

2018 NATIONAL BUDGET

VOLUME 1 ECONOMIC AND DEVELOPMENT POLICIES

For the year ending 31st December 2018

PRESENTED BY

HON. CHARLES ABEL, MP

DEPUTY PRIME MINISTER AND MINISTER FOR TREASURY

ON THE OCCASION OF THE PRESENTATION OF THE 2018 NATIONAL BUDGET



HON. CHARLES ABEL, MP

DEPUTY PRIME MINISTER AND MINISTER FOR TREASURY

FOREWORD

It is my great pleasure to deliver the 2018 National Budget which is my first substantive budget as the Treasurer in the new O'Neill-Abel Government. The 2018 Budget marks the beginning of the new Medium Term Fiscal Strategy 2018-2022 that aims to confront the current set of challenging fiscal conditions with vigour, including the current subdued economic conditions and depressed revenue, strengthen the macroeconomic and fiscal fundamentals of the economy, and get the economy moving forward.

At the same time, the Budget will the Government's social spending priorities and improve the opportunities for people and the standard of living for ordinary Papua New Guineans.

In recent years the PNG economy has endured a series of economic shocks following the rapid growth brought about by the commodity boom and the construction of the PNG LNG project. Commodity prices have fallen and remain relatively low and the severe drought in 2015 added to the difficulties.

A foreign exchange imbalance has developed which has further constrained economic growth, together with rising debt levels and domestic financing constraints. We have had to respond to these shocks by cutting discretionary spending, mostly from the capital budget, which has further suppressed economic conditions.

The shocks have had a much greater impact than initially anticipated and continue to have an adverse impact as we end 2017.

Total government revenue has collapsed as a share of the GDP from 20 per cent in 2012 to 13.4 per cent in 2016 and is expected to decline further to below 13 per cent by end-2017. This has resulted in larger than anticipated budget deficits and delayed the projected return to a balanced budget.

Furthermore, within the overall expenditure envelop, a number of categories have expanded, particularly personnel emoluments and interest costs. As part of its decisive and responsible management of the economy, when the lower economic growth rates were realised, the Government pursued fiscal consolidation with a significant reduction in expenditure over the past few years.

However, given the difficulty of even slowing the growth in these rigid categories of expenditure, especially against a backdrop of the continuation of subdued economic conditions, most of the burden of adjustment fell on the much-needed and productive capital expenditure Budget.

The 2018 Budget and medium-term strategies we have formulated will combat these adverse trends and get the economy moving forward again with some momentum. The strategy will pursue three parallel paths: (i) to halt the declining revenue trend then lift collections onto a higher sustained rising trend over the medium term; (ii) to reign back locked-in and less productive expenditure categories onto more sustainable paths to create space for a lift in more productive capital spending that will get the economy moving significantly forward again; and (iii) improve debt management and cost of financing and extinguishment of the foreign exchange imbalance.

The international outlook is becoming more positive, commodity prices have started to trend higher and international capital, particularly into emerging markets, is starting to expand as investor's appetite for risk improves. We need to be ready to capitalise on these more positive international developments. The APEC summit in 2018 will allow PNG to showcase its

readiness for enhanced capital and trade flows. The 2018 Budget will provide the platform for fixing our fiscal problems and then building optimism for growth and development.

The Government announced its intentions in a 100 Day Plan to kick start the Alotau Accord 2. The 25 policy actions of the Plan were specific interventions aimed at restoring fiscal discipline, addressing the foreign exchange imbalance, enhancing revenue, strengthening our economic base and improving governance and were reinforced in the 2017 Supplementary Budget. The 2017 Supplementary Budget and 2018 Budgets are Points 1 and 2 in this Plan.

The Accord also operationalises the longer term development plans based on Vision 2050 and StaRS. These will be articulated against specific indicators and sectoral interventions in the upcoming Medium Term Development Plan 3, according to the *National Planning Act, 2016*. There is a specific focus on reinvigorating growth through SMEs and the tourism and agricultural sectors that will underpin broad based and inclusive economic growth structures.

In the 2018 Budget the Government will establish in the commercial banks a dedicated SME fund of K100.0 million for concessional lending, and an agricultural commercialisation fund of up to K100.0 million. Furthermore, a number of key policies associated with the 2018 APEC agenda will be progressed, such as advancing financial inclusion through financial literacy programs, adopting digital financial services and spreading mobile banking capabilities.

Importantly, the Government will continue to invest in key national infrastructure programs in 2018, particularly, the Highlands Highway, coastal jetties, the missing link roads program, hydro and gas power generation stations, and the international submarine cable project. These are important transformational projects that will reduce the cost of doing business, improve market access for rural farmers, and improve and lower the cost of communications for businesses and consumers.

The Government's key policy priorities and programs, such as the Services Improvement Program, tuition fee free and free health care programs will be maintained to ensure the board-based consumption and delivery of goods and services to our people.

The 2018 National Budget Expenditure envelope is set at K14,718.0 million against a revenue projection of K12,731.0 million. This translates into a fiscal deficit of K1,987.2 million, or 2.48 per cent of GDP. This is expected to maintain the total debt-to-GDP ratio at just above 32 per cent of GDP, which is well within the approved range of 30.0 per cent to 35.0 per cent of GDP prescribed in the *Fiscal Responsibility Act (amended 2017)*.

The 2018 Budget is consistent with the stringent and prudent fiscal anchors established in the new MTFS 2018-22 which comprise:

- Lifting the total revenue (excluding grants) to GDP ratio to 14.6 per cent in 2018 and to target 14.0 per cent by 2022;
- reducing government expenditure from 18 per cent of GDP in 2018 to 16 per cent in 2022;
- reducing the government debt to GDP ratio to 30 per cent by 2022 and ensuring the sustainability of the debt profile, including the shift towards external financing through budget support loans from the World Bank and ADB and through an inaugural US Dollar bond issuance program;
- maintaining the non-resource primary fiscal balance on a trajectory that will achieve a zero annual average balance over the medium term (to 2025);
- ensuring that Personnel Emolument costs are contained and brought down from 49 per cent of total non-resource revenue in 2017 to 31 per cent by 2022; and

- ensuring that two-thirds of primary expenditure is allocated to key MTDP Enablers and that the public investment to GDP ratio is lifted from 4 per cent of GDP in 2017 to at least 6 per cent by 2022.

To fund the adjustment costs and lift the economic growth momentum, yet stay within the set medium term fiscal anchors, the 2018 Budget will focus decisively on revenue through the first ever Medium Term Revenue Strategy which has been developed with the International Monetary Fund.

The Strategy has had substantial input from the Government's 2015 comprehensive Tax Review and recent technical assistance from an International Monetary Fund team. Some of the key initiatives to be implemented in 2018, include the establishment of a large taxpayers' office to improve compliance and tax service, a number of tax measures to raise additional revenue and the announcement of the drafting of a new Tax Administration Act to modernise and simplify tax administration.

The Government is also introducing legislation per the 100 Day Plan compelling all statutory authorities and other government agencies collecting non-tax revenue under statute to remit the collection of those funds to the Consolidated Revenue Fund. The Government has also commenced the process of transferring trust fund balances and assets back into the Consolidated Revenue Fund and enhancing the dividend flows from state-owned enterprises.

Financing the 2018 Budget will be critical and much will depend on the portfolio shift towards lower-average cost external debt and this will be achieved by seeking highly concessional World Bank and ADB budget support funding that will be combined with a US Dollar commercial bond program. The portfolio shift will also: firstly, relieve pressure on the tight domestic security market allowing the development of the less risky, longer term domestic bond market; secondly, increase the level of credit to the private sector; and, finally facilitate the extinguishment of the foreign exchange imbalance.

There are important adjustments to the tariff regime and housekeeping tax legislation.

Overall, the 2018 Budget is a forthright step towards strengthening the resilience of the PNG economy to withstand future economic shocks. It lays the groundwork for fiscal consolidation and it will reignite the economic growth momentum and boost optimism for the future. It will provide the platform to showcase the best of PNG to the world at the upcoming APEC summit.

It is ***"Time to pull our socks up and go for it"***.

I commend the 2018 Budget to the Honourable Members and to the people of Papua New Guinea.

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HON. CHARLES ABEL, MP
DEPUTY PRIME MINISTER AND MINISTER FOR TREASURY

Contents

CHAPTER 1: BUDGET OVERVIEW.....	1
CHAPTER 2: ECONOMIC DEVELOPMENTS AND OUTLOOK.....	6
2.1 WORLD ECONOMIC GROWTH AND OUTLOOK	6
2.2 EXCHANGE RATE DEVELOPMENTS	13
2.3 DOMESTIC ECONOMIC DEVELOPMENTS AND OUTLOOK	13
2.4 2018 ECONOMIC OUTLOOK	16
2.5 LABOUR MARKET	19
2.6 MONETARY DEVELOPMENTS	21
2.7 CONSUMER PRICE INDEX	21
2.9 RISKS TO MACROECONOMIC STABILITY	24
CHAPTER 3: FISCAL STRATEGY AND OUTLOOK.....	27
3.1 FISCAL BACKGROUND - 2017 BUDGET UPDATE	27
3.2 THE 2018 BUDGET STRATEGY	28
3.3 THE MEDIUM TERM FISCAL OUTLOOK	32
3.4 MEDIUM TERM FISCAL STRATEGY 2018-2022	34
CHAPTER 4: REVENUE	40
4.1 2018 REVENUE DEVELOPMENTS AND OUTLOOK.....	40
4.2 TAX REVENUE.....	40
4.3 GRANTS.....	44
4.4 OTHER REVENUE.....	44
4.5 MEDIUM TERM REVENUE OUTLOOK.....	45
4.6 SOVEREIGN WEALTH FUND (SWF).....	46
CHAPTER 5: TAX AND NON-TAX MEASURES AND DEVELOPMENTS.....	48
5.1 OVERVIEW	48
5.2 MEDIUM TERM REVENUE STRATEGY (MTRS) 2018-2022	49
5.3 MAJOR TAX POLICY MEASURES	50
5.3.1 STRENGTHENING REVENUE RAISING AGENCIES CONSISTENT WITH THE MTRS	50
5.3.2 REMOVING THE TRAINING LEVY AND DOUBLE DEDUCTION FOR TRAINING	51
5.3.3 SUSPENDING THE TARIFF REDUCTION PROGRAM (TRP), INCREASING IMPORT TARIFFS ON REFINED PETROLEUM PRODUCTS AND OTHER IMPORTED PRODUCTS.....	51
5.3.4 MODERATELY ALIGNING DIESEL EXCISE WITH PETROL EXCISE BY INCREASING DIESEL EXCISE FROM 10 TOEA TO 23 TOEA.....	52
5.3.5 CAPTURE RESOURCE RENT ON EXPORT OF UNPROCESSED OLD-GROWTH LOGS BY APPLYING A PROGRESSIVE DUTY RATE	53
5.3.6 CLARIFYING THE DEFINITION OF 'PRIMARY PRODUCTION'	53
5.3.7 ADDRESS ABUSE OF GST ZERO RATED STATUS OF EDUCATIONAL INSTITUTIONS.....	54
5.3.8 CLARIFY THE DEFINITION OF RESOURCE COMPANY IN THE GOODS AND SERVICES (GST) ACT TO ALLOW OPERATING LICENCE HOLDERS A GST ZERO RATED STATUS	54
5.3.9 ALIGN TAXATION TREATMENT OF ROYALTIES IN THE RESOURCE SECTOR TO BE A DEDUCTION RATHER THAN A TAX OFFSET.....	54
5.3.10 'PAY NOW LITIGATE LATER' POLICY TO IMPROVE COMPLIANCE	55

5.3.11	HOLDING PARENT COMPANIES LIABLE FOR SUBSIDIARY COMPANY TAX LIABILITIES TO IMPROVE COMPLIANCE	55
5.3.12	PROVIDING OPTIONS FOR TAXPAYERS TO PAY THEIR TAX LIABILITY AS THEY LODGE	56
5.3.13	IMPOSING PENALTIES FOR INCORRECT OR NON-DISCLOSURE OF LOSSES AND DEDUCTIONS .	56
5.3.14	TAXING PRESCRIBED CONTRACTS INCOME OF FOREIGN CONTRACTOR'S UNDER THE FOREIGN CONTRACTORS (WITHHOLDING) TAX (FCWT) REGIME	56
5.3.15	SIMPLIFYING THE ADMINISTRATION OF NON-RESIDENT INSURER'S TAX.....	57
5.3.16	LEGALISING TAXPAYER IDENTIFICATION NUMBERS (TIN)	57
5.3.17	INCREASE TAX CLEARANCE THRESHOLD FOR SENDING MONEY OVERSEAS TO REDUCE COMPLIANCE AND ADMINISTRATIVE COSTS	58
5.3.18	INTRODUCE A BRIBERY OFFENCE PROVISION TO MINIMISE FRAUD AND CORRUPTION	58
5.3.19	AMENDING THE SECRECY PROVISION TO PROVIDE TAX DATA TO THE EXTRACTING INDUSTRY TRANSPARENCY INITIATIVE (EITI) AND FINANCIAL ANALYSIS AND SUPERVISION UNIT (FASU)	58
5.3.20	ALLOW THE COMMISSIONER GENERAL TO DECLARE LANDOWNER RESOURCES TRUSTS WITH APPROVAL FROM TREASURY.....	59
5.3.21	REDUCING TAX ON TERMINATION PAYMENTS TO ALIGN WITH TAX ON SUPERANNUATION PAYMENTS.....	59
5.3.22	CONSTRUCTION OF APEC HAUS UNDER AN INFRASTRUCTURE TAX CREDIT (ITC).....	60
5.3.23	INTRODUCING TAX ADMINISTRATION ACT (TAA)	61
5.4	MODIFICATION TO 2017 BUDGET AMENDMENTS FOR CLARITY	61
5.4.1	CARVING OUT PROJECTS WITH FISCAL STABILITY CLAUSES IN PROJECT AGREEMENTS.....	61
5.4.2	INTRODUCE TRANSITIONAL PROVISION FOR APPLICATION OF ADDITIONAL PROFITS TAX (APT) TO EXISTING COMPANIES.....	62
5.4.3	ENSURING DIVIDENDS DISTRIBUTED THROUGH COMPANIES ARE TAXED ONCE	62
5.4.4	REINSTATE SUB-SECTION 189B (2) (F) OF THE ITA TO EXEMPT SUPERANNUATION FROM DIVIDEND WITHHOLDING TAX (DWT).....	63
5.4.5	CUSTOMS HARMONISED SYSTEM 2017.....	63
5.5	TECHNICAL AND HOUSE KEEPING AMENDMENTS	63
CHAPTER 6:	EXPENDITURE.....	64
6.1	OVERVIEW.....	64
6.2	DONOR FUNDING FROM DEVELOPMENT PARTNERS	66
6.3	BUDGET REFORMS	68
6.4	2018 ASIA PACIFIC ECONOMIC COOPERATION (APEC) LEADERS' SUMMIT	69
6.5	SECTOR EXPENDITURE.....	69
6.6	NON-FINANCIAL INSTRUCTIONS	78
6.7	TRUST ACCOUNTS	80
6.8	APPROPRIATION FOR TRUST ACCOUNTS: 2017 - 2018	81
6.9	TRUST ACCOUNT FUND MOVEMENTS IN 2017	82
6.10	DISTRICT SERVICE IMPROVEMENT PROGRAM TRUST ACCOUNTS	83
CHAPTER 7:	TAX EXPENDITURE	87
7.1	OVERVIEW	87
7.2	INFRASTRUCTURE TAX CREDITS (ITC)	87
7.2.1	ITC PARTICIPANTS AND IMPACT AREAS.....	88
7.2.2	ITC APPROVALS, EXPENDITURE AND TAX OFFSETS.....	88
7.2.3	EXPENDITURE BY DEVELOPER.....	89
7.2.4	PROGRESS OF TCS PROJECTS IN 2017	90
7.3	GOODS AND SERVICES TAX INCENTIVES	90
7.3.1	GOODS AND SERVICES TAX EXPENDITURE	91

7.4	OTHER TAX INCENTIVES	91
7.5	CHALLENGES AND RISKS.....	92
CHAPTER 8: FINANCING AND DEBT MANAGEMENT STRATEGY.....		93
8.1	FINANCING BACKGROUND TO THE 2018 BUDGET.....	93
8.2	FINANCING REQUIREMENTS 2018 BUDGET AND 2019-22 PERIOD	94
8.3	MEDIUM TERM DEBT STRATEGY (MTDS)	96
8.4	MANAGING PORTFOLIO RISK AND DEVELOPING THE BOND MARKET 2018-22.....	98
CHAPTER 9: NATIONAL REFORM AGENDA		101
9.1	OVERVIEW	101
9.2	PUBLIC SECTOR REFORM	102
9.3	A COMPETITIVE AND DYNAMIC PRIVATE SECTOR	104
9.4	REFORMS FOR ENHANCING COMPETITION IN PRIVATE SECTOR	105
9.4.1	CONSUMER & COMPETITION FRAMEWORK REVIEW.....	105
9.4.2	COMPETITION REGULATION AND CONSUMER PROTECTION	105
9.4.3	AVIATION INDUSTRY REVIEW	106
9.4.4	INFORMATION AND COMMUNICATIONS TECHNOLOGY (ICT) INDUSTRY.....	106
9.4.5	THE INFORMAL SECTOR AND SMALL-MEDIUM ENTERPRISES	106
9.4.6	FINANCIAL SERVICES SECTOR REVIEW.....	107
9.4.7	MICROFINANCE EXPANSION PROGRAM	107
9.4.8	PROPERTY SECTOR DEVELOPMENT	107
9.5	ASIA PACIFIC ECONOMIC COOPERATION (APEC)	108
9.5.1	PNG APEC 2018 HOST	108
9.5.2	APEC STRUCTURAL REFORM AGENDA	108
9.5.3	APEC FINANCE MINISTERS' PROCESS	108
9.6	IMPLEMENTATION OF THE SOVEREIGN WEALTH FUND OF PAPUA NEW GUINEA	109
CHAPTER 10: IMPROVING STATE'S COMMERCIAL INTEREST		110
10.1	OVERVIEW	110
10.2	STATE OWNED ENTERPRISE POLICIES	110
10.2.1	COMMUNITY SERVICE OBLIGATION (CSO) POLICY	110
10.3	STATE INVESTMENTS PERFORMANCE	111
10.3.1	THE GENERAL BUSINESS TRUST ASSETS	111
10.4	BROADER REFORMS	112
10.4.1	SUPPORTING THE RENEWABLE RESOURCE SECTORS	113
10.4.2	PUBLIC FINANCIAL MANAGEMENT ACT (PFMA) REFORMS	113
10.5	PUBLIC PRIVATE PARTNERSHIP (PPP)	114
10.6	MANAGING MINING AND PETROLEUM ASSETS	114
10.6.1	STATE EQUITY PARTICIPATION	114
10.6.2	TEMPLATE GAS AGREEMENT	114
10.6.3	DOMESTIC MARKET OBLIGATION	115
10.7	EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE (PNG EITI)	115

Tables

TABLE 1: 2016 – 2017 BUDGET BALANCE (KINA, MILLION)	28
TABLE 2: 2018 BUDGET AND MEDIUM TERM REVENUE PROJECTIONS (KINA, MILLION)	29
TABLE 3: 2018 CAPITAL EXPENDITURE BUDGET (KINA, MILLION)	31
TABLE 4: 2018 CAPITAL BUDGET EXPENDITURE BY SECTORS (KINA, MILLION)	31
TABLE 5: BUDGET BALANCE 2016 – 2018 (KINA, MILLION)	32
TABLE 6: BUDGET BALANCE 2016–2022 (% OF GDP)	33
TABLE 7: MEDIUM TERM FISCAL STRATEGY (MTFS) 2018-2022	35
TABLE 8: KEY REFORMS INCLUDED IN THE MEDIUM-TERM REVENUE STRATEGY 2018-2022.....	36
TABLE 9: KEY MEASURES INCLUDED IN THE MEDIUM TERM EXPENDITURE STRATEGY	38
TABLE 10: KEY MEASURES INCLUDED IN THE MEDIUM TERM DEBT STRATEGY.....	39
TABLE 11: TOTAL REVENUE AND GRANTS (KINA, MILLION)	40
TABLE 12: TAXES ON INCOME AND PROFITS.....	41
TABLE 13: TAXES ON PAYROLL AND WORKFORCE	42
TABLE 14: TAXES ON GOODS AND SERVICES	42
TABLE 15: TAXES ON INTERNATIONAL TRADE AND TRANSACTIONS	44
TABLE 16: GRANTS (KINA, MILLION).....	44
TABLE 17: OTHER REVENUE (KINA, MILLION)	45
TABLE 18: MEDIUM TERM REVENUE PROJECTIONS 2017-2022.....	46
TABLE 20: PROPOSED STEPPED FASHION PROGRESSIVE EXPORT DUTY RATE	53
TABLE 21: 2018 AGGREGATE EXPENDITURE.....	65
TABLE 22: 2018 EXPENDITURE BY SECTOR (KINA, MILLION)	66
TABLE 23: 2018 LOANS, GRANTS AND GOVERNMENT COUNTERPART FUNDING (KINA, MILLION)	67
TABLE 24: AMALGAMATING AGENCIES	79
TABLE 25: SUMMARY OF TRUST ACCOUNTS MOVEMENTS 2005 – 2017 (KINA, MILLION)	80
TABLE 26: PROGRAMS APPROPRIATED OUTSIDE OF TRUST	81
TABLE 27: APPROPRIATION FOR TRUST ACCOUNTS: 2017 - 2018 (KINA, MILLION)	81
TABLE 28: TRUST ACCOUNT MOVEMENTS FROM 01 ST JANUARY TO 30 TH SEPTEMBER 2017 (KINA, MILLION)	82
TABLE 29: BANK BALANCES OF THE 89 DISTRICT SERVICE IMPROVEMENT PROGRAM BANK ACCOUNTS.....	84
TABLE 30: SUMMARY OF ITC PROJECTS APPROVED AND EXPENDITURE INCURRED (KINA MILLION)	89
TABLE 31: TCS EXPENDITURE AND APPROVALS BY DEVELOPER (KINA MILLION)SS	90
TABLE 32: SUMMARY OF REVENUE FOREGONE ON GST EXEMPT SALES, ZERO RATE SALES AND IMPORT DEFERRAL SCHEMES (KINA, MILLION)	91
TABLE 33: DEFICIT FINANCING PROJECTIONS BY INSTRUMENT 2018-2022.....	94
TABLE 34: DEBT STOCK AS A SHARE OF GDP 2017-2022 (KINA, MILLIONS)	96
TABLE 35: PERCENTAGE OF FOREIGN CURRENCY DEBT TO TOTAL CENTRAL GOVERNMENT DEBT.....	100
TABLE 36: PERCENTAGE OF TREASURY BILLS TO DOMESTIC DEBT PORTFOLIO.....	100
TABLE 37: AVERAGE MATURITY OF THE DOMESTIC DEBT PORTFOLIO	100
TABLE 38: MERGING AGENCIES	103
TABLE 39: GENERAL BUSINESS TRUST (GBT ASSETS), AS AT 31 ST DECEMBER 2016.....	112
TABLE 40: DIVIDENDS TO THE STATE. (K MILLION)	112

Charts

CHART 1: WORLD ECONOMIC GROWTH (1992-2022)	7
CHART 2: WORLD INFLATION (PER CENT GROWTH)	8
CHART 3: IMF ALL COMMODITY PRICE INDEX.....	9
CHART 4: PNG ALL COMMODITY PRICE INDEX.....	9
CHART 5: COPPER PRICE	9
CHART 6: COPPER PRICE AGAINST STOCK	9
CHART 7: CRUDE OIL PRICE	10
CHART 8: CRUDE OIL PRICE AGAINST STOCK	10
CHART 9: GOLD PRICE	11
CHART 10: PRICE INDEX OF PALM OIL & COFFEE.....	12
CHART 11: PRICE INDEX OF COPRA & COCOA	12
CHART 12: TRADE WEIGHTED INDEX.....	13
CHART 13: EXCHANGE RATE DEVELOPMENTS	13
CHART 14: REAL ECONOMIC GROWTH (2007-2022).....	15
CHART 15: CONTRIBUTION TO GROWTH BY SECTORS, 2017 AND 2018	17
CHART 16: EMPLOYMENT INDEX	19
CHART 17: TOTAL EMPLOYMENT GROWTH	19
CHART 18: MINING & NON MINING EMPLOYMENT GROWTH	20
CHART 19: INDUSTRIAL EMPLOYMENT	20
CHART 20: WAGES INDEX.....	20
CHART 21: MONEY SUPPLY (ANNUAL, KINA MILLION)	21
CHART 22: INFLATION OUTCOME AND PROJECTION 2004-2022	22
CHART 23: BALANCE OF PAYMENT	23
CHART 24: INTERNATIONAL RESERVES.....	24
CHART 25: NET BORROWING (-) / NET LENDING (+) AS A PERCENTAGE OF GDP OVER THE MEDIUM TERM.....	33
CHART 26: MEDIUM TERM FISCAL OUTLOOK	34
CHART 27: TOTAL REVENUE AND GRANTS 2016-2022.....	46
CHART 28: FISCAL BALANCE AND DEBT STOCK (2012-2017)	93

CHAPTER 1: BUDGET OVERVIEW

1.1 ECONOMIC OUTLOOK

In 2018, the global economy is projected to grow at 3.7 per cent, 0.1 percentage point higher than the 3.6 per cent rate projected in the April and July of 2017 World Economic Outlook (WEO) report, as the recent cyclical pickup is anticipated to continue with the growth impetus emanating from the emerging market and developing economies (EMDEs).

In 2018, the PNG economy is expected to pick up modestly to 2.4 per cent in real terms driven by factors such as the hosting of the APEC meetings, higher domestic Government spending, reduction in the foreign exchange imbalance due to a substantial increase in external financing and an improved coffee season and expectations of increased demand for copra and copra oil. An important feature of this higher growth rate in 2018 is driven by the non-mining sectors of the economy which has direct effect on the bulk of PNG's rural population.

The PNG economy is expected to grow at an average of 2.4 per cent over the medium term. This is largely driven by the non-mining sectors of the economy, particularly the agriculture, fishery and forestry sectors. This positive outlook will assist in supporting the first 25 critical policy actions envisioned by the O'Neil-Abel led Government.

Inflation is projected to increase by 1.0 percentage point from 5.9 per cent in 2017 to 6.9 per cent in 2018. This reflects the anticipated increase in import tariffs and excise rates in the 2018 Budget, higher global commodity prices and higher spending and consumption of goods and services during the APEC meetings.

In terms of International Trade, the current account surplus is expected to be K20.8 million or 26 per cent of GDP. This is a slight increase of 2.4 per cent from the 2017 estimate and reflects increase in the trade surplus due to growth in agricultural exports whilst the mining exports are subdued. Gradual improvements in the foreign exchange imbalance are expected in 2018 as a result of the Central Bank's injection of foreign currency as outlined in the Government's 100 Day Plan.

1.2 FISCAL STRATEGY

The 2018 National Budget is framed against an improved economic condition but still relatively weak world economic environment with subdued commodity price outlook. It is also faced with lower than anticipated growth within the domestic economy coupled with decline in revenue. Economic conditions are still being adversely affected by the foreign exchange imbalance, constraints on domestic public expenditure and the accumulation of significant arrears payment.

To proactively manage these pressures, the Government's fiscal strategy for 2018 aims at placing a greater emphasis on revenue mobilisation, limit certain expenditure growth and institute a number of reviews to increase efficiency in spending and remove economic impediments to private sector investment, correct the foreign exchange imbalance and improve governance. These measures will provide a strong foundation enhancing fiscal consolidation efforts going forward.

Pursuit of the above reforms and strategies are consistent with and are guided by the Government's broader policy framework such as the *Vision 2050*, *PNG Development Strategic Plan (DSP) 2010-2030*, the *Medium Term Development Plan 2/3 (MTDP2/3) 2016-2017*, the

National Strategy for Responsible Sustainable Development (StaRS)) and the Fiscal Responsibility Act (FRA) 2006.

The 2018 Budget is the first year of implementing the *Medium Term Fiscal Strategy 2018-22* which also comprises of the *Medium Term Debt Strategy 2018-22*; *Medium Term Expenditure Strategy 2018-22* and the *Medium Term Revenue Strategy 2018-22*.

1.3 REVENUE

Revenues in 2018 are expected to be supported by an improving economic outlook for the domestic economy, a modest lift in PNG's commodity price index, increased Government spending on public investment, the payment of arrears, 2018 APEC activities and, critically, on a substantial effort to improve tax compliance and non-tax revenue collections, as well as a number of additional tax measures. Increased revenue efforts in this Budget build on the measures and priorities presented in the Government's 100 Day Plan.

Taxation reforms envisioned in the *Medium Term Revenue Strategy (MTRS) 2018-2022* as well as recent amendments to the PFMA, especially on non-tax revenue, will greatly support revenue mobilisation in 2018 and over the medium term.

Total Government Revenue in 2018 is projected to be K12,730.7 million, comprising K9,639.4 million in Taxes, K1,024.6 million in Donor Grants and K2,066.7 million in other Revenue (fees and charges and property income).

1.4 TAX AND NON-TAX MEASURES AND DEVELOPMENTS

The Government's total revenue has declined significantly since 2015 and to offset this decline, progress has been made in reducing expenditures in the period 2015-2017. However, the reductions to expenditure have not kept pace with the fall in revenue leading to higher budget deficits that had great difficulty in being financed and a higher than programmed increase in debt.

Given the restrained world economic outlook and low domestic demand in PNG, major reductions in expenditure are not the way forward. In contrast, given PNG's very low tax to GDP ratio, a major push to increase tax and non-tax revenues is the critical policy approach in the 2018 Budget and over the medium term to fund more productive public expenditure and achieve macroeconomic stability.

A *Medium Term Revenue Strategy (MTRS) 2018-2022* has been developed which incorporates a number of recommendations from the PNG Taxation Review in 2015 and a recent report by the International Monetary Fund (IMF) on PNG's tax administration, policy and legislation which provided a high level road map for a robust medium term revenue strategy. The new MTRS builds on this work and provides a detailed framework for improving the effectiveness and efficiency of PNG's tax system to deliver higher and sustained collections but in an equitable manner.

Consistent with the new MTRS and guided by the Alotau Accord II and the Government's 100 Day Plan, the 2018 Budget introduces a number of revenue policy measures. These predominately focus on achieving much greater compliance, particularly from large taxpayers, tightening up concessions, increasing some specific rates that broaden the tax net, and transferring significant underutilised resources from a number of agency trust funds.

1.5 EXPENDITURE

Total expenditure in 2018 Budget is estimated to be K14,717.9 million comprising of K13,099.4 million in GoPNG funding, K593.9 million in loans and K1,024.6 million in grants. The total expenditure is higher by K1,862.3 million or 14.5 per cent compared to the 2017 Supplementary Budget and the higher expenditure ceiling compared with revenue of K12,731.0 million, this will result in a net borrowing of K1,987.3 million or 2.5 per cent of GDP.

The higher expenditures in 2018 Budget will fund the Government's development agenda with a view to "growing the economy" and empower its citizen. The 2018 Budget is framed with the following guiding principles:

- facilitate the hosting of the 2018 APEC Leaders' Summit;
- sufficiently fund all fixed costs such as Personnel Emoluments, Utilities and Office Rentals;
- continue to support government's major socio-economic priorities such as education, health, infrastructure, agriculture, tourism and Small to Medium Enterprise;
- place emphasis on monitoring, evaluation and compliance to achieve improved development outcomes;
- consolidating revenue base;
- strengthening efficiency in the public sector; and
- creating the precondition and laying the foundation for sustained growth and development of the country by investing in critical enablers and renewable resource sector while recognizing the need for macroeconomic stability by returning to a balance budget beyond 2022.

1.6 STATUS OF TRUST ACCOUNT

Since 2005, a total of K10,524.7 million has been paid into trust accounts to implement priority expenditure programs. These Trust Accounts have largely been funded from additional mineral revenue in supplementary budgets and annual budgets.

A total of K802.0 million has been appropriated for trust accounts in the 2017 Budget. Of this amount, K491.6 million has been paid into trust accounts as at 30th September 2017 with the remainder to be paid when funds become available in 2017.

1.7 TAX EXPENDITURE

The GoPNG provides a number of tax incentives, tax holidays, zero-ratings and deferral schemes to the commercial sector in order to incentivise business activity and thereby reduce the cost of doing business in PNG. The tax expenditure through incentives and credit schemes can also be deemed as Government expenditures towards specific sectors.

Over the years, the number of tax incentives scheme has increased, driven by successive Governments' economic policies and priorities but, as a part of its reform agenda, the Government will strengthen the governance and reporting mechanisms around these tax incentives provided to its taxpayers. As direct Government expenditures are scrutinised during the annual budget process by Parliament and Parliamentary committees, the media and the general public, tax expenditures by the Government will now receive the same level of scrutiny.

