5	3.5	3.5	3.5	3.5
TOTAL GDP*							
nominal	43279.2	51024.3	55123.6	58582.8	61367.8	64849.3	68687.5
deflator	264.2	283.4	293.6	304.6	312.9	322.0	332.4
real	16383.0	18003.5	18776.0	19232.6	19612.1	20142.0	20662.2
rate of real growth	13.3	9.9	4.3	2.4	2.0	2.7	2.6
Total non-mining GDP							
nominal	31755.0	33931.0	36975.1	40126.1	43472.3	46957.5	50762.9
deflator	230.6	240.6	253.5	265.5	277.6	289.6	303.0
real	13773.1	14104.7	14586.3	15112.1	15658.8	16217.0	16754.3
rate of real growth	1.2	2.4	3.4	3.6	3.6	3.6	3.3

Source: Department of Treasury

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

	2014	2015	2016	2017	2018	2019	2020
	Est	Est	Proj	Proj	Proj	Proj	Proj
Agriculture, Forestry and Fishing	0.9	0.5	0.9	0.8	0.9	1.0	0.8
Oil and Gas Extraction	12.3	8.0	1.3	-0.7	-1.1	-0.2	-0.1
Mining and Quarrying	-0.1	-0.2	0.3	0.4	0.2	0.0	0.0
Manufacturing	0.3	0.2	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	-1.5	0.3	0.5	0.6	0.5	0.5	0.5
Wholesale and retail trade	0.4	0.2	0.2	0.4	0.4	0.3	0.3
Transport, storage and communication	0.3	0.3	0.2	0.2	0.3	0.3	0.3
Finance, real estate and business services	0.3	0.2	0.1	0.1	0.2	0.1	0.1
Community, social and personal services	0.4	0.2	0.3	0.3	0.3	0.3	0.3
TOTAL GDP*	13.3	9.9	4.3	2.4	2.0	2.7	2.6
Total Non-mining GDP	1.2	2.4	3.4	3.6	3.6	3.6	3.3

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

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

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

	2014	2015	2016	2017	2018	2019	2020
	Est	Est	Proj	Proj	Proj	Proj	Proj
AGRICULTURE							
Copra	975	1088	1128	1128	1128	1128	1128
Cocoa	7344	8320	8791	8632	8321	7998	7687
Coffee	10970	9314	9068	9412	9773	9773	9773
Palm Oil	1972	1657	1641	1675	1556	1432	1315
Rubber	4390	4402	4963	4353	3967	3530	3145
Tea	3529	5907	6897	6897	6897	6897	6897
Copra Oil	2119	2362	2450	2450	2450	2450	2450
Logs (K/m ³)	214	207	221	221	221	221	221
MINERALS							
Gold (US\$/oz)	1266	1176	1157	1194	1200	1225	1249
Copper (US\$/ton)	6864	5676	5149	5184	5218	5249	5286
Oil (Kutubu Crude: US\$/barrel)	93	52.0	54	60	65	68	70
LNG (US\$ per thousand cubic feet)	12.3	12.4	11.7	12.2	12.2	12.2	12.2
Nickel (US\$/tonne)	16847	12507	10302	10404	10439	10439	10439
Cobalt (US\$/tonne)	30724	29500	30000	30000	30000	30000	30000

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

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

	2014	2015	2016	2017	2018	2019	2020
	Est	Est	Proj	Proj	Proj	Proj	Proj
AGRICULTURE							
Copra	48.2	33.7	31.3	30.4	34.1	30.6	31.6
Cocoa	33.6	30.7	35.2	36.3	43.1	45.0	49.9
Coffee	48.4	46.7	56.8	61.1	63.0	66.9	71.7
Palm Oil	514.8	530.0	651.2	686.7	728.8	748.4	752.6
Rubber	3.2	3.4	3.6	3.8	4.0	4.3	4.5
Tea	2.1	1.8	1.9	1.9	1.9	1.9	1.9
Copra Oil	11.1	14.7	14.8	13.5	13.5	14.0	14.0
Logs	3793.0	3413.0	3447.0	3482.0	3482.0	3482.0	3482.0
Marine products	75.4	77.7	80.0	82.4	84.9	87.4	90.1
MINERAL							
Gold (tonnes)	58.1	54.1	57.1	58.9	58.3	59.1	60.6
Copper (tonnes)	89.6	36.6	57.5	75.4	87.9	87.8	79.8
Oil (million barrels)	8.4	7.2	5.3	3.8	2.6	1.8	1.1
LNG (Tbtu)	187.0	336.0	371.0	360.0	338.0	336.0	335.0
Condensate (MB)	6.4	10.3	9.6	9.0	9.0	9.0	9.0
Nickle (tonnes)	20,745	22,574	30,971	32,601	32,600	32,600	32,600
Cobalt (tonnes)	2,113	2,245	2,983	3,140	3,140	3,140	3,140

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

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

	2014	2015	2016	2017	2018	2019	2020
	Est	Est	Proj	Proj	Proj	Proj	Proj
AGRICULTURE, FORESTRY, FISHERIES							
Copra	63.7	36.6	35.3	34.3	38.5	34.5	35.6
Copra Oil	28.7	34.8	36.3	33.2	33.2	34.2	34.2
Cocoa	243.1	255.2	309.4	313.0	358.6	359.9	383.9
Coffee	450.3	434.8	514.7	575.1	616.0	654.3	700.2
Palm Oil	1086.4	878.3	1068.4	1150.2	1134.3	1071.4	989.7
Rubber	13.8	14.9	17.8	16.6	16.0	15.1	14.3
Tea	8.4	10.6	13.1	13.1	13.1	13.1	13.1
Other Agriculture (a)	250.9	211.0	215.3	219.8	208.8	196.2	184.2
Forest Products	812.3	706.3	760.1	767.9	767.9	767.9	767.9
Marine Products	335.1	362.8	395.1	427.3	462.3	500.0	540.8
Total Agricultural, Forestry, Fishing Exports	3292.7	2945.4	3365.5	3550.4	3648.5	3646.5	3663.9
MINERAL							
Gold	5462.5	5611.4	6072.6	6456.2	6432.8	6646.0	6950.1
Copper	1510.7	553.4	820.8	1084.5	1273.4	1279.3	1171.1
Silver	83.3	60.7	63.1	73.4	82.1	77.4	51.0
Oil	2037.1	1077.2	863.5	685.0	507.3	364.3	231.5
LNG	5640.3	11421.4	12444.4	12548.6	11781.7	11712.0	11677.1
Condensate	1324.8	2456.5	2445.3	2349.8	2408.5	2468.7	2530.5
Nickel	883.2	774.0	911.6	969.1	972.3	972.3	972.3
Cobalt	112.1	181.5	255.7	269.1	269.1	269.1	269.1
Refined Petroleum Products	468.6	298.0	330.4	373.6	410.7	442.7	461.6
Total Mineral Exports	17522.5	22433.9	24207.3	24809.4	24138.0	24231.9	24314.4
TOTAL EXPORT VALUE	20815.2	25379.3	27572.9	28359.8	27786.5	27878.5	27978.2

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

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

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

	2014 Est	2015 Est	2016 Proj	2017 Proj	2018 Proj	2019 Proj	2020 Proj
CURRENT ACCOUNT BALANCE	7495.7	14665.7	15955.0	17267.7	17294.2	17976.2	18621.9
Balance of Trade in Goods and Services	6504.8	15743.6	18287.5	19710.0	19821.2	20634.8	21426.2
<i>Goods Balance</i>	11791.4	18813.6	21568.2	22811.1	22647.0	23106.6	23516.4
Credit (Exports)	20815.2	25379.3	27572.9	28359.8	27786.5	27878.5	27978.2
Debit (Imports)	-9023.8	-6565.7	-6004.7	-5548.7	-5139.5	-4771.9	-4461.9
<i>Services Balance</i>	-5286.6	-3070.0	-3280.7	-3101.1	-2825.8	-2471.8	-2090.2
Services Credit	515.5	360.1	391.7	426.8	461.2	495.2	532.4
Services Debit	-5802.1	-3430.1	-3672.4	-3527.9	-3287.0	-2967.0	-2622.6
Income Balance	-988.4	-1244.4	-1379.9	-1404.1	-1397.7	-1423.0	-1452.7
Income Credit	40.5	14.3	15.8	32.2	33.4	34.3	35.3
Income Debit	-1028.9	-1258.6	-1395.7	-1436.3	-1431.2	-1457.3	-1487.9
Transfers Balance	1979.3	166.4	-952.6	-1038.2	-1129.2	-1235.5	-1351.6
Transfers Credit	1131.1	1201.5	175.4	185.9	197.0	197.0	197.0
Transfers Debit	848.2	-1035.1	-1128.0	-1224.1	-1326.2	-1432.5	-1548.6
CAPITAL AND FINANCIAL ACCOUNT^(a)	-7495.7	-14665.7	-15955.0	-17267.7	-17294.2	-17976.2	-18621.9
NET ERRORS AND OMISSIONS	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current account balance as percentage of Gross Domestic Product (GDP)	17.3	28.7	28.9	29.5	28.2	27.7	27.1

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

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

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

	2009	2010	2011	2012	2013	2014	2015
	Annual	Annual	Annual	Annual	Annual	Annual	Jun Qtr
Retail	125.7	129.5	134.2	154.1	168.0	166.7	161.1
Wholesale	167.2	172.6	192.6	197.7	217.3	214.8	206.8
Manufacturing	166.1	163.8	176.0	185.4	198.7	195.9	182.2
Building and Construction	173.7	187.5	172.0	188.2	214.3	259.9	238.8
Transportation	126.8	122.1	151.1	165.3	177.1	175.8	172.6
Agriculture, Forestry, Fisheries	153.4	156.5	168.8	173.7	168.3	177.0	181.1
Financial and Business	132.9	132.6	136.6	139.9	133.0	127.6	125.8
 TOTAL NON-MINERAL	 148.6	 149.7	 159.1	 168.2	 171.8	 178.9	 172.7
 MINERAL	 141.8	 150.1	 162.3	 177.9	 267.7	 231.8	 221.2

Source: BPNG.

	Actual 2012	Actual 2013	Actual 2014	Estimate 2015	2016	2017	2018	2019	2020
REVENUE¹	9,418.9	9,897.5	11,874.9	12,637.9	12,650.1	12,667.2	13,271.0	14,618.4	15,465.3
TAXES	8,219.0	8,879.6	10,232.1	10,093.3	10,525.6	10,979.8	11,586.3	12,745.8	13,769.3
Taxes on Income, Profits and Capital Gains	5,629.2	5,848.5	6,778.9	6,524.5	6,764.4	7,049.7	7,354.8	8,231.0	8,842.9
Payable by individuals	2,645.1	2,808.4	3,195.1	3,278.4	3,511.7	3,658.1	3,950.7	4,266.8	4,608.2
Personal Income Tax	2,645.1	2,808.4	3,195.1	3,278.4	3,511.7	3,658.1	3,950.7	4,266.8	4,608.2
Salaries/Wages (Group Tax)	-	-	-	-	-	-	-	-	-
Individual Income Tax (Assessed)	-	-	-	-	-	-	-	-	-
Payable by corporations and other enterprises	2,739.3	2,755.1	3,353.9	2,976.7	2,966.5	3,085.4	3,076.7	3,614.4	3,860.5
Company Tax	1,740.5	2,060.5	2,522.4	2,622.5	2,793.2	2,917.8	2,923.7	3,192.4	3,456.7
Mining and Petroleum Taxes	981.1	666.7	794.2	300.0	129.9	120.5	102.0	366.9	344.2
Royalties Tax	11.4	18.5	22.4	24.0	26.0	30.6	30.6	33.1	35.7
Management Tax	6.3	9.2	14.9	30.2	17.4	18.8	20.4	22.0	23.8
Other taxes on income, profits and capital gains	244.8	285.0	229.9	269.4	286.2	306.2	327.3	349.8	374.3
Dividend Withholding Tax Mining	13.3	-	-	-	-	-	-	-	-
Dividend Withholding Tax Non Mining	163.2	244.5	186.1	216.0	232.7	252.6	273.6	295.6	319.5
Interest Withholding Tax	67.4	38.5	43.1	52.7	52.7	52.7	52.7	52.7	52.7
Tax Related Court Fines	-	-	-	-	-	-	-	-	-
Sundry IRC Taxes & Income	0.9	2.0	0.7	0.7	0.8	0.9	1.0	1.5	2.0
Taxes on Payroll and Workforce	3.7	6.4	14.6	15.6	17.0	18.4	19.9	21.5	23.3
Taxes on Goods and Services	2,183.1	2,549.2	2,883.6	2,941.1	3,137.4	3,275.1	3,544.7	3,794.7	4,170.1
General taxes on goods and services	1,162.2	1,563.4	1,806.0	1,774.7	1,876.7	1,952.9	2,124.4	2,261.2	2,443.2
Value Added Tax	1,092.1	1,496.1	1,668.8	1,664.8	1,759.0	1,833.8	2,003.9	2,139.4	2,320.0
GST ²	1,092.1	1,496.1	1,668.8	1,664.8	1,759.0	1,833.8	2,003.9	2,139.4	2,320.0
Sales taxes	-	-	-	-	-	-	-	-	-
Turnover & other general taxes on goods and services	-	-	-	-	-	-	-	-	-
Taxes on financial and capital transactions	70.2	67.3	137.3	110.0	117.8	119.1	120.5	121.8	123.2
Bank Account Debit Fees	-	-	-	-	-	-	-	-	-
Stamp Duties	70.2	67.3	137.3	110.0	117.8	119.1	120.5	121.8	123.2
Excise	855.3	814.4	889.1	959.5	1,051.5	1,086.9	1,177.5	1,271.9	1,425.0
Excise Duty	560.5	541.9	638.6	656.2	734.8	743.1	805.1	869.6	990.1
Import Excise	294.8	272.5	250.6	303.3	316.7	343.7	372.4	402.3	434.9
Profits of fiscal monopolies	-	-	-	-	-	-	-	-	-
Taxes on specific services	149.9	159.2	176.7	189.7	198.2	224.2	231.4	249.9	289.9
Bookmakers' Turnover Tax	9.5	8.8	12.8	13.6	14.9	16.1	17.5	18.9	20.4
Gaming Machine Turnover Tax	133.9	144.6	158.1	169.9	176.5	200.7	205.9	222.4	260.2
Departure Tax	6.5	5.9	5.8	6.2	6.8	7.4	8.0	8.6	9.3
Taxes on use of goods and on permission to use goods or perform activities	10.7	12.3	9.2	9.2	8.1	8.1	8.1	8.1	8.1
Motor vehicles taxes	6.7	7.3	8.2	8.2	7.2	7.2	7.2	7.2	7.2
Other taxes on use of goods and on permission to use goods or perform activities	3.9	5.0	1.0	0.9	0.9	0.9	0.9	0.9	0.9
Other taxes on goods and services	5.0	0.0	2.5	7.8	2.9	3.1	3.4	3.7	3.9
Sundry Taxes (Customs)	5.0	0.0	2.5	7.8	2.9	3.1	3.4	3.7	3.9
Taxes on International Trade and Transactions	402.9	475.5	555.0	612.1	606.8	636.6	666.9	698.5	733.0
Customs and other import duties	223.0	263.9	280.5	310.9	332.3	362.1	392.4	424.0	458.5
Import Duty	223.0	257.2	273.2	303.0	328.3	357.2	386.8	417.6	451.2
Other Import Taxes	-	6.7	7.3	7.9	4.1	4.8	5.6	6.4	7.3
Taxes on exports	179.9	211.7	274.5	301.2	274.5	274.5	274.5	274.5	274.5
Export Tax	179.9	211.7	274.5	301.2	274.5	274.5	274.5	274.5	274.5
GRANTS	930.8	877.5	867.5	1,396.1	1,513.2	1,476.1	1,473.3	1,661.3	1,484.6
From Foreign Governments	823.3	776.2	767.3	1,234.9	998.8	991.9	961.1	928.0	922.6
Current	453.2	427.2	422.3	679.7	549.8	540.6	530.0	504.1	498.6
Cash	10.2	9.6	9.5	15.3	12.4	12.9	14.1	-	-
In-Kind	442.9	417.6	412.8	664.4	537.3	527.8	515.9	504.1	498.6
Capital	370.2	349.0	345.0	555.2	449.0	451.3	431.1	423.9	423.9
Cash	20.7	19.5	19.3	31.0	25.1	27.3	7.2	-	-
In-Kind	349.5	329.5	325.7	524.2	423.9	423.9	423.9	423.9	423.9
From International Organizations	107.5	101.3	100.2	161.2	135.3	134.0	63.5	15.1	9.5
Current	98.6	92.9	91.9	147.8	124.5	127.0	62.7	15.1	9.5
Cash	43.5	41.0	40.6	65.3	53.1	49.3	26.9	8.6	9.1
In-Kind	55.0	51.9	51.3	82.5	71.5	77.7	35.8	6.5	0.4
Capital	8.9	8.4	8.3	13.3	10.8	7.0	0.8	-	-
Cash	-	-	-	-	-	-	-	-	-
In-Kind	8.9	8.4	8.3	13.3	10.8	7.0	0.8	-	-
From Other General Government Units	-	-	-	-	379.1	350.2	448.7	718.2	552.6
Current	-	-	-	-	379.1	350.2	448.7	718.2	552.6
Cash	-	-	-	-	-	-	-	-	-
In-Kind	-	-	-	-	-	-	-	-	-
Capital	-	-	-	-	-	-	-	-	-
Cash	-	-	-	-	-	-	-	-	-
In-Kind	-	-	-	-	-	-	-	-	-
OTHER REVENUE	269.1	140.3	775.3	1,148.5	611.3	211.3	211.3	211.3	211.3
Property Income	196.0	75.4	696.0	1,074.7	516.9	116.9	116.9	116.9	116.9
Interest	0.1	-	-	4.0	4.0	4.0	4.0	4.0	4.0
Interest from non-residents	-	-	-	-	-	-	-	-	-
Interest from residents other than general government	0.1	-	-	4.0	4.0	4.0	4.0	4.0	4.0
Dividends	172.3	55.0	665.8	1,045.0	480.0	80.0	80.0	80.0	80.0
Mining Petroleum and Gas Dividends	122.3	-	507.2	5.0	-	-	-	-	-
Dividends from Statutory Authorities	50.0	55.0	152.0	220.0	70.0	70.0	70.0	70.0	70.0
Shares in Private Enterprise	-	-	6.6	-	-	-	-	-	-
Dividends from State Owned Enterprises	-	-	-	370.0	110.0	10.0	10.0	10.0	10.0
Other Dividends	-	-	-	450.0	300.0	-	-	-	-
Withdrawals from income of quasi-corporations	-	-	-	-	-	-	-	-	-
Property income from investment income disbursements	-	-	-	-	-	-	-	-	-
Rent	23.6	20.4	30.2	25.7	32.9	32.9	32.9	32.9	32.9
Reinvested earnings on foreign direct investment	-	-	-	-	-	-	-	-	-
Sales of goods and services	50.8	41.6	75.0	69.5	85.4	85.4	85.4	85.4	85.4
Sales by market establishments	-	-	-	-	-	-	-	-	-
Administrative fees	31.4	32.8	31.0	25.5	31.1	31.1	31.1	31.1	31.1
Incidental sales by nonmarket establishments	19.5	8.8	44.1	44.1	54.3	54.3	54.3	54.3	54.3
Imputed sales of goods and services	-	-	-	-	-	-	-	-	-
Fines, penalties, and forfeits	0.3	2.4	1.9	1.9	0.8	0.8	0.8	0.8	0.8
Transfers not elsewhere classified	21.9	20.8	2.5	2.5	8.2	8.2	8.2	8.2	8.2
Current transfers not elsewhere classified	21.9	20.8	2.5	2.5	8.2	8.2	8.2	8.2	8.2
Subsidies	-	-	-	-	-	-	-	-	-
Other current transfers	21.9	20.8	2.5	2.5	8.2	8.2	8.2	8.2	8.2
Capital transfers not elsewhere classified	-	-	-	-	-	-	-	-	-
Premiums, fees and claims related to nonlife insurance and standardised guarantee s	-	-	-	-	-	-	-	-	-