In the 2018 Budget, the Government will provide an overview of these schemes and a brief update on the tax revenue forgone to taxpayers. This will increase transparency around those schemes and will also assist and inform debate on the design and development of the tax system including its effect on the distribution and allocation of scarce resources.

1.8 FINANCING AND DEBT STRATEGY

The decline in revenue in recent years with expenditure trending upward in rigid expenditure categories had resulted in accumulation of substantial debt and debt service. In order for the Government to provide goods and services including its priority expenditures in Health, Education, Infrastructure and Small to Medium Enterprises, the Government is inevitably forced to run higher than programmed Budget deficits in the recent years.

The 2018 Budget has been formulated against a very difficult set of financing constraints. It is the first budget in the new *Medium Term Debt Strategy 2018-22* that will seek to navigate a course that meets the Government's financing, yet places the portfolio on a declining debt to GDP trend wherein a 30 per cent ratio will be attained by 2022 which is in compliance with the *Fiscal Responsibility Act 2006*.

1.9 NATIONAL REFORM AGENDA

In 2018, the Government will implement a number of reforms to ensure macroeconomic stability and sustained economic growth over the medium term and will be assisted by the implementation of the MTRS which will lift revenue and stabilise the ratio close to 14 per cent over the medium term. Correspondingly, the Government will reorient the composition of the 2018 Budget by reprioritizing and reallocating spending from less efficient expenditure areas to spending in higher value priorities that will enhance overall economic growth and still achieve the strategic development goals of the Government.

The Government will continue with reforms in the area of public finance management to remove and streamline structural issues preventing transparent, accountable and effective use of public money and will also include the management of the public service associated with increase wage bills over the years. This reform will be undertaken through the Public Sector Reform Working Group (PSRWG) by the subcommittee working group called the Organisational, Staffing and Personnel Emolument Audit Committee (OSPEAC).

Furthermore, the Government will also continue to pursue a comprehensive national reform agenda to support greater private sector participation at the micro-level aimed at creating an enabling and conducive environment for private sector growth and development. As part of this reform agenda, the Government will partner with key stakeholders in removing barriers to doing business and investment in PNG.

Another significant Government agenda in 2018 is the hosting of the Asia Pacific Economic Cooperation (APEC) Meeting which will be of great significance as it will market PNG to the region, increase domestic demand for goods and services and lift public and private sector confidence. This will lead to greater investment levels and economic growth in the future.

1.10 IMPROVING STATE'S COMMERCIAL INVESTMENTS

The State-Owned Entities (SOEs) are profit-oriented commercial entities that aim to generate revenue through provision of essential services and the Government has invested significantly in them through direct capital investment or indirect through retained profits for further investments to adequately resource and ensure service delivery. Therefore, the Government expects positive returns on its investment through dividends.

The State through the implementation of various policy reforms envisage to promote greater efficiencies in the management and governance of the state's investments. This includes measures to be implemented in 2018 and over the medium term to establish proper policy structures and frameworks to boost SOEs' performance going forward.

CHAPTER 2: ECONOMIC DEVELOPMENTS AND OUTLOOK

2.1 WORLD ECONOMIC GROWTH AND OUTLOOK

2.1.1 Economic Activity

The pickup in global economic activity is gaining momentum with the International Monetary Fund (IMF) projecting global real GDP growth in 2017 to increase by 0.1 percentage points to 3.6 per cent from the April and July forecasts – and above the 3.2 per cent growth in 2016, in its October 2017 World Economic Outlook (WEO) report. The revised forecast reflects a stronger rebound in advanced economies and a lift in the growth prospects for emerging and developing economies.

Growth in advanced economies is expected to pick up to 2.2 per cent in 2017, 0.2 percentage points higher than the April WEO forecast and notably above the 1.7 per cent in 2016 reflecting faster growth in domestic demand and output among advanced economies in the first half of 2017.

In the United States, consumption has improved, while business investment continued to strengthen, partly reflecting a recovery in the energy sector and stronger private consumption. Investment and external demand bolstered the overall growth momentum in the first half of the year in the Europe and Japan and growth in most of the other advanced economies, except the United Kingdom, picked up in the first half of 2017 from the slow pace recorded in the second half of 2016.

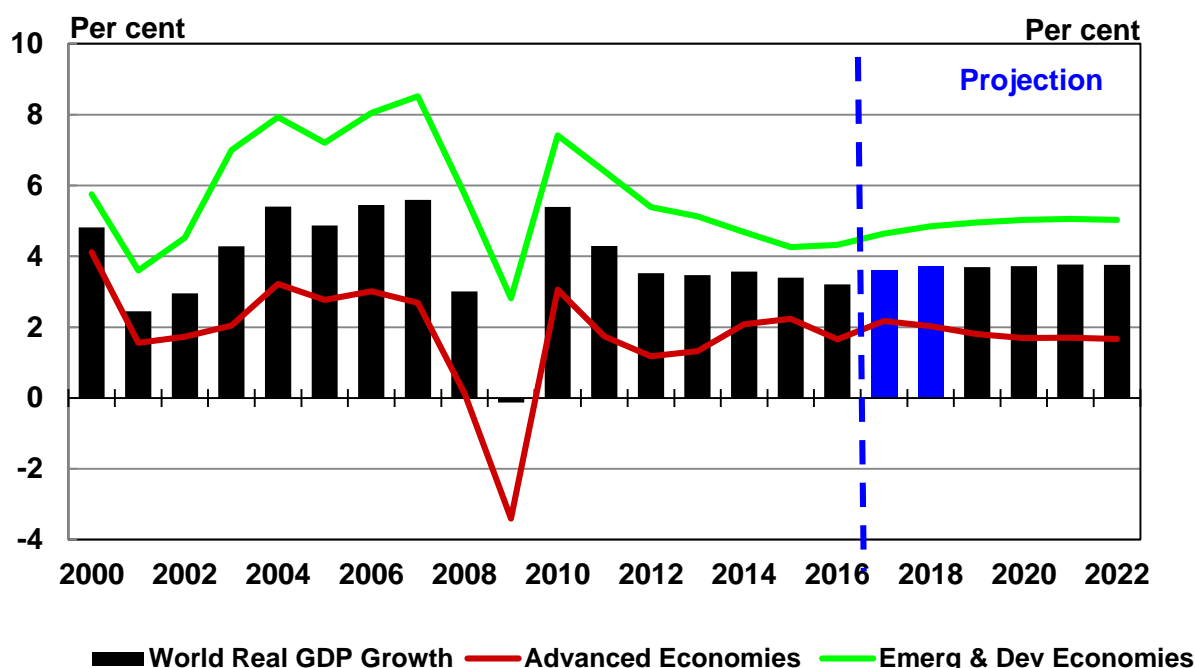
Growth in emerging market and developing economies (EMDEs) was marked up by 0.1 percentage point for 2017 (4.6 per cent growth against 4.5 per cent in the April WEO) primarily driven by buoyant external demand in China in the first half of 2017. In contrast, India experienced subdued growth due to the lingering impact of the authorities' currency exchange initiative, as well as uncertainty relating to the mid-year introduction of the countrywide goods and services tax.

Brazil's strong export performance offset the contraction in domestic demand allowing the economy to return to positive growth in the first half of 2017 following eight quarters of growth contraction. Mexico maintained its growth momentum, despite uncertainty related to the renegotiation of the North American Free Trade Agreement and significant monetary tightening over the past two years.

In Russia and Turkey, a recovery in domestic and external demand supported the rebound in growth.

The IMF also cautioned that the recovery in global growth is not complete, noting that growth remains weak in many countries, and inflation is below target in most advanced economies.

Commodity exporters, especially for fuel, are being particularly hard hit due to a sharp drop in export earnings. Nonetheless, the cyclical pickup in global activity provides a window of opportunity to tackle key policy challenges – namely to boost potential output while ensuring its benefits are broadly shared and to build resilience against downside risks.

Chart 1: World Economic Growth (2000-2022)

Source: International Monetary Fund (IMF), World Economic Outlook (WEO) October 2017

In 2018, the global economy is projected to grow at 3.7 per cent, 0.1 percentage point higher than the 3.6 per cent rate projected in the April and July WEO, as the recent cyclical pickup is anticipated to continue with the growth impetus emanating from the EMDEs. These economies are projected to grow at 4.9 per cent, an increase from 4.6 per cent in the April WEO, reflective of stronger projected activity in China and emerging Europe. In advanced economies, the growth forecast is unchanged, with lower projected growth for the US, Japan and other advanced economies offsetting higher projected growth in the euro area.

Beyond 2018, global growth is projected to increase marginally reaching 3.8 per cent by 2021 driven entirely by the EMDEs which are projected to grow by 5.0 per cent by the end of the forecast period. Global growth over this period is also expected to be supported by commodity exporters, a gradual increase in India's growth rate resulting from implementation of structural reforms, continued strong growth in other commodity importers and a lower but still high trend growth rate in China.

In contrast, following a reduction in excess capacity, growth in advanced economies is projected to gradually decline towards a potential growth rate of 1.7 per cent. In the US, growth over the projection period is anticipated to moderate reflecting sluggish growth in total productivity and an aging of the population. Growth in the euro area, the United Kingdom and Japan is expected to be subdued generally reflecting economic slack and country-specific factors.

Risks associated with the current economic outlook are more balanced in the short-term, however, are skewed to the downside over the medium-term. In the short-term, the recovery could strengthen further supported by strong consumer and business confidence and benign financial conditions manifested in maintenance of low interest rates. On the downside, low inflation and wages growth against higher personal debt levels will tend to contain demand, and significant policy uncertainty and geo-political tensions could adversely impact market confidence leading to weaker asset prices and consequent lower investment levels.

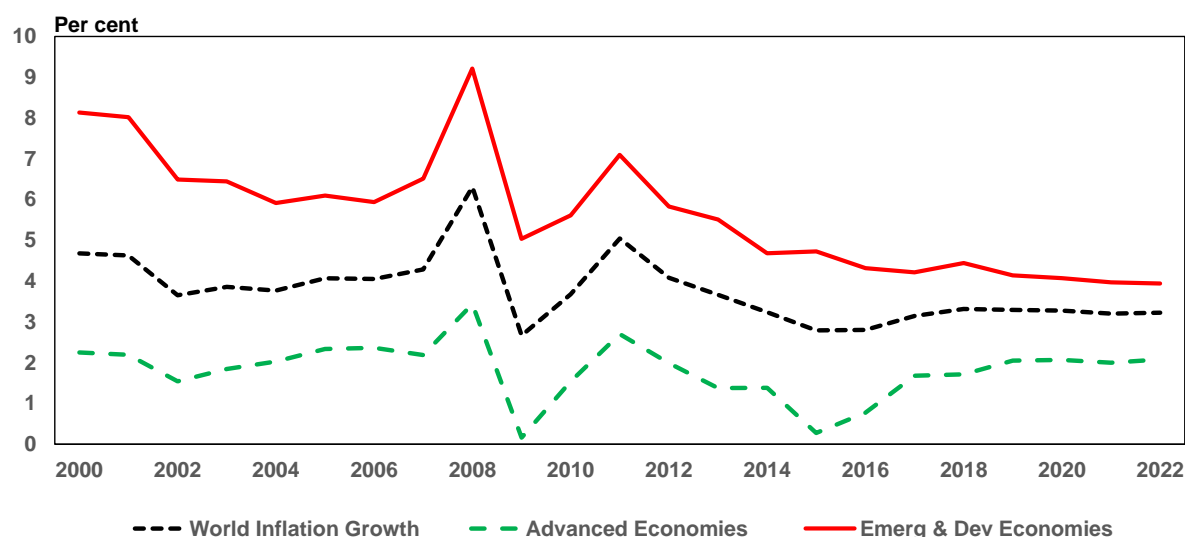
Over the medium-term, downside risks stem from a host of financial tensions related to excessive debt and gearing levels, subdued productivity growth, political support for inward-looking policies, excess supply in most commodities and persistently low inflation in advanced economies.

2.1.2 World Inflation

According to the October 2017 WEO, headline inflation is projected to increase modestly in both the advanced economies and EMDEs, compared with the April 2017 WEO forecast. This moderation partly reflects weaker-than-expected oil prices between the two periods.

In advanced economies, headline inflation is projected to increase by 0.9 percentage points from 0.8 per cent in 2016 to 1.7 per cent in 2017, reflecting the cyclical recovery in demand and commodity prices over the second half of 2016 and into 2017. In 2018, inflation is projected to remain at 1.7 per cent before increasing by 0.3 percentage points to 2.0 per cent over the medium term.

Chart 2: World Inflation (Per cent Growth)



Source: International Monetary Fund (IMF), World Economic (WEO) October 2017

Note: Advanced Economies inflation in 2009 was 0.162 per cent.

Inflation in EMDEs¹ is projected at 4.2 per cent in 2017 before increasing slightly to 4.4 per cent in 2018.

2.1.3 Mineral and Petroleum Commodities

Movements in commodity prices continued to track developments in the global economy in 2017 with prices of PNG's major exports, especially crude oil remained in line with expectations whilst copper prices rallied steadily on supply-side issues, stronger-than-expected demand from China and a weaker US dollar. Nickel prices increased quite strongly over 2017 due to higher demand for stainless steel and as an emerging input into battery storage while gold prices increased on safe-haven demand associated with ongoing geopolitical uncertainties and maintenance of low world interest rates.

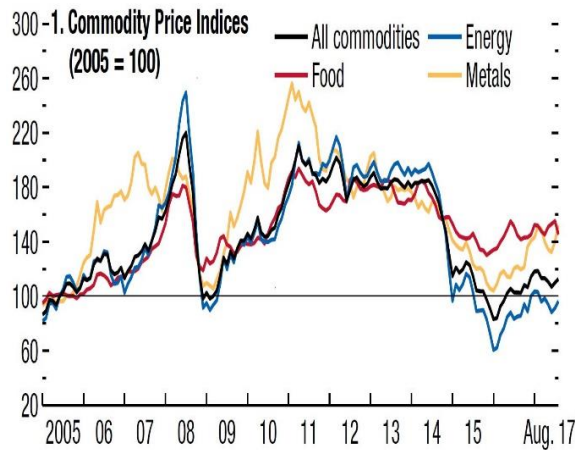
The BPNG's All Price Commodity Index² is a relevant indicator in assessing movements in PNG's key commodity export prices and showed that in the first half of 2017, prices of PNG's

¹ Excluding Argentina and Venezuela

² BPNG 2017 June quarter QEB data.

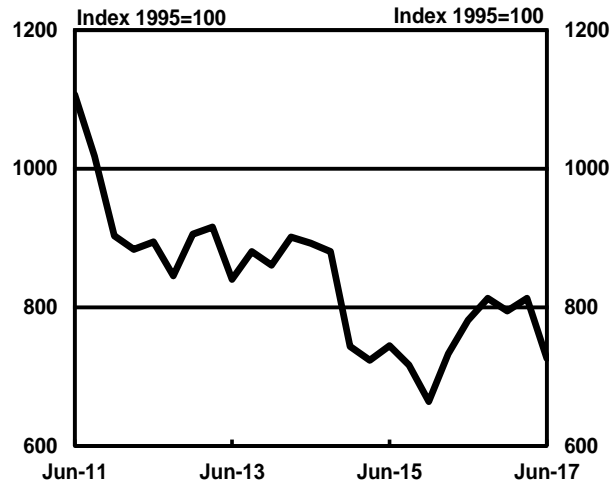
major exports declined by 7.0 per cent compared to the same period in 2016. Recent data shows copper, and copra oil gradually improving while gold and other agricultural commodities fluctuating at current levels

Chart 3: IMF All Commodity Price Index



Source: International Monetary Fund (IMF) October WEO

Chart 4: PNG All Commodity Price Index



Source: Bank of PNG

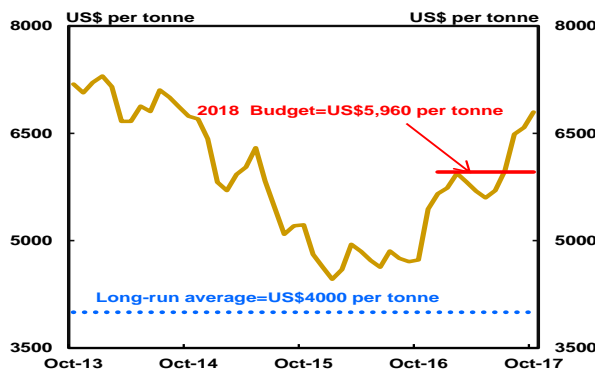
Copper

Copper prices reached a high of US\$6,145 per tonne in mid February 2017 before trading between US\$5,500 to US\$6,000 per tonne till mid-year. Temporary supply disruptions at several major copper mines due to industrial action in Chile and Peru (two of the world's largest copper producers) and Government intervention on trade and mine operations in Indonesia have supported the price of copper despite downward pressure from weaker demand from China.

While most impacted mines restarted by mid-year, renewed disruption to supply from Chile combined with a turnaround in global demand from China due to solid manufacturing and construction activity, resulted in copper prices rebounding strongly to a three-year high of US\$7,073.5 per tonne in late October 2017. In addition, expectations of a ban by China on imports of scrap metal and a softer US dollar also contributed to the copper price rally.

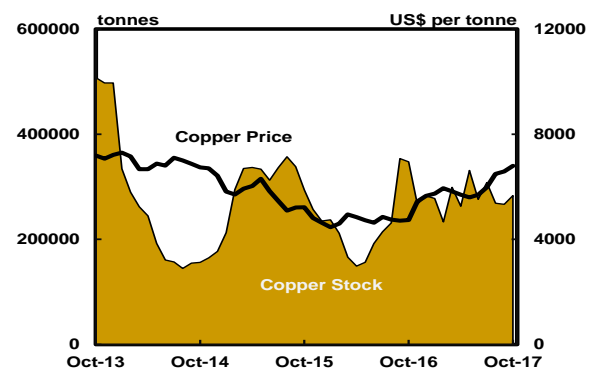
On average in 2017, Copper price is trading around US\$6,086.7 per tonne, which is 27.8 per cent higher than last years' average.

Chart 5: Copper Price



Source: London Metal Exchange

Chart 6: Copper Price against Stock



Source: London Metal Exchange

In 2018, the copper price is expected to trade at similar levels to 2017 with a pickup in demand from higher global growth offset by strong growth in mine supply. An upside to this price outlook includes a projected deficit in the copper market by the International Copper Study Group.

Furthermore, any supply disruption in 2018 will lend support to prices. Consistent with this outlook, the 2018 Budget assumption for copper price is US\$5,960 per tonne.

Crude Oil

Crude oil prices³ continued to fluctuate in line with developments in supply and demand fundamentals, particularly activity in the US shale industry and the Agreement⁴ between the Organisation of Petroleum and Exporting Countries (OPEC) and Non-OPEC producers to trim output.

The Agreement to trim oil output provided an immediate boost with oil prices increasing from US\$43 per barrel at the end of November 2016 to trade between US\$50 and US\$55 per barrel until February 2017. However, this trend reversed to a year-low of US\$42.5 per barrel in late June. According to the 2017 October IMF WEO report, the main drivers were strong US shale production and stronger production recovery in Libya and Nigeria. Furthermore, exports from the OPEC countries continued to be sustained at relatively high levels.

Recent developments show oil prices rebounding noticeably to US\$57 per barrel in early November 2017 due to a slowdown in US shale production, a sharp decline in US oil inventories in July and August, geopolitical tensions in the Middle East, improved compliance of OPEC production cuts and expectations of a possible extension of the agreement beyond March 2018.

On average in 2017, the crude oil price is trading around US\$50.0 per barrel which is 16.9 per cent higher than last year's average.

Chart 7: Crude Oil Price

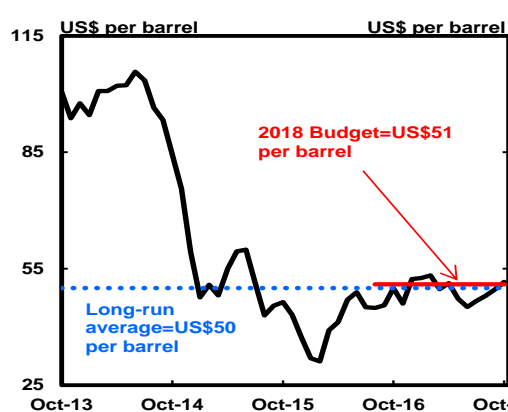
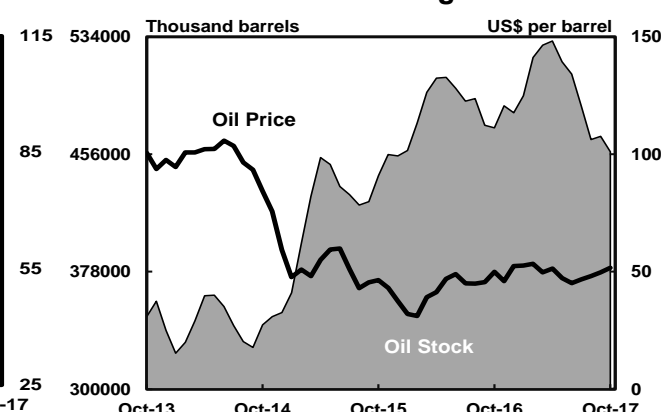


Chart 8: Crude Oil Price against Stock



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

In 2018, the oil price is expected to increase modestly to US\$51 per barrel in line with possible extensions to the OPEC and Non-OPEC production cut agreement and expected improvement in global demand. Additionally, continued geopolitical tensions in the Middle East

³ West Texas Intermediate

⁴ The Agreement known as the "Vienna Agreement", was reached on 30th November 2016. In this Agreement, OPEC producers agreed to trim production by 1.2 million barrels a day (mbd) from October 2016 production levels, effective from 1st January 2017. On 10th December 2016, OPEC and Non-OPEC producers agreed to jointly cooperate to help stabilize the oil market with the Non-OPEC producers committing to adjust down their production by an additional 0.6 mbd (bringing the total cuts to 1.8 mbd). This agreed adjustment to production is to end March 2018.

could support prices. On the downside, weak compliance and strong US shale oil production could suppress the hike in prices.

Gold

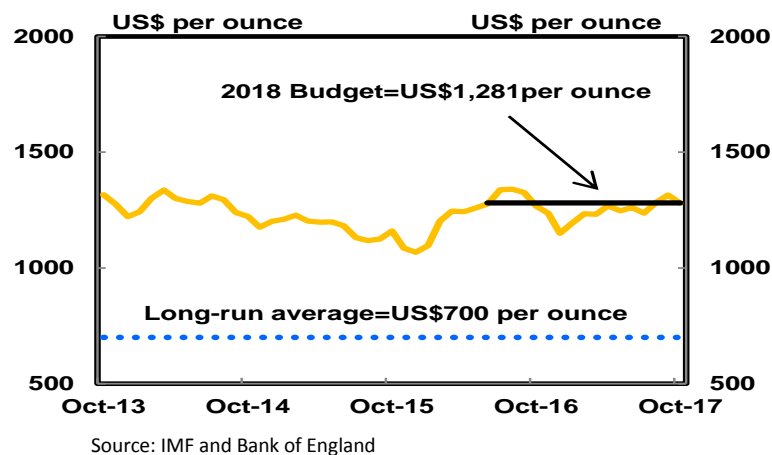
Gold prices continued to mirror developments associated with the US economy and uncertainties in the global economy.

In the first quarter of 2017, the gold price trended upward on safe haven demand amid geo-political and economic uncertainty, and remained at elevated levels despite the US Fed interest rate increase in March. According to the 2017 April Commodity Market Outlook report by the World Bank, a number of factors have pushed investors towards gold as a safe haven asset, notably rising global tensions surrounding Afghanistan, Syria and North Korea, the deterioration of the Russia-US relationship, and upcoming elections in several countries amid rising populist sentiment.

According to the 2017 October Energy & Metals Consensus Forecasts report, the gold price has declined since mid-September as risk sentiment improved after the US President Trump took steps toward a major tax cut to boost the US economy. Moreover, a stronger US dollar, a somewhat easing of political tensions on the Korean peninsula and expectations of a likely rise in the US interest rates by the US Federal Reserve (US Fed) in December have dented the attraction of the non-yielding precious metal.

On average, the gold price has traded around US\$1,255 per ounce in 2017 which is 0.5 per cent lower than last years-average.

Chart 9: Gold Price



In 2018, the gold price is projected to be slightly higher than 2017 due to ongoing safe-haven demand resulting from geo-political and economic concerns in the US. On the downside, decisions on interest rate hikes in the short-term by the US Fed will weigh on the gold price. Based on this outlook, the 2018 Budget assumption for gold price is US\$1,281 per ounce.

2.1.3 Agriculture Commodities

Prices for PNG's key agricultural exports have been subjected to developments in commodity specific supply-side conditions and the recent turnaround in global economic activity.

Coffee

The international coffee market has remained well supplied in 2017 resulting in coffee prices declining from the recent highs in 2016. While the harvest of the Brazilian 2017 crop is almost complete amid concerns about relatively small bean size, prospects for the upcoming Vietnamese crop seem more positive. Meanwhile, weather conditions in Brazil have been favourable with no incidence of frost and sufficient rainfall leading to ample flowering which underpins a positive outlook for the 2018 crop.

Cocoa

Cocoa price movements mirrored fluctuations in supply and demand in the cocoa market. On the supply side there remains excess supply, while on the demand-side there is an improvement in chocolate sales by manufacturers which has boosted prices recently. The outlook for the 2017 and 2018 crop is positive which reflects favourable weather conditions in most of the West African region. Should these conditions prevail, projections for a second consecutive global surplus of cocoa beans is expected in 2018.

Palm Oil

The price of palm oil is mainly influenced by developments in Southeast Asia. Palm oil prices have picked up in 2017 reflecting lower output in Malaysia and Indonesia due to the Ramadan holidays and strong world import demand, including seasonal demand from China and India ahead of the mid-autumn festival, and strength in soy oil.

Production is projected to rise in 2018. If the projections materialise, there will be a global production surplus of palm oil in 2018. Stocks will recover more or less sharply and this could result in some downward pressure on palm oil prices in 2018.

Copra Oil

Prices for copra oil remain high reflecting high demand for fresh water coconuts (kulau) while ageing trees threaten to curtail world supply but this demand, as well as ageing trees have led to less dry nuts available for copra production. Considering the 2017 market conditions, coconut oil prices for 2018 are anticipated to continue to increase in 2018.

Chart 10: Price Index of Palm Oil & Coffee

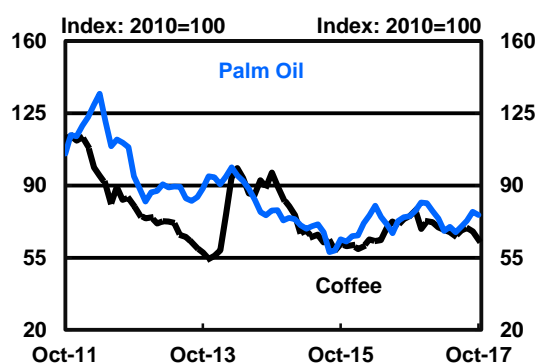
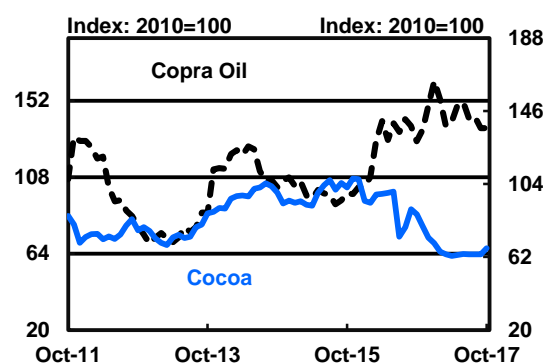


Chart 11: Price Index of Copra & Cocoa



Source: International Monetary Fund (IMF) and Reuters

Over the year to October, coffee prices averaged around US\$3,439 per tonne, cocoa prices averaged US\$2,023 per tonne, coconut oil prices averaged US\$1,631 per tonne and palm oil prices averaged US\$629 per tonne. Generally, prices for key PNG agricultural exports are expected to continue to decrease in 2018 except for copra oil.

2.2 EXCHANGE RATE DEVELOPMENTS

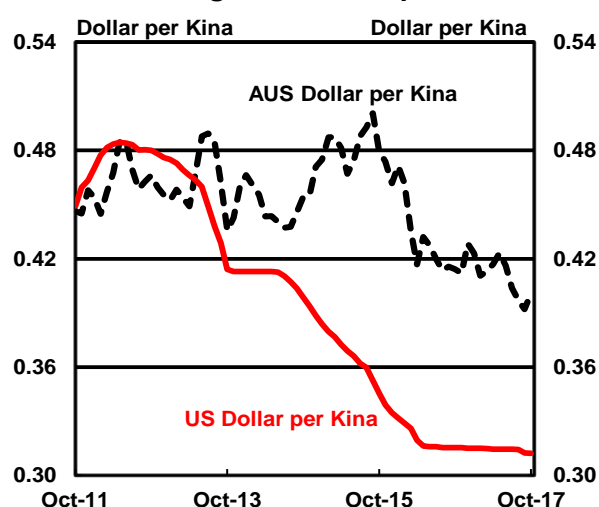
PNG's Trade Weighted Index⁵ (TWI) continued to ease over 2017, reflecting the ongoing mixed performance of the Kina against PNG's major trading partner currencies. In recent months the Kina has exhibited stability against the US dollar (USD). As shown in Chart 12, PNG's TWI declined by 2.4 per cent relative to end 2016 particularly against the Australian Dollar (AUD) by 1.7 per cent and against the US dollar by 5.0 per cent.

According to the Bank of PNG September 2017 Monetary Policy Statement (MPS), the marginal depreciation of the Kina against the US dollar reflected improved foreign exchange inflows mainly from the mineral and agriculture sectors. Against the AUD, the Kina depreciated as a result of cross-currency losses, as the AUD strengthened against the USD on increased global prices for Australia's major commodity exports.

Chart 12: Trade Weighted Index



Chart 13: Exchange Rate Developments



Source: Bank of Papua New Guinea

Between end 2016 and October 2017 the Kina also depreciated against the Euro (-3.5 per cent), the New Zealand Dollar (-3.9 per cent), the Korean Won (-3.7 per cent), the Singaporean Dollar (-1.6 per cent) and the Hong Kong Dollar (-1.3 per cent). Conversely, the Kina appreciated against the Malaysian Ringgit (+2.4 per cent), the Philippines Peso (+4.6 per cent), the Japanese Yen (+1.3 per cent) and the Chinese Renminbi (+0.1 per cent).

2.3 DOMESTIC ECONOMIC DEVELOPMENTS AND OUTLOOK

2.2.1 Summary of Developments and Outlook

The uncertainty in the global economy in recent years has resulted in increased volatility in commodity prices with lower trends than in the previous decade. Historically, PNG's economic growth has reflected the cyclical nature of commodity prices and extractive projects.

This is illustrated by the sharp increase in GDP linked to the US\$20 billion LNG construction project and subsequent exports of LNG. Since 2014, with the end of the PNG LNG construction boom, the economy is adjusting to the reality of the new business cycle but the prolonged effects of the foreign exchange imbalance and low aggregate demand and

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

spending in the economy continue to affect activity and growth in the non-resource sector. The economy was also impacted by the severe drought in 2015.

In 2017, while the agriculture, fisheries and forestry sector are estimated to have grown moderately on the back of favourable production following the drought and increase in prices of some agriculture commodities, the overall non-resource real GDP is expected to only grow by 1.9 per cent. In contrast the mining and quarrying sector is projected to grow by 13.6 per cent due to higher production from key mines.

The non-resource sector has also received some support from election-related spending and preparations for the 2018 APEC meetings, although this support has been significantly less than projected earlier.

In 2018, in real terms, the economy is projected to grow by 2.4 per cent, slightly higher than the estimate for 2017. Over the medium term the economy should grow at similar rates on average. Growth in 2018 and over the medium term is expected to be driven primarily by the agriculture sector.

Improved growing conditions, higher levels of productivity, improved quality of agriculture exports, better access to markets, and improved feeder roads are key factors in supporting growth in the agriculture sector. With the projections only assuming modest growth in agricultural commodity prices, the non-resource sector is projected to grow on average by 3.0 per cent.