1. Under the GFS 2014 methodology, non-payable infrastructure tax credits, revenue on asset sales and GST transfers to WPA and Trust Accounts will be excluded.

2. GST represents the total of collections by Provinces, PNG Ports and Refunds.

TABLE 9A: BUDGETARY GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION (Kna million)		2012 actuals	2013 actuals	2014 actuals	2015 revised	2016 Budget	2017 proj	2018 proj	2019 proj	2020 proj
2	Expense	9,943.3	13,175.5	15,453.9	15,129.7	14,762.6	14,013.4	14,169.7	14,752.0	14,882.6
21	Compensation of Employees	2,496.5	2,785.7	3,696.7	3,723.7	3,876.3	3,679.0	3,720.1	3,872.9	3,907.2
211	Wages and salaries [GFS]	2,282.3	2,606.0	3,242.6	3,441.6	3,592.4	3,409.6	3,447.6	3,589.3	3,621.1
211	Wages and Salaries	978.6	1,404.8	2,816.5	1,663.3	0.0	0.0	0.0	0.0	0.0
2111	Wages and salaries in cash	1,215.6	1,084.6	308.6	1,651.2	3,469.0	3,292.4	3,329.2	3,466.0	3,496.7
2112	Wages and salaries in kind	88.1	116.6	115.4	127.0	123.4	117.2	118.5	123.3	124.4
212	Employers' social contributions	214.2	179.7	454.2	282.1	283.9	269.4	272.4	283.6	286.1
2121	Actual social contributions	214.2	179.7	454.2	282.1	283.9	269.4	272.4	283.6	286.1
22	Use of goods and services	2,372.3	4,335.0	3,691.2	4,297.8	4,479.9	4,251.9	4,299.3	4,476.0	4,515.6
22	Use of goods and services	2,372.3	4,335.0	3,691.2	4,297.8	4,479.9	4,251.9	4,299.3	4,476.0	4,515.6
22	Use of goods and services	2,372.3	4,335.0	3,691.2	4,297.8	4,479.9	4,251.9	4,299.3	4,476.0	4,515.6
24	Interest [GFS]	452.3	521.1	933.1	1,100.7	1,453.1	1,379.1	1,394.5	1,451.8	1,464.7
24	Interest [GFS]	452.3	521.1	933.1	1,100.7	1,453.1	1,379.1	1,394.5	1,451.8	1,464.7
241	Interest to Non residents	38.1	42.2	92.7	68.4	267.2	253.6	256.4	266.9	269.3
242	Interest to residents other than general governments	414.2	478.9	840.4	1,032.3	1,185.9	1,125.6	1,138.1	1,184.9	1,195.4
26	Grants	2,074.5	1,323.6	2,514.8	3,132.7	2,436.9	2,314.9	2,340.7	2,436.9	2,458.5
263	Grants to other general government units	2,074.5	1,323.6	2,514.8	3,132.7	2,436.9	2,314.9	2,340.7	2,436.9	2,458.5
2631	Grants to other general governments current*	2,073.7	1,323.6	2,500.6	1,879.5	1,553.5	1,476.5	1,492.9	1,554.3	1,568.0
2632	Grants to other general governments capital	0.8	-	14.2	1,253.3	883.4	838.4	847.8	882.6	890.5
27	Social Benefits	-	-	-	-	86.5	82.1	83.0	86.4	87.2
272	Social assistance benefits	-	-	-	-	86.5	82.1	83.0	86.4	87.2
2721	Social assistance benefits in cash	-	-	-	-	86.5	82.1	83.0	86.4	87.2
28	Other expenses	72.5	858.7	204.5	180.6	492.1	467.1	472.3	491.7	496.0
282	Transfers not elsewhere classified	72.5	858.7	204.5	180.6	488.0	463.2	468.3	487.6	491.9
2821	Other expense - Current transfers not elsewhere classified	72.5	858.7	164.5	180.6	488.0	463.2	468.3	487.6	491.9
2822	Other expense - Capital transfers not elsewhere classified	-	-	40.0	-	-	-	-	-	-
283	Premiums, fees, and claims related to nollife insurance and sta	-	-	-	-	4.1	3.9	3.9	4.1	4.1
28311	Other expense - Premiums	-	-	-	-	4.1	3.9	3.9	4.1	4.1
31	Net Aquisition Nonfinancial assets	2,474.7	2,904.3	4,413.6	2,361.3	1,936.1	1,837.6	1,858.1	1,934.4	1,951.6
311	Aquisition of Fixed assets (Buildings and Structures)	2,474.7	2,904.3	4,413.6	2,361.3	1,916.6	1,819.1	1,839.4	1,914.9	1,931.9
311	NFA:Fixed assets	2,411.3	2,791.3	4,259.7	2,303.3	987.7	937.5	947.9	986.9	995.6
3111	NFA:Buildings and structures	-	-	-	-	496.9	471.6	476.8	496.4	500.8
31111	NFA:Dwellings	-	-	-	-	15.4	14.7	14.8	15.4	15.6
31112	NFA:Buildings other than dwellings	-	-	-	-	1.2	1.1	1.2	1.2	1.2
31113	NFA:Other structures	-	-	-	-	353.4	335.5	339.2	353.1	356.3
31121	NFA:Transport equipment	39.3	23.6	51.3	16.6	16.4	15.6	15.8	16.4	16.6
31122	NFA:Machinery & equipment other than transport equipment	24.0	23.8	54.7	30.7	24.7	23.4	23.7	24.6	24.9
311221	NFA:Information, computer, & telecommunications equipment	-	65.7	47.9	10.7	20.8	19.7	20.0	20.8	21.0
314	Nonproduced assets	-	-	-	-	19.5	18.5	18.7	19.5	19.7
3141	NFA:Land	-	-	-	-	19.5	18.5	18.7	19.5	19.7
3144	NFA:Intangible nonproduced assets	-	-	-	-	-	-	-	-	-
9	Out of scope for GFS coding purposes	-	447.1	0.0	333.0	1.8	1.7	1.7	1.8	1.8
9	Out of scope for GFS coding purposes	-	447.1	0.0	333.0	1.8	1.7	1.7	1.8	1.8
52	OEFCIVOA:Other accounts receivable	0	-	-	-	-	-	-	-	-
521	OEFCIVOA:Other accounts receivable	0	-	-	-	-	-	-	-	-
5218	OEFCIVOA:Other accounts receivable	0	-	-	-	-	-	-	-	-