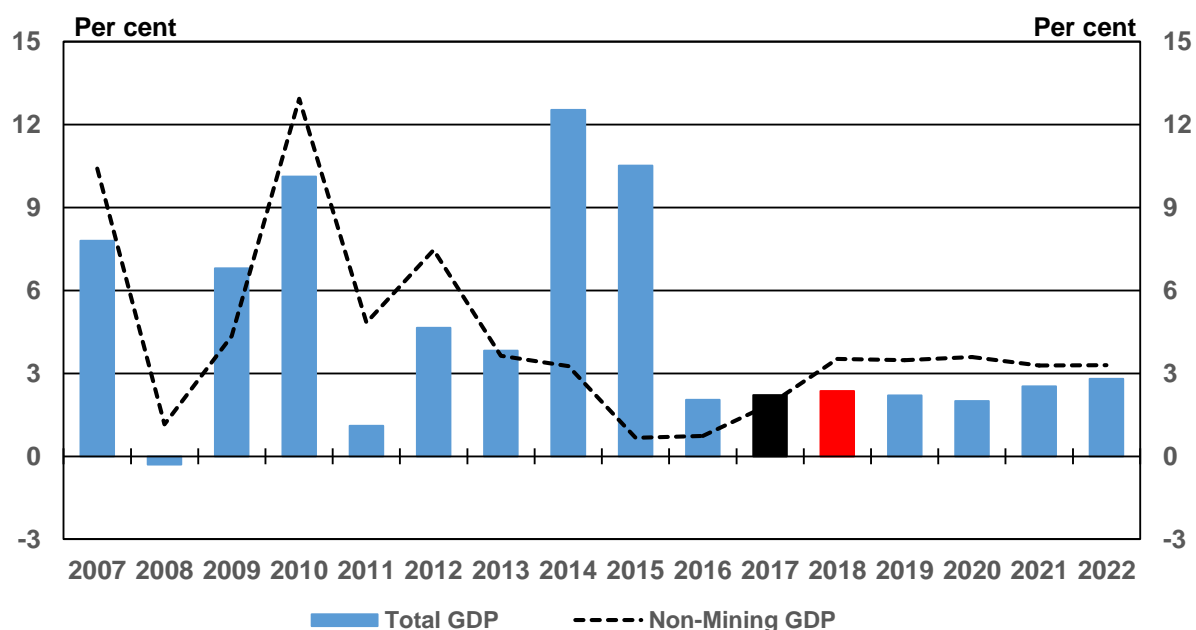
In the medium term, the economy will be supported by key pipeline projects in the mining, petroleum and gas sectors. Potential projects are Elk-Antelope Stanley Gas, Wafi-Golpu, Frieda and Solwara 1 mining projects including the new Pn'yang gas Project. However, to take a conservative path, none of these projects are included in the 2018 projection or in the medium-term economic and fiscal projections, until final investment decisions are made.

In the non-mining sector, the Government, as stated in the Alotau Accord 2, will aim to diversify PNG's economic base towards a more inclusive and sustainable path through investments in key sectors such as agriculture. The Government will also progress the implementation of the APEC Agenda on Structural Reforms (RAASR) which deals with reforms around competition policy, ease of doing business initiatives, financial inclusion, energy policy reform and telecommunications infrastructure reform.

The Government also intends to remedy the foreign exchange imbalance through a shift in borrowing towards external sources thereby releasing a constraint on growth. It will implement critical PFM reforms, repay arrears and increase allocations toward well targeted public investments – all of which is expected to lift economic growth rates above the baseline projections in the following sections.

2.2.2 Domestic Economic Activity

Real GDP growth in the PNG economy is estimated to be 2.2 per cent in 2017 which is lower than the projected growth of 2.7 per cent in the Mid-Year Economic and Fiscal Outlook (MYEFO) report and the 2.8 per cent projected at the time of the 2017 Budget reflecting the contraction associated with the natural decline in PNG's major oil fields, low production and export of logs in the forestry sector during the year which also reflects continued softness in business activity through the most part of 2017. This has more than offset the increases to gold, nickel and cobalt production from major mines during the year and additional gas production from the LNG plant but the natural decline in PNG's major oil fields continues to weigh on growth in the oil sector.

Chart 14: Real Economic Growth (2007-2022)

Source: Department of Treasury

Production in the agriculture, fishery and forestry sector is estimated to increase by 2.6 per cent in 2017 with this downward revision from the MYEFO estimate of 3.2 per cent reflecting the downgrades to log production during the year.

There are also some downgrades to cocoa production during the year, mainly attributed to adverse weather conditions, while coffee output is expected to be low this year due to the off-year for coffee after the bumper crop last year. This has more than offset the increased palm oil production at one of NBPOL's subsidiaries – Ramu Agri Industries Limited (RAIL) during the year.

Output of the mining and quarrying sector is estimated to increase by 13.6 per cent in 2017 which is higher than the 11.9 per cent estimated at MYEFO and is due to increased gold production at Lihir supported by increased nickel and cobalt production from Ramu NiCo in Madang. Gold production at Lihir was boosted by the installation of two new cyclone clusters during the year. The increased production at Ramu NiCo was attributed to improved maintenance of production equipment during the year which provided a significant boost to nickel and cobalt production in July, hence, translated into a sharp increase in nickel and cobalt production from 2016 levels providing strong support to the sectors overall growth.

Business activity in the domestic economy appears to have been very soft during the year, even during the election period with the September quarter of the Treasury's Business Liaison Program (BLP) citing problems associated with accessing foreign exchange, the depreciation of the exchange rate particularly against the Australian Dollar and the delay in payment of Government bills to the private sector have hurt confidence in the domestic economy during the year. Lower commodity prices and receipts would also have reduced spending and domestic demand which have translated into increased costs, lower sales turnover and squeezed profit margins with some businesses opting to lay-off workers to maintain operations.

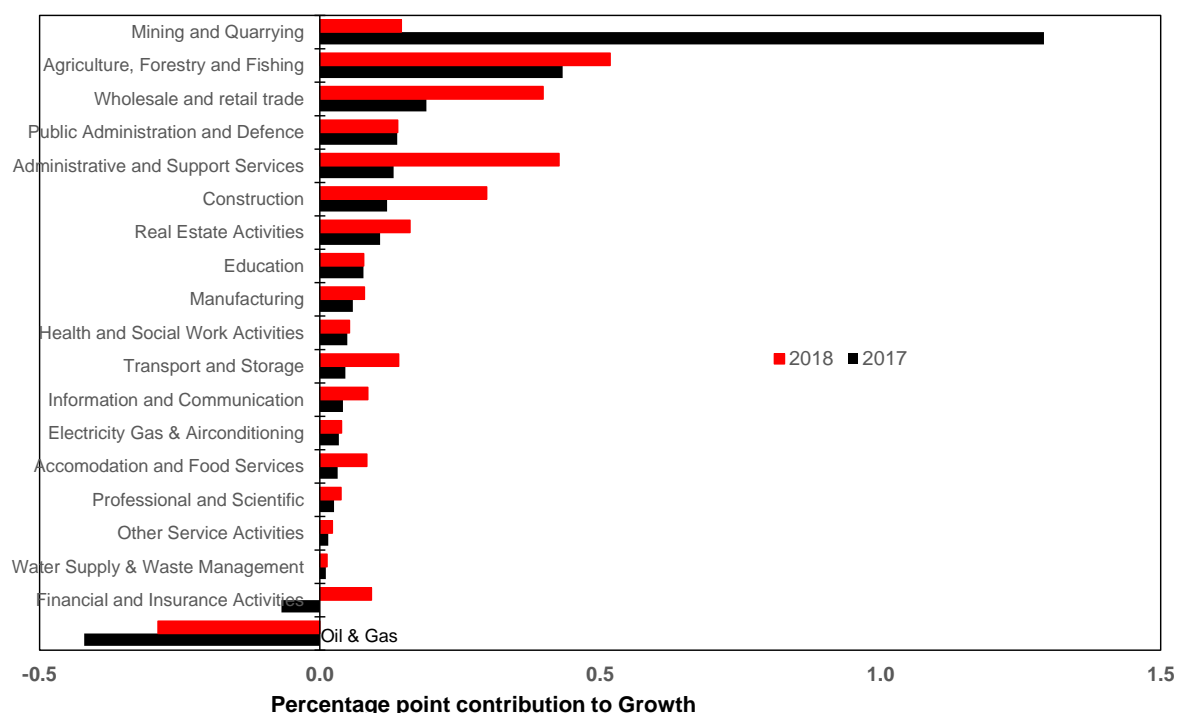
While the Government's 100 Day Plan and 2017 Supplementary Budget are expected to provide some consolidation regarding Government finances, payment of arrears and reduction in foreign exchange imbalances, the ongoing difficulties faced by business need more focus.

Other sectors, including manufacturing, electricity gas and air-conditioning, construction, transport and storage, accommodation and food services showed weakness at the time of the MYEFO assessment. In addition, following Treasury's BLP in September, a number of other business sectors were revised lower including wholesale and retail, information and communications and the real estate sector. Growth rates, in real terms, in 2017 in these other sectors comprise:

- wholesale and retail sector growth of 2.0 per cent in 2017, revised down from 3.0 per cent at MYEFO, reflecting softness in activity levels, lower Government spending including cuts to SIPs, and lower than expected election-related spending;
- information and communication sector growth of 2.5 per cent in 2017, a downward revision from 4.0 per cent at MYEFO reflecting softness in activity levels as well as competitive pressures in the sector that have increased costs and reduced margins;
- real estate sector growth of 2.0 per cent in 2017, a downward revision from 2.5 per cent at MYEFO that is attributed to higher vacancy rates and Government rental arrears;
- finance and insurance activities sector which is expected to contract by 2.9 per cent in 2017 due to lower activity and credit levels, foreign exchange constraints and declining money supply trends, although, all the banks remain well capitalised and highly profitable;
- professional and scientific and administrative and support services remain unchanged from MYEFO while activity in the water supply and waste management sector has been revised up to reflect increased consumption of water due to the increase in population in the urban centres (particularly Port Moresby); and
- public administration and defence, education, health and social work activities have grown in line with the Government's expenditure programs which, at this stage, are constrained by the current fiscal financing difficulties.

2.4 2018 ECONOMIC OUTLOOK

In 2018, the PNG economy is expected to pick up modestly, expanding by 2.4 per cent in real terms driven by factors such as the hosting of the APEC meetings, higher domestic Government spending, the reduction in the foreign exchange imbalance due to a substantial increase in external financing, an improved coffee season and expectations of increased demand for copra and copra oil. An important feature of this higher growth rate in 2018 is that it is being driven by the non-mining sectors of the economy, with a much greater direct effect on the bulk of PNG's rural population which is a major aim of the Government's 100 Day Plan.

Chart 15: Contribution to Growth by Sectors, 2017 and 2018

Source: Department of Treasury

The non-mining sectors of the economy is expected to benefit from the APEC expenditures include administration and support services, transport and storage, accommodation and food services and information and communication. In particular, in real terms, in 2018:

- the administration and support services sector is expected to grow at 6.5 per cent reflecting the lift in spending on security for APEC;
- the transport and storage sector is expected to grow at 6.2 per cent driven by strong growth expected from the air-transport segment of the sector supported by some APEC related spending on port services for the berthing of cruise ships;
- the accommodation and food services sector is expected to grow at 5.3 per cent driven by increased demand for accommodation from APEC delegates and the visiting three cruise ships to berth at Port Moresby's Fairfax Harbour; and
- the information and communication sector is expected to grow at 5.2 per cent due to the increased demand for communication needs by APEC attendees.

Other important non-mining sectors including electricity, gas and air-conditioning and water supply and waste management, are expected to grow in line with the growing needs of businesses and the population. The finance and insurance sector is expected to rebound in 2018 spurred by the growth elsewhere in the economy, higher cash flows from the Government spending and external financing, and the reduction in the foreign exchange imbalance.

The biggest non-mining sector, the agriculture, fishery and forestry sector is expected to grow, in real terms, by 3.1 per cent in 2018 which is being driven by an expected improved coffee season and increased copra and copra oil production. Optimism over copra oil demand reflects the growing demand for lauric acid (from copra oil) by the food, chemical and beauty industries globally - particularly from Asia.

Adverse weather conditions, especially the prolonged dry spell in the highlands in 2017, is expected to trigger a good crop during the coffee season in 2018 with productions levels expected to be close to what was produced in the bumper season of 2016. Cocoa production is also expected to support growth in 2018. Palm oil production is expected to be mixed in 2018 reflecting varying degrees of development at the two major mills in the country.

The increased output of fruit and vegetables as a result of a number of commercial operations will also add to growth in the sector.

The mining and quarrying sector is expected to grow at 1.4 per cent in 2018, a sharp slowdown from 2017 due largely to lower production at one of the key mines due to increased rainfall in 2017 affecting access to pit areas. This has also seen a build-up in the backlog of waste material at the pits with the mine behind schedule in clearing the waste. In addition, there appears to be an increase in mixed ore grades as a result of this problem which is expected to translate into low recoveries next year.

The oil and gas sector is expected to continue to contract in 2018 largely driven by the continued natural decline in the mature oil fields, offset only partially by a modest increase in gas production from the LNG Plant.

Medium Term Outlook (2019-2022)

Looking ahead, the PNG economy is expected to grow at an average of 2.4 per cent over the medium term. This is largely driven by the non-mining sectors of the economy, particularly the agriculture, fishery and forestry sector. This is a positive outlook, in line with the Government's 100 Day Plan and Alotau Accord 2 to diversify the economy.

In particular, the agriculture, fishery and forestry sector is expected to grow at an average 3.2 per cent over the medium term.

The Cocoa Board is aiming at producing 100,000 tonnes over the medium term driven by its replanting program in partnership with districts and provincial governments and supported by its freight subsidy program and the on-going Productive Partnership in Agriculture Program (PPAP), a World Bank funded program.

The Coffee Industry Corporation (CIC) is also expected to be boosted by the continuous support from the Government with the fight against the Coffee Berry Borer (CBB) receiving further funding in the 2017 Supplementary and 2018 Budgets. While addressing CBB is the immediate focus, addressing other issues including infrastructure, law and order along the Highlands Highway, supporting the PPAP and similar initiatives are vital and which the Government remains committed to support over the medium term.

Copra and copra oil production are expected to be reliant on world prices, however, the Government is keen to support the development plans of the industry over the medium term. Finally, creating a conducive environment for continued investment from private sector is important and the Government is looking forward to working with major mills in the palm oil industry especially in terms of aligning their growth priorities with the Government's 100 Day Plan and its priorities.

The mining and quarrying sector is expected to grow at an average 1.9 per cent over the medium term. The mining and quarrying sector is projected to contract sharply in 2020 when Ok Tedi's production falls and gold production at Simberi ceases. This offsets the continued solid production at Ramu NiCo, while production at Porgera and Lihir are expected to remain flat reflecting the matured status of both mines.

The oil and gas sector is expected to continue its declining trend over the medium term driven largely by the natural decline in PNG's major oil fields. Gas production will be tied to the capacity of the LNG plant which is not expected to increase in the near term.

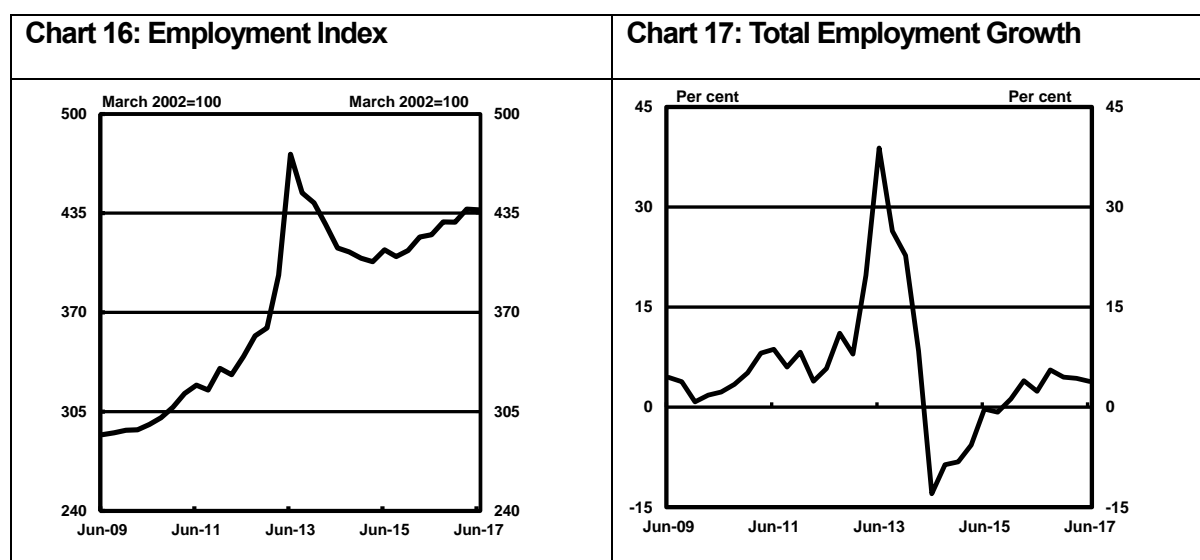
Activity in the other non-mining sectors over the medium term is expected to be driven by resurgent agriculture sector, improvements expected in commodity prices as a result of the positive developments expected in the global economy and the gradual turn around expected in the broader economy. The Government expenditure is also expected to be a major contributor of stimuli in the domestic economy as the Government continues to implement its capital Budget over the medium term.

The projections contained in the 2018 Budget for the medium term are conservative baseline projections and do not as yet incorporate projects in the pipeline including rice domestication, the second LNG project, P'nYang, Wafi-Golpu and others. These projects will be incorporated once their final investment decisions are made. These will provide upside risks to the current projections for real growth.

2.5 LABOUR MARKET

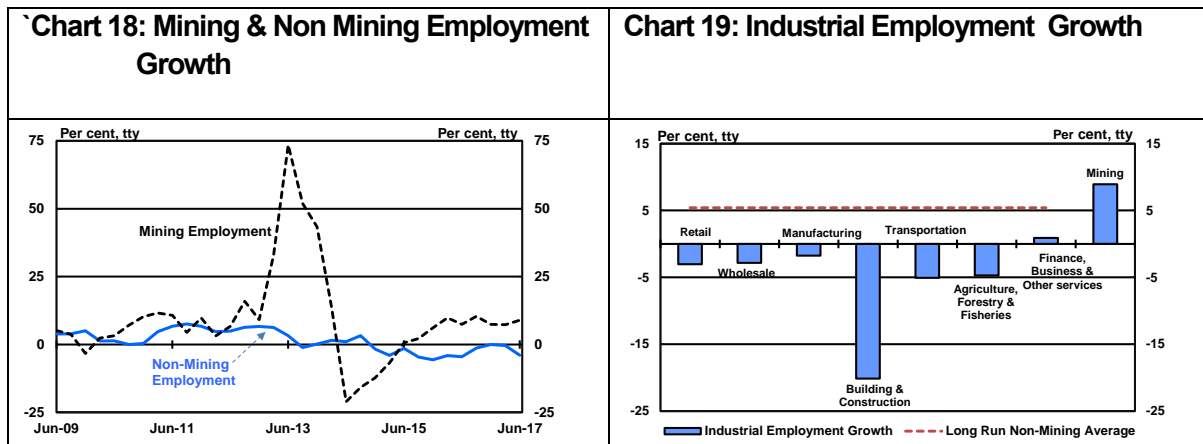
Total employment increased modestly in the first half of 2017 reflecting increased activities in the mining sector, while employment in the non-mining sector remained subdued. According to BPNG's employment index, total level of employment in the mining sector increased by 8.9 per cent through-the-year to the June quarter of 2017 (Chart 18), associated with higher production and manpower requirements by Porgera and Ok Tedi mines.

Employment in the non-mining sector contracted by 4.0 per cent over the same period (Chart 17).



Source: Department of Treasury and Bank of PNG

Employment contracted in all non-mining sectors except finance, business and other services sectors which grew at 0.9 per cent. Employment in the building and construction sector recorded the largest decline of 20.1 per cent followed by transportation (down 5.1 per cent), agriculture, forestry and fishery (down 4.7 per cent), retail trade (down 3.1 per cent), wholesale (down 2.8 per cent) and manufacturing (down 1.8 per cent).

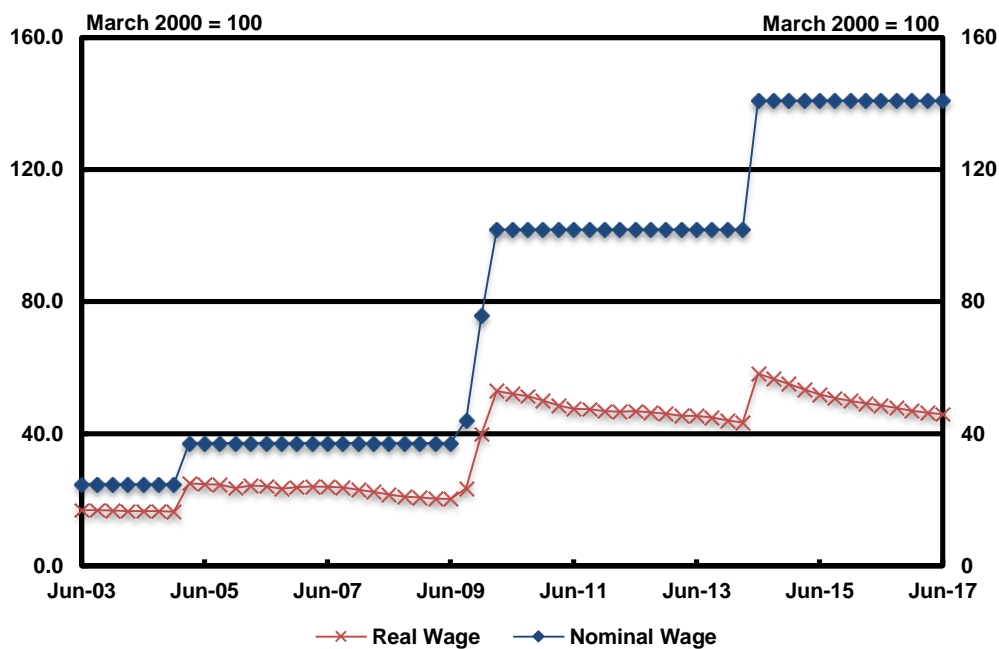


Source: Bank of PNG

Nominal Salary and Wages

Since the last Minimum Wage Board (MWB) Determination that ended in July 2016, the nominal salary and wages index in PNG has remained flat at K140.8 per week.

Chart 20: Wages Index



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

The last MWB Determination in July 2016 increased the minimum wage⁶ hourly rate by 4.2 per cent to K3.20 per hour in July 2014, with further annual increases to K3.36 and K3.50 per hour in 2015 and 2016, respectively reflecting inflationary pressures since the previous determination was effected. According to the Department of Labour and Industrial Relations, the new rate of K3.50 per hour (or K140.80 per week) will remain in operation until superseded by a new Determination. On a real wage basis, minimum wages in the June

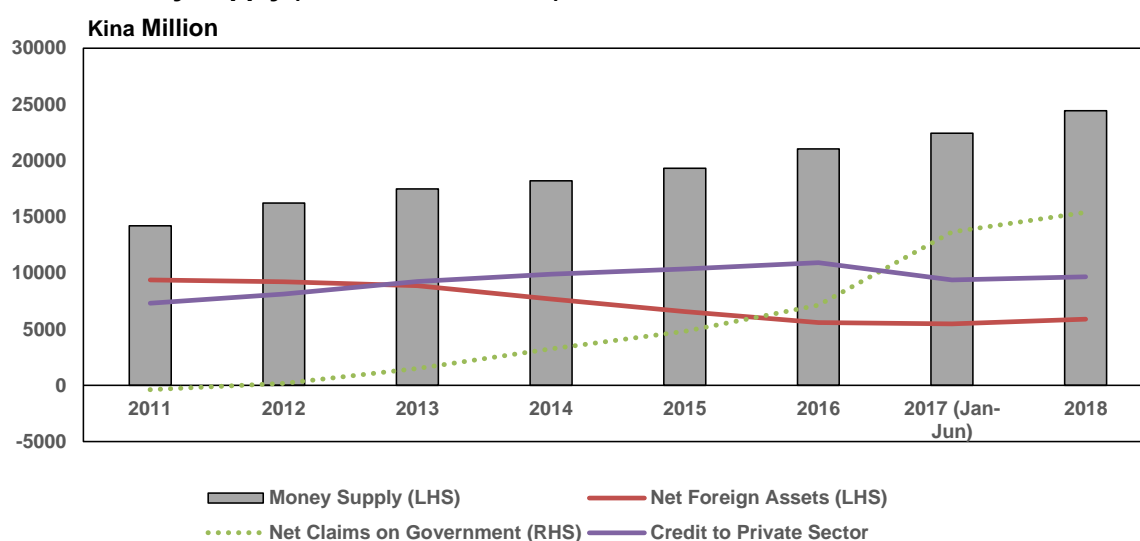
⁶ The determination of a minimum wage employee is defined as an unskilled worker aged 16 and over in formal employment in any industry sector located in either an urban or rural environment and or who may or may not be represented by an industrial organisation registered under the Industrial Organisations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

quarter of 2017 have declined from year earlier levels by 5.5 per cent due to the impact of inflation.

2.6 MONETARY DEVELOPMENTS

The Central Bank continued its neutral monetary policy stance by maintaining the Kina Facility Rate (KFR)⁷ at 6.25 per cent. Over the year to end-June 2017, the Broad Money Supply (M3) increased by 9.5 per cent reflecting the substantial increase in net credit to the Government to fund the fiscal deficit through the issuance of treasury bills and bonds while credit to the private sector increased modestly by 1.1 per cent and net foreign assets contracted by 3.5 per cent.

Chart 21: Money Supply (Annual, Kina Million)



Source: Bank of PNG

According to the Bank's 2017 September Monetary Policy Statement (MPS), the Broad Money Supply is projected to increase by 8.0 per cent by end 2017 and 8.9 per cent in 2018 with the growth in 2018 is expected to be driven by an increase of 7.8 per cent in net foreign assets. While there will be some expected growth in net credit to the Government to partially fund the deficit, pressure will be reduced on the domestic market by the Government's policy change to fund the majority of the deficit through external sources which should allow both the resumption in credit growth to the private sector and, at the same time, relieve pressure on the foreign exchange imbalance.

2.7 CONSUMER PRICE INDEX

2017 Inflation Update

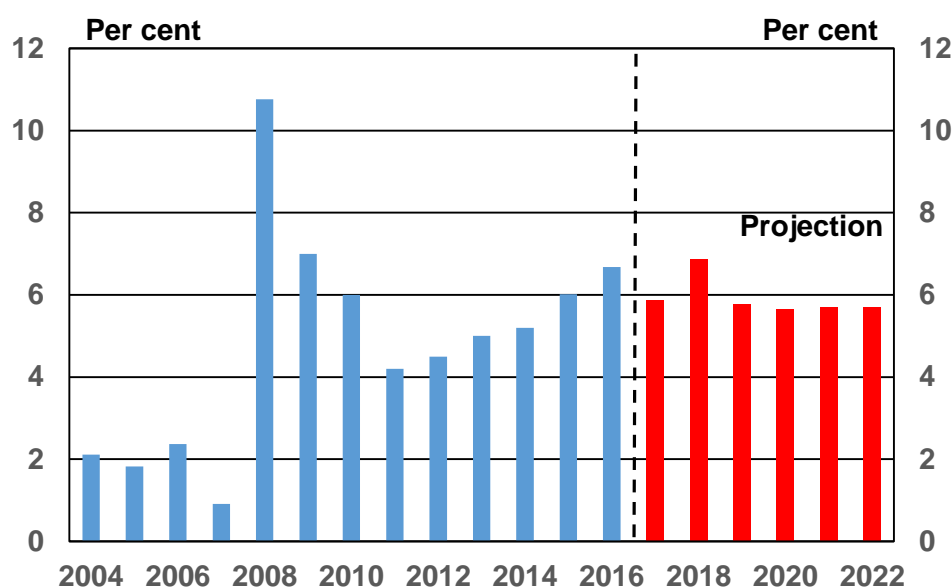
Headline inflation in the June quarter, as reported by the NSO, grew on average by 1.2 per cent, lower than the 1.4 per cent projected at the time of the MYEFO reflecting a moderate increase in the price of domestically produced seasonal items and imported goods, especially food, which comprise the bulk of the CPI basket. Prices of imported clothing and

⁷ In the 2016 March Monetary Policy Statement (MPS), the Bank made an announcement to have an alternative policy mechanism to address the weak transmission of the Kina Facility Rate (KFR) to market interest rates. The mechanism is still being assessed in consultation with stakeholders, both domestic and external. The aim is to have a mechanism that will be more effective in ensuring that the policy signalling rate transmits to market interest rates.

household equipment rose at a slower pace due to the low transmission of Australian inflation⁸. Government spending constraints as well as lower consumption spending during the election period also reduced pressure on prices.

Inflation in 2017 is expected to ease to around 5.9 per cent, lower than the 2016 outcome of 6.7 per cent and the 2017 Budget estimate of 7.0 per cent with the downward revision being attributed to developments in the first half of the year including consecutive quarters of low inflation, stability in the Kina exchange rate over the second half of the year, low aggregate demand for consumer goods and services, low quarterly Australian inflation rates and, to a lesser extent, the low price of oil in the June quarter.

Chart 22: Inflation outcome and projection 2004-2022



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

2018 Inflation Outlook

Inflation is projected to increase by 1.0 percentage point from 5.9 per cent in 2017 to 6.9 per cent in 2018. This reflects the anticipated increase in import tariffs and excise rates in the 2018 Budget, higher global commodity prices, higher spending and consumption of goods and services during the APEC meetings and the gradual improvement in domestic economic activity.

Medium Term Inflation Outlook (2019-2022)

After the APEC, the economy is expected to adjust, with demand expected to subside as the stimulus from APEC fades in 2019. With subdued commodity price outlooks, inflation is expected to revert to the normal average trend of 6.0 per cent.

⁸ The Australian CPI also has a significant impact on inflation forecast due to its high weighting in the inflation forecasts. Since bulk of the food items are imported from Australia, inflation is transmitted through this channel to the food items on PNG supermarket shelves.

2.8 BALANCE OF PAYMENTS AND INTERNATIONAL RESERVES

2017 Update

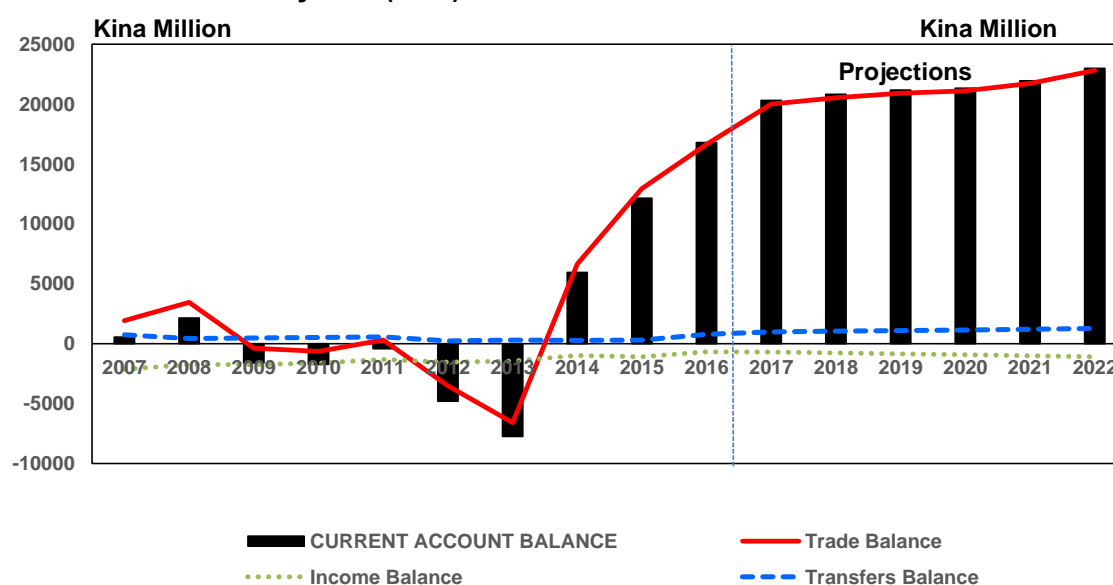
PNG recorded a surplus of K9,545.0 million in its current account in the first half of 2017 driven by a positive trade balance of K9,395.0 million reflecting an increase in exports amid favourable agriculture prices and production and increased rate of production at the PNG LNG plant and at PNG's major mines. On the import side, lower economic activity levels and the shortage of foreign exchange translated into lower imports in the first half of the year. Overall, increasing activity in the agriculture sector coupled with strong LNG and mineral production especially gold, nickel and cobalt is expected to translate into a trade surplus of K20,011.0 million and a current account surplus of K20,323.0 million by the end of 2017.

The income account recorded a deficit of K361.0 million in the first six (6) months of the year, down 25.0 per cent from the corresponding period of 2016. The improvement is attributed to lower dividend and income payments to foreigners offsetting higher interest payments in the first six (6) months and such payments are expected to continue in the second half of the year with the income account expected to record a deficit of K689.0 million by the end of the year.

The transfer account recorded a surplus of K511.0 million in the first half of the year. This is 46.0 per cent higher than the corresponding period of 2016 and reflects increased inflows of tax payments and gifts and grants which is offset by large tax payments to foreign residents over the same period. With increased gifts and grants and family maintenance inflows expected to be more than outflows in the second half of the year, this account is expected to record a surplus of K1,001.0 million by the end of the year.

The capital and financial account recorded a deficit of K9,425.0 million in the first half of the year which is 30.0 per cent up from the corresponding period of 2016 and largely reflects the increase in portfolio and other financial capital outflows during the quarter⁹. Overall, this account is expected to record a deficit of K20,323.0 million in 2017 mirroring the current account surplus.

Chart 23: Balance of Payment (BOP)



Source: Bank of BPNG

⁹ According to the Balance of Payments standards (BOP Manual 5 which the BPNG is using) deficits recorded under the financial account reflects an increase in investments made abroad by PNG residents.

2018 BOP Outlook

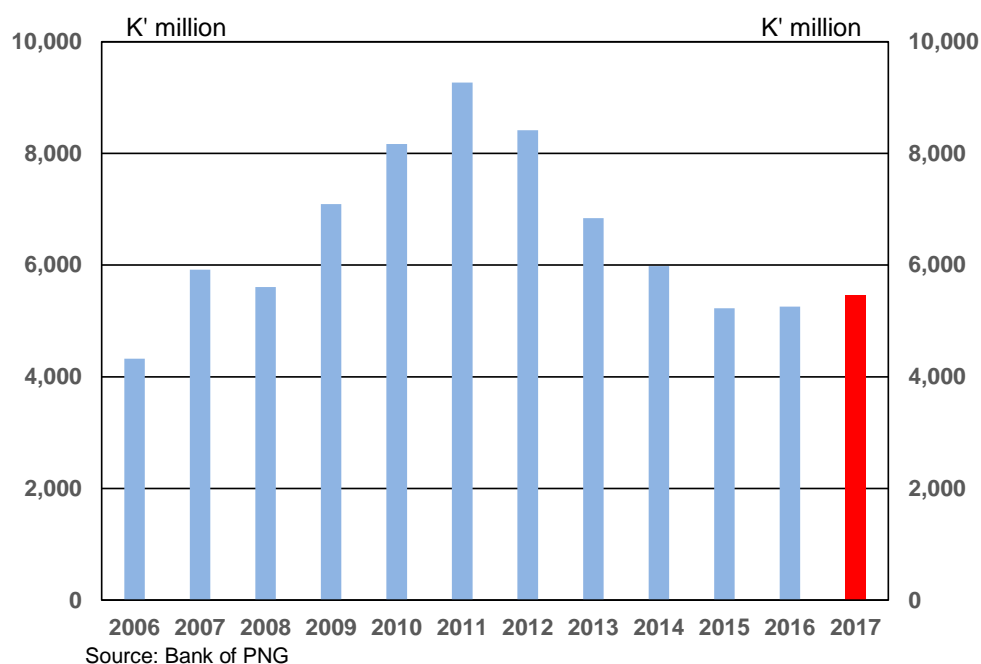
In 2018, the current account surplus is expected to be K20,820.0 million (26.0 per cent of GDP), a slight increase of 2.4 per cent from the 2017 estimate with these moderate increases in the current account surplus reflecting a widening in the trade surplus predominately due to growth in agricultural exports, with mining exports being subdued. Gradual improvements in the foreign exchange imbalance are expected in 2018 with continued managed interventions of the Bank of PNG in coordination with the Government's 100 Day Plan and with growth in foreign exchange reserve levels.

Medium Term Outlook (2019-2022)

The current account is expected to continue in surplus over the medium term at an average of K21,868.0 million. The trade account will continue to drive the current account supported by the transfer account.

The trade account will continue to be driven by the agriculture sector and supported by continued production and exports from the mining, and oil and gas sectors. The income account will be in deficit covering dividend and interest payments made to foreigners for their investments in PNG and the capital and financial account will continue to be in substantial deficit mirroring the current account and the continued movement of funds abroad for investment purposes.

Chart 24: International Reserves



International reserves totaled US\$1,677.0 million at the end of 2016 and US\$1,769.0 million at end-September 2017, sufficient for 6.3 months of total and 9.9 months of non-mineral import cover. The BPNG is projecting reserves to level out at US\$1,714.1 million by the end of 2017 attributing the decline from the September level to its intervention to assist the spot market and the repayment of external loans.

2.9 RISKS TO MACROECONOMIC STABILITY

The 2018 Budget has been framed on the assumption of solid growth from the agriculture, forestry and fishery sector, steady mining sector output, a pickup in the other non-resource

sectors in 2018 fuelled by APEC-related spending and higher levels of Government domestic spending. Despite this, there are risks to the 2018 economic and fiscal outlook.

Regarding the broader economy, considerations have been given to the following risks:

- **Global Growth/Commodity Prices.** Global growth has an important bearing on commodity prices. Should global demand strengthen, demand for commodities from emerging market economies including China and India and the US could trigger a rally in prices. In contrast should these economies not meet growth expectations, prices could remain low or even decline in 2018. Swings in commodity prices translate into fluctuations in revenues for the Government, private sector demand and in Budget financing limits.

Lower global demand and falling commodity prices would also impact the exchange rate with both business confidence and inflation being adversely impacted and most likely to force the Government to reconsider the USD bond issuance program. This Budget is based on prudent assumptions for world growth and commodity prices but the Government maintains a commitment to alter the budget parameters should these risks materialise.

- **Continued imbalance in the supply and demand of foreign exchange.** This imbalance could continue if the Government maintains spending without accessing sufficient levels of external financing and if balance of payments net inflows fail to materialise. Should this worsen in 2018, there is a risk that economic growth projections will not be achieved, impacting income and employment levels and service delivery;
- **Adverse weather conditions.** Recent experience of the drought in 2015 which affected Ok Tedi production levels and growing conditions of certain cash crops including cocoa, coffee and palm oil highlights the need to take account of natural disasters in risk planning. While this is a risk beyond our control, it is important the Government, commodity boards and resource companies incorporate mitigation strategies into their plans to ameliorate the negative impacts of weather related shocks.
- **Coffee Berry Borer (CBB).** The Government is mindful of the devastation of CBB on the coffee industry, the economy and the lives of rural people and so the 2018 Budget supports the CIC with an increase in funding to address the CBB. This should assist CIC in restricting the spread of the pest and limiting its negative impact.

On the fiscal front the Government is very mindful of the following risks:

- **Failure of Statutory Agencies to pass through the collection of fees and charges in line with the Government's 100 Day Plan for a 90/10 ratio and failure of State Owned Enterprises to pay the appropriate levels of dividends to CRF.** Non-payment of collections and dividends has had a significant negative impact on past Budgets translating into key priorities not being implemented, services not being provided and placing the Budget under stress. Given the continued tight economic conditions, the Government will be monitoring agencies and SOE's to ensure strict compliance with stated directives.
- **Unbudgeted Expenditures/Commitments.** The Government encourages all Departments, SOEs, Provincial Governments and Ministers to live within their means in 2018. Any unbudgeted expenditures undertaken in 2018 will have fiscal implications

and the credibility of the Government's 2018-2022 Medium Term Fiscal Strategy (MTFS) will be placed in jeopardy.

- **Personnel Emolument (PE) Overruns.** PE overruns continue to remain an issue with fiscal implications. The Government at the time of the 2017 Supplementary Budget directed the Departments of Finance and Personnel Management:
 - to cease the use of the PNG Government Accounting System (PGAS) for the purpose of PE payments; and
 - directed Treasury and DPM to commence the physical audit into the Government's payroll starting with teachers.

The Government expects a report on the findings to be presented to NEC before the beginning of 2018. Not enforcing the findings of the report will continue to affect the Budget and erode donor and private sector confidence.

- **Unnecessary Debt exposure.** Exposure through debt guarantees and contingent liabilities is a concern as it can erode the net worth of the State having serious implications on PNG's credit rating; and
- **Heavy reliance on domestic borrowing.** This could stretch the domestic market beyond its capacity which could lead to higher interest costs, limit the chances of refinancing and crowd out private sector credit. This has been the case on occasion over the past twelve months and the Government is cognisant of the risks involved with excessive borrowing from the domestic market and will strictly comply with the Medium Term Debt Strategy targets.

With all these risks (excluding the weather related ones) being finally balanced at this point, escalation of any one of them could have serious implications for the economy. Therefore the Government is very mindful of such circumstances and will continue to aggressively implement its longer term vision in its 100 Day Plan and in implementing its medium term fiscal, revenue and debt strategies included in the 2018 Budget.

The Government will continue with its on-going consolidation efforts and close monitoring of developments in the economy to cushion the negative impacts of the risks should they materialise.

CHAPTER 3: FISCAL STRATEGY AND OUTLOOK

3.1 FISCAL BACKGROUND - 2017 BUDGET UPDATE

The decline in GDP growth following the LNG construction boom and commencement of LNG exports was much worse than anticipated, being impacted subsequently by falling commodity prices and the drought.

Lags in tax collections disguised the underlying decline in Government revenues and expenditure policy reactions were delayed, resulting in large unexpected Budget deficits and higher debt and debt service levels. However, a number of expenditure categories expanded were of a rigid nature, such as personal emoluments¹⁰, rentals, utilities and education and health subsidies.

When the serious downtrend in revenue was realised, overall significant fiscal consolidation was implemented in 2015, 2016 and 2017 by Parliament passing restrictive Supplementary Budgets. The burden of fiscal consolidation fell on reductions to capital and Goods and Services expenditures resulting in an accumulation of arrears.

In addition, a foreign exchange imbalance has developed and has continued. The shift in the expenditure mix away from capital and development expenditures towards recurrent expenditures has led to less efficient outcomes. Importantly, revenue as a percentage of GDP has declined sharply and, on a no-policy-change basis, is continuing its downward trend in 2017.

The 2017 Budget was framed against relatively weak world economic conditions impacted by a low commodity price environment. However, the world economy is expected to recover modestly resulting in a projected gradual increase in commodity prices and a commensurate, but modest lift in domestic economic growth and domestic revenues.

Whilst world growth picked up modestly in 2017, it remained well below longer term averages and the commodity price trends remain mixed, but fiscal conditions deteriorated further in late 2016 resulting in a substantial fiscal overhang at year end that required financing in 2017. This compounded Budget execution in 2017 and placed limits on further domestic financing.

As a result, the fiscal outlook for 2017 weakened in the first half of the year, with the 2017 MYEFO report indicating a projected K514.0 million shortfall in revenue by year end. Indeed, given subdued GDP growth through 2017, PNG continues to be faced with a declining trend in revenue collections - with corporate tax collections likely to be lower than in 2016, in part due to IRC continuing to allow income tax offsets against GST refunds that have not been paid.

Lower corporate tax collections also reflect the fact that losses are being carried forward from 2015 and 2016 following the drought and lower commodity price environment. The subdued economic growth environment at present is also reflective of stagnant GST collections at the ports, although lower receipts at ports have been offset by higher receipts from the provinces indicating greater compliance efforts by IRC.

Customs collections are also flat, except for excises which are higher due to higher prescribed duties. Economic activity, business confidence and revenue receipts are also adversely affected by the continuing foreign exchange imbalance.

¹⁰ compensation of employees

Against the lower revenue projections, the 2017 MYEFO report and subsequent estimates shows that expenditure levels were likely to be above Budget projections at the end of 2017 by K800.1 million comprising increases in personal emoluments (K430.1 million), office rentals (K50.0 million), public debt interest (K150.0 million), Pharmaceutical Drugs (K100.0 million), Department of Works expenditures (K51.2 million) and other minor adjustments (K18.8 million). These projected increases needed to be funded in the 2017 Supplementary Budget.

To proactively manage these pressures, the 2017 Supplementary Budget approved a reduction in capital expenditure of K1,268.3 million and operational expenditure of K25.8 million (totalling K1,294.1 million) to be allocated to cover the K800.1 million in over expenditures noted above and the revenue shortfall of K494.0 million. These adjustments were necessary to ensure that the planned deficit remained at K1,876.5 million or 2.5 per cent of GDP and the Debt to GDP ratio remained at 32.2 per cent.

Furthermore, in recognition of the difficult economic and fiscal conditions, the Government introduced its 100 Day Plan in an effort to mobilise greater revenue efforts, curtail certain expenditure categories and instigate a number of reviews, stimulate some urgent public investments, relieve the foreign exchange imbalance and improve governance. These measures have made a solid start to the required fiscal consolidation efforts.

However, subsequent to the Supplementary Budget, revenue trends have continued to deteriorate particularly with further falls in company tax collections of around K351.4 million are now anticipated, although the GST offset impact is likely to mean that GST receipts will be higher by around K249.0 million. Other taxes are expected to be lower by around K150.0 million.

Expenditure reductions will need to be made prior to year end to avoid a further accumulation of arrears and/or domestic financing pressures. As a percentage of GDP revenue (excluding grants) is now likely to fall well below 13.0 per cent of GDP which places PNG near the bottom of international comparisons, which further underscores the seriousness of the revenue decline and the need for the 2018 Budget and medium term revenue strategies to address this issue.

Table 1: 2016 – 2017 Budget Balance (Kina, Million)

Economic Activity	2016 Actual	2017 Budget	2017 MYEFO	2017 Suppl.
Total Revenue and Grants	10,485.5	11,473.1	10,959.2	10,979.2
Total Expenditure and Net Lending	13,572.4	13,349.5	14,149.6 ¹	12,855.6
Net Lending (+)/Net Borrowing (-)	-3,086.9	-1,876.5	-3,190.4	-1,876.5
% of GDP	4.6%	2.5%	4.3%	2.5%

Source: Department of Treasury

*MYEFO figures used revised GDP

¹ Total Expenditure & Net lending includes an adjustment of K370 million (K50m for Office Rental, K150m for Debt Service, K100m for Pharmaceutical Drugs, K51.2 million for Department of Works, and other minor adjustments (totalling K18.8m) which was added onto the 2017 MYEFO figure of K13,779.6 million. These adjustments (potential increase) were identified after the MYEFO was published.

3.2 THE 2018 BUDGET STRATEGY

The 2018 Budget is guided by the *Vision 2050*, *PNG Development Strategic Plan (DSP) (2010-2030)*, the *Medium Term Development Plan 2/3 (MTDP2/3) (2016-2017)*, the *National Strategy for Responsible Sustainable Development (StaRS2017)*, and the *Fiscal*

Responsibility Act 2006 (FRA) as amended in 2017. The 2018 Budget is also the first year of the Medium Term Fiscal Strategy (MTFS) 2018-22 which also comprises the Medium Term Debt Strategy (MTDS) 2018-22 and Medium Term Revenue Strategy (MTRS) 2018-22. These medium term strategy documents are attached to the Budget documentation.

The 2018 Budget is framed against an improved but still relatively weak world economic environment with a subdued commodity price outlook and it is confronted with lower than anticipated growth within the domestic economy and a serious revenue crisis. Economic conditions are still being adversely affected by the foreign currency imbalance, constraints on domestic public expenditure and the accumulation of significant payment arrears.

In this challenging fiscal environment, the Government is placing a substantial emphasis on lifting revenue collections through a substantial increase in compliance efforts, new tax measures and substantial increase in non-tax revenues. However, the turnaround in the declining revenue trends cannot be engineered in 12 months given the subdued growth outlook, the need to propel the economy forward and meet the Government's social priorities. In this respect, the 2018 Budget will mark the beginning of the implementation of the MTRS. This is expected to lift revenue substantially in 2018 and then stabilise the revenue (excluding grants) to GDP ratio at 14.0 per cent over the term of MTRS and it will comprise a broadening of the tax base (which is currently quite narrow), new tax measures, alterations to the tax mix and much greater compliance efforts in 2018 and beyond.

It will also require a substantial increase in non-tax revenue, initially focusing on transferring unused balances from revenue collecting agencies to the Consolidated Revenue Fund (CRF), increasing the pass through of collections from agencies to the CRF (in compliance with the 90/10 directive in the Government's 100 Day Plan) and increasing the performance of public corporations in terms of dividend payments. This will subsequently improve the performance and accountability of all revenue generating agencies.

The 2018 Total Revenue and Grants Budget is projected at K12,730.7 million. Compared to the 2017 Supplementary Budget, total revenue in 2018 is projected to increase by K1,751.5 million (or 16.0 per cent) – and even more when compared to the latest revenue projection for the end of the 2017. Excluding the one-off revenue measures amounting to an estimated K1,295.0 million, the increase in revenue amounts to at least 9.0 per cent compared to the much lower revised estimated outturns for end 2017.

Most of the additional revenues in the 2018 Budget will be used to clear arrears, complete on-going projects and fund expenditure savings and revenue raising reforms so that it does not detract from fiscal space in the medium term. The Government, in parallel, is also undertaking revenue policy and tax reforms, through the MTRS aimed at halting the declining revenue trend and then stabilising revenue (excluding grants) trend around 14.0 per cent over the medium term.

Table 2 presents the 2018 and medium term revenue projections.

Table 2: 2018 Budget and Medium Term Revenue Projections (Kina, Million)

	2017 Supp.	2018	2019	2020	2021	2022
Revenue and Grants	10,979	12,731	12,583	13,552	14,666	15,876
% of GDP	14.9%	15.9%	14.6%	14.7%	14.8%	14.8%
Taxes	8,869	9,639	10,565	11,511	12,568	13,720
% of GDP	12.0%	12.0%	12.3%	12.5%	12.7%	12.8%
<i>Taxes on income, profits and capital gains</i>	5,535	5,565	6,151	6,723	7,369	8,070
<i>Taxes on payroll and workforce</i>	12	-	-	-	-	-

<i>Taxes on goods and services</i>	2,755	3,448	3,762	4,106	4,485	4,900
<i>Taxes on international trade and transactions</i>	568	626	653	683	715	750
Other revenue	1,142	2,067	1,074	1,108	1,166	1,224
% of GDP	1.5%	2.6%	1.2%	1.2%	1.2%	1.1%
Donor Grants	968	1,024.6	943	932	932	932
% of GDP	1.3%	1.3%	1.1%	1.0%	0.9%	0.9%

Source: Department of Treasury

In terms of expenditure policy, there is a clear recognition by the Government that a number of operational spending categories need to be brought under strict controls but that will take time to achieve the required adjustment without forcing a major contraction on the economy with all the negative social consequences that this would entail. Government further understands that given the subdued economic outlook, there needs to be a concurrent lift in public investment that will stimulate economic activity, while at the same time funding the Government's priority programs in the health and education sectors.

The investment in APEC is part of this strategy to get some momentum behind the economic growth trajectory. Financing the Budget strategy will also be critical, given recognition of the limits and consequences of substantial additional domestic financing.

Given this comprehensive strategy, the 2018 Budget Expenditure envelope is set at K14,717.9 million, which is an increase of K1,862.3 million (or 14.5 per cent) on the 2017 Supplementary Budget appropriation. In terms of key expenditure items, expenses related to the 2018 APEC Meetings will be a priority; while Government continues to adequately fund key programs covering Tuition Fee Free Education, Free Primary Health Care, Infrastructure Projects, Agriculture and Small to Medium Enterprises.

The 2018 Budget is a stepping stone towards addressing a number of structural impediments around management of compensation of employees and goods and services, as well as ensuring capital expenditure are well targeted. To improve expenditure productivity, the 2018 Budget will focus initially on areas that have, in the past, exceeded expenditure appropriations. Which will force substantial reductions in the capital and development Budget to meet financing and other constraints and led to very low productivity in service delivery and public investment levels – both key to lifting economic growth and improving the lives of the people of PNG.

In this respect, the growth in compensation of employees¹¹ will be halted in 2018 with the Government determined to reduce expenditure under this category by 3.3 per cent in 2018 and the significant increase in one-off revenue measures will be used to clear the accumulation of substantial arrears, allowing the 2018 Budget to be executed without dealing with a substantial prior year fiscal overhang. Improved public debt management will undertake a detailed assessment to minimise interest costs while still maintaining prudent risk levels so only essential goods and services expenditures will be appropriated.

Importantly, in the 2018 Budget the O'Neill-Abel Government has reorientated the composition of expenditures substantially by reprioritizing and reallocating spending from these less efficient expenditure areas to higher value priorities that would enhance overall economic growth and still achieve the strategic development goals of the Government. As a result, the Government is able to increase capital expenditures in the 2018 Budget by 67.3 per cent compared to the 2017 Supplementary Budget appropriation.

¹¹ Or Personnel emoluments (PE)

Total Capital Budget for 2018 is K4,643.9 million. Table 3 shows the breakup of the Capital Expenditure components.

Table 3: 2018 Capital Expenditure Budget (Kina, Million)

Capital Expenditure	
GoPNG PIP	1,851.0
Service Improvement Programs	1,174.4
Loans Drawdowns	593.9
Project Support Grants	1,024.6
Total	4,643.9

Source: Department of Treasury

Capital Budget allocation by sector is shown in Table 4 below. The Provinces sector is allocated the highest, 29.0 per cent of the capital Budget, driven mainly by Service Improvement Program (SIPS) of K1,174.4 million, followed by the Administration Sector, 19.4 per cent, largely driven by APEC related expenditure of K300.0 million and the Transport Sector with 13.8 per cent.

Table 4: 2018 Capital Budget Expenditure by Sectors (Kina, million)

Sector	2018 Capital Budget	As % of Total Capital Budget
Provinces	1,355.7	29.3%
Administration	886.5	19.1%
Transport	642.3	13.8%
Economic	479.6	10.3%
Health	461.7	9.9%
Utilities	290.8	6.2%
Education	267.7	5.8%
Law & Justice	198.9	4.3%
Community & Culture	60.9	1.3%
Total	4,643.9	100.0%

Source: Department of Treasury

The 2018 Budget aims to reverse a number of these adverse fiscal trends then stabilise the Government's fiscal and financing positions.

The net borrowing (deficit) requirement for the 2018 Budget is set at K1,987.2 million or just under 2.5 per cent of GDP and is projected to translate into a debt to GDP ratio of 32.2 per cent, which is within the 30–35 per cent boundaries prescribed in the FRA. The FRA also requires that the Government target a zero average annual non-resource primary balance over the medium term.

Table 5: Budget Balance 2016 – 2018 (Kina, Million)

Economic Activity	2016 Actual	2017 Budget	2017 Supp. Budget	2018 Budget
Revenue	10,485.5	11,473.1	10,979.2	12,730.7
Expenditure	13,572.4	13,349.5	12,855.6	14,717.9
Net Borrowing (-)	-3,086.9	-1,876.5	-1,876.5	-1,987.2
% of GDP	-4.6%	-2.5%	-2.5%	-2.5%*
% of Debt to GDP	32.6%	32.1%	32.1%	32.2%
Non-Resource Primary Balance (% of non-resource GDP)	-4.2%	-1.2%	-1.2%	-1.0%

Source: Department of Treasury.

* Rounded off from 2.48%

In terms of financing the deficit, the Government will engineer a shift in the financing mix away from the domestic market towards external financing to relieve pressure on the domestic market, create the conditions for an increase in credit to the private sector and facilitate the development of the domestic bond market. External financing will comprise funding from development policy operations of the World Bank and the Asian Development Bank, an inaugural USD bond issuance program and concessional program loans from the development partner community.

Increased utilisation of external finance will also diversify risks and assist in reducing the foreign exchange imbalance. The compositional change is consistent with the IMF and World Bank debt sustainability recommendations (2016 Debt Sustainability Analysis).

3.3 THE MEDIUM TERM FISCAL OUTLOOK

Within the medium-term, the O'Neill-Abel Government is determined to ensure that PNG *“lives within its means, yet still pursues higher economic growth rates in a sustainable and equitable way”* which entails a Budget strategy aimed at lifting the declining revenue (excluding grants) to GDP trend in 2018 to 14.6 per cent of GDP and then stabilize to around 14.0 per cent of GDP over the projection horizon. At the same time, the expenditure to GDP trend will be reduced from 18.1 per cent in 2018 to 16.0 per cent by 2022.

Importantly, the 2018 Budget envelop will support Government's efforts to clear arrears, finance reform programs as well as lift capital spending from the low levels of 2017 and then to maintain capital spending at higher levels over the medium term. This will mean undertaking the difficult task of reprioritizing and reallocating limited public spending to higher value priorities that will enhance overall economic growth and still achieve the development goals of the Government.

Table 6 shows net borrowing of 2.5 per cent of GDP in 2018 and then a gradual reduction over the medium term to just above 1.0 per cent of GDP. This drives a reduction in the debt to GDP ratio to 30.0 per cent by 2022 in compliance with the FRA target and clears a path towards achieving a zero average annual non-resource primary balance over the medium term.

Table 6: Budget Balance 2016–2022 (% of GDP)

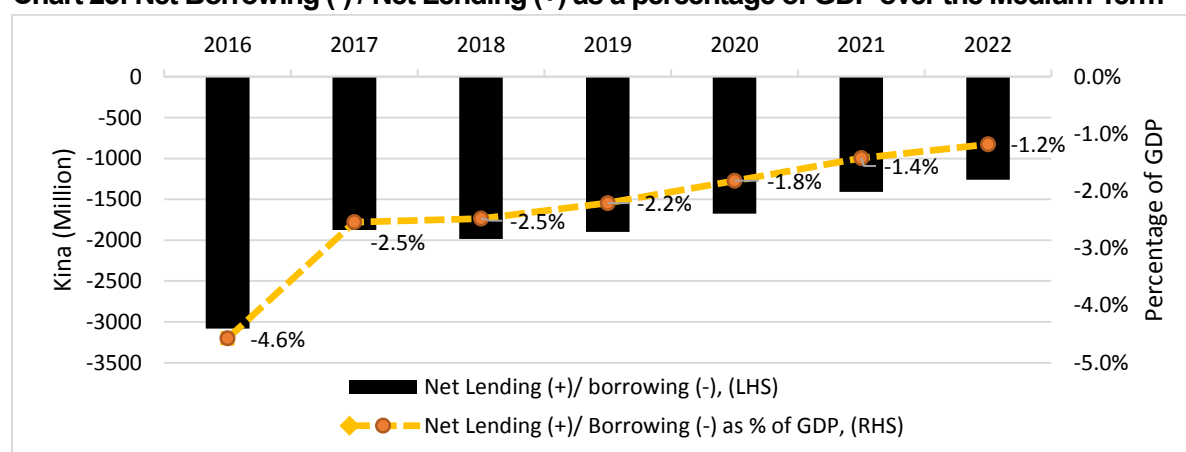
	2016	2017	2018	2019	2020	2021	2022
Revenue and Grants	10,485.5	10,979.2	12,730.7	12,582.5	13,551.5	14,665.8	15,875.8
Expenditure and Net Lending	13,572.4	12,855.6	14,717.9	14,480.1	15,227.3	16,074.3	17,137.2
Net Lending (+) / Net Borrowing (-)	-3,086.9	-1,876.5	-1,987.2	-1,898	-1,675.8	-1,408.5	-1,261.4
Net Lending (+)/ Net Borrowing as % of GDP	-4.6	-2.5	-2.5	-2.2	-1.8	-1.4	-1.2
Non-Resource Primary Balance	-3,252.7	-665.0	-592.3	-442.4	-192.5	-9.6	97.9
Non-Resource Primary Balance as % of non-resource GDP	-4.6	-1.2	-1.0	-0.7	-0.3	0.0	0.1
Implied Debt to GDP (%)	32.6	32.1	32.2	32.2	31.9	31.1	30.0

Source: Department of Treasury.

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

The decline in the net borrowing over the medium term will be achieved through implementation of the revenue policies outlined in detail in the MTRS and through the Government ensuring the proportionate reduction in rigid recurrent expenditures categories such as compensation of employees, debt interest and arrears and the effective targeting of productive public investments. This implies the implementation of a number of measures aiming at modernizing the public financial management system, reinforcing the performance monitoring and evaluation function, and ensuring efficiency in the use of public funds.

Over the medium term, the challenge is to achieve this consolidation while at the same time, reversing the decline in capital expenditures and fully funding the Government's decentralisation objectives embodied in the provincial and district services improvement programs. This approach will be guided by the MTFs and MTDP.

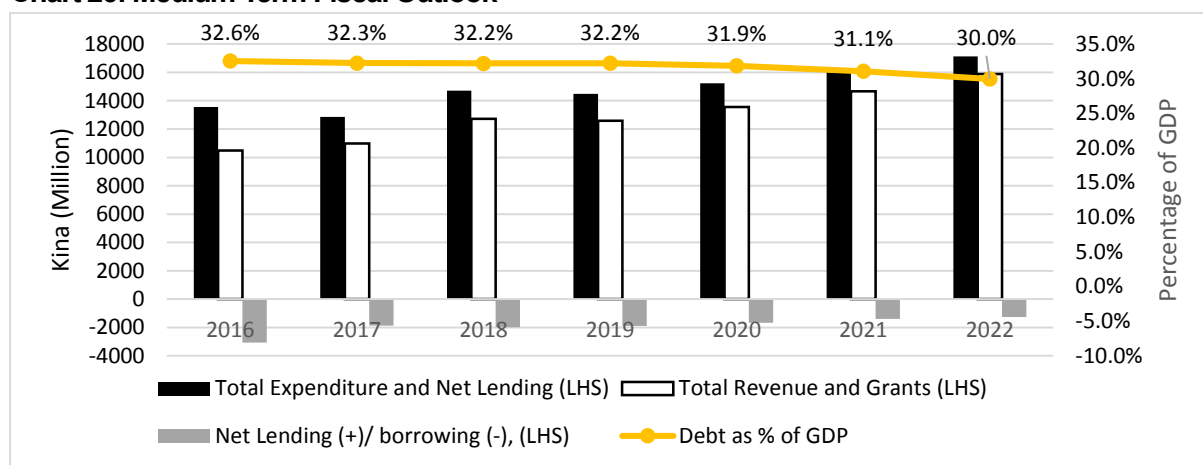
Chart 25: Net Borrowing (-) / Net Lending (+) as a percentage of GDP over the Medium Term

Source: Department of Treasury

The total debt to GDP ratio will also improve from 32.2 per cent in 2018 to 30.0 per cent in 2022 in compliance with the amended *FRA*. The non-resource primary balance will be on a declining path such that the average annual balance should reach zero over the medium term (ending in 2022) which will ensure that if resource revenues pick up over the medium term, increased funds will accumulate in the Sovereign Wealth Fund.

The 30 to 35 per cent debt to GDP band will give the Government some flexibility to manage fiscal and financing policies through economic cycles. It will also assist in avoiding major cuts to critical services and personnel, which would adversely affect PNG's most vulnerable, private sector confidence and overall investment levels.

Chart 26: Medium Term Fiscal Outlook



Source: Department of Treasury

3.4 MEDIUM TERM FISCAL STRATEGY 2018-2022

The 2018 Budget and the medium term fiscal outlook are guided by the *Medium Term Fiscal Strategy (MTFS) 2018-2022*, which contain strategies formulated to stabilise the economy and strengthen its ability to cope with shocks and it builds on from the previous *Medium Term Fiscal Strategy (MTFS) 2013-2017* carefully factoring in new realities, as well as appropriate adjustment mechanisms. The *MTFS 2018-2022* is framed to improve the “doing business” environment by de-risking the economy and enhancing the delivery of basic services.

Despite a number of challenges, PNG's economic outlook remains positive and domestic macroeconomic conditions are improving due to the proactive approach of Government and those gains need to be consolidated, notably, through strengthening the ongoing efforts and reforms towards achieving higher revenue trends and engineering sustainable and efficient public spending. The strategy operationalises the Alotau Accord 2 and recognises the need to deliberately cushion the effects of these adjustments on the vulnerable in a manner that creates opportunities for job creation, productivity and inclusiveness.

To achieve these goals and set the economy on the path described in the medium term fiscal outlook section, the MTFS has three major components. These comprise of:

- i. **a medium-term revenue strategy (MTRS)** aimed at building up a revenue base that is able to finance the Government's expenditure plans on a sustainable basis through revenues generated in an efficient and fair manner;
- ii. **an expenditure strategy** that is consistent with revenue collection trends and financing capabilities over the medium term and which promotes greater efficiency in public spending; and
- iii. **a debt management strategy** that ensures funding is available to meet the fiscal needs of the Budget when it is required and at the lowest cost within a manageable risk framework. It will also entail efficient management of both public financial assets and public financial liabilities, the development of the domestic financial sector, recognition of impacts of the Kina exchange rate and the development of the market for PNG external debt.