Source: Department of Treasury

TABLE 9B: BUDGETARY GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION (Kina million)										
	2012 actuals	2013 actuals	2014 actuals	2015 revised	2016 Budget	2017 proj	2018 proj	2019 proj	2020 proj	
TOTAL EXPENDITURE	9,943.3	13,175.8	15,454.1	15,129.8	14,762.6	14,013.4	14,169.7	14,752.0	14,882.6	
21 National Departments	6,643.9	8,778.2	9,347.9	10,518.4	9,880.8	9,380.0	9,484.6	9,874.4	9,961.8	
21 Compensation of Employees	1,356.8	1,448.0	2,025.5	2,005.8	2,072.0	1,968.5	1,988.5	2,070.2	2,088.5	
211 Wages and Salaries	1,184.6	1,294.0	1,604.9	1,752.0	1,734.7	1,703.4	1,722.4	1,793.2	1,809.1	
2111 Wages and salaries in cash	975.2	979.7	1,254.6	1,388.6	0.0	0.0	0.0	0.0	0.0	
2112 Wages and salaries in kind	156.5	251.3	292.1	283.0	1,735.0	1,687.2	1,685.4	1,793.5	1,797.7	
212 Employers' social contributions	212.3	154.0	420.6	257.8	277.2	263.1	266.0	277.0	279.4	
2121 Actual social contributions	212.3	154.0	420.6	257.8	277.2	263.1	266.0	277.0	279.4	
22 Use of goods and services	1,945.0	2,508.8	1,991.3	3,399.1	3,259.6	3,093.7	3,128.2	3,256.9	3,285.6	
22 Use of goods and services	1,945.0	2,508.8	1,991.3	3,399.1	3,259.6	3,093.7	3,128.2	3,256.9	3,285.6	
24 Interest (GFS)	452.3	521.1	933.1	1,100.7	1,453.1	1,379.1	1,384.5	1,451.8	1,464.7	
24 Interest (GFS)	452.3	521.1	933.1	1,100.7	1,453.1	1,379.1	1,384.5	1,451.8	1,464.7	
241 Interest to Non residents	36.1	42.2	92.7	66.4	267.2	253.6	256.4	265.9	271.3	
242 Interest to residents other than general governments	414.2	478.9	840.4	1,032.3	1,185.9	1,125.6	1,138.1	1,184.9	1,195.4	
26 Grants	1,366.5	710.0	1,609.4	1,603.1	1,389.1	1,320.4	1,335.1	1,390.0	1,402.3	
263 Grants to other general government units	1,366.5	710.0	1,609.4	1,603.1	1,389.1	1,320.4	1,335.1	1,390.0	1,402.3	
2631 Grants to other general governments current	1,366.5	710.0	1,595.2	1,603.1	1,389.1	1,320.4	1,335.1	1,390.0	1,402.3	
2632 Grants to other general governments capital	-	-	14.2	-	-	-	-	-	-	
27 Social Benefits	-	-	-	-	66.7	63.3	64.0	66.6	67.2	
272 Social assistance benefits	-	-	-	-	66.7	63.3	64.0	66.6	67.2	
2721 Social assistance benefits in cash	-	-	-	-	66.7	63.3	64.0	66.6	67.2	
28 Other expenses	59.0	855.3	136.7	173.6	157.4	149.4	151.0	157.3	158.6	
282 Transfers not elsewhere classified	59.0	855.3	136.7	173.6	153.6	145.8	147.4	153.5	154.8	
2821 Other expense - Current transfers not elsewhere classified	59.0	855.3	96.7	173.6	153.6	145.8	147.4	153.5	154.8	
2822 Other expense - Capital transfers not elsewhere classified	-	-	40.0	-	-	-	-	-	-	
283 Premiums, fees, and claims related to life insurance and standardized guarantee schemes	-	-	-	-	3.8	3.6	3.6	3.8	3.8	
2831 Other expense - Premiums	-	-	-	-	3.8	3.6	3.6	3.8	3.8	
31 Net Acquisition Nonfinancial assets	1,423.7	1,722.1	3,251.8	1,899.2	1,422.4	1,406.7	1,408.5	1,408.8	1,484.0	
311 Acquisition of Fixed assets (Buildings and Structures)	1,423.7	1,722.1	3,251.8	1,899.2	1,422.4	1,392.9	1,408.5	1,406.8	1,479.3	
3111 NFA: Fixed assets	1,363.7	1,679.4	3,145.9	1,855.8	737.2	699.7	707.5	736.6	743.1	
31111 NFA: Buildings and structures	-	-	-	-	370.1	351.3	355.2	369.8	373.1	
311111 NFA: Dwellings	-	-	-	-	15.4	14.7	14.8	15.4	15.6	
311112 NFA: Buildings other than dwellings	-	-	-	-	1.2	1.1	1.2	1.2	1.2	
311113 NFA: Other structures	-	-	-	-	285.4	270.9	273.9	285.1	287.7	
31121 NFA: Information, computer, & telecommunications equipment	39.0	21.6	49.6	13.9	15.1	14.3	14.5	15.1	15.2	
31122 NFA: Machinery & equipment other than transport equipment	21.0	20.4	52.3	27.2	22.3	21.2	21.4	22.3	22.5	
311221 NFA: Transport equipment	-	0.7	2.9	2.3	20.8	19.7	20.0	19.8	21.0	
314 Nonproduced assets	-	-	-	-	14.5	13.8	13.9	14.5	14.6	
3141 NFA: Land	-	-	-	-	14.5	13.8	13.9	14.5	14.6	
3144 NFA: Intangible nonproduced assets	-	-	-	-	-	-	-	-	-	
52 OECF/CNOA: Other accounts receivable	0.5	-	-	-	-	-	-	-	-	
521 OECF/CNOA: Other accounts receivable	0.5	-	-	-	-	-	-	-	-	
5218 OECF/CNOA: Other accounts receivable	0.5	-	-	-	-	-	-	-	-	
9 Out of scope for GFS coding purposes	-	1,011.8	0.0	333.0	0.9	0.8	0.8	0.9	0.9	
9 Out of scope for GFS coding purposes	-	1,011.8	0.0	333.0	0.9	0.8	0.8	0.9	0.9	
9 Out of scope for GFS coding purposes	-	1,011.8	0.0	-	0.9	0.8	0.8	0.9	0.9	
21 Provincial Governments	1,753.1	2,794.3	3,896.3	3,337.1	3,319.1	3,149.3	3,194.4	3,315.3	3,344.6	
21 Compensation of Employees	1,037.5	1,006.3	1,301.0	1,304.5	1,405.1	1,333.6	1,348.5	1,403.9	1,416.3	
211 Wages and salaries (GFS)	1,035.7	1,004.2	1,297.3	1,304.5	1,405.1	1,333.6	1,348.5	1,403.9	1,416.3	
211 Wages and Salaries	0.3	183.7	1,246.7	-	-	-	-	-	-	
2111 Wages and salaries in cash	1,031.3	778.2	1,132.2	1,259.2	1,362.9	1,293.5	1,307.9	1,361.7	1,373.7	
2112 Wages and salaries in kind	34.1	42.4	37.4	45.3	42.2	40.1	40.5	42.2	42.6	
212 Employers' social contributions	1.8	2.1	3.7	-	-	-	-	-	-	