The overall fiscal policy is framed to ensure compliance with the FRA, which provides a legal framework to contain the budget deficit and public debt on a sustainable path to achieve macroeconomic stability in the country and to sustain higher economic growth rates. The fiscal deficit in 2018 is estimated at 2.5 per cent of GDP and the Government is expected to keep it on a downward trend. The declining fiscal deficit will help reduce the debt to GDP ratio to more prudent levels – to 30.0 per cent by 2022.

The key fiscal anchors which will guide Government policy and help monitor progress against this framework are listed in the Table 7.

Table 7: Medium Term Fiscal Strategy (MTFS) 2018-2022

<p style="text-align: center;">Medium Term Fiscal Strategy (MTFS) 2018-2022</p> <p style="text-align: center;">Fiscal Anchors</p>	
<p>This section presents the anchors that PNG will be monitoring to assess progress on its MTFS.</p>	
Revenue	<ul style="list-style-type: none"> • Grow the revenue (excluding grants) base to 14.0 per cent of GDP - Revenue as a percentage of GDP has declined from 20 per cent in 2012-14 to below 13.0 per cent in 2017 which is low by international standard, and comparable countries to PNG but the downward trend needs to be stabilised first and then sustained onto a higher trajectory. • Broaden the revenue base of the economy by investing in the more inclusive elements of the economy such as agriculture, manufacturing, tourism, small to medium enterprises and Law & Order where the bulk of the population is engaged. • The implementation of the SWF deposit rule – requiring that 50.0 per cent of all mining and petroleum taxes are deposited in the SWF. These rules will ensure a reduction in the impact of resource volatility on the Budget over time.
Expenditure	<ul style="list-style-type: none"> • Allocation to Key enablers targeted to 2/3 of (primary) expenditure – i.e. excluding debt service. This rule will help ensure that the country's resources are used to address some of the critical development challenges. • Personnel costs should be reduced to less than 40.0 per cent of total non-resource non-grant revenue and should not increase by more than 5.0 per cent yearly (arrears repayment excluded). This is critical to ensure that the rapid growth observed over the past few years is curtailed. It is an ambitious target which calls for an aggressive implementation of the reform plan. • Expenditure as per the SWF rule - which stipulates that withdrawals during each fiscal year from the Stabilization Fund shall be made through the National Budget, and shall not exceed the five year long-term moving average of mineral and petroleum receipts as a share of non-mineral and non-petroleum receipts. • Capital expenditures should increase and be maintained between 5 and 6 per cent of GDP over the 2018-22 period.
Deficit and Debt	<ul style="list-style-type: none"> • Target a zero average annual non-resource primary balance over the medium term (to 2025). Over the period and under the different scenarios, significant resources are not expected to flow into the SWF; however, with this rule, Government will ensure that its expenditure pattern is delinked from the resource sector which reduces the expenditure volatility. • To give the Government flexibility through protracted economic cycles, the Fiscal Responsibility Act was amended from having the single line 30.0 per cent debt to GDP ceiling to a range of 30 to 35 per cent of GDP for 2018 and beyond. As an offset, however, the Government has also amended the FRA to compel the Government in its medium-term debt strategy to target the lower 30.0 per cent boundary.

The success of the fiscal strategy is based on a coordinated and focused application of the three strategies; and it also requires prudent and supportive monetary and exchange rate policies to sustain economic stability.

The following tables are summaries of the medium-term revenue, expenditure and debt strategies, which are part of the overall MTFS.

Table 8: Key Reforms included in the Medium-Term Revenue Strategy 2018-2022

PNG's Medium-Term Revenue Strategy 2018-2022		
Strategic Objectives <ul style="list-style-type: none"> Halt the declining revenue to GDP trend and increase revenues (excluding grants) in terms of GDP to reach 14 per cent by 2022 Clear policies that support national development goals and encourage investment Broad based taxes that ensure everyone makes a fair contribution to the nation Clear laws that define the rights and obligations of taxpayers and administrators Fair and efficient administration that provides high quality services to taxpayers 		
Policy Reform	Legal Reform	Administration Reform IRC and Customs
1. Personal Income Tax <ul style="list-style-type: none"> Rebalance the tax composition from income to consumption by relieving the tax burden on labor income 2. Goods and Services Tax <ul style="list-style-type: none"> Broaden the GST tax base by limiting the extensive use of zero rating; Review an increase in the GST rate depending on the revenue needs and implementation of alternative taxes 3. Excise <ul style="list-style-type: none"> Review rates for alcohol, tobacco and gaming; Review excisable products; and Review introduction of excise on Cellular airtime. 4. Export Duty <ul style="list-style-type: none"> Examine unprocessed products e.g. fish, saw logs, oil palm 5. Import Duties <ul style="list-style-type: none"> Suspend the last phase of Tariff Reduction Program (TRP) to allow a review into the TRP Increase tariff rates to assist adjustment in the manufacturing sector. 6. Tax Exemptions and Incentives <ul style="list-style-type: none"> Review existing incentives and exemptions and prepare tax expenditure Budgets Adjust arrangements based on economic value 7. Corporate Income Tax	Update and consolidate existing Acts <ul style="list-style-type: none"> Simplify legislation and separate taxing measures from administration measures Locate all administration laws/regulations within a tax Administration Procedures Act Customs legislation modernization Simplify Income Tax Act and other legislation International agreements/treaties <ul style="list-style-type: none"> Review to ensure economic value Ensure technological capability to comply exists before committing to new arrangements Asset Registers <ul style="list-style-type: none"> Establish definitive registers with respect to real property, shares, Government entitlements such as licenses Bank Secrecy <ul style="list-style-type: none"> Ensure ready access to bank information by tax administration 	1. IRC will achieve high levels of voluntary compliance <ul style="list-style-type: none"> IRC's core delivery functions are effective and efficient to administer taxes and collect revenue Modernise IRC's policy and legislation to reflect IRC's risk based strategy and business processes Improve Compliance and Broaden Tax Base 2. IRC's organisation structure is aligned to its strategy <ul style="list-style-type: none"> A Large Taxpayer Office is established and fully functional as a Division Case Selection and Intelligence Division is fully functional A strong headquarters function is developed and implemented Regional and provincial Tax Centres are established across the country to decentralise tax administration services A Taxpayer Services capability is established and fully functional A Compliance Audit capability is established and fully functional as a Division 3. IRC's processes, systems and structure are aligned to effectively manage compliance risk <ul style="list-style-type: none"> IRC's operating system meets its current and future needs Self-assessment is fully operational IRC has streamlined collection systems and procedures 4. IRC is adequately resourced and effectively leads, manages and governs those resources <ul style="list-style-type: none"> IRC has in place a robust management and governance process IRC's Budget, Assets and Facilities are efficiently, effectively and accountably managed and administered A Taxpayer Charter is developed Effective relationships are established with IRC's key stakeholders

<ul style="list-style-type: none"> • Reduce corporate income tax offset by scaled back tax incentives and accelerated depreciation provisions for resource sectors. • Simplify administration of corporate income tax • Review the superannuation taxation regime <p>8. Resource Contracts Fiscal Stabilization Act;</p> <ul style="list-style-type: none"> • Limit the scope of taxes for stabilization to major tax heads <p>9. Small business regime</p> <ul style="list-style-type: none"> • Design a simplified system for tax calculation and payment <p>10. Fill the tax gaps and Expand the tax base</p> <ul style="list-style-type: none"> • Review the introduction of a bank levy; • Introduce CGT on real property including mining and petroleum licenses; • Develop a broad policy and procedures for fees and charges and review non-tax fees and charges; and • Review resource revenue regime. <p>11. Non-Tax Revenue</p> <ul style="list-style-type: none"> • Transfer 90% of all public moneys to Consolidated Revenue Fund and 10% to support operations of collecting agencies subject to legislative design • Continue the review all Public Bodies Trust Accounts consistent with the revised Public Finance Management Act • Review all public funds utilized by SOEs • Review all existing non-tax fees and charges 		<p>5. IRC's management and staff have the needed knowledge, skills, attitude and integrity</p> <ul style="list-style-type: none"> • Develop management and leadership training for managers and supervisors at all levels • Provide specialist training in areas as needed e.g. LTO, Audit • Managers and staff meet the standards of integrity and behavior expected of an employee of the IRC • IRC's Productivity is enhanced through Internal Audit and Anti-Corruption Activities <p>6. Strengthening Customs Clearance Processes</p> <ul style="list-style-type: none"> • Customs Declarations: Manifest control and verification of customs valuation • Post clearance Audit (PCA) <p>7. Strengthening Cross boarder Mechanisms to address illicit trade</p> <p>8. Strengthening supporting mechanisms such as the ASYCUDA, increased resources and capacity in the Audit and cargo clearance section and extend Container Examination facility to other port such as the Lae Port</p> <p>9. Strengthen governance, accountability, transparency and use of public funds through Finance and Treasury</p>
Political Support	External Resources	
<ul style="list-style-type: none"> • Provide strong reform governance and management • Ensure Government-led effort including all agencies • Consult widely to generate community support 	<ul style="list-style-type: none"> • Identify capacity needs for reform development and implementation • Identify available external support from donor partners to provide extra capacity • Formalize agreement with donors on MTRS support 	

Table 9: Key Measures included in the Medium Term Expenditure Strategy

Medium-Term Expenditure Strategy 2018-2022					
Strategic Objectives	<ul style="list-style-type: none"> • Reduce total expenditure to GDP ratio from 18 per cent in 2018 to 16 per cent by 2022 to reduce the Budget deficit and debt to 30 per cent of GDP • Reallocate the expenditure mix from compensation of employees and goods and services towards a higher level of capital expenditures and support for priority enablers and manage the Budget to prevent the accumulation of arrears and fiscal overhangs • Clear policies that support national development goals and encourage investment • Ensure human development through policies conducive to infrastructure building, prosperity, business and job creation as well as commitment to universal quality health care and education • Efficient and effective delivery of goods and services to all citizens as well as creating opportunities within a sustainable fiscal framework 				
	Compensation of Employees (PE)	Goods and Services			
<table border="1"> <tr> <td> Short and Immediate measures: <ul style="list-style-type: none"> • Implementation of the NEC Decision 71/2017 to bring PE¹² under control Integration of systems <ul style="list-style-type: none"> • Ensure that all civil servants are registered and paid through ALESCO • Phase out any parallel systems Preparation of realistic Budget Votes <ul style="list-style-type: none"> • Setting realistic PE votes to reduce Budget “blow-out” • Use hard ceiling to ensure discipline among agencies. Enforcing Budgetary Control <ul style="list-style-type: none"> • Put an end to ex-post warranting • All departments unattached existing staff, recruit new staff, overtime allowances etc. will not exceed the given ceiling Linking PE to affordability <ul style="list-style-type: none"> • NEC with the advice of the Treasury will decide on yearly PE increase • PE cost will not exceed 40.0 per cent of Non-resource non-grant revenue to ensure long term sustainability </td><td> Procurement reforms <ul style="list-style-type: none"> • review and present the national procurement bill to Parliament and ensure its quick implementation Asset policy <ul style="list-style-type: none"> • Implementation of policy in line GFS (2014) • The system recording all assets will be managed through IFMS Centralised utilities payment <ul style="list-style-type: none"> • Payment of utilities will be centralised and channelled through DOF and DOT to avoid arrears and reduce leakages </td><td> Vetting of Capital Project <ul style="list-style-type: none"> • The vetting process for capital project will be strengthened – with more stringent requirement in terms of financial and economic returns • Set up an interdepartmental committee, chaired by Planning, including the Department of Treasury and other relevant departments and agencies to appraise and oversee the technical and financial accountability of significant new projects. Prioritization of Ongoing Projects <ul style="list-style-type: none"> • Given the limited fiscal space in the medium term, DNPM will evaluate the existing portfolio of ongoing projects and priorities them over the medium term. Donors Funded Projects <ul style="list-style-type: none"> • Drawdowns on a number of concessional loans to implement high return projects, in line with the Debt Management Strategy Monitoring and evaluation <ul style="list-style-type: none"> • Ensuring that all capital projects including SIPs are adequately monitored </td></tr> </table>			Short and Immediate measures: <ul style="list-style-type: none"> • Implementation of the NEC Decision 71/2017 to bring PE¹² under control Integration of systems <ul style="list-style-type: none"> • Ensure that all civil servants are registered and paid through ALESCO • Phase out any parallel systems Preparation of realistic Budget Votes <ul style="list-style-type: none"> • Setting realistic PE votes to reduce Budget “blow-out” • Use hard ceiling to ensure discipline among agencies. Enforcing Budgetary Control <ul style="list-style-type: none"> • Put an end to ex-post warranting • All departments unattached existing staff, recruit new staff, overtime allowances etc. will not exceed the given ceiling Linking PE to affordability <ul style="list-style-type: none"> • NEC with the advice of the Treasury will decide on yearly PE increase • PE cost will not exceed 40.0 per cent of Non-resource non-grant revenue to ensure long term sustainability 	Procurement reforms <ul style="list-style-type: none"> • review and present the national procurement bill to Parliament and ensure its quick implementation Asset policy <ul style="list-style-type: none"> • Implementation of policy in line GFS (2014) • The system recording all assets will be managed through IFMS Centralised utilities payment <ul style="list-style-type: none"> • Payment of utilities will be centralised and channelled through DOF and DOT to avoid arrears and reduce leakages 	Vetting of Capital Project <ul style="list-style-type: none"> • The vetting process for capital project will be strengthened – with more stringent requirement in terms of financial and economic returns • Set up an interdepartmental committee, chaired by Planning, including the Department of Treasury and other relevant departments and agencies to appraise and oversee the technical and financial accountability of significant new projects. Prioritization of Ongoing Projects <ul style="list-style-type: none"> • Given the limited fiscal space in the medium term, DNPM will evaluate the existing portfolio of ongoing projects and priorities them over the medium term. Donors Funded Projects <ul style="list-style-type: none"> • Drawdowns on a number of concessional loans to implement high return projects, in line with the Debt Management Strategy Monitoring and evaluation <ul style="list-style-type: none"> • Ensuring that all capital projects including SIPs are adequately monitored
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Political Support		Cross cutting reforms			
<ul style="list-style-type: none"> • Provide strong reform governance and management • Ensure Government-led effort including all agencies • Consult widely to generate community support • Implementation of different existing acts 		<ul style="list-style-type: none"> • Roll out of IFMS and implementation of GFS (2014) report standards. • Identify available external support from donor partners to provide extra capacity – procurement reforms, payroll • Monitor and manage Arrears 			

¹² Compensation of Employees in GFS 2014 reporting framework.

Table 10: Key Measures included in the Medium Term Debt Strategy

Medium-Term Debt Strategy 2018-2022	
Strategic Objectives	<ul style="list-style-type: none"> • Raise the required amount of Budget financing and manage the debt portfolio to achieve prudent risk and cost minimisation objectives, and develop and maintain an efficient market for Government securities and diversification of funding sources. • Maintaining debt at sustainable levels. The FRA target band of debt to GDP of 30-35 per cent and the 30 per cent target by 2022 will constrain debt to sustainable levels • Engineer a portfolio shift from domestic debt securities to foreign currency debt with a foreign debt to total debt target of at least 35 per cent by 2022. • Within the domestic debt target, Treasury Bills and Treasury Bonds as a share of total domestic debt will be split at 50 per cent each to give an improved alignment with current investor preferences and market demand. • Expanding the existing highly concentrated investor base and promoting a more liquid and efficient secondary market
Maintaining debt at sustainable levels and managing risk	Developing the domestic debt market
<p>Sound fiscal policy:</p> <ul style="list-style-type: none"> • Implementation of the MTFS and ensuring fiscal consolidation over the medium term • Close coordination between monetary and fiscal institutions to manage debt <p>Managing debt</p> <ul style="list-style-type: none"> • The issuance of World Bank/ADB highly concessionary external Budget support debt and through the issuance of a USD bond program, together with the normal net inflows of donor project loans. • Formalising the dedicated debt account use to repay debt service • smoothing out the maturity and repayment profile of the domestic debt service schedule, within the projected financing envelopes, through debt switches and buybacks and establishing a reduced number of more liquid benchmark issues • To facilitate this measure, the <i>Loans Securities Act 1960</i> and the <i>T-Bills Act 1974</i> will need to be amended to clearly state the authority for Treasury to actively manage Government debt <p>Managing risks:</p> <ul style="list-style-type: none"> • lengthening the duration of the domestic portfolio to reduce refinancing risk through the development of the domestic bond market and target compositional changes between shorter term treasury bills and longer term treasury bonds • documenting and monitoring debts of state-owned enterprises and contingent liabilities and providing advice on management and exposure levels 	<p>Addressing a number of preconditions for the development of the domestic bond market including:</p> <ul style="list-style-type: none"> • improving the efficiency of the primary market (the current manual and cumbersome processes will need to be changed to attract non-resident investors and encourage secondary trading); • promoting money market and interbank transactions through repurchase agreements; developing automated clearing, settlement and custody facilities; establishing a bond market code of conduct with effective oversight by BPNG; promoting the establishment of pools of liquidity to allow small investors access to the market; • improved coordination between monetary, fiscal and regulatory authorities and market participants; • developing and maintaining a centralised source for bond market information and data. <p>Broaden investment base:</p> <ul style="list-style-type: none"> • rectifying the current foreign exchange imbalance and restrictions on access to foreign currency at redemption or repurchase, • implementing access and disposal arrangements through improved market infrastructure for automated clearing, settlement and depository functions, and facilitating secondary market liquidity
Political Support	Cross cutting reforms
<ul style="list-style-type: none"> • Provide strong reform governance and management as well as fiscal discipline and fiscal and monitoring coordination • Ensure Government-led effort including all agencies • Implementation of different existing acts 	<ul style="list-style-type: none"> • Identify available external support from donor partners to provide extra capacity – developing the domestic market

Source: Department of Treasury

CHAPTER 4: REVENUE

4.1 2018 REVENUE DEVELOPMENTS AND OUTLOOK

Total Government Revenue in 2018 is projected to be K12,730.7 million, comprising K9,639.4 million in Taxes¹³, K1,024.6 million in Donor Grants and K2,066.7 million in Other Revenue (fees and charges and property income).

Revenues in 2018 are expected to be supported by an improving economic outlook for the domestic economy, a modest lift in PNG's commodity price, increased Government spending on public investment, the payment of arrears and on 2018 APEC activities and, critically, on a substantial effort to improve tax compliance and non-tax revenue collections, as well as a number of additional tax measures. Increased revenue efforts in this Budget build on the measures and priorities presented in the Government's 100 Day Plan.

Table 11: Total Revenue and Grants (Kina, Million)

	2016 Actuals	2017 Supp. Budget	2017 Revised	2018 Budget	Variation 2018/Supp ¹
Tax Revenue	8,421.6	8,869.3	8,547.6	9,639.4	770.1
<i>Per cent of GDP</i>	<i>12.4%</i>	<i>11.9%</i>	<i>11.6%</i>	<i>12.0%</i>	<i>0.1% pts</i>
Grants	1,430.1	968.1	968.1	1,024.6	56.5
<i>Per cent of GDP</i>	<i>2.1%</i>	<i>1.3%</i>	<i>1.3%</i>	<i>1.3%</i>	<i>0.0% pts</i>
Other Revenue	633.9	1,141.8	1,055.5	2,066.7	924.9
<i>Per cent of GDP</i>	<i>0.9%</i>	<i>1.5%</i>	<i>1.4%</i>	<i>2.6%</i>	<i>1.1% pts</i>
Total Revenue	10,485.5	10,979.2	10,571.2	12,730.7	1,751.5
<i>Per cent of GDP</i>	<i>15.5%</i>	<i>14.8%</i>	<i>14.3%</i>	<i>15.9%</i>	<i>1.1% pts</i>

Source: Department of Treasury

4.2 TAX REVENUE

4.2.1 Taxes on Income and Profits

Taxes on income and profits (personal and corporate) in 2018 are estimated at K5,564.9 million, comprising K3,250.2 million in Personal Income Tax, K1,971.5 million in Company Income Tax, K89.5 million¹⁴ in Mining and Petroleum Tax (MPT), K137.4 million in Dividend Withholding Tax, K84.2 million in Interest Withholding Tax and K31.9 million in Royalties and Management Tax (Table 12).

Revenue from Personal Income Tax (PIT) is projected to increase by 7.1 per cent compared with the 2017 Supplementary Budget estimate and a little higher compared with the revised expected 2017 outcomes. Around 70 per cent of PIT are from the private sector.

The 2017 PIT collections have not been as strong as anticipated in the 2017 Budget due to the unanticipated contraction in employment and income in the private sector but they are still likely to be over 5 per cent higher than in 2016. The expected improvement in the 2018 Budget reflects gradual recovery in private sector employment growth following an improved economic outlook and higher Government spending on projects, and arrears payments with a

¹³ Tax Revenue estimate includes GST and Bookmakers portion going to provinces of K503.2 million and K8.7 million respectively.

¹⁴ This is 50% of total MPT estimate of K179.1 million. Other 50% reported in Other Revenue as SWF Receipts.

further focus by IRC on improved employer registrations and compliance is expected to contribute K200 million to the expected increase in PIT collections.

Table 12: Taxes on Income and Profits

	2016 Actuals	2017 Supp. Budget	2017 Revised	2018 Budget	Variation 2018/Supp
Taxes on Income and Profits	5,286.2	5,534.8	5,084.9	5,564.9	30.1
Personal Income Tax	2,844.3	3,035.7	2,996.7	3,250.2	214.5
Company Tax	2,093.8	2,143.6	1,792.2	1,971.5	-172.1
Mining and Petroleum Taxes	92.0	77.1	52.6	89.5	-
Royalties & Management Tax	44.3	46.5	29.5	31.9	-14.5
Dividend Withholding Tax	132.6	146.3	134.5	137.4	-8.9
Interest Withholding Tax	78.7	85.0	79.2	84.2	-0.8
Tax Related Court Fines	0.0	0.0	0.0	0.0	0.0
Sundry IRC Taxes & Income	0.5	0.5	0.2	0.2	-0.4

Source: Department of Treasury

*The K54.2m for 2017 and K89.5m for 2018 are 50% of total MPT estimate of K154.2 million and K179.1 million respectively for 2017 and 2018 respectively. The other 50% is classified under Other Revenue as SWF receipts.

A total of K1,971.5 million is expected from Company Income Tax (CIT) in 2018 as it did not perform well due to weak business profitability. The carry forward of losses from previous years and the recent allowable practice of offsetting GST refunds that are overdue from company income tax in 2017 have reduced CIT and increased GST receipts and excluding this offset, CIT would have remained relatively flat on 2016 outturns indicating subdued economic conditions, but it also reinforces concerns over adequate compliance levels.

The CIT projections for 2018 are significantly lower than both the Budgeted receipts for 2017 and also compares unfavourably with the 2016 outturns, but are still higher by around 10 per cent compared with the poor forecasts running into the end of 2017. This lift in expected CIT collections in 2018 reflects a review of the GST refund offset arrangements, a reduction in carry forward losses, and removal of some concessions (including removal of the training levy estimated to amount to K75.0 million), as well as a substantial effort to improve compliance across the board, but particularly focused on large tax payers where a dedicated office is to be established early in 2018. Increased compliance measures are expected to yield an additional K200.0 million in 2018.

Mining and Petroleum Tax (MPT) receipts (although the bulk coming from Petroleum) are projected to be K89.5 million, an increase on 2017 Budgeted levels. However, receipts from these taxes are still marginally lower than collections in 2016.

Overall, key mines continue to claim Infrastructure Tax Credits, as well as exemptions, accelerated depreciation allowances and debt amortisation to foreign shareholders which have adversely affected collections in recent times. The Large Taxpayer Office (LTO) will review compliance of large mineral resource companies and the number of concessions will be reviewed as part of the medium term revenue strategy reforms.

A total of K137.4 million is expected from Dividend Withholding Tax (DWT) in 2018 – a modest increase on the estimated 2017 outturns but DWT is subject to profitability with 70 per cent derived from the finance and business services, wholesale and retail and the manufacturing sector. The increase in growth in the domestic economy is expected to support revenue from this tax, although the tax will tend to reflect profitability levels in 2017.

4.2.2 Taxes on Payroll and Workforce

Taxes on Payroll and Workforce mainly relates to the Training Levy which has been repealed as part of the 2018 Budgeted tax measures. Commencing in 2018 the training levy has been

removed alongside the double deduction for training. Details of this measure are outlined in Chapter 5. This measure is expected to raise a total of K75.0 million in 2018 as part of CIT receipts.

Table 13: Taxes on Payroll and Workforce

Tax on Payroll & Workforce	2016 Actuals	2017 Supp. Budget	2017 Revised	2018 Budget	Variation ¹
Training Levy	14.4	11.7	12.9	0.0	-11.7
Total	14.4	11.7	12.9	0.0	-11.7

Source: Department of Treasury

4.2.3 Taxes on Goods and Services

A total of K3,448.3 million is expected to be collected in 2018 from taxes on Good and Services, comprising mainly of K1,974.2 million in GST collections (less refunds), K782.3 million in Excise Duty, K395.1 million in Import Excise and K174.4 million in Gaming Machine Turnover Tax (Table 14).

Table 14: Taxes on Goods and Services

	2016 Actuals	2017 Supp. Budget	2017 Revised	2018 Budget	Variation ¹
Taxes on Goods and Services	2,584.1	2,754.6	2,936.4	3,448.3	693.7
GST ¹	1,442.6	1,484.7	1,734.0	1,974.2	489.5
Sales taxes	0.0	0.0	0.0	0.0	0.0
Bank Account Debit Fees	0.0	0.0	0.0	0.0	-
Stamp Duties	79.2	50.9	58.9	60.0	9.1
Excise Duty	603.7	691.1	618.2	782.3	91.3
Import Excise	272.2	300.3	298.7	395.1	94.8
Bookmakers' Turnover Tax	7.8	36.4	32.3	33.0	-3.4
Gaming Machine Turnover Tax	163.5	171.0	171.0	174.4	3.4
Departure Tax	4.4	11.3	11.6	12.8	1.5
Motor Vehicle Tax	6.8	7.2	7.4	11.9	4.7
Other taxes on use of goods and on permission to	0.8	0.8	1.0	1.2	0.4
Other taxes on goods and services	3.1	0.9	3.3	3.4	2.5

Source: Department of Treasury

- ¹ GST represents the total of collections by Provinces, Ports and less Refunds. Total Net to WPA K1,471.0 million. Transfers to Provinces K503.2 million.

GST collections up to end-October 2017 were K1,686.7 million for gross collections, while actual refunds continued to remain low at below K200 million and transfers to provinces were at K374.9 million, resulting in net inflows into the CRF of K1,163.7 million. This is well above 2016 outcomes by 47.0 per cent.

As noted this mainly reflects the GST refund offset practice against company income tax. GST collections at PNG's ports remain relatively flat, although collections from the provinces have increased reflecting improved compliance measures implemented by IRC.

The foreign exchange imbalance issue is also likely to have restrained imports somewhat over 2017 thereby adversely affecting gross GST receipts but based on recent trends and, given the expected increase in imports and economic activity in 2018 especially due to APEC activities, a total of K1,471.0 million is expected to be collected in 2018 as net GST inflows to the CRF – an increase of just under 14 per cent on estimated end-2017 collections. The increase includes an additional K200.0 million expected from enhanced compliance activities in 2018. GST distributed to the provinces in 2018 is projected at K503.2 million and, including

this amount, takes the total National Government GST collections in 2018 to K1,974.2 million (as presented in Table 14).

Revenue from Inland Excise Tax has performed well in 2017 against 2016 outcomes. The October outturn amounted to K551.6 million, an increase of 15.5 per cent over same time in 2016. However, against the 2017 Budget, collections were lower, in part due to a ban on alcohol consumption during the election period.

Collections are estimated to be K618.2 million by end-2017. In 2018, revenue from this tax is expected to increase by K164.2 million to K782.3 million. The bulk of the increase reflects 2018 Budget measures that increase excise rates on diesel.

Likewise revenue from Import Excise has performed well in 2017 against 2016 outcomes with the October outturn amounting to K244.1 million, an increase of 8.0 per cent over corresponding period 2016. However, against the 2017 Budget, collections were lower due to the lower level of imports with collections by the end of 2017 estimated to be K298.7 million.

In 2018, revenue from this tax is projected to increase by K96.3 million to K395.1 million. The bulk of the increase are from tax and compliance measures amounting to K65.0 million.

Revenue from Gaming Machine Tax has also been performing well in 2017 against 2016 outcomes. Collections are also tracking in line with the 2017 Supplementary Budget estimate with revenue from this tax expected to be K171.0 million by end-2017.

In 2018, revenue from this tax is projected to increase marginally by K3.4 million to K174.4 million in line with expected income growth.

A total of K33.0 million is projected for Bookmakers Turnover Tax (BMTT) in 2018 which is inclusive of K8.7 million in disbursement to provinces.

The other consumption taxes are expected to be supported by improved income and spending in the domestic economy in 2018. Revenue from Stamp Duty is projected at K60.0 million, an increase of K9.1 million from the 2017 estimate while revenue from Motor Vehicle Taxes in 2018 will be supported by legislative changes requiring all State agencies to remit 90 per cent of collections to the CRF.

In terms of Budget allocations, IRC has been allocated a 44.0 per cent increase above the Budget allocation to achieve it increased compliance targets and to underpin its medium term reform program.

4.2.4 Taxes on International Trade and Transactions

Revenue from Import Duties has not performed well in 2017 either against 2016 outcomes or 2017 Budget estimates which is attributed to the subdued levels of economic activity and the foreign exchange imbalance that has affected import demand. The estimated outcome for end of 2017 is K227.7 million.

Export Duty revenues are mainly from log exports and are subject to the global price of logs, weather conditions, compliance issues and demand from China. Revenue from this tax at end 2017 is estimated to be 3 per cent below 2016 levels and significantly lower than 2017 Budget expectations due to lower than anticipated export volumes and prices so the expected collections by end-2017 amount to K285.7 million.

Revenues from Taxes on International Trade and Transactions are estimated at K626.1 million in 2018, comprising K296.1 million from Import Duties and K330.0 million from Export Taxes.

These are significant increases on estimated 2017 outturns (totalling an increase of 22 per cent) reflecting an expected lift in 2018 in domestic economic activity, higher Government spending, the reduction in the foreign exchange imbalance that has reduced imports and, most importantly, a major effort to improve compliance.

PNG Customs are targeting increased collections from compliance efforts that amount to an additional K155.0 million. Key reforms undertaken by Customs include the establishment of the Container Examination Facility (CEF) which will support revenue collection efforts in 2018. PNG Customs' Budget has been increased by 31.0 per cent in 2018 to fund the additional efforts.

Table 15: Taxes on International Trade and Transactions

	2016 Actuals	2017 Supp. Budget	2017 Revised	2018 Budget	Variation ¹
Taxes on International Trade & Transactions	536.8	568.2	513.4	626.1	57.9
Import Duty	242.9	238.6	227.7	296.1	57.4
Other Import Taxes	0.0	2.9	0.0	0.0	-2.9
Export Tax	294.0	326.6	285.7	330.0	3.4

Source: Department of Treasury

4.3 GRANTS

Total Donor Grants in 2017 are projected at K1,024.6 million. Donor Grants are subject to movements in the exchange rate and policies of donors. Estimates for 2018 are presented in Table 16.

Table 16: Grants (Kina, Million)

	2016 Actuals	2017 Supp. Budget	2017 Revised	2018 Budget	Variation
GRANTS	1430.1	968.1	968.1	1024.6	56.5
From Foreign Governments	1261.4	829.4	829.4	752.8	-76.6
Current	1207.1	663.5	663.5	602.2	-61.3
Cash	0.0	0.0	0.0	0.0	0.0
In-Kind	1207.1	968.1	663.5	602.2	-365.9
Capital	54.3	165.9	165.9	150.6	-15.3
Cash	0.0	0.0	0.0	0.0	0.0
In-Kind	54.3	0.0	165.9	150.6	150.6
From International Organizations	168.7	138.7	138.7	271.8	133.1
Current	147.0	111.0	111.0	217.4	106.5
Cash	0.0	0.0	0.0	0.0	0.0
In-Kind	147.0	0.0	111.0	217.4	217.4
Capital	21.7	27.7	27.7	54.4	26.6
Cash	0.0	0.0	0.0	0.0	0.0
In-Kind	21.7	0.0	27.7	54.4	54.4

Source: Department of Treasury

4.4 OTHER REVENUE

Other Revenue is estimated at K2,066.7 million in 2018 which is comprised mainly of dividends, trust fund balance transfers and fees and charges with a total of K1,250.0 million expected in dividends, K565.0 million in balance transfers from State entities and K161.5

million in fees and charges (comprising K31.2 million from Rent¹⁵, K112.5 million from Sales of Goods and Services, K1.0 million from Fines Penalties and Forfeits and K16.8 million in other transfers). The balance of K90.3 million reflects SWF receipts that have been classified in other transfers for analysis purposes (but that appears under mining tax receipts in the revenue tables).

Of the total dividends, K300.0 million is Budgeted to be received from Kumul Petroleum Holdings (KPHL), K400.0 million from the National Fisheries Authority (NFA), K200.0 million from OTML, K150.0 million from Bank of Papua New Guinea, K100 million from Kumul Consolidated Holdings (KCH), K75.0 million from National Gaming Control Board (NGCB) and K25.0 million from Motor Vehicle Insurance Limited (MVIL).

Other income totalling K565.0 million relates to trust fund balance transfers from the NFA, the NGCB, KCH, the Mineral Resource Authority (MRA), National Maritime and Safety Authority (NMSA) and Conservation and Environmental Protection Authority (CEPA). The NFA and NCGB are expected to pay K400.0 million and K75.0 million respectively. KCH and MRA are expected to remit K40.0 million and K30.0 million respectively, while K10.0 million each is expected from NMSA and CEPA and it should be noted that estimates relate to the 90:10 sweeping of funds back to the State as part of the revenue mobilisation exercise announced in the Government's 100 Day Plan.

Table 17: Other Revenue (Kina, Million)

	2016 Actuals	2017 Supp. Budget	2017 Revised	2018 Budget	Variation
OTHER REVENUE	633.9	1141.8	1,055.5	2,066.7	924.9
Property Income	551.3	925.1	898.5	1,321.9	396.8
Interest	0.0	4.0	4.0	0.7	-3.3
Dividends	528.9	870.0	870.0	1,250.0	380.0
<i>Mining Petroleum and Gas Dividends</i>	<i>300.5</i>	<i>600.0</i>	<i>600.0</i>	<i>500.0</i>	<i>-100.0</i>
<i>Dividends from Statutory Authorities</i>	<i>228.4</i>	<i>250.0</i>	<i>250.0</i>	<i>625.0</i>	<i>375.0</i>
<i>Dividends from State Owned Enterprises</i>	<i>0.0</i>	<i>20.0</i>	<i>20.0</i>	<i>125.0</i>	<i>105.0</i>
Withdrawals from income of quasi-corporations	0.0		0.0	40.0	40.0
Rent	22.4	51.1	24.5	31.2	-19.9
Sales of goods and services	63.5	115.2	84.5	112.5	-2.8
<i>Administrative fees</i>	<i>28.7</i>	<i>62.8</i>	<i>42.3</i>	<i>46.6</i>	<i>-16.2</i>
<i>Incidental sales by nonmarket establishments</i>	<i>34.9</i>	<i>52.4</i>	<i>42.2</i>	<i>65.8</i>	<i>13.4</i>
Fines, penalties, and forfeits	1.8	0.8	1.7	1.0	0.3
Transfers not elsewhere classified	17.2	100.7	70.8	631.4	530.6
<i>Current transfers not elsewhere classified</i>	<i>17.2</i>	<i>100.7</i>	<i>70.8</i>	<i>631.4</i>	<i>530.6</i>

Source: Department of Treasury

4.5 MEDIUM TERM REVENUE OUTLOOK

REVENUE AND GRANTS

Over the medium term, Total Revenue is expected to increase from the 2017 Supplementary Budget estimate of K10,979.0 million and the updated 2017 estimate of K10,571.0 million to K15,876.0 million by 2022. This increase will be underpinned by the revenue mobilization strategy formulated by the Government and presented in the Medium Term Revenue Strategy 2018-22, of which the implementation measures contained in the 2018 Budget are initial steps.

¹⁵ Mainly Land Lease Rentals

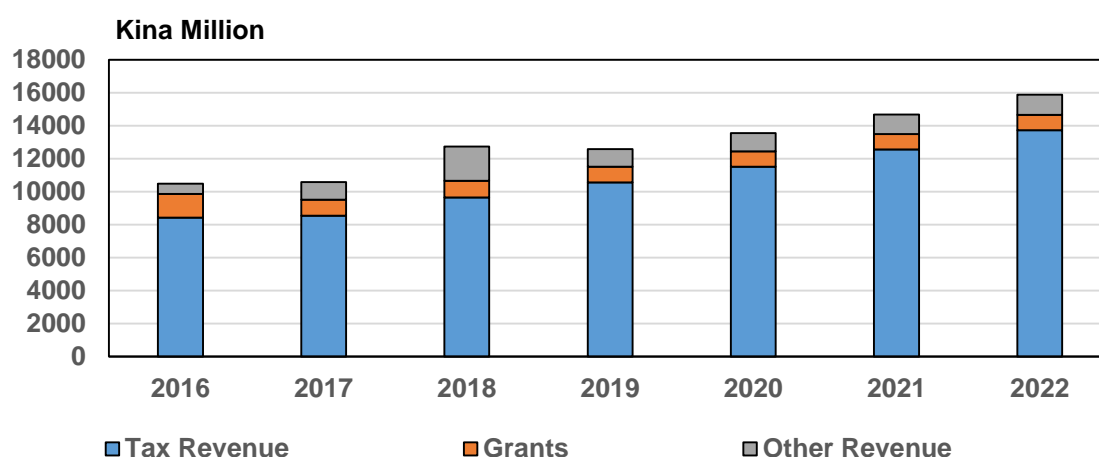
Table 18: Medium Term Revenue Projections 2017-2022

	2017 Supp.	2018	2019	2020	2021	2022
Revenue and Grants	10,979	12,731	12,583	13,552	14,666	15,876
% of GDP	14.9%	15.9%	14.6%	14.7%	14.8%	14.8%
Taxes	8,869	9,639	10,565	11,511	12,568	13,720
% of GDP	12.0%	12.0%	12.3%	12.5%	12.7%	12.8%
<i>Taxes on income, profits and capital gains</i>	5,535	5,565	6,151	6,723	7,369	8,070
<i>Taxes on payroll and workforce</i>	12	0.0-	0.0-	0.0--	0.0--	0.0--
<i>Taxes on goods and services</i>	2,755	3,448	3,762	4,106	4,485	4,900
<i>Taxes on international trade and transactions</i>	568	626	653	683	715	750
Donor Grants	968	1,025	943	932	932	932
% of GDP	1.3%	1.3%	1.1%	1.0%	0.9%	0.9%
Other revenue	1,142	2,067	1,074	1,108	1,166	1,224
% of GDP	1.5%	2.6%	1.2%	1.2%	1.2%	1.1%

Source: Department of Treasury

Tax revenue is projected to increase from the estimated end-2017 level of K8,547.6 million to K13,719.8 million by 2022.

Donor Grants are provided at the discretion of donors in accordance with their internal Budget policies and depend on the successful delivery of outcomes from existing projects, as well as exchange rate fluctuations. The current donor grants projections for the medium term are expected to remain relatively constant in nominal terms at below K1.0 billion.

Chart 27: Total Revenue and Grants 2016-2022

Source: Department of Treasury

Other Revenues comprising mainly dividends and fees and charges are projected to increase from an estimated end-2017 amount of K1,011.5 million to K1,224.1 million by 2022. Dividend amounts will be guided by the Government's dividend policy and the performance of Government entities and will be updated during the course of each Budget year.

4.6 SOVEREIGN WEALTH FUND (SWF)

The projected mineral and petroleum revenues in the 2018 Budget and medium term capture the revenue flows between the Budget and the SWF, however since the Fund is yet to be

operationalized, the figures are indicative only. The estimates account for the 50.0 per cent of mineral and petroleum tax channelled to the SWF Stabilisation Fund while the other 50.0 per cent flows directly to the CRF to finance Government expenditure.

In the interim, all mineral and petroleum dividends are directed to the National Budget until the SWF arrangements are in place that cover the dividends¹⁶ and other proceeds stipulated in the SWF Organic Law.

Stabilisation Fund

In 2018, the Stabilisation Fund is expected to receive total receipts of K89.5 million mainly from the mineral and petroleum tax.¹⁷ In line with the SWF drawdown rule, a total of K89.5 million, inclusive of a small portion of interest and net of Fund expenses, will be passed through to the Budget.

From 2019 to 2022, total receipts deposited in the Stabilization Fund are projected to be below K400.0 million. In line with the SWF drawdown rule, the Budget is expected to receive around the same level of revenue after accounting for the Fund's necessary expenses.

Details of the Stabilisation Fund revenue and expenditure transactions are provided in the Appendix - Fiscal Table 16.

Savings Fund

In 2018 and medium term current projections show nil dividends flowing to the Savings Fund¹⁸ resulting in a nil closing balance. The SWF Organic Law requires a split portion of mineral and petroleum dividends to flow to the stabilisation fund and savings fund but for now all mineral and petroleum dividends are directed to the National Budget until the SWF is in operation.

Details of the Savings Fund revenue and expenditure flows are provided in Appendix 3 - Fiscal Table 17.

¹⁶ SWF organic Law requires a portion of mineral dividends to flow to Savings Fund.

¹⁷ The K89.5million is the 50 per cent of the total mining and petroleum tax (K179.2m total MPT). The SWF Organic Law requires 50% of mineral & petroleum tax revenues to be remitted to SWF Stabilisation Fund.

¹⁸ The SWF Organic Law requires 25 per cent of all distributions from any of the State holding companies holding interest, directly or indirectly, in mining or petroleum projects.

CHAPTER 5: TAX AND NON-TAX MEASURES AND DEVELOPMENTS

5.1 OVERVIEW

The Government's total revenue (including grants) has declined significantly since 2015 and to offset this decline, progress has been made in reducing expenditures in the period 2015-2017. However, the reductions to expenditure have not kept pace with the fall in revenue and significant and sustained increase in revenue is now critical to reverse this trend.

The MTRS incorporates a number of recommendations from the PNG Taxation Review (2015) and a recent report by the International Monetary Fund (IMF) on PNG's tax administration, policy and legislation which also provided a high level road map for a robust medium term revenue strategy. The new MTRS builds on this work and provides a detailed framework for improving the effectiveness and efficiency of PNG's tax system to deliver higher and sustained collections but in an equitable manner.

Specifically the MTRS aims to halt the current declining revenue to GDP trend in 2018 and lifting levels significantly to enable a stabilisation of revenue (excluding grants) to GDP trend at or above 14.0 per cent over the projection horizon. The 2018 Budget revenue measures mark the first year of implementation of the new MTRS.

Consistent with the new MTRS and guided by the Alotau Accord 2 and the Government's 100 Day Plan, the 2018 Budget introduces a number of revenue policy measures which comprise:

- 1) strengthening the Internal Revenue Commission (IRC) consistent with the MTRS for the establishment of a Large Tax Payers Office (LTO) to focus on increased compliance of large tax payers, and, for PNG Customs to engineer a concerted lift in compliance and collections;
- 2) the removal of the training levy and double deduction for training;
- 3) the suspension of the last phase of the current tariff reduction program (TRP) and an increase in import tariffs on refined petroleum products and other imported products that will ease the adjustment on domestic manufacturing;
- 4) an increase in the diesel excise to 23 toea from 10 toea to align rates more with petrol excises;
- 5) the realignment of the export duty of unprocessed old-growth logs to capture resource rents at varying log species;
- 6) a clarification in distinguishing agricultural/primary production to logging or timber operations to minimise abuse and to save revenue leakages;
- 7) the removal of the Goods & Service Tax (GST) zero-rated status for educational institutions to address abuse;
- 8) a clarifying on the definition of resource company in the *Goods and Services Tax Act 2003* (GSTA) to ensure that only operating licence holders benefit from GST zero rated status;
- 9) aligning the taxation treatment of royalties in the resource sector to be a deduction rather than a tax offset;
- 10) a 'pay now litigate later' policy to improve compliance and increase receipts;

- 11) the holding of parent companies liable for related companies' tax liabilities;
- 12) providing options for taxpayers to pay their tax liability as they lodge;
- 13) the imposition of penalties for incorrect or non-disclosure of losses and deductions;
- 14) ensuring the income of foreign contractors from prescribed contracts is dealt with under the Foreign Contractors Withholding Tax regime and not under the corporate income tax assessment;
- 15) simplifying the administration of non-resident insurers' tax;
- 16) other policy measures which include:
 - i. legalizing taxpayer identification number registration;
 - ii. increasing the tax clearance threshold for sending money overseas to K500,000 to reduce compliance and administration costs;
 - iii. introducing specific bribery offences to minimize fraud and corruption;
 - iv. ensuring the Extractive Industry Transparency Initiative (EITI) and Financial Analysis and Supervision Unit (FASU) have access to tax data;
 - v. allowing the Commissioner General (CG) for IRC to declare land owner resource trusts with approval from Treasury;
 - vi. reducing tax on termination payments to align with tax on superannuation payments;
 - vii. constructing APEC facilities under special Infrastructure Tax Credit (ITC) provisions; and
 - viii. announcing the introduction of a Tax Administration Bill.

In this Budget, the Government will also introduce a number of amendments to modify the 2017 Budget measures. These comprise:

- i. carving out of resource projects with fiscal stability clauses in project agreements;
- ii. introducing transitional provisions for application of Additional Profit Tax (APT) to existing projects to ensure fairness;
- iii. ensuring dividends distributed through companies are taxed once;
- iv. ensuring superannuation is exempt from Dividend Withholding Tax (DWT); and
- v. correcting drafting errors made to Customs Harmonised System (HS) 2017.

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

5.2 MEDIUM TERM REVENUE STRATEGY (MTRS) 2018-2022

The MTRS supports PNG's Vision of improving the ranking of PNG to reach the top 50 countries in Human Development Index (HDI) so mobilizing sufficient revenue is indispensable for strengthening ownership of the country's development that contributes to achieving the country's goals.

The MTRS aims to develop sustainable revenue generation through an effective and equitable tax system that also underpins robust investment levels and higher economic growth rates.

The MTRS sets the following goals and objectives:

- halt the current declining revenue to GDP trend and lift levels significantly in 2018 to fund the adjustment costs in the 2018 Budget, then sustain higher revenue (excluding grants) to GDP trends to 14.0 per cent by 2022;
- increase compliance substantially, both through greater enforcement, particularly with respect to large tax payers, and increase the use of the Tax Administration Diagnostic Assessment Tool, but also through encouraging a culture of voluntary compliance to reinforce revenue collections at lower administration costs;
- broaden the revenue base by introducing measures to fill the tax gaps and rationalize tax incentives, and lessen the tax burden on the current narrow range of personal income tax payers but with equitable outcomes paramount;
- make corporate tax schedules more competitive but do so through the removal of a myriad of concessions, tax exemptions and special arrangements;
- lift non-tax revenue collections substantially by amending the respective legislation of public bodies to improve the pass-through of collections and dividends into the Consolidated Revenue Fund (CRF), transfer unutilized trust fund balances to the CRF, and enhance the performance of state bodies to sustain higher collections and dividends;
- progressively increase the Budget for revenue agencies, but target increased appropriations to clearly defined revenue generating areas and outcomes;
- strengthen revenue policy, the legislative framework and administration components of the revenue system for a more effective, simpler and efficient tax system; and
- respond to the need of an expanding market economy, the increasing number of taxpayers and sophistication of business, as well as facilitate management in providing an effective tax paying service.

Overall, the vision will be achieved by strengthening tax policies, legislation and administrative capacity and systems geared towards effective and robust revenue systems.

The summary of the MTRS road map is provided in Table 8 of chapter 3. Detailed information can be sourced from the main MTRS document.

5.3 MAJOR TAX POLICY MEASURES

5.3.1 Strengthening Revenue Raising Agencies Consistent With The MTRS

While improving revenue policy has the potential to raise revenue, increased revenue collection depends on the effectiveness and efficiency of revenue administration. The Government's focus for 2018 and beyond is to strengthen the revenue raising agencies (IRC and PNGCS) through increased resources to improve compliance and enforcement consistent with the new MTRS.

Initial steps will comprise:

- establishment of a large taxpayer office to focus on compliance and audit;
- reviewing GST refunds and offsets and zero rating categories;
- developing specific strategies for each taxpayer segments;
- strengthening the organisation and management;
- controlling tax evasion and tax avoidance;
- facilitating voluntary tax compliance;
- developing research and intelligence capacities; and
- improving resource and operational capacities in tax administration.

In 2017, IRC has made some progress in increasing voluntary compliance but while lodgements have now increased, most of them are at nil returns, requiring auditing to ensure what is lodged is in fact correct. In 2018, IRC will progressively grow its auditing capacity in the Compliance Audit Division (CAD) as well as through implementation of the LTO.

The Government is supporting these initiatives with significant increases to IRC's funding, bringing the total funding for 2018 to K105.0 million compared to K72.9 million in the 2017 Supplementary Budget. This is expected to provide the necessary resources to IRC to achieve its 2018 revenue target of K7.9 billion.

Further, in light of the weak economic environment and the Government's cash flow challenges, collection of tax arrears will be accelerated by forgiveness of penalties under the Commissioner's discretionary powers.

Similarly, PNG Customs Service (PNGCS) will receive significant increases in funding with a Budget allocation totalling K70.5 million in 2018 compared to K53.6 million in the 2017 Supplementary Budget allocation. The increase is for undertaking revenue recovery exercises through the Post Clearance Audit (PCA) and Cargo Clearance processes which is expected to support PNGCS in meeting their revenue target of K1.7 billion in 2018.

With the increased funding for IRC and PNGCS, the Government expects to raise an additional K755.0 million in 2018. From this, K600.0 million is from IRC and K155.0 million from PNGCS.

5.3.2 Removing The Training Levy And Double Deduction For Training

The Training Levy and Double Deduction for training are imposed under *Division 14D* and *Section 724A* respectively under the *Income Tax Act 1956* (ITA) designed to encourage businesses to invest in the training and up skilling of their employees.

A Training Levy applies only if a business has spent less than 2.0 per cent of its payroll on up skilling its staff. The amount of the levy is reduced by the amount of expenditure on approved training, so that once 2.0 per cent of the payroll is reached, no levy is payable;

In addition, cost of employees attending full time training in a Government training institute or other prescribed tertiary education facility including tourism staff training are doubled for purposes of calculating corporate income tax.

In a modern commercial environment with new work practices including labour outsourcing, contracting, large-scale projects with multiple entities and access to online training, there is little need for a training levy. Further, companies already have an incentive to train and up-skill their employees to add value to their businesses to remain competitive and therefore, Training Levy and Double Deduction on training have outlived their purpose.

In this Budget, the Government will abolish the Training Levy and Double Deduction for Training. This measure is expected to raise K75.0 million in 2018 and will be effective 1st January 2018.

5.3.3 Suspending The Tariff Reduction Program (TRP), Increasing Import Tariffs On Refined Petroleum Products And Other Imported Products

The last phase of the current TRP is scheduled for 2018 and the rates are programed to be reduced further by 5.0 per cent for those items that are prohibitive and 2.5 per cent for

intermediate category goods. There are a few issues with the current TRP which the Government needs to address in 2018, including:

- i. There is a need to review the current TRP policy to determine if it had achieved its intended purpose of encouraging a more efficient and productive private sector through greater exposure to international competition. Hence, Treasury will review the current TRP in 2018.

Therefore, the last phase of the TRP scheduled for 2018 is suspended until the outcome of the review. This measure is expected to save revenue.

- ii. There has been significant concerns raised by PNG manufacturers on the stiff competition coming from imported goods. Hence, the Government in an effort to support local manufacturers increased import tariffs on certain items in the 2017 Supplementary Budget.

The Government will continue to support local manufactures in 2018 by a further moderate increase to import tariff rates on items that are produced in PNG and items that have significant health risks such as eggs, meats (beef, pork and poultry and cooking oil while some basic items that are not produced in PNG are set to zero.

This is expected to reduce health related issues, enable local manufacturers to compete with imports, increase economic activities and create employment for our people. This measure is expected to raise K4.0 million.

- iii. There were number of conditions precedent for the State as a part of the Puma purchase of the Napa Napa refinery including the State subjecting the importation of refined products to an Import Price Parity (IPP) model. The purpose of the IPP was to give the Refinery now Puma price an advantage over importers and force buyers to source refined petroleum products locally.

The Government is concerned that the existing IPP model is largely benefiting importers of refined petroleum products. Importers are sourcing their refined petroleum products cheaply from low cost countries and importing into PNG using the current IPP model resulting in importers making above normal profits.

In response the Customs Tariff Rate for Diesel and Petrol is to be set at K0.10 per litre and this amendment is intended to impose a tax on imported refined products to minimize excess profiteering by importers. This measure is expected to raise K65.9 million in 2018.

These measures are expected to raise K70.0 million in total in 2018 and will be effective 1st January 2018.

5.3.4 Moderately Aligning Diesel Excise With Petrol Excise By Increasing Diesel Excise From 10 Toea To 23 Toea

Petrol is excised at 61 toea per litre and Diesel at 10 toea per litre. The entire excise collected from petrol is remitted to the CRF, while excise from diesel is shared between CRF and the National Roads Authority (NRA) at 6 toea and 4 toea respectively.

The preferential treatment of fuel excise based on end-use is becoming less relevant as more diesel vehicles are used for purposes other than heavy commercial transport or agricultural or

mining applications. In addition, despite the engine type, both diesel and petrol vehicles are contributing to the overall wear and tear of the road network and it is important that all road users pay their fair share of excise.

The Government will increase the excise for diesel by 13 toea every two years starting in 2018 and spread over the medium term until the gap between petrol and diesel is closed. The increase in diesel excise will increase the CRF component while the NRA component is fixed at 4 toea per litre. This increase will have minimal impact on inflation in 2018 (0.01 per cent).

This measure is expected to raise K67.0 million in 2018 and will be effective 1st January 2018.

5.3.5 Capture Resource Rent On Export Of Unprocessed Old-Growth Logs By Applying A Progressive Duty Rate

The export duty rate on the export of unprocessed old-growth logs was set at 32.5 per cent in January 2017 which was an increase of 4.0 per cent on the 28.5 per cent in the 2017 Budget.

While this represents an increase in the rate, it does not act as a resource rent tax. Under the fixed rate regime, 32.5 per cent is applied despite changes in the price of the logs. In addition, there are some areas that have few high valued log species while others may have few low value species logs and therefore the taxation treatment is unfair.

Further, in most cases logging companies in PNG are in prolonged tax losses, hence they do not pay corporate income taxes. This raises an overwhelming concern that logging companies could be engaged in sophisticated transfer pricing activities that result in a systematic under-reporting of actual log export revenue.

Surplus rents generated by unusually high log export prices need to be returned to the people of PNG. Therefore, the Government is introducing a moderate progressive tax rate to ensure fair taxation treatment consistent with the value of logs. This measure is also intended to capture the resource rent of exploitable old-growth logs, encourage downstream processing and act as a default corporate tax. This measure does not apply to plantation logs. Table 19 shows the prescribed progressive rates.

Table 19: Proposed stepped fashion Progressive Export Duty rate

New 2017 Thresholds (FOB Prices, US\$/m ³)	Proposed 2018 Export Duty Rates	Average Duty as a % of log Price
0	P*0.2500	25%
Above \$60.00	P*0.3583-3.56	31.4%
Above \$100.00	P*0.3765-4.76	33.8%
Above \$150.00	P*0.4305-12.26	36.1%
Above \$200.00	P*0.4805-18.26	40.0%
Average Duty as % of FOB Price/M ³		35.3%

Source: Department of Treasury

This measure is expected to raise K20.0 million in 2018 and it will be effective from 1st January 2018.

5.3.6 Clarifying The Definition Of 'Primary Production'

The current definition of 'primary production' under the *Income Tax Act 1956 (ITA)* is very broad covering taxpayers in the forestry/timber operations sector.

The green revolution or agriculture incentives was not intended for the forestry/timber operations sector. However, the existing definition of primary production is ambiguous and may imply that these incentives also extend to forestry/timber operations.

Therefore, the Government will clarify the definition of 'primary production' to restrict the application of agricultural incentives only to the agriculture sector consistent with the policy intent.

This measure is expected to clarify confusion and is not expected to have any impact on revenue in 2018. The measure is intended to be effective retrospectively to the date that the agricultural incentives were introduced consistent with the current practice.

5.3.7 Address Abuse Of GST Zero Rated Status Of Educational Institutions

The educational supplies by educational institutions to its students are exempt supplies under the GSTA, which means no GST is paid by the end user. However, educational institutions are entitled to claim a credit for GST they pay.

While the type of educational supplies is intended to be restricted to educational materials, in practice, claims are being made for any and all other expenses by the educational institutions under the guise of 'educational materials'. The IRC does not have sufficient man power and resources to verify such claims resulting in educational refund claims becoming a hot spot for a high number of fraudulent GST claims involving large sums of revenue.

In this Budget, the Government will exempt educational supplies from GST to prevent the potential of fraud and abuse for GST claims by educational institutions.

The measure is expected to raise K6.4 million in 2018 and will be effective 1st January 2018.

5.3.8 Clarify The Definition Of Resource Company In The Goods And Services (GST) Act To Allow Operating Licence Holders A GST Zero Rated Status

The definition of 'Resource Company' in the GST Act is very broad and open to interpretation. This results in ineligible tax payers qualifying for the GST zero rating status resulting in abuse and revenue leakage.

The Government is amending the definition of 'Resource Company' in the GST Act to ensure the zero rating incentive only applies to 'operating licence holders' consistent with the zero rating policy intention. This measure will prevent abuse and revenue leakage.

This measure will have positive impact on revenue and it is expected to be effective 1st January 2018.

5.3.9 Align Taxation Treatment Of Royalties In The Resource Sector To Be A Deduction Rather Than A Tax Offset

Royalty is a levy prescribed under the *Oil & Gas Act 1998* and *Mining Act 1992* paid to the state on behalf of the affected landowners. Royalties in the Oil and Gas sector are applied at 2.0 per cent of well-head value of all petroleum produced from a licence area. For the mining sector, royalty is at the rate of 2.0 per cent of the value of total production in a year.

There is also a 2.0 per cent development levy charged under the Oil and Gas Act and is calculated on the same basis as the royalty. The development levy is paid by the oil and gas companies to the local level and provincial Government.

While in the mining sector, a production levy of 0.25 per cent of free-on-board (FOB) value is applied and is collected by the Mineral Resource Authority for their operations.

Section 161 of the ITA prescribes the taxation treatment of royalties and development levies in relation to Oil and Gas Act, where royalty is treated as a tax paid and therefore, a tax-offset while the development levy as a deduction for the purpose of calculating corporate income tax.

For the mining sector, the royalty and production levies are treated as a deduction.

In this Budget, the Government aligns the treatment of both royalty and development levies as a deduction rather than a tax offset as in the oil and gas sector to be consistent with the mining sector.

This measure is expected have a positive impact on revenue and will come into effect on 1st January 2018.

5.3.10 ‘Pay Now Litigate Later’ Policy To Improve Compliance

Currently, where a taxpayer has an assessment and objects to that assessment, the taxpayer can delay tax payments for many years if the taxpayer appeals to National Court or Tax Review Tribunal. This has an impact on the revenue collected in the tax year, in particular where there are large amounts of tax involved from large corporations.

In this Budget, the Government will amend section 247 of the ITA to ensure taxpayers pay the full amount of income tax due before they can appeal an assessment and where no such payment is received, before the end of the prescribed appeal period (60 days), the appeal will be invalid.

This legislation will enshrine the “pay now litigate later” decision in the tax case of Bougainville Copper Limited (BCL) and Commissioner General of Taxation (Supreme Court). In that case, the taxpayer sought to delay payment until the substantive appeal had been heard. The court acknowledged that an assessment is a debt due to the State and must be paid within the prescribed time.

This measure is expected to be revenue positive and is expected be effective on 1st January 2018.

5.3.11 Holding Parent Companies Liable For Subsidiary Company Tax Liabilities To Improve Compliance

There are cases where large corporations’ profits generated from business operations in PNG pay little or no income tax with profits paid over to its holding companies largely as dividend payments. The paying of the company’s cash as dividends in conjunction with the reduction in the company’s non-cash assets leaves the IRC unable to collect any outstanding tax liabilities from the company.

These large corporations may have a large tax liability and be stripped of all assets leaving the Commissioner General (CG) unable to collect income tax assessed to the company.

Currently, a “corporate veil” exists which does not allow the CG to collect the income tax from the company’s holding company or related companies even if it has been distributed as a dividend or transferred as a non-monetary asset to those group holding companies.

In this Budget, the Government will remove the “corporate veil” to make the parent (holding) company and other groups of companies liable for the tax liability incurred by the subsidiary company. This will allow the CG to collect tax distributed as dividends or transferred as a non-monetary asset to other Group companies in PNG or overseas.

This measure will be revenue positive in the medium to long term and is expected to be effective 1st January 2018.

5.3.12 Providing Options For Taxpayers To Pay Their Tax Liability As They Lodge

The payment of income tax is due 30 days after service of the Notice of Assessment.

Since the introduction of the Standard Integrated Government Tax Administration System (SIGTAS), income tax returns are assessed on face value meaning that a taxpayer's self-assessment is taken as correct and entered into the system where a notice of assessment is automatically generated.

Consistent with the broader long-term reform of the tax system to move into a formal self-assessment system, the Government will provide an option for taxpayers to make payment when they lodge their return.

The measure will impact the timing of revenue flows and is expected to be effective 1st January 2018.

5.3.13 Imposing Penalties For Incorrect Or Non-Disclosure Of Losses And Deductions

Section 316 of the ITA provides for the imposition of additional tax as a penalty measure in instances when taxpayers omit or fail to disclose income or information when making declarations to the Commissioner General.

It is intended to penalise taxpayers who have deliberately omitted financial information in an attempt to reduce their tax liability.

The section lists certain specific circumstances/instances of omission and then has a general catch-all provision that covers all other circumstances.

Over the years, the IRC has witnessed increased understating of income and omission of information specifically with respect to (i) losses and (ii) deductions by the resource sector.

In addition, taxpayers have argued that losses and deductions by the resource sector do not come within the ambit of the general catch-all provision hence, the additional penalty tax cannot be imposed in those circumstances.

Therefore, the Government will give prominence to these two areas by inserting express provisions relating to: (i) losses; and (ii) deductions by the resource sector to avoid doubt and unnecessary argument.

The measure is expected to be revenue positive and is expected to be effective as of 1st January 2018.

5.3.14 Taxing Prescribed Contracts Income of Foreign Contractor's under the Foreign Contractors (Withholding) Tax (FCWT) Regime

The FCWT regime applies to non-residents who enter into a prescribed contract with a resident company to perform a specific service for a specified period.

In the 2017 Budget amendments, the FCWT regime was revamped and a flat 15.0 per cent FCWT rate was introduced and the option to lodge returns for the FCWT income was taken out. This means a resident company who engages a non-resident contractor to perform a specific service for a specified period will simply deduct FCWT from contract payment and remit it to the IRC.

Foreign contractors, in resolving the removal of the option to lodge, are now registering as foreign enterprises with the Investment Promotion Authority (IPA) and diversifying into other income generating activities in PNG apart from the prescribed contract work. As such, they are able to lodge returns as a corporate entity and be taxed at the non-resident rate of 48.0 per cent.

The Government is aware of short-term foreign contractors deliberately registering with IPA with the aim of lodging returns is a loophole in the income tax law which needs to be tightened. FCWT income from the prescribed contract from a foreign contractor must be kept separate as it is governed under FCWT regime.

In its ongoing effort to protect its revenue base, the Government will restrict FCWT as a separate tax regime from the Corporate Income Tax regime.

The measure is deemed to have come into effect on 1st January 2018.

5.3.15 Simplifying The Administration Of Non-Resident Insurer's Tax

Non-resident insurer's tax is a tax applied on 10 per cent of insurance premiums paid by PNG residents to non-resident insurers.

The tax is withheld by insurance brokers in PNG. The tax withheld is currently paid to IRC in the subsequent year together with the insurance brokers' corporate income tax upon lodgement of their annual returns.

The Government will simplify the administration of non-resident insurers' tax so that the amount of tax withheld by the insurance brokers is paid to the IRC in the subsequent month after being withheld and not in the following year.

This measure is expected to bring increased revenue in 2018 and will become effective 1st January 2018.

5.3.16 Legalising Taxpayer Identification Numbers (TIN)

In late 2012, the Prime Minister raised a concern with IRC about potential revenue leakage from citizens and non-citizens who are conducting business or otherwise obtaining income without declaring it to IRC.

A lot of these monies would ultimately be passed through the banking system at some point. Hence, there is a need to improve identification of these financial flows to ensure that they are taxed appropriately.

The Government is concerned over whether all companies registered by IPA are complying with their obligation to register for tax purposes if they were conducting business activities in PNG.

In this Budget, the Government will make TIN Registration a legal requirement to broaden the tax base. This measure will also set out the conditions for TIN registration including penalties for non-compliance.

This measure is expected to be effective as of 1st January 2018.

5.3.17 Increase Tax Clearance Threshold For Sending Money Overseas To Reduce Compliance And Administrative Costs

The tax clearance threshold of K200,000 has been at this level since 2007 and no adjustment has been made to this amount for inflation.