2121 Actual social contributions	1.8	2.1	3.7	-	-	-	-	-	-	
22 Use of goods and services	332.6	1,592.1	1,382.5	623.2	825.0	783.0	791.7	824.2	831.5	
22 Use of goods and services	332.6	1,592.1	1,382.5	623.2	825.0	783.0	791.7	824.2	831.5	
26 Grants	127.5	433.1	716.8	1,377.4	893.3	847.8	857.3	892.5	900.4	
263 Grants to other general government units	127.5	433.1	716.8	1,377.4	893.3	847.8	857.3	892.5	900.4	
2631 Grants to other general governments current	127.5	433.1	716.8	1,377.4	893.3	847.8	857.3	892.5	900.4	
2632 Grants to other general governments capital	-	-	-	1,158.3	776.4	736.9	745.1	775.7	782.6	
28 Other expenses	-	-	-	-	145.4	138.0	139.6	145.3	146.6	
282 Transfers not elsewhere classified	-	-	-	-	145.4	138.0	139.6	145.3	146.6	
2821 Other expense - Current transfers not elsewhere classified	-	-	-	-	145.4	138.0	139.6	145.3	146.6	
31 Net Acquisition Nonfinancial assets	255.5	307.3	286.0	32.1	49.4	46.9	47.4	49.4	49.8	
311 Acquisition of Fixed assets (Buildings and Structures)	255.5	307.3	286.0	32.1	49.4	46.9	47.4	49.4	49.8	
3111 NFA: Fixed assets	253.1	279.2	285.0	49.4	46.9	46.9	47.4	49.4	49.8	
31111 NFA: Information, computer, & telecommunications equipment	0.4	-	-	-	-	-	-	-	-	
31112 NFA: Machinery & equipment other than transport equipment	2.0	-	-	-	-	-	-	-	-	
31122 NFA: Transport equipment	-	-	-	-	-	-	-	-	-	
9 Out of scope for GFS coding purposes	-	545.5	-	-	-	-	-	-	-	
9 Out of scope for GFS coding purposes	-	545.5	-	-	-	-	-	-	-	
Autonomous Bougainville Government	176.2	221.3	245.8	267.9	344.0	326.5	330.1	343.7	344.7	
21 Compensation of Employees	86.2	56.1	63.5	100.0	106.2	100.8	102.0	106.1	107.1	
211 Wages and salaries (GFS)	86.2	56.1	63.5	100.0	106.2	100.8	102.0	106.1	107.1	
211 Wages and Salaries	86.2	12.0	61.7	-	106.2	100.8	102.0	106.1	107.1	
2111 Wages and salaries in cash	57.2	42.1	97.3	97.3	104.4	99.1	100.2	104.4	105.3	
2112 Wages and salaries in kind	1.0	1.7	1.6	2.6	1.8	1.7	1.7	1.8	1.6	
212 Employers' social contributions	-	0.3	0.2	-	-	-	-	-	-	
2121 Actual social contributions	-	0.3	0.2	-	-	-	-	-	-	
22 Use of goods and services	17.0	28.3	22.3	28.5	118.5	112.5	113.7	118.4	119.5	
22 Use of goods and services	17.0	28.3	22.3	28.5	118.5	112.5	113.7	118.4	119.5	
22 Use of goods and services	17.0	28.3	22.3	28.5	118.5	112.5	113.7	118.4	119.5	
26 Grants	101.0	58.1	160.0	132.4	119.2	113.2	114.4	119.1	120.2	
263 Grants to other general government units	101.0	58.1	160.0	132.4	119.2	113.2	114.4	119.1	120.2	
2631 Grants to other general governments current	101.0	58.1	160.0	132.4	119.2	113.2	114.4	119.1	120.2	
2632 Grants to other general governments capital	-	-	-	95.0	107.0	101.6	102.7	106.9	107.9	
31 Net Acquisition Nonfinancial assets	-	98.0	-	7.0	-	-	-	-	-	
311 Acquisition of Fixed assets (Buildings and Structures)	-	98.0	-	7.0	-	-	-	-	-	
3111 NFA: Fixed assets	-	98.0	-	7.0	-	-	-	-	-	
9 Out of scope for GFS coding purposes	-	19.2	-	-	-	-	-	-	-	
9 Out of scope for GFS coding purposes	-	19.2	-	-	-	-	-	-	-	
9 Out of scope for GFS coding purposes	-	19.2	-	-	-	-	-	-	-	
Commercial & Statutory Authorities	1,370.2	1,382.0	1,574.2	1,006.3	1,219.7	1,157.7	1,170.6	1,218.7	1,229.5	
21 Compensation of Employees	4.0	275.6	306.9	309.5	293.0	278.1	281.2	292.7	295.3	
211 Wages and salaries (GFS)	3.8	251.8	277.0	285.1	286.3	271.8	274.8	286.1	288.6	
211 Wages and Salaries	3.2	229.5	255.5	264.7	-	-	-	-	-	
2111 Wages and salaries in cash	0.6	13.0	13.4	11.7	276.7	262.6	265.5	276.5	278.9	
2112 Wages and salaries in kind	0.1	9.4	8.2	8.7	9.6	9.1	9.2	9.6	9.7	
212 Employers' social contributions	0.1	23.7	29.9	24.4	6.7	6.3	6.4	6.7	6.7	
22 Use of goods and services	77.7	203.7	295.1	247.1	276.8	262.7	265.6	276.6	279.0	
22 Use of goods and services	77.7	203.7	295.1	247.1	276.8	262.7	265.6	276.6	279.0	
22 Use of goods and services	77.7	203.7	295.1	247.1	276.8	262.7	265.6	276.6	279.0	
26 Grants	479.5	122.4	28.6	19.8	35.4	33.6	33.9	35.3	35.6	
263 Grants to other general government units	479.5	122.4	28.6	19.8	35.4	33.6	33.9	35.3	35.6	
2631 Grants to other general governments current	479.5	122.4	28.6	19.8	35.4	33.6	33.9	35.3	35.6	
2632 Grants to other general governments capital	-	-	-	-	-	-	-	-	-	
27 Social Benefits	-	-	-	-	19.8	18.8	19.0	19.8	20.0	
272 Social assistance benefits	-	-	-	-	19.8	18.8	19.0	19.8	20.0	
2721 Social assistance benefits in cash	-	-	-	-	19.8	18.8	19.0	19.8	20.0	
28 Other expenses	13.5	3.4	67.8	6.9	189.3	179.7	181.7	189.1	190.8	
282 Transfers not elsewhere classified	13.5	3.4	67.8	6.9	189.0	179.4	181.4	188.8	190.5	
2821 Other expense - Current transfers not elsewhere classified	13.5	3.4	67.8	6.9	189.0	179.4	181.4	188.8	190.5	
283 Premiums, fees, and claims related to life insurance and standardized	-	-	-	-	0.3	0.3	0.3	0.3	0.3	
2831 Other expense - Premiums	-	-								