Once the taxpayer exceeds this annual threshold they then require a new Tax Clearance Certificate (TCC) for each remittance which can be for very small amounts.

Typically, it is the same organisations who keep coming again for each transaction once the threshold has been exceeded in aggregate.

The increase in the threshold will also compliment administrative measures being undertaken by the IRC such as:

- i) issuing TIN's to individual TCC applicants so that there is better oversight in the revenue accounting system (SIGTAS) to allow IRC to track the compliance levels of these applicants; and
- ii) issuing TCC's directly to the bank that will be processing the transaction for the taxpayer, instead of the applicant taxpayer.

The Government will increase the tax clearance threshold to K500,000.0 to improve efficiency in the administration of the issuance of TCCs and to ease the compliance costs on taxpayers, commercial banks and the administrative burden on the IRC.

This measure is expected to be effective 1st January 2018.

5.3.18 Introduce a Bribery Offence Provision To Minimise Fraud And Corruption

Currently, bribery offences committed to tax officers can only be prosecuted by the Police under the general bribery offence under the Criminal Code.

The specific offence of 'bribery' is absent under the ITA. In light of the growing number of bribery cases by taxpayers to officers of the IRC, the Government will introduce a specific bribery offence in Part VII of the Act relating to Prosecutions. This is to ensure IRC has powers to prosecute taxpayers found bribing IRC officials.

This measure is expected to reduce the instances of bribery consistent with the stand against corruption and improved transparency and accountability in the tax system.

This measure is expected to be effective 1st January 2018.

5.3.19 Amending the Secrecy Provision To Provide Tax Data To the Extracting Industry Transparency Initiative (EITI) And Financial Analysis And Supervision Unit (FASU)

The EITI was established in 2013 to promote revenue transparency and accountability in the country's mining and petroleum sectors. The EITI is required to publish a report that details

payments made by companies and revenue received by Government agencies in addition to other contextual information about the extractive industry. EITI has published reports for the financial years 2013 and 2014.

However, the current ITA has secrecy provisions that prevent IRC disclosing to EITI relevant data for reporting purposes. The NEC, through NEC Decision No. 91/2017, approved that the EITI reporting requirements be legislated into the Government reporting process (in lieu of current practice of using a waiver letter).

Further, recent developments in the anti-money laundering and counter terrorism financing (AML/CTF) area, have seen the need for more information sharing amongst the relevant state agencies.

In line with international standards, the Government recently enacted the AML/CTF Laws as well as amendments to the Proceeds of Crime, Criminal Code and Mutual Assistance in Criminal Matters legislations.

With the transfer of the financial analysis function of PNG's Financial Intelligence Unit (FIU) to the new Financial Analysis and Supervision Unit (FASU) at BPNG, it is imperative that the IRC be allowed to share tax information with FASU.

In this Budget, the Government will amend the *ITA* to allow EITI and FASU to become an authorized recipient of relevant tax data.

This measure is revenue neutral and is expected to be effective 1st January 2018.

5.3.20 Allow the Commissioner General To Declare Landowner Resources Trusts With Approval From Treasury

The Minister for Treasury under section 137 of the ITA can declare a landowner resource company as a trust. However, the turnaround time for dealing with applications for landowner resource trusts is too lengthy.

In this Budget, the Government will transfer the power to declare landowners resources trusts from the Minister of Treasury to the Commissioner General with approval from Treasury. This measure is intended to improve the turnaround time for dealing with such applications and to provide more certainty to relevant taxpayers.

This measure is also aimed at simplifying the administration of a landowner resources trust. The existing landowner resource trust criteria will not be affected by this amendment.

This measure is revenue neutral and is expected to be effective 1st January 2018.

5.3.21 Reducing Tax On Termination Payments To Align With Tax On Superannuation Payments

Prior to 1993, Employment Termination Payments in PNG were taxed in two (2) ways:

- 2.0 per cent concessional rate of tax; and
- marginal rate of salary or wages tax.

However, the 2.0 per cent concessional rate of tax was removed and currently termination payments (other than superannuation distributions) are now all taxed at the employee's

marginal rate of tax, except for long service leave that was accrued prior to 1st January 1993, which is still taxed at the 2.0 per cent concessional rate.

The current marginal rate of tax applied on termination payments is unfair on low income earners. This is because low income employees traditionally do not have a large amount saved as superannuation (due to a low average salary over the period worked).

In most cases the low income earners rely upon his/her accrued long service and other payments made on termination to arrange their future. This is because the long service leave is calculated on the final salary which is always greater than the average salary used for superannuation. In some cases, the low income employees pay more tax on their termination payment than they would pay on their normal salary.

In addition, the taxation treatment for Superannuation is more reasonable and equitable.

Therefore, the Government will ensure a fair and reasonable tax rate is applied to recognize long service employees by aligning the tax treatment of termination payments with that of superannuation payouts.

This measure is expected to reduce over taxation on accrued long service leave paid out on termination of office or employment by employees.

This measure is expected to have minimal negative revenue impact and it is intended to be effective 1st January 2018.

5.3.22 Construction Of APEC Haus under an Infrastructure Tax Credit (ITC)

The Government will build the APEC Haus project under a special Tax Credit Scheme through Oil Search Limited and its affiliated corporations.

In light of the importance of this international event, the terms of this special ITC with Oil Search was to minimise the detrimental effect it will have on revenue over the medium to long term against the need for this APEC building.

Some of the key aspects or terms of this amendment include:

- APEC Haus will be constructed by way of special Infrastructure Tax Credit provision;
- the total value of the ITC's shall not exceed K170.0 million;
- the expenditure ceiling of K170.0 million under the ITC for the construction of APEC Haus and the expense must be incurred from the date of the NEC Decision No. 219/2016 up to end of 2018; and
- the tax credit that will be claimed in the subsequent year or years going forward will be limited to 1.25 per cent of the assessable income of the Oil Search Group limited and its related corporations.

This measure is expected to reduce Government revenue by K170.0 million over the medium to long term. This amount will be reduced indefinitely until Oil Search and its related corporations fully recoup the cost of constructing APEC house but limited to K170.0 million.

This amendment will be retrospective and will be effective from the date of NEC decision, 21st September 2016.

5.3.23 Introducing Tax Administration Act (TAA)

There are different administrative rules for different taxes. This confuses taxpayers and creates more work for IRC that involves duplicated forms, processes and materials for each different tax thereby adding unnecessary costs to both taxpayers and IRC.

The Government will introduce the Tax Administration (TAA) that will set out clear procedures for main tax heads, administrative rules and tax payer obligations and rights. The TAA is expected to improve tax administration and compliance, hence increase revenue generation.

Introducing a new tax administration law will set out common procedures for the main taxes, give greater consistency between the administrative rules for the different taxes and more certainty on taxpayers' obligations and rights. The TAA will essentially cover the entire tax administration process including: taxpayer registration; records; tax returns; tax assessments; decisions of the Commissioner General; objections and appeals; collection and recovery; refunds; information collection; tax clearance; communications; forms; and notices; administration administrative penalties and tax offences.

The TAA will also clearly consolidate and streamline the powers of the Commissioner General, payment and filing dates, electronic filing and payment, compliance improvement initiatives and penalties for non-compliance.

In this Budget, the Government will announce the introduction of a TAA but actual enactment will take place in 2019. This will enable sufficient time for public consultation and awareness and the setting up of appropriate administrative procedures.

In addition, it is important to note that there are certain aspects of the TAA around TIN registration and payments etc. that will be effective as of 1st January 2018 in the form of the *Income Tax (2018 Budget)(Amendment) Bill 2017*.

The TAA is expected to come into force as of 1st January 2019.

5.4 MODIFICATION TO 2017 BUDGET AMENDMENTS FOR CLARITY

5.4.1 Carving Out Projects With Fiscal Stability Clauses In Project Agreements

In the recent amendment, section 155(3) was inserted into section 155 of the ITA to carve out Resource Projects with Fiscal Stability Clauses including the PNG LNG Project from been affected by any changes to the ITA.

The intention of this new section 155(3) is to enable the operation of the ITA to ring-fence and protect fiscal stability guarantees entered by the State through project agreements.

However, the new section 155(3) is interpreted only to Division 10 and does not apply to the entire Act. This means, any changes to Divisions other than Division 10, will affect the resource projects that have Fiscal Stability guarantees. This will breach the Fiscal Stability agreement between the State and the resource project developers.

Therefore, to avoid breaches of the fiscal stability agreement and associated costs to the State, the Government will amend Section 155(3) under Division 10 so that it is applicable to the entire Act. This means any change made to the Act will not affect those resource projects with the Fiscal Stability guarantees and any agreement entered into by the State such as PNG LNG Project.

This measure will not have any revenue implication and will be retrospectively effective 1st January 2017.

5.4.2 Introduce transitional provision for application of Additional Profits Tax (APT) to existing companies

The 2017 Budget introduced a revamped APT to apply to all mining and petroleum resource projects. Under the revamped APT, the hurdle rate was made a nominal flat rate of 15.0 per cent, a single APT threshold rate of 15.0 per cent and an APT rate of 30.0 per cent.

The revamped APT was intended to apply to both existing and new projects except those with fiscal stability clauses and for it to come into effect 1st January 2017.

The mining and petroleum industry raised concerns to the Government that the application of the revamped APT to existing projects is unfair and argued that the Government needs to recognise the existing mining and petroleum projects for investments made prior to the introduction of revamped APT.

This is because failure in not recognizing prior capital investment for existing projects has a consequence of APT being triggered early even before the threshold rate of return is achieved and could potentially result in causing a profitable project to be uneconomical after the imposition of APT. Therefore, the unintended outcome is against the principle of the APT which is only to tax the surplus over the APT threshold rate of 15.0 per cent.

In addressing this issue, the Government will amend the ITA to calculate the 31st December 2016 as closing balance of the accumulated value of net project receipts had the APT (as amended by the 2017 Budget) always applied to the relevant resource project. The “look-back” method has the advantage of being based on actual project receipts and expenses. The onus is on the taxpayers to have maintained adequate records to substantiate their historic calculation of these balances.

This is to ensure IRC is able to effectively administer and properly verify taxpayer’s submissions against prior returns and audited financial statements. This transitional provision will ensure existing projects are fairly treated in the calculation of APT.

This measure will not have any revenue impact and will be retrospectively effective to 1st January 2017.

5.4.3 Ensuring Dividends Distributed Through Companies Are Taxed Once

Section 216 of the ITA provides for dividend rebate and is designed to ensure profits which are distributed through companies are taxed once. Dividends distributed to another company forms part of its assessable income and it is subject to company tax at the rate of 30.0 per cent before it is distributed to companies.

For example, when company A makes a profit, a 30 per cent tax is applied on its profit before the profit is distributed to company B. Company B declares the profit as its assessable income and is subject to company tax. *Section 216* ensures that company B does not pay tax again on the dividend received from Company A.

Section 216 provided for a rebate of tax at 30 per cent on the net dividend income. The effect of the rebate is that dividends (being after tax profits) derived by companies are effectively received free of further taxation ensuring that the effective tax rate on distributed profits is

40.5 per cent where the dividend withholding tax rate is 15.0 per cent (30.0 per cent plus 15.0 per cent of 70.0 per cent).

In the recent amendment to *section 189D*, the rebate of tax was removed. This means profit distributed between companies (company B) will now be subject to tax and the effective tax rate on profit distributed by company A to Company B will be doubled.

Therefore, to ensure companies are fairly taxed, the Government will amend section 216 of the ITA to ensure dividends distributed through companies are taxed once.

This measure will not have any revenue implication and is expected to be effective 1st January 2018.

5.4.4 Reinstate Sub-Section 189b (2) (F) Of The ITA To Exempt Superannuation From Dividend Withholding Tax (DWT)

Superannuation is exempted from DWT under sub section 189(2)(f) of the ITA. In the recent amendment, sub section 189(2)(f) was unintentionally deleted during drafting of this legislation. Deletion of this section means that Superannuation funds will now pay DWT which is not the intent of the policy.

The Government will restore the original intent of the policy by reinstating section 189(2)(f) under Division III.13A to exempt Superannuation Fund from DWT.

This measure is not expected to affect Government revenue in 2018 and will be retrospectively effective 1st January 2017.

5.4.5 Customs Harmonised System 2017

In the 2017 Budget, an amendment was made to the *Customs Tariff Act 1990* to update the Customs Harmonised System (HS) 2017. This is to ensure the PNG Tariff items, descriptions and item codes and tariff rates are on par with world standards as required by the World Customs Organisation.

During drafting of the legislation, some tariff items, description and codes and tariff rates were unintentionally omitted and placed under wrong headings and tariff rates misapplied.

The Government will correct the drafting errors made to HS 2017 by reinstating omitted tariff items, descriptions, codes and tariff rates and placing misapplied tariff items under correct headings and tariff rates. This measure is will not have revenue implications and is expected to be effective 1st January 2018.

5.5 TECHNICAL AND HOUSE KEEPING AMENDMENTS

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

- amendment to section 155A (6) and 155N(6) of ITA to remove cross-references to the now repealed Section 156E of ITA relating to the double deduction for exploration expenditure for mining companies.
- repeal the exemption under Section 7(c) of the GST Act which relates to NEC granted exemption which is redundant after the repeal of the former Section 25(8) and (9) in the 2016 Budget.

CHAPTER 6: EXPENDITURE

6.1 OVERVIEW

The 2018 Budget reflects the budget reforms jointly undertaken by the Departments of Treasury and National Planning and Monitoring. The Total Government Expenditure projections are based on the Government Finance Statistics (GFS) 2014 classification. Under this new reporting system, expenditure consists of expense and net acquisition of non-financial assets and GST and Bookmakers Turnover Tax to provinces.

In 2018, the government will continue to implement its development agenda of “growing the economy and empower its citizen”. The Budget is therefore framed with the following guiding principles:

- facilitate the hosting of the 2018 APEC Leaders’ Summit;
- ensure free, fair and safe LLG Elections;
- halt the rise in personnel emoluments expenditure and fund other fixed recurrent costs such as utilities and office rentals through stricter controls and also repay arrears in a number of these sectors;
- continue to support major government social and economic priorities in education, health, infrastructure, agriculture, tourism, renewable and non-renewable sectors, rural development and small to medium enterprises and law and order;
- place a greater emphasis on monitoring, evaluation and compliance to achieve improved development outcomes;
- increase resourcing to revenue collection agencies to consolidate then increase and broaden the revenue base;
- strengthen efficiencies in the public sector;
- creating the preconditions for laying a solid foundation for sustained growth and development of the country by investing in critical enablers and the renewable resource sector; and
- adhere to the MTF 2018-22 goals of bringing the budget deficit down to 1.0 per cent of GDP by 2022 and the debt to GDP ratio to 30.0 per cent by 2022. This will mean utilising a significant proportion of the one-off revenue collections in 2018 to fund the repayment of arrears and one-off investments such as APEC to avoid locking in higher expenditure trends and ensuring macroeconomic stability over the forward estimates.

Total expenditure in 2018 is estimated to be K14,717.9 million, of which K13,099.4 million is funded by the GoPNG, K593.9 million is funded through loans and K1,024.6 million is funded through grants.

The total expenditure is significantly higher than the 2017 Supplementary Budget appropriations by K1,862.3 million or 14.5 per cent.

Given the total revenue of K12,730.7 million, this results in a net borrowing requirement of K1,987.2 million or 2.5 per cent of GDP.

The 2018 Budget is comprised of K10,074.0 million for operational expenditure and K4,643.9 million for capital investment expenditure. The operational budget has slightly decreased by less than 1.0 per cent, while the Capital budget has increased by 67.4 per cent from the 2017 Supplementary Budget appropriations.

The slight reduction in the operational budget is partly due to the reduction in the Personnel Emoluments Budget from K4,278.0 million to K4,137.3 million or 3.3 per cent from 2017 Supplementary Budget. The Government is concerned with the structural issues in the public sector payroll which result in significant PE over-runs in recent years.

In 2018, funds have been allocated to address this issue particularly in the monitoring of the payroll, systems' control and other structural adjustments. Work is underway through the Organisational Staffing and Personnel Emolument Audit Committee (OSPEAC) and the Government expects a greater level of control over PE expenditures.

The goods and services budget has been reduced from K3,285.7 million to K3,059.9 million a 6.9 per cent fall. This reduction reflects much stricter controls as well as the removal of a number of once-off 2017 activities such as the K400.0 million allocated for the 2017 General Elections and so despite constraints on goods and services categories in 2018, the major priorities of the Government will be funded.

The Government will actively rebalance the expenditure profile in 2018 and over the medium term by reducing recurrent expense trends well below GDP trend rates and refocusing expenditures on its development agenda through increases in the capital budget. The 2018 Budget will undertake significant investment on high impact projects, as well as those that will facilitate sustainable economic growth.

Over the MTFS 2018-22 period, the capital budget is programmed to increase from 37.9 per cent of non-resource revenue to 39.4 per cent by 2022.

In part, this objective will be achieved through the Government's decentralisation objectives manifested in full funding for SIPs and additional appropriations to support public sector investments, particularly focused on providing counterpart funding to leverage significant donor loan funded projects. Table 20 provides the 2018 aggregate expenditure envelope.

Table 20: 2018 Aggregate Expenditure

Expenditure Envelope	2017 Supp	2018 Budget
Operational	10,080.8	10,074.0
Personnel Emoluments	4,278.0	4,137.3
Goods & Services	3,285.7	3,059.9
Functional Grants	600.0	500.2
Debt Interest	1,532.9	1,864.7
GST & Bookmakers	384.2	511.9
Capital	2,774.8	4,643.9
GoPIP	1,109.6	1,851.0
SIPs	222.0	1,174.4
Loan Drawdowns	475.1	593.9
Donor Grants	968.1	1,024.6
Total Expenditure	12,855.6	14,717.9

Source: Department of Treasury

Table 21 shows the detailed expenditure by sectors.

Table 21: 2018 Expenditure by Sector (Kina, Million)

Sector	Operational	Capital	Total	%
Provinces	2,569.3	1,355.7	3,925.0	26.7
Administration	2,155.5	886.5	3,041.9	20.7
Debt Services	1,864.7	0.0	1,864.7	12.7
Health	1,044.3	461.7	1,505.9	10.2
Education	1,025.7	267.7	1,293.4	8.8
Law & Justice	864.6	198.9	1,063.5	7.2
Transport	294.9	642.3	937.1	6.4
Economic	186.3	479.6	665.9	4.5
Utilities	27.4	290.8	318.2	2.2
Community & Culture	41.5	60.9	102.4	0.7
Total	10,074.0	4,643.9	14,717.9	100.0

Source: Department of Treasury

Finally, inefficiencies and low productivity in the public sector has increased costs to the Government through significant amounts of expenditure that has been outside of budget appropriations. The Government will continue to address this inefficiencies in 2018 and over the medium term through the recommended Non-Financial Instructions (NFIs) which are outlined on page 78.

6.2 DONOR FUNDING FROM DEVELOPMENT PARTNERS

6.2.1 Relationship between Government of PNG and Development Partner Expenditure

The Development Partners (DP) assistance to GoPNG has been on-going since before 1975 and is delivered in the form of Loans and Grants which has been a significant source of revenue for the capital investment budget during the early post-independence years. However, since the mid-2000s, the trend began to change, whereby Government began to fund greater portion of its own capital investment programs.

Given the challenges in coordinating and aligning DP programs with the Government's own development goals, the Medium Term Development Plan (MTDP) process which brought DP Country Assistance Strategies in line with PNG's development priorities and objectives. This led to the formulation of the 2015 PNG Development Cooperation Policy (DCP) which shows the strong ownership and leadership on GoPNG's part and has been largely successful.

As a result, almost all DPs are providing their support through the 2015 PNGDCP principles, and in alignment with the GoPNG's priorities. The O'Neill-Abel Government's focus is to grow the economy and empower its citizens, but still considers infrastructure, law and order, free and quality health and education in the Alotau Accord 2 as critical in enabling economic growth and development.

In 2018, DP assistance through grants and concessional loans is projected to amount to K1,618.5 million or 11.0 per cent of total expenditure and will continue to support economic growth through the transport infrastructure, health, education and law and justice sectors, as well as on cross-cutting issues focused on capacity building in GoPNG agencies, climate change and environmental support.

To address the sharp decline in real economic growth rates from 10.5 per cent from 2015 to 2.2 per cent in 2017, it is critical that the Government stimulate the economy through an expansion in the Capital Investment. To achieve this outcome, the Government is introducing an Economic Stimulus Package in the 2018 Capital Investment Budget to propel the

Agriculture, Tourism, Fisheries and Forestry Sectors. Hence, GoPNG will be seeking DP support through new and strategic bilateral arrangements (grants/loans) to finance large-scale projects in those renewable economic sectors.

The total grants from DPs in 2018 are estimated at K1,024.6 million representing 7.0 per cent of the total expenditure budget.

From PNG's eleven (11) development partners, the Australian Government through Department of Foreign Affairs and Trade (DFAT) is expected to provide the largest share of grants at K642.9 million. Despite the overall decline in the budget for its aid program in recent years, the Government of Australia has continued to maintain its commitment to support PNG through important interventions such as the Transport Sector Support Program Phase 2 at K70.0 million and the Health and Education Procurement Facility Program at K40.0 million.

The other partners have provided significant assistance especially in the key areas outlined in the PNG Sustainable Development Goals (SDGs) aimed at achieving the SDG targets by 2030.

The total concessional loans from DPs amount to K593.9 million or 4.0 per cent of the total 2018 Budget with the Asian Development Bank (ADB) providing the largest share of concessional loans (K240.2 million) making it PNG's second largest Development Partner and the largest multilateral partner. The ADB's major investments in 2018 will include the Health Investment Program (K20.0 million), the Port Moresby Grid Development (K30.0 million) and the Civil Aviation Development Investment Program (CADIP) 3 (K40.0 million).

Other DPs providing development support through loans include the People's Republic of China, the World Bank, JICA, the European Investment Bank (EIB), Ceska/Erste and IFAD.

While the GoPNG acknowledges the DPs' support and the good working relationship built over the years, there is room for improvement in areas such as coordination and the management, delivering and reporting on aid projects. The issues faced by both GoPNG and DPs include slow drawing down of loans, lack of GoPNG counterpart funding, land acquiring issues, DPs going directly to GoPNG agencies and provinces, most DPs not able to provide realistic financial projections for their projects, and the DPs yet to fully comply with GFS 2014 reporting standards.

The introduction of the Public Expenditure & Financial Accountability (PEFA) assessment, the formulation of the PEFA Roadmap and the subsequent PEFA Assessment Report have progressed the process of having a strengthened governance system to provide confidence to our DPs.

An overview of funding from PNG's DPs and the related Government counterpart funding is shown in Table 22.

Table 22: 2018 Loans, Grants and Government Counterpart funding (Kina, Million)

Development Partner	GoPNG Counterpart	Grants	Loans	TOTAL
DFAT	5.0	642.9	0.0	647.9
ADB	62.5	9.3	240.2	311.9
JICA	73.0	63.7	47.4	184.0
WB	29.0	6.9	118.0	153.9
China	34.0	2.5	110.0	146.5
EU	2.5	135.6	0.0	138.1
UN	0.0	120.0	0.0	120.0
NZ	9.0	43.7	0.0	52.7

EIB	2.0	0.0	40.1	42.1
Ceska	4.0	0.0	20.0	24.0
Indian EXIM	30.0	0.0	15.0	45.0
IFAD	1.0	0.0	3.2	4.2
USAID ¹⁹	0.0	0.0	0.0	0.0
Grand Total	252.0	1,024.6	593.9	1,870.2

Source: Department of National Planning and Monitoring

6.3 BUDGET REFORMS

The Government has introduced a number of budget reforms since 2012 to increase the efficiency and effectiveness in the budget process through budget unification (integration), sector-led budgeting and a two-stage budget process. Part of the reforms was the introduction of the multi-year budgeting framework based on the Government's medium term development priorities and revenue trends in the MTDP and the Medium Term Fiscal Strategy, respectively.

The aim of integrating capital and operational budgets is to achieve sector goals and targets efficiently and effectively. The agencies are expected to present one submission, reflecting both capital and operational budgets for their project/programs to both DNPM and DoT.

Sector-led budgeting aims to improve sector coordination in the budget process to effectively achieve sector goals and targets. Based on the budget ceilings for each sector provided by the Department of Treasury, agencies within a sector collaboratively identify projects/programs and bid through their sector-led agency which also gives greater opportunity for the agencies in the sector to work together and encourage early participation of the respective Ministers in the budget formulation process.

The two-stage budget process facilitates and ensures that the budget is aligned to key policy priorities of the Government and involves early consultations on the fiscal framework and MTDP priorities between the technical and ministerial levels. The alignment of the MTDP to the political cycle also gives more clarity to the Sectoral Heads and Ministers on the sector development priorities.

In stage one, agencies are invited to identify new projects using Project Identification Documents (PIDs) and channel these through sector-led agencies to the Ministerial Economic Committee (MEC) for consideration against projected fiscal conditions while in stage two, agencies submit detailed Project Formulation Documents (PFDs) for only MEC approved projects/programs.

The multi-year financing gives a level of certainty to public and business communities on the Government's commitments and the outlook for future expenditures. Having a long-term focus across agencies will encourage and improve strategic planning and the use of resources, as well as providing predictability to funding.

The reforms are on-going with sectors to ensure that the expenditures are coherent and coordinated between the capital investment and operational components which allows the Treasurer, the Minister for Finance and the Minister for National Planning and Monitoring to have early dialogue through the Cabinet Sub-Committee of Economic Ministers (MEC). This ensures that government priorities are addressed through the budget with the support of the DPs.

¹⁹ USAID was not able to provide their 2018 projections due to the absence of US Congress sitting

6.4 2018 ASIA PACIFIC ECONOMIC COOPERATION (APEC) LEADERS' SUMMIT

The 2018 APEC Leaders' Summit is a significant event for PNG that stands to bring in a wide range of benefits to PNG exposing the leaders, Ministers and officials of the 21 APEC member economies to the abundance of opportunities and also the challenges in PNG. The APEC Forum plays an important role in facilitating a dialogue between businesses and industry leaders.

As host, PNG has conducted a number of lead-up meetings domestically and has also participated in international meetings on a wide range of topics, including the economy, security, energy, trade and investment, infrastructure and the environment. In 2018, the country will experience an unprecedented influx of international officials and business leaders; hence it requires significant forward planning.

Since 2014 a significant amount of funds has been invested in this event. In 2018, the Government has allocated K300.0 million with much of it geared towards the administrative and logistics preparation.

6.5 SECTOR EXPENDITURE

6.5.1 Administration Sector

The Administration Sector comprises of thirty-one (31) agencies and is the largest of the nine (9) Sectors of the Government. The sector includes five (5) central agencies and twenty-six (26) line agencies including two (2) principal revenue-generating agencies - Internal Revenue Commission (IRC) and PNG Customs.

The Government has recommended the amalgamation of five (5) agencies (refer to NFI pg. 72) which will reduce the size of the sector over time.

The Sector strives to instil high standards of public sector performance and delivery at all levels of government. These include: strengthening of public sector reforms; institutional structures; human resources; and capacity development.

The Government's intention over the medium term is to reinforce the structural reforms to strengthen the existing service delivery processes and systems to underpin sustainable economic growth. The Public Finance Management (PFM) Reforms, Public-Private-Partnership (PPP) Program and the National Statistical Office (NSO) reforms are some of the undertakings that the sector has embarked on to achieve effective service delivery.

Through the State-Civil Society Organisation Partnership Policy, Government will further improve the coordination of the PPP and Church State Partnership Programs.

Going forward, the Government will continue to maintain the transition of public sector and institutional transformation to improve service delivery and therefore the Provincial Sector will play a pivotal role in facilitating and administering these reforms. The amalgamation of the prescribed agencies is part of the right-sizing exercise and savings realisation measures commenced in 2015 to improve more cost efficient service delivery. The monitoring and evaluation of government policies, programs and projects are critical to improve service delivery and so the building and strengthening of the monitoring and evaluation system will be facilitated at all levels of government through the implementation of the Policy Monitoring and Evaluation Framework.

The Government's DPs are urged to support and enhance these initiatives through grants targeted at capacity development and institutional strengthening at both the national and sub-

national levels. The Government of Australia is the main contributor to governance and capacity building programs.

The Government will also support on-going projects in the key public sector strengthening initiatives including support for financial management in the Department of Finance, support to revenue-generating agencies and funding for national surveys including the Demographic Health Survey (DHS) and the Household Income and Expenditure Survey (HIES).

Total expenditure for the Sector in 2018 is K3,041.9 million or 20.7 per cent of the total budget. This is a 4.6 per cent reduction from the 2017 Supplementary Budget. Total expenditure for the sector consists of K2,155.5 million in operational expenditure, K886.5 million in capital expenditure.

Some expenditures, which are not administrative in nature, are captured under the Treasury and Finance Miscellaneous Budget (Division 207) which makes over 40.0 per cent of the total administration sector budget. Miscellaneous budget expenditures capture large expenditure items such as the 2018 Local Level Government Elections (K100.0 million), APEC (K270.0 million), State's Superannuation Obligations (K170.5 million) and multi-Departmental Office Accommodation (K236.0 million).

The major projects/programs considered in the 2018 Budget include: K20.0 million for Financial Management Program, K20.0 million for National Land and Housing Program and K23.0 million for the National NID Card Project.

In 2018, there is a greater emphasis on revenue generation, therefore K3.0 million has been allocated toward Revenue Raising Initiatives and the RASII Project (K5.0 million) - Replacement of the ageing tax collection system. In the operational budget, Customs PNG budget is increased by K15.0 million from the 2017 Supplementary Budget while IRC increased by K30.0 million, with K19.0 million allocated to the Medium Term Revenue Strategy (MTRS). These two (2) revenue generating agencies (IRC and Customs) have been sufficiently funded in their personnel emolument budget compared to the rest of the agencies.

6.5.2 Economic Sector

The Economic Sector as a whole comprises industries such as Mining, Petroleum, Forestry, Fishery, Tourism and Agriculture. The sector is quite broad with a total of twenty-nine (29) agencies of which two have been amalgamated.

This Sector has seen the highest increase from K385.7 million in the 2017 Supplementary Budget to K665.9 million (a 72.6 per cent increase) in the 2018 Budget. Much of the increase is captured in the capital component with an increase of over 140.0 per cent. This reflects the Government's commitment towards realising higher growth rates in the Economic Sector.

The National Strategy for Responsible Sustainable Development (StaRS) calls for the need to recognize strategic assets (both renewable and non-renewable) as the drivers of sustainable economic growth and is supported through the Sustainable Development Goals²⁰. The deliberate investments and interventions in these assets will enhance their market value and enable the country to gain a comparative advantage over other countries and this will ultimately diversify and broaden PNG's economy through wealth generation and the creation of employment for PNG's growing population.

²⁰ SDG 2 – Zero Hunger, SDG 8 – Decent Work and Economic Growth, 12-Responsible Consumption and Production, SDG14- Life Below Water, and SDG 15 – Life on Land

6.5.2.1 Renewable sector

Natural renewable resources such as agriculture, forestry and fisheries will underpin the country's long-term prosperity if these resources are strategically developed and reinforces the Government's efforts to promote sustainable development.

Diversifying PNG's agricultural export-base is paramount with specific emphasis on building the capacity of the sector.

The management of forests in the medium term is to be on a sustainable basis to achieve sustained economic growth, employment creation with greater landowner participation and an increase in viable on-shore processing. Protecting, conserving and sustainably developing the forest resources are at the heart of sector development.

The fishing industry has grown from a dependency on access fees in the early 1980s to a more diversified sector, with significant downstream processing today.

Also, the development and consumption of renewable and clean energy is crucial. Energy provides the fuel for productivity and to improve living standards and therefore the Government is committed to encouraging the production and consumption of renewable energy such as biofuels, thermal and solar which is also critical in our efforts to mitigate the effects of climate change.

In the 2018 Budget, the Government has maintained its support for the renewable resource sector by allocating a significant amount of funds to the ongoing activities such as the Productive Partnership in Agriculture Program (Additional), SMEs Funding for Agriculture and Others, National Cattle Breeding Farm and the Regional Cocoa Nurseries Project.

Small holders in Agriculture and Fishery will have increased access and participation in the economy through the development of enabling infrastructure such as the Oil Palm Small Holder Roads and Rural Jetties Programs. Forest conservation and sustainability efforts will be supported through the PNG National Forest Resource Information System and Reforestation Program.

The Government's investment in infrastructure, law & order and utilities should serve as the impetus to improve the productive capacity of the renewable sector.

6.5.2.2 Non-Renewable Sector

The mining and petroleum sectors contribute on average 20.0 per cent of GDP. These sectors are capital intensive and form the major component of the formal sector.