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

(Kina, Million, unless otherwise stated)	Actuals	Actual	Actuals	Est	Projections				
	2012	2013	2014	2015	2016	2017	2018	2019	2020
Net acquisition of financial assets									
Domestic	835.04779	96.95126	-174.0405	-191.9879	-82.85987	-83.632836	-84.7458	-133.584289	582.67001
Other accounts receivable	835.04779	96.95	-174.04	-191.99	-82.86	-83.63	-84.75	-133.58	582.67
External									
Monetary gold and special drawing rights (SDR's)									
Currency and deposits									
Debt securities									
Loans									
Insurance, pension, and standardized guarantee schemes									
Financial derivatives and employee stock options									
Other accounts receivable									
Net incurrence of liabilities									
Domestic	1,197.1	3,031.5	2,983.2	1,984.8	1,502.0	580.9	340.2	109.8	312.3
Monetary gold and special draw ing rights (SDR's)									
Currency and deposits									
Debt securities	997.1	2,726.5	2,983.2	1,984.8	-1,502.0	580.9	340.2	109.8	-312.3
New instruments	4,076.9	6,914.6	8,704.3	11,103.8	8,150.0	8,763.2	7,955.2	7,259.5	6,898.3
Amortisation	3,079.8	4,188.1	5,721.1	9,119.0	9,652.0	8,182.3	7,615.0	7,149.7	7,210.6
Treasury Bills	497.1	1,449.1	1,419.9	1,046.5	-1,938.0	-136.8	-344.8	-340.5	-301.7
New instruments	3,470.2	5,498.9	6,784.3	9,674.4	7,250.0	7,363.2	6,655.2	6,159.5	5,698.3
Amortisation	2,973.1	4,049.8	5,364.4	8,627.9	9,188.0	7,500.0	7,000.0	6,500.0	6,000.0
Treasury Bonds	500.0	1,277.4	1,563.3	938.3	436.0	717.7	685.0	450.3	-10.6
New instruments	606.7	1,415.7	1,920.0	1,429.4	900.0	1,400.0	1,300.0	1,100.0	1,200.0
Amortisation	106.7	138.3	356.7	491.1	464.0	682.3	615.0	649.7	1,210.6
Other accounts payable	200.00	305.00	-	-	-	-	-	-	-
External	161.90	343.50	421.80	315.03	3,531.6	681.7	473.7	-62.3	-357.7
Monetary gold and special draw ing rights (SDR's)									
Currency and deposits									
Debt securities					2,800.0	-	-	-	-
New instruments					2,800.0	-	-	-	-
Amortisation					-	-	-	-	-
Concessional financing					-	-	-	-	-
New instruments					-	-	-	-	-
Amortisation					-	-	-	-	-
Commercial financing					-	-	-	-	-
New instruments					-	-	-	-	-
Amortisation					-	-	-	-	-
Extraordinary financing					2,800.0	-	-	-	-
New instruments					2,800.0	-	-	-	-
Amortisation					-	-	-	-	-
Loans	161.9	343.5	421.8	315.0	731.6	681.7	473.7	62.3	-357.7
New borrowing	326.2	516.5	610.1	500.0	930.1	909.3	725.7	399.5	200.4
Amortisation	164.3	173.0	188.3	185.0	198.5	227.6	251.9	461.8	558.1
Concessional financing	214.8	395.1	477.5	360.3	765.5	718.7	510.1	24.3	-330.4
New borrowing	326.2	516.5	610.1	500.0	930.1	909.3	725.7	399.5	200.4
Amortisation	111.4	121.4	132.6	139.7	164.6	190.6	215.5	423.8	530.8
Commercial financing	-16.1	-14.2	-14.2	-	-	-	-	-	-
New borrowing	-	-	-	-	-	-	-	-	-
Amortisation	16.1	14.2	14.2	-	-	-	-	-	-
Extraordinary financing	-36.8	-37.4	-41.5	-45.3	-33.9	-37.0	-36.4	-38.0	-27.3
New borrowing	-	-	-	-	-	-	-	-	-
Amortisation	36.8	37.4	41.5	45.3	33.9	37.0	36.4	38.0	27.3
Insurance, pension, and standardized guarantee schemes									
Financial derivatives and employee stock options									
Other accounts payable									

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

Source: Department of Treasury

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

(Kina Million)	Actual	Actual	Actual	Estimate	Projections				
	2012	2013	2014	2015	2016	2017	2018	2019	2020
TRANSACTIONS AFFECTING NET WORTH:									
Revenue	9,418.9	9,897.5	11,874.9	12,637.9	12,650.1	12,667.2	13,271.0	14,618.4	15,465.3
Taxes	8,219.0	8,879.6	10,232.1	10,093.3	10,525.6	10,979.8	11,586.3	12,745.8	13,769.3
Grants	930.8	877.5	867.5	1,396.1	1,513.2	1,476.1	1,473.3	1,661.3	1,484.6
Other revenue	269.1	140.3	775.3	1,148.5	611.3	211.3	211.3	211.3	211.3
<i>Revenue as percentage of GDP</i>	<i>29.8%</i>	<i>28.9%</i>	<i>27.4%</i>	<i>24.8%</i>	<i>22.9%</i>	<i>21.6%</i>	<i>21.6%</i>	<i>22.5%</i>	<i>22.5%</i>
Expense²	7,468.2	10,271.2	11,040.3	12,768.4	12,826.5	12,175.8	12,311.6	12,817.6	12,931.0
Compensation of employees	2,496.5	2,785.7	3,696.7	3,723.7	3,876.3	3,679.0	3,720.1	3,872.9	3,907.2
Use of goods and services	2,372.3	4,335.0	3,691.2	4,297.8	4,479.9	4,251.9	4,299.3	4,476.0	4,515.6
Consumption of fixed capital	-	-	-	-	-	-	-	-	-
Interest	452.3	521.1	933.1	1,100.7	1,453.1	1,379.1	1,394.5	1,451.8	1,464.7
Subsidies	-	-	-	-	-	-	-	-	-
Grants	2,074.5	1,323.6	2,514.8	3,132.7	2,436.9	2,314.9	2,340.7	2,436.9	2,458.5
Social benefits	-	-	-	-	86.5	82.1	83.0	86.4	87.2
Other expense	72.5	1,305.8	204.5	513.5	493.9	468.7	474.0	493.4	497.8
<i>Expense as percentage of GDP</i>	<i>23.6%</i>	<i>30.0%</i>	<i>25.5%</i>	<i>25.0%</i>	<i>23.3%</i>	<i>20.8%</i>	<i>20.1%</i>	<i>19.8%</i>	<i>18.8%</i>
Gross operating balance	1,950.7	- 373.7	834.6	- 130.6	- 176.4	491.4	959.4	1,800.9	2,534.2
TRANSACTIONS IN NONFINANCIAL ASSETS:									
Net/gross investment in nonfinancial assets	2,474.7	2,904.3	4,413.6	2,361.3	1,936.1	1,837.6	1,858.1	1,934.4	1,951.6
Fixed assets	2,474.7	2,904.3	4,413.6	2,361.3	1,916.6	1,819.1	1,839.4	1,914.9	1,931.9
Nonproduced assets	-	-	-	-	19.5	18.5	18.7	19.5	19.7
Expenditure	9,942.8	13,175.5	15,453.9	15,129.7	14,762.6	14,013.4	14,169.7	14,752.0	14,882.6
Net lending (+) / Net borrowing (-)	- 524.0	- 3,278.0	- 3,579.0	- 2,491.8	- 2,112.5	- 1,346.2	- 898.7	- 133.6	582.7
<i>Net lending/borrowing as percentage of GDP</i>	<i>-1.7%</i>	<i>-9.6%</i>	<i>-8.3%</i>	<i>-4.9%</i>	<i>-3.8%</i>	<i>-2.3%</i>	<i>-1.5%</i>	<i>-0.2%</i>	<i>0.8%</i>
TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES (FINANCING):									
Net acquisition of financial assets	835.0	97.0	- 174.0	- 192.0	- 82.9	- 83.6	- 84.7	- 133.6	582.7
Domestic	835.0	97.0	- 174.0	- 192.0	- 82.9	- 83.6	- 84.7	- 133.6	582.7
External	-	-	-	-	-	-	-	-	-
Net incurrence of liabilities	1,359.0	3,375.0	3,405.0	2,299.8	2,029.6	1,262.6	813.9		
Domestic	1,197.1	3,031.5	2,983.2	1,984.8	- 1,502.0	580.9	340.2	109.8	- 312.3
External	161.9	343.5	421.8	315.0	3,531.6	681.7	473.7	- 62.3	- 357.7
Gross Domestic Product³	31,593.1	34,275.9	43,279.2	51,024.3	55,123.6	58,582.8	61,367.8	64,849.3	68,687.5

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

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

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

(Kina Million)	Actuals			Estimate	Projection				
	2012	2013	2014	2015	2016	2017	2018	2019	2020
CASH FLOWS FROM OPERATING ACTIVITIES:									
Revenue cash flows	8,562.5	9,090.1	11,076.8	11,353.4	11,606.6	11,630.8	12,294.6	13,683.9	14,542.3
Taxes	8,219.0	8,879.6	10,232.1	10,093.3	10,525.6	10,979.8	11,586.3	12,745.8	13,769.3
Social contributions	-	-	-	-	-	-	-	-	-
Grants	74.4	70.2	69.4	111.6	469.6	439.7	497.0	726.8	561.7
Other receipts	269.1	140.3	775.3	1,148.5	611.3	211.3	211.3	211.3	211.3
<i>Revenue as percentage of GDP</i>	<i>27.1%</i>	<i>26.5%</i>	<i>25.6%</i>	<i>22.3%</i>	<i>21.1%</i>	<i>19.9%</i>	<i>20.0%</i>	<i>21.1%</i>	<i>21.2%</i>
Expense cash flows²	7,273.9	9,527.7	10,470.8	12,026.3	12,417.4	11,787.6	11,919.0	12,408.8	12,518.7
Compensation of employees	2,194.2	2,489.4	3,127.2	3,314.5	3,469.0	3,292.4	3,329.2	3,466.0	3,496.7
Purchases of goods and services	2,372.3	4,335.0	3,691.2	4,297.8	4,479.9	4,251.9	4,299.3	4,476.0	4,515.6
Interest	452.3	521.1	933.1	1,100.7	1,453.1	1,379.1	1,394.5	1,451.8	1,464.7
Subsidies	-	-	-	-	-	-	-	-	-
Grants	2,074.5	1,323.6	2,514.8	3,132.7	2,436.9	2,314.9	2,340.7	2,436.9	2,458.5
Social benefits	-	-	-	-	86.5	82.1	83.0	86.4	87.2
Other payments	180.6	858.7	204.5	180.6	492.1	467.1	472.3	491.7	496.0
<i>Expense as percentage of GDP</i>	<i>23.0%</i>	<i>27.8%</i>	<i>24.2%</i>	<i>23.6%</i>	<i>22.5%</i>	<i>20.1%</i>	<i>19.4%</i>	<i>19.1%</i>	<i>18.2%</i>
Net cash inflow from operating activities	1,288.6	- 437.6	606.0	- 672.9	- 810.9	- 156.8	375.6	1,275.1	2,023.7
CASH FLOWS FROM TRANSACTIONS IN NONFINANCIAL ASSETS:									
Net cash outflow from investment in nonfinancial assets	2,474.7	2,904.3	4,413.6	2,361.3	1,955.6	1,856.1	1,876.8	1,953.9	1,971.2
Fixed assets	2,474.7	2,904.3	4,413.6	2,361.3	1,936.1	1,837.6	1,858.1	1,934.4	1,951.6
Inventories	-	-	-	-	-	-	-	-	-
Valuables	-	-	-	-	-	-	-	-	-
Nonproduced assets	-	-	-	-	19.5	18.5	18.7	19.5	19.7
Expenditure cash flows	9,748.6	12,432.0	14,884.4	14,387.6	14,373.0	13,643.7	13,795.8	14,362.8	14,489.9
Cash surplus (+) / Cash deficit (-)	- 1,186.1	- 3,341.9	- 3,807.6	- 3,034.2	- 2,766.5	- 2,012.9	- 1,501.2	- 678.9	52.4
<i>Surplus/Deficit as percentage of GDP</i>	<i>-3.75%</i>	<i>-9.75%</i>	<i>-8.80%</i>	<i>-5.95%</i>	<i>-5.02%</i>	<i>-3.44%</i>	<i>-2.45%</i>	<i>-1.05%</i>	<i>0.08%</i>
CASH FLOWS FROM TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES (FINANCING):									
Net acquisition of financial assets other than cash	-	-	-	-	-	-	-	-	-
Domestic	-	-	-	-	-	-	-	-	-
External	-	-	-	-	-	-	-	-	-
Net incurrence of liabilities	1,359.0	3,375.0	3,405.0	2,299.8	2,029.6	1,262.6	813.9	47.5	- 670.0
Domestic	1,197.1	3,031.5	2,983.2	1,984.8	1,502.0	580.9	340.2	109.8	- 312.3
External	161.9	343.5	421.8	315.0	3,531.6	681.7	473.7	- 62.3	- 357.7
Net cash inflow from financing activities	1,359.0	3,375.0	3,405.0	2,299.8	2,029.6	1,262.6	813.9	47.5	- 670.0
<i>Net cash inflow as percentage of GDP</i>	<i>4.30%</i>	<i>9.85%</i>	<i>7.87%</i>	<i>4.51%</i>	<i>3.68%</i>	<i>2.16%</i>	<i>1.33%</i>	<i>0.07%</i>	<i>-0.98%</i>
Net change in the stock of cash	172.9	33.1	- 402.6	- 734.3	- 736.9	- 750.3	- 687.3	- 631.4	- 617.6
Gross Domestic Product³	31,593.1	34,275.9	43,279.2	51,024.3	55,123.6	58,582.8	61,367.8	64,849.3	68,687.5

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

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

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

	2010	2011	2012	2013	2014	2015
	Actual	Actual	Actual	Actual	Actual	Jun Qtr**
Domestic Credit	7169.4	7703.8	8833.6	10106.7	10642.4	11811.7
% Change	7.6	7.5	14.7	14.4	5.3	11.0
Net Credit to Central Government	-202.8	-1076.8	297.0	2755.5	3185.6	3977.8
% Change	-135.3	431.0	-127.6	827.8	15.6	24.9
Credit to Private Sector	6945.4	7519.0	8434.3	9913.5	9708.1	9492.6
% Change	17.7	8.3	12.2	17.5	-2.1	-2.2
Money Supply	13175.7	15292.2	16966.8	18105.6	18329.1	18646
% Change	11.4	16.1	11.0	6.7	1.2	1.7
Money Velocity (M3*) (average)	2.0	1.9	1.9	1.9	2.4	2.7

Source: BPNG

*through -the -year change

**estimate based on 2015 September MP & 2015 March QEB

TABLE 12: STOCKS IN CENTRAL GOVERNMENT DEBT¹

(Kina, Million, unless otherwise stated)	Actual	Actual	Actual	Estimate	Projection				
	2012	2013	2014	2015	2016	2017	2018	2019	2020
Domestic	6,118.2	8,845.2	11,827.9	13,863.5	12,361.5	12,942.4	13,282.6	13,392.4	13,080.1
Debt securities	6,118.2	8,845.2	11,827.9	13,863.5	12,361.5	12,942.4	13,282.6	13,392.4	13,080.1
<i>Treasury Bills</i>	2,751.6	4,200.7	5,620.6	6,667.2	4,729.2	4,592.4	4,247.6	3,907.1	3,605.4
<i>Treasury Bonds</i>	3,366.6	4,644.5	6,207.3	7,196.3	7,632.3	8,350.0	9,035.0	9,485.3	9,474.7
Loans	-	-	-	-	-	-	-	-	-
External	2,367.4	3,032.5	3,537.2	3,852.1	7,383.7	8,065.4	8,539.1	8,476.8	8,119.1
Debt securities	-	-	-	-	2,800.0	2,800.0	2,800.0	2,800.0	2,800.0
<i>Concessional financing</i>	-	-	-	-	-	-	-	-	-
<i>Commercial financing</i>	-	-	-	-	-	-	-	-	-
<i>Extraordinary financing</i>	-	-	-	-	2,800.0	2,800.0	2,800.0	2,800.0	2,800.0
Loans	2,367.4	3,032.5	3,537.2	3,852.1	4,583.7	5,265.4	5,739.1	5,676.8	5,319.1
<i>Concessional financing</i>	2,337.5	3,018.4	3,537.2	3,852.1	4,583.7	5,265.4	5,739.1	5,676.8	5,319.1
<i>Commercial financing</i>	29.9	14.1	-	-	-	-	-	-	-
<i>Extraordinary financing</i>	-	-	-	-	-	-	-	-	-
Total Central Government Debt	8,485.60	11,877.65	15,365.10	17,715.63	19,745.25	21,007.82	21,821.65	21,869.16	21,199.23
<i>Total debt as percentage of GDP</i>	<i>26.9%</i>	<i>34.7%</i>	<i>35.5%</i>	<i>34.7%</i>	<i>35.8%</i>	<i>35.9%</i>	<i>35.6%</i>	<i>33.7%</i>	<i>30.9%</i>
Gross Domestic Product²	31,593.1	34,275.9	43,279.2	51,024.3	55,123.6	58,582.8	61,367.8	64,849.3	68,687.5

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

Source: Department of Treasury

Table 13: Major Assumptions Underlying the Budget

	2014 Actual	2015 Est	2016 Proj	2017 Proj	2018 Proj	2019 Proj	2020 Proj
Economic Growth							
Total Real GDP (%)	13.3	9.9	4.3	2.4	2.0	2.7	2.6
Non-mining Real GDP (%)	1.2	2.4	3.4	3.6	3.6	3.6	3.3
Inflation							
Average on Average (%)	5.2	5.1	5.7	5.0	5.0	5.0	5.0
Dec on Dec (%)	6.7	4.6	5.6	5.1	4.4	4.0	4.1
Exchange rate							
Real Exchange Rate Index (2007 = 100)	153.2	140.9	140.2	143.6	147.0	150.6	154.4
Interest rate							
Kina Rate Facility (KFR)	6.25	6.25	6.25	6.25	6.25	6.25	6.25
Inscribed Stock (3 year yield)	8.0	9.7	9.7	9.7	9.7	9.7	9.7
Mineral Prices							
Gold (US\$/oz)	1266	1176	1157	1194	1200	1225	1249
Copper (US\$/ton)	6864	5676	5149	5184	5218	5249	5286
Oil (Kutubu Crude: US\$/barrel)	93	52	54	60	65	68	70
Nickel (US\$/tonne)	16847	12507	10302	10404	10439	10439	10439
Cobalt (US\$/tonne)	30724	29500	30000	30000	30000	30000	30000

Source: Department of Treasury.

TABLE 14: SOVEREIGN WEALTH FUND - STABILISATION FUND

(Kina Million)	2016	2017	2018	2019	2020
REVENUE					
TAXES	129.9	120.5	102.0	366.9	344.2
Taxes on Income, Profits and Capital Gains					
Mining and Petroleum Taxes	129.9	120.5	102.0	366.9	344.2
OTHER REVENUE	249.3	229.7	346.8	351.5	208.7
Property Income	249.3	229.7	346.8	351.5	208.7
Interest	0.26	0.2	0.3	0.5	0.2
Dividends	249.0	229.5	346.5	351.0	208.5
Mining Petroleum and Gas Dividends	249.0	229.5	346.5	351.0	208.5
Other Dividends (eg money paid into SWF from sale of shares)	0	0	0	0	0
Current Transfers n.e.c.	0.0	0.0	0.0	0.0	0.0
TOTAL REVENUE	379.2	350.3	448.8	718.4	552.9
EXPENSES					
Use of Goods and Services	0.1	0.1	0.1	0.1	0.3
Transfers n.e.c.	379.1	350.2	448.7	718.2	552.6
Current (Transfer to Budget)	379.1	350.2	448.7	718.2	552.6
Current (Transfer to Savings Fund)	0.0	0.0	0.0	0.0	0.0
TOTAL EXPENSES	379.2	350.3	448.8	718.4	552.9
GROSS/NET OPERATING BALANCE	0.0	0.0	0.0	0.0	0.0
NET ACQUISITION OF FINANCIAL ASSETS	0.0	0.0	0.0	0.0	0.0
Balance in Stabilisation Fund at 31 December	0.0	0.0	0.0	0.0	0.0

Source: Department of Treasury

TABLE 15: SOVEREIGN WEALTH FUND - SAVINGS FUND

(Kina Million)	2016	2017	2018	2019	2020
REVENUE					
OTHER REVENUE	83.1	79.5	121.2	126.9	83.7
Property Income	83.1	79.5	121.2	126.9	83.7
Interest	0.1	3.0	5.7	9.9	14.2
Dividends	83.0	76.5	115.5	117.0	69.5
Mining Petroleum and Gas Dividends	83.0	76.5	115.5	117.0	69.5
Other Dividends (eg money paid into SWF from sale of shares)	0	0	0	0	0
Current Transfers n.e.c.	0.0	0.0	0.0	0.0	0.0
TOTAL REVENUE	83.1	79.5	121.2	126.9	83.7
EXPENSES					
Use of Goods and Services	0.02	0.8	1.6	2.8	4.1
TOTAL EXPENSES	0.0	0.8	1.6	2.8	4.1
GROSS/NET OPERATING BALANCE	83.0	78.6	119.6	124.1	79.7
NET ACQUISITION OF FINANCIAL ASSETS	83.0	78.6	119.6	124.1	79.7
Balance in Savings Fund at 31 December	83.0	161.7	281.2	405.3	485.0

Source: Department of Treasury