The key strategic priorities for the mining and petroleum sectors are: strengthening the capacity of state institutions; maximizing exploration in existing tenements whilst placing qualifications on new exploration; ensuring equitable distribution of benefits and participation; developing policies for the relocation of affected communities; effective mine waste management; responsible seabed mining and downstream processing; ensuring that environmental risks are minimized or mitigated; facilitating downstream processing for petroleum and gas products; and establishing the Sovereign Wealth Fund to protect benefits for the current and future generations.

6.5.2.3 Trade and Investment

The National Trade Policy 2017-2030 supports the advancement of the manufacturing sector through policy measures such as: the reintroduction of trade defence legislation; the protection

of the local manufacturing industry against unfair trade practices; the development of a clear policy stance on parallel imports to support growth and development of the domestic industry; the development of national standards and technical regulations for locally manufactured products; and support for the “buy PNG Made” initiative.

The development of PNG’s manufacturing sector has the potential to boost the economy with an increasing range of products manufactured in PNG and harness investment opportunities for downstream processing. The manufacturing sector is supported by funding allocated in the 2018 Budget for the Industrial Centres Development (ICDC) Program, the Pacific Marine Industrial Park (K20.0 million) and Trade Related Assistance Phase 2 (K15.0 million).

Small business activities will be supported through funds allocated to National Development Bank (K130.0 million) to facilitate the SME Access Risk Financing Facility, the People’s Micro Bank and facilitation of SME Development (SME Incubation). The increased funding to SMEs is purposely to build their capacity in terms of having access to finance and providing an enabling environment for SMEs to grow and be competitive.

The Tourism Sector has high potential for growth given the diverse and unique cultures in the country. Tourism will promote the growth of sustainable SMEs such as trekking, eco-tourism and surfing amongst others.

To meet the PNGDSP and sector policy targets, investments are needed in marketing the destinations, product development, support of key enabling infrastructures, and development of human resources to service the industry and the strengthening of institutions and industry partnerships. Efforts to promote tourism and hospitality will be supported through the implementation of the Kokoda Track Initiative (K10.0 million) and Tourism Sector Development Project (K18.0 million) as well as other funded activities.

6.5.3 Education Sector

The key role of the Education Sector is to deliver quality in primary, secondary and tertiary education through the Department of Education, Department of Higher Education, Research, Science and Technology, and the national universities and colleges.

The development of the sector is guided by the Vision 2050, StaRS, MTDPs, Alotau Accord 2²¹ and sector strategies such as National Education Plan (NEP) 2015-2019 and the Universal Basic Education Plan (UBE) 2010-2019. The Government’s priorities for the sector in the medium term are to improve access, quality education and governance of higher education institutions.

Access is achieved through investment in infrastructure to accommodate the growing number of grade 12 drop outs each year and providing financial support through the Tertiary Education Student Assistance Scheme (TESAS), loan scheme, and scholarships. There are also significant contributions to this sector through Development Partners and privately run schools.

The Tuition Fee Free (TFF) program will continue and the Government will also focus on increasing quality teacher training, children’s learning and classroom infrastructure.

The sector’s investments on current priorities include: investment in community education initiatives; nursing education and training; and teacher’s, technical and business colleges; establishment of Polytechnic and national universities; and complete the transition from the Outcome-based education to Standard-based Education. The focus on Technical and

²¹ Alotua Accord II No. 56 – Build more classrooms. Increase quality training for teachers. Focus on quality education through curriculum reviews and development.

Vocational Education Training (TVET) is to establish the Centre of Excellence to produce the required trade skills to meet industry needs and empower youths to engage in the private sector which will ultimately contribute to an increase in productivity.

A total of K1,293.4 million has been allocated to the Education Sector in 2018 which is 8.8 per cent of the total budget and which is an increase of 13.3 per cent from the 2017 Supplementary Budget. Of the total budget, K1,025.7 million is operational and K267.7 million is capital expenditure. The Tuition Fee Free (TFF) policy is maintained at a cost of K602.0 million.

6.5.4 Health Sector

The Health Sector consists of four agencies with the Department of Health as the lead agency. The Sector's implementing agencies include nine Provincial Health Authorities (PHA) and the Hospital Management Services (HMS).

In concurrence with the country's national development plans²², the National Health Plan 2010-2020 and other relevant sector policies and plans, the sector aims to provide an efficient and effective health system that delivers an internationally acceptable standard of health services that are accessible by the people across the country.

Significant progress has been made in achieving the health targets and improving indicators over the recent years, and this will continue to be supported by the National Government and DPs. Reducing child and maternal mortality; improving measures against preventable diseases; improving nutritional diets for children and strengthening the national fight against TB; malaria; measles and HIV/AIDS are all important on-going activities which will be continued.

Additionally, the Government will ensure access to sexual and reproductive health-care services and family planning is available in the sector. This is one of the O'Neil/Abel Government's priorities as espoused in the Alotau Accord 2²³.

A current shift towards addressing the socio-economic determinants of health are crucial to creating the social and physical environment that is directly proportional to promoting good health for all. Rehabilitation of provincial and district hospitals supported by adequate operational and capital funding will continue to be at the heart of bringing specialised health services close to the people and improve rural health facilities and these efforts will enhance frontline service delivery through strategic partnerships with rural health service providers including provincial administrations, churches and other non-government organisations.

The current focus on provincial hospitals should be complemented by efforts from provinces with SIPs through the PHA to ensure that basic infrastructure in districts and LLGs exist and is adequately funded through the operational component. Provinces and districts should fund the majority of the infrastructure needs at the provincial, district and LLG levels.

Financing of the Health Sector has increased significantly over the past five years. Focus on improving the infrastructure of the National and Regional Referral Hospitals and Provincial Hospitals is a critical national function.

In the 2018 Budget, the Health Sector has been allocated K1,505.9 million which is 10.2 per cent of the total budget and which is an increase of 14.0 per cent above the

²² PNG Vision 2050, PNG Development Strategic Plan 2010-2030, National Strategy for Responsible Sustainable Development, Medium Term Development Plan

²³ Alotau Accord 2 No. 64 – Translate high level of investment in health infrastructure, health workers and medical supplies into improved health outcomes and indicators

2017 Supplementary Budget appropriation. From the total health budget, K1,044.3 million is allocated for operational costs and K461.7 million is for capital expenditures. K266.1 million has been allocated for medical supplies procurement and distribution processes.

6.5.5 Community and Culture Sector

The Community and Culture Sector comprises five agencies with the Department for Community Development and Religion as the lead agency. The focus of the sector is to empower, promote and support youth, gender equality, persons with disability (PWD), elderly and women. The sector also supports national and international sporting and cultural events.

Over the past five years, the GoPNG with support from development partners has produced a number of policies, strategies and legislation that drives this sector. These include the National Strategy to Prevent and Respond to Gender Based Violence; *Family Protection Act 2014*, *Lukautim Pikinini (Child Protection) Act 2015*, Child Protection Policy, National Disability Policy, Youth Policy and Informal Economic Policy.

The key priorities of this sector include: gender equality; economic empowerment of women; sports development; youth empowerment; social protection; and preservation and protection of PNG's cultural heritage including language, artefacts, music, customs and traditions which are supported by SDG²⁴ and the Alotau Accord 2²⁵.

The Government's intervention in the sector promotes integral human development and ensures that positive benefits are derived from the use of traditional knowledge and cultural heritage. In recent years, there has been significant progress in the sector through implementation of activities such as the hosting of 2015 Pacific Games, 2015 Festival of Arts, 2016 Under 20 Women's World Cup Soccer and 2017 Rugby World Cup.

In 2018, the Community and Culture Sector will receive K102.4 million which makes up 0.7 per cent of the total budget and is a decrease of 44.9 per cent from the 2017 Supplementary Budget consisting of K41.5 million in operational and K60.9 million in capital expenditure. The Church State Partnership Program receives K10.0 million which is K5.0 million less than the 2017 Budget.

6.5.6 Transport Sector

The Transport Sector is an important sector that provides the enabling environment for development across all sectors. The primary government agencies involved in PNG's Transport Sector are the Department of Transport, Department of Works (DoW), PNG Ports Corporation Limited (PNGPCL), National Airports Corporation (NAC), Civil Aviation Safety Authority (CASA), PNG Air Services Limited (PNGASL), National Maritime Safety Authority (NMSA), National Road Safety Council (NRSC), National Road Authority (NRA) and the Accident Investigation Commission (AIC).

The Sector is structured into three sub-sectors: roads; maritime and aviation. These subsectors are guided by the National Transport Strategy (NTS) 2014-2030 and National Transport Strategy (2014-2018) as a roadmap to develop the transport sector in PNG. The NTS identifies and specifies sub-sector policies, plans, programs and primary projects but new transport projects will be justified only after (a) the existing transport infrastructure is restored and maintained to acceptable standards and (b) if the projects yield high economic and social returns.

²⁴ SDG 5 – Gender equality

²⁵ Alotau Accord 2 No. 84 – Gender equality and economic empowerment of women

Alotau Accord 2 No. 85 – Establish a High Performance Training Centre as a hub for PNG and the region

Transport infrastructure and its maintenance are critical to support economic development particularly through greater access to markets and social services for much of the population. The sectoral expenditure priorities for supporting the MTDP 2 including rehabilitation and maintenance of transport infrastructure include:

- National, Provincial and District roads maintenance
- Highlands Highway and Highlands Provincial road maintenance;
- Bridge replacement and rehabilitation;
- Maritime navigational aids; and
- Airport maintenance and upgrade.

The National Service Delivery Framework (NSDF) sets the standard and condition of roads, ports, jetties, airports and airstrips that each level of government is responsible for. It provides more clarity on the roles and responsibilities of each level of government in providing and maintaining the transport infrastructure.

The Transport Sector continues to remain a priority sector in the medium term. Having a well-connected, environmentally sustainable and efficient transport system is vital for the economic development of PNG. Priorities for the sector under the MTDPs include:

- increasing the length of the national roads (especially the missing links) and improving the proportion of national roads in good trafficable condition;
- continuous maintenance of existing priority national roads;
- increasing the capacity of the economically viable ports;
- rehabilitating smaller non-commercial ports to ensure on-going serviceability;
- improving inland river and coastal infrastructure such as jetties;
- upgrading major regional airports to accommodate higher seating capacity planes;
- restoring and renovating old rural airstrips; and
- improving and maintaining safety and security standards to meet international benchmarks.

Programs and projects implemented in 2017 will continue for the year 2018, and unless there are windfall gains to support the Government's fiscal capacity, no new programs/projects will be considered for 2018. These programs include the continuous investment in upgrading and maintenance of the National Priority Roads plus construction of missing links, district commodity roads and the Civil Aviation Investment Development Program (CADIP) and it is envisaged that the medium term, roads, bridges, ports and airports/airstrips will be built through the untapped economic potential areas to stimulate economic growth.

In 2018, the Transport Sector will receive K937.1 million which is 2.1 per cent higher than the 2017 Supplementary Budget and makes up 6.4 per cent of the 2018 Budget. This consists of K642.3 million in capital and K294.9 million in operational expenditures.

6.5.6 Law and Justice Sector

The primary role of the Law and Justice Sector is to uphold the rule of law that governs the livelihood of PNG citizens. The sector comprises of thirteen (13) agencies, with lead agencies including the Department of Justice and Attorney General, the Royal PNG Constabulary, the Department of Defence, the National Judiciary Services and the Correctional Institute Services.

The sector has displayed progressive improvement in recent years with Government interventions in increasing the number of police stations, village courts and well trained police recruits aimed at reducing crime, corrupt practices and the promotion of good governance

across all sectors. Reduced crime rates will create a safer and more secure environment for business activities and ultimately contribute to the country's economic growth.

In the 2018 Budget, the Law and Justice Sector is allocated K1,063.5 million or 7.2 per cent of the total Budget which is a 4.2 per cent reduction from the 2017 Supplementary Budget. The total budget allocation for 2018 consists of K864.6 million in operational and K198.9 million in capital expenditures.

The sector will be focusing on three priority programs and these include the hosting of the Australian Law Reform Commission Agencies Conference in PNG, the Establishment of Branch Offices in Western, Jiwaka and Hela Provinces and the upgrade of the Popondetta Office and the Joint Services College Infrastructure.

Furthermore, the sector receives continued funding for the on-going programs and projects in 2018 including the Court House Design and Maintenance by the Judiciary and Staffing Services, Infrastructure and Capital Works Program by the Magisterial Services, Infrastructure and Capital Works, Law and Justice Sector Secretariat and Justice Services and Stability for Development (JSS4D), Infrastructure Development Project, Police Modernization Program and Civic Action Program Missing Link (Baiyer-Madang Road). The Court House Design and Maintenance was delayed by ten (10) months since NEC stalled the awarding of contract to China Railway for the main construction and is progressing and now calling for tenders.

The Law and Justice Sector has also been further funded to provide a safe and secure environment for the 2018 APEC Leaders' Summit in the country.

6.5.7 Provincial Sector

The Provincial Sector is an important sector in terms of the Government's service delivery mechanism to the rural and remote parts of PNG. The sector consists of 20 Provincial Administrations; the Autonomous Region of Bougainville and the National Capital District Commission.

Provincial Development Plans must be aligned to the MTDP and the National Service Delivery Framework (NSDF) so that funding appropriated to the sub-national level is effectively used to establish a consistent network of service delivery mechanisms.

A large slice of the capital expenditure in the 2018 Budget will go to sub-national government in the form of Provincial Service Improvement Program (PSIPs), District Service Improvement Program (DSIPs) and the Ward Service Improvement Program (WSIP) which should be spent in the strategic development areas to grow the economy. Provinces and districts are encouraged to invest in strategic assets such as agriculture, tourism, fisheries, forestry and renewable energy to propel economic growth and broaden their internal revenue base.

In 2018, the Provincial Sector will receive the largest allocation of K3,925.0 million or 26.7 per cent of the total budget which is an increase of 57.4 per cent from the 2017 Supplementary Budget. The sector allocation comprises of K2,569.3 million for operational and K1,355.7 million for capital expenditures.

The total Provincial budget also consists of K500.2 million in functional grants and K511.9 million in GST Tax and BMTT where Capital expenditure funding to the sector includes K10.0 million per province in direct funding through the PSIP, K10.0 million per District under the DSIP and K10,000.0 per Ward. With the removal of fixed sector allocations, the Provinces and Districts now have greater flexibility in utilising these funds to address local development priorities.

The high operational expenditure for the sector over the years reflects the recruitment of additional teachers and health workers to meet the growing demand. The operational expenditure includes the Administration and Functional Grants, Public Servants' salaries, Teachers' salaries, Teachers' leave fares, Public Servants' leave fares and LLG grants.

6.5.8 Utilities Sector

Utilities comprise the Departments of Information, Communications and Technology; Petroleum and Energy; and Public Enterprise which are responsible for providing the legislative framework and formulation of policies for the sector. The State Owned Enterprises (SOE) support the key agencies in providing households and businesses with essential services such as electricity, safe water supply, sanitation and modern information and communications infrastructure in compliance with the legislative framework and the policies.

SOEs comprise: Water PNG Ltd; EDA Ranu Ltd; PNG Power Ltd; NICTA; Telikom PNG Ltd; PNG Ports Ltd and Post PNG Ltd.

The total appropriation for the Sector in the 2018 Budget is K318.2 million which is a 48.2 per cent increase above the 2017 Supplementary Budget and is 2.2 per cent of the 2018 Budget. This comprises K27.4 million in operational expenditure and K290.8 million in capital expenditure.

The focus of the Government in the Utilities Sector embraces the Sustainable Development Goals²⁶ to increase access to safe and clean drinking water, affordable and clean energy, and modern information and communication to improve standards of living and empower SME growth. The Government's priorities will continue with the critical investments in the Utilities Sector to provide the necessary infrastructure and create an enabling environment for business activity.

The WaSH Policy will be implemented with support from the World Bank, under the Rural and Urban WaSH program totalling US\$70.0 million over the next five (5) years and DNPM through the WaSH Project Management Unit (PMU) will implement the Rural WaSH program through four pilot districts, whilst the urban WaSH program will be implemented by Water PNG in selected urban towns and districts. Several WaSH programs are also being implemented by other development partners such as the ADB, EU, UNICEF and other partners.

The National Energy Policy will focus on developing the renewable energy sources such as hydro, solar, wind, and geothermal and PNG Power Ltd with the support of ADB, the New Zealand Government and the World Bank will continue to roll-out its Electricity Rollout Plan to achieve the PNGDSP target²⁷. The Town Electrification Investment Program will be implemented in two tranches (Tranches 1 & 2). The allocation for this project in the 2018 Budget is K33.0 million.

Investment in information and communications is important to boost sustainable economic growth. The Government will continue to support ongoing ICT projects such as:

- The National Transmission Network (NTN) Project, implemented by Dataco Ltd, a new SOE mandated to link the country to international gateways with fixed line fiber optic, allowing an effective and efficient flow of information and internet services at affordable costs;

²⁶ SDG 6 – Clean Water & Sanitation, SDG 7 – Affordable & Clean Energy, and SDG 9 – Industry, Innovation & Infrastructure

²⁷ PNGDSP 2030 Target: 70 per cent of the PNG's total households access to electricity by 2030.

- The National Broadband Network (NBN) Project aims to build the capacity of Telikom (PNG) Limited and to upgrade from 2G to a more effective 3G&4G platform; and
- The Rural Communications Project which is funded by the World Bank and implemented by NICTA to develop a mechanism to improve the infrastructure of the ICT sector and the accessibility to IT technologies in rural areas.

6.6 NON-FINANCIAL INSTRUCTIONS

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

The Government has noted with concern the high levels of agency non-compliance of some of the NFIs issued in the 2016-17 Budget. In 2018, the Government will continue to publish NFIs and will enforce agency compliance.

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*. Agencies are expected to report on the status of implementing the NFI's in April 2018.

The 2018 Budget NFI's and general recommendations are:

Generic

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

- Revenue generating agencies to provide regular updates on their revenue collections, retaining 10.0 per cent of their revenues and remitting 90.0 per cent to CRF;
- Agencies with standalone payroll systems to be migrated to ALESCO. DPM to take the lead in consultation with Treasury;
- Finance to roll out IFMS in all provinces by 2019;
- Planning and Monitoring to oversee effective implementation of Monitoring and Evaluation of projects by implementing agencies;
- Planning and Monitoring to enforce improvement in scoping of projects by agencies; and
- As per the General Orders, agencies are to do away with casuals by re-categorizing the positions.

Agency Specific

Amalgamation – The amalgamation agenda is carried out by the Public Sector Reform Working Group (PSRWG) chaired by Secretary of the Department of Personnel Management. The actual amalgamation work will be carried out by the Organisational Staff & Personnel Emolument Audit Committee (OSPEAC) which will report to the PSRWG and both groups/committees will be resourced sufficiently to effectively carry out the merging exercise in 2018.

Three agencies that were successfully amalgamated in 2017 are:

- The office of Tourism Arts and Culture merged with the Tourism Promotion Authority in 2017;

- Cocoa Coconut Industry merged with Kokonas Industri Koporation (KIK) and Cocoa Board; and
- UNESCO merged with the Department of Education.

In 2017 the Government had directed the following amalgamations and these are further enforced in the 2018 Budget.

Table 23: Amalgamating Agencies

Agency	Merged Into
Department of Implementation & Rural Development	Department of National Planning & Monitoring and DPLGA
Coastal Fisheries Development Agencies	National Fisheries Authority
National Economic Fiscal Commission	Department of Treasury
National Aids Council Secretariat	Department of Health
National Coordination Office of Bougainville Affairs (NCOBA)	PM & NEC
Integrated Financial Management System (IFMS)	Finance ICT Division
National Tripartite Consultative Council (NTCC)	Department of Labour & Industry Relation (DLIR)
National Narcotics Bureau	Department of Justice & Antony General (DJAG),
Office of Urbanisation	Department of Lands
Border Development Authority (BDA)	Department of National Planning & Monitoring (DNPM), Treasury and Department Of Provincial Affairs (DPLGA);
Dept. of Public Enterprises	Department of Treasury
PNG Research Science and Technology Secretariat	Department of Higher Education Science and Technology (DHERST);

Source: Department of Treasury

Other directives include:

- **Disciplinary forces (Police, CIS and Defence)** - To install power and water meters to individual institutional houses in order to manage excessive arrears in utility bills.
- **Konebada Petroleum Park Authority** - Abolish the agency - policy to be under Treasury and management under Department of Petroleum & Energy.
- **Department of Labor and Industrial Relations (DLIR)**- Treasury and DPM to work closely with DLIR to conduct a review on the Independence Fellowship Scheme and advise whether to move the program to an agency that provides similar functions. A status report to be provided in the 2018 second quarter budget review.
- **Registrar of Political Parties** - Review the statutory payment in the OLIPAC. A report is to be provided in the 2018 second quarter budget review.
- **Department of Defense** - to work with Central Agencies on a retirement plan for their retired employees. A status report to be provided in the 2018 first quarter budget review.
- **Department of Lands and Physical Planning** -
 - To revive the Land Taskforce to monitor land issues. The committee to engage an IT firm for IT assistance. Also, that the Departmental Head be held accountable for the following activities: 1. Land acquisition 2. Land Compensation claims 3. Ongoing land acquisition claims.

- Re-establish revenue raising initiatives (Land Rentals). Provide a report on the status in the 2018 first quarter budget review.
- **Department of Health** – to conduct an audit on procurement of medical supplies and distribution and conduct a baseline study on the community, district and provincial hospitals. A status report to be provided in the 2018 first quarter budget review.
- **Department of Provincial and Local Level Government** - To coordinate a program on building Provincial Headquarters. A status report to be provided in the 2018 first quarter budget review to the Department of National Planning and Monitoring.
- **National Volunteer Services** - To engage with the key central agencies (Treasury, DPM, Planning and Finance) and develop further on their activities.
- **Central Agencies** – To ensure that Provinces receive their grants on a monthly basis.

6.7 TRUST ACCOUNTS

This section provides a summary of balances for Budget funded trust accounts (Trust Accounts) as at 30th September 2017. These trust accounts contain funds appropriated through Additional Priority Expenditure (APE), Supplementary Budget Expenditure (SBE) and Annual Budgets.

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

Since 2005, up to and including the 2017 Budget, a total of K10, 524.7 million, 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 24 provides a summary on the movement of funds in and out of Budget Funded Trust Accounts from 2005 to 2017.

Table 24: Summary of Trust Accounts Movements 2005 – 2017 (Kina, Million)

Year	Deposits from SBE & APE	Deposits from Annual Budgets & Interest	Spending from Trust Accounts	Net Savings (Deposits less Spending)
2005	400.0	0.0	0.0	400.0
2006	568.4	0.0	0.0	568.4
2007	1,283.0	0.0	76.0	1,207.0
2008	1,501.4	36.5	480.5	1,057.4
2009	0.0	627.2	2,365.90	-1,738.7
2010	0.0	887.2	818.3	68.9
2011	628.5	598.2	1,426.30	-199.6
2012	398.0	428.0	1,095.0	-269.0
2013	285.8	450.0	537.1	198.7
2014	0.0	209.2	244.8	-35.6
2015	0.0	1,1019.5	1,345.5	-326.0
2016	0.0	456.0	0.0	0.0
2017	0.0	802.0	491.6	310.4
2017	420.0	0.0	334.7	65.4

Source: Department of Finance

Other 2017 programs that are administered through Trust Accounts are 2017 National Elections and APEC. Hence total Trust Administered Programs in 2017 is K1,222.0 million.

Table 25: Programs Administered Through Trust

Programs	Appropriation	Actuals(in Trust)	Trust Balance
2017 National Elections	420.0	337.7	65.4
APEC	0.0	0.0	0.0
Total	420.0	337.7	65.4

Source: Department of Finance

The last column of Table 25 above shows the trust balance. A positive figure indicates that deposits exceed expenditure while a negative figure indicates that expenditure exceeds deposits.

Some of the major areas of funding from trust accounts include District Services Improvement Program, PNG LNG Additional Equity, LNG Infrastructure Development Grants, LNG High Impact and Special Intervention Fund (SIF) for ABG, Tuition Free Fee, South Pacific Games and PNG National Elections.

The quality and effectiveness of spending from trust accounts is unclear as there is lack of detailed expenditure reports from implementing agencies. Also, information on trust movements for 2017 reflects up to September 2017 in Table 25. More updated information on the trust movements in 2017 will be provided in the 2017 Final Budget Outcome (FBO) Report.

6.8 APPROPRIATION FOR TRUST ACCOUNTS: 2017 - 2018

A total of K802.0 million has been appropriated for trust accounts in the 2017 Budget. Of this, K491.6 million has been paid into trust accounts as at 30th September 2017, with the remainder to be paid when funds become available later in 2017.

A total of K420.0 million has been appropriated through Additional Priority Expenditure (APE) and Supplementary Budget Expenditure (SBE). Of this K334.7 million has been paid and reminder to be paid later in 2017. Of 128 trust accounts, only 37 trust account have fund balances and undertook transactions.

Table 26: Appropriation for Trust Accounts: 2017 (Kina, Million)

Expenditure Programs	2017 Approp. for Trust Accounts	2017 Supp. Budget	Approp. Paid into Trust Account	Approp. Yet To Be Released
2017 BUDGET				
Tuition Fee Free (TFF)	602.0	602.0	473.5	128.5
Infrastructure Development Grant (USBA)	120.0	120.0	0.0	0.0
Special Intervention Fund (SIF)	70.0	70.0	11.1	58.9
High Impact Projects (USBA)	0.0	0.0	0.0	0.0
Restoration and Development	10.0	10.0	7.0	3.0
TOTAL	802.0	802.0	491.6	190.4

Source: Department of Finance

6.9 TRUST ACCOUNT FUND MOVEMENTS IN 2017

A more detailed report on trust accounts including credit and debit information for 2017 will be provided in the 2017 FBO report.

Opening balance of Budget Funded Trust Accounts from 1st January, 2017 totalled K194.9 million²⁸ and closing balance as at 30th September 2017 totalled K198.5 million. Table 27 shows the Budget Funded Trust Account balances from 1st January up to 30th September 2017.

Table 27: Trust Account Movements from 01st January to 30th September 2017 (Kina, Million)

TRUST CODE	Trust Name	Balance 30-Dec-16	Receipts Year to date	Payments Year to Date	Balance As At 30-Sept-2017
486	Outstanding Special Support Grants (Pre 2005)	50,000.0	0.0	0.0	50,000.0
519	Govt's funding of Rehab of Higher Ed Sector	16,084,813.0	0.0	5,578,098.0	10,506,715.0
524	Transport Sector - Central City Redev.	26,747,845.0	30,177.0	90.0	26,777,932.0
524	Lae City Roads Rehabilitation Trust - Subsidiary	2,138,805.0	0.0	80.0	2,138,725.0
526	Govt's Funding of Resettlement of Volcano	154,409.0	0.0	80.0	154,329.0
528	Hosp. & Health Care Centre Rehab. Trust - POMGH Sub 2	252,184.0	0.0	252,184.0	0.0
562	Highlands Highway Rehabilitation T/A Subsidiary	47,489.0	0.0	89.0	47,400.0
582	Madang Marine Park Development T/A Subsidiary	3,007,555.0	0.0	633,019.0	2,374,536.0
624	Infrastructure Development (UBSA) Account	49,115,200.0	0.0	0.0	49,115,200.0
624	Infrastructure Development (UBSA) Account Subsidiary	1,388,161.0	1,254.0	435.0	1,390,203.0
626	Coastal Vessels Account	140,000.0	0.0	0.0	140,000.0
648	PNG High Impact Infrastructure Projects	16,908.0	0.0	0.0	16,908.0
648	PNG High Impact Infrastructure Projects Subsidiary	682,036.0	788.0	30.0	682,794.0
659	Port Moresby Roads	49,648.0	0.0	0.0	49,648.0
659	Port Moresby Roads Subsidiary	322,588.0	0.0	144.0	322,444.0
663	District Offices Rehabilitation T/A Subsidiary	117.0		117.0	0.0
664	Rural District Roads Support T/A Subsidiary	2,133,026.0	0.0	65.0	2,132,961.0
666	Mining Legal Costs T/A Subsidiary	106,464.0	0.0	90.0	106,323.0
677	MOA Outstanding Liabilities Trust A/C Subsidiary	27,202.0	0.0	90.0	27,112.0
686	Kokopau to Arawa Road Upgrading and Bitumen Sealing T/A	35,093.0	0.0	0.0	35,093.0

²⁸ Note the difference in the Opening Balance to what has being reported in the 2016 MYEFO. This is due to some trust accounts being omitted from the list.

TRUST CODE	Trust Name	Balance 30-Dec-16	Receipts Year to date	Payments Year to Date	Balance As At 30-Sept-2017
695	Trans East - West New Britain Highway T/A	72,370.0	0.0	0.0	72,370.0
713	Tuition Fee Education Trust Account	4,075,366.0	401,000,000.0	338,508,039.0	66,567,326.0
713	Tuition Fee Free Education Trust - Subsidiary	18,133,992.0	0.0	0.0	4,307,589.0
713	Tuition Fee Free Education Trust - Subsidiary	725,474.0	0.0	0.0	725,474.0
717	2015 South Pacific Games Trust Account Subsidiary	74,538.0	0.0	152.0	74,384.0
723	PNG LNG Development Cost Trust Account	5,600.0	0.0	0.0	5,600.0
723	PNG LNG Development Cost Trust Account Subsidiary	288,227.0	0.0	0.0	288,227.0
729	PNG LNG Additional Equity	699,343.0	0.0	0.0	699,343.0
737	PNG Fire Services Infrastructure Program. (PIP) TA	344,838.0	0.0	28,892.0	16,590.0
747	LNG Pipeline Infrastructure Development Grant (IDG) Trust Account	11,924.0	0.0	170.0	11,754.0
754	Public Service Audit Program Trust Account	949,437.0	0.0	325,582.0	623,855.0
757	Restoration and Development Grant Trust	6,034,772.0	18,500,000.0	22,014,248.0	2,520,524.0
757	Restoration and Development Grant Subsidiary Account	3,348.0	0.0	117.0	3,231.0
761	Hela Transitional Authority Infrastructure Development	98,599.0	0.0	52.0	98,547.0
772	Trade Skills Scholarships	9,215,086.0	0.0	9,181,742.0	33,344.0
773	Higher Education Sector Improvement Program Trust Account	8,371,156.0	2,295,930.0	0.0	10,667,085.0
870	2017 National General Election-Finance Procumbent	43,339,478.0	278,847,419.0	306,477,932.0	15,708,985.0
	Total	194,942,857.0	700,675,685.0	683,001,420.0	198,492,551.0

Source: Department of Finance

1. DSIP, High Impact, IDG, Pacific Games, Tuition Fee Free and ABG Restorations and Development Trust Accounts give the sum of the amount in the main bank (BPNG) and the subsidiary bank accounts in the commercial banks.

6.10 DISTRICT SERVICE IMPROVEMENT PROGRAM TRUST ACCOUNTS

A total of K1,780.0 million from 2008 until the 2012 Budget has been appropriated for the District Service Improvement Program (DSIP). During that period DSIP appropriations were paid into the 89 DSIP Trust Accounts.

Note that since the Government opted for a multi-year budgeting framework commencing in 2013, all 89 districts were funded K10.0 million each which were released through their District Treasury Operating Accounts straight from budget appropriations. Since 2013, a total of K890.0 million has been appropriated annually. To date, since 2013 and including the 2017 appropriations, a total of K4,450.0 million has been appropriated for the District Services Improvement Program (DSIP).

The opening balance as at 1st January 2017 of the 89 DSIP Trust Accounts was zero balance and the closing balance as at 30th September 2017 was zero. Table 28 below shows the balances of the DSIP subsidiary trust accounts.

Table 28: Bank Balances of the 89 District Service Improvement Program Bank Accounts

District	Total Fund Paid into Trust since 2012	Opening Balance as at 1 st Jan 17	Balance as at 30 th Sept 17
Abau	20,000,000.00	0	0
Goilala	20,000,000.00	0	0
KairukuHiri	20,000,000.00	0	0
Rigo	20,000,000.00	0	0
Gazelle	20,000,000.00	0	0
Kokopo	20,000,000.00	0	0
Pomio	20,000,000.00	0	0
Rabaul	20,000,000.00	0	0
Ambunti-Drekikir	20,000,000.00	0	0
Angoram	20,000,000.00	0	0
Maprik	20,000,000.00	0	0
Wewak	20,000,000.00	0	0
Wosera-Gawi	20,000,000.00	0	0
Yangogoru-Saussia	20,000,000.00	0	0
Daulo	20,000,000.00	0	0
Goroka	20,000,000.00	0	0
Henganofi	20,000,000.00	0	0
Kainantu	20,000,000.00	0	0
Lufa	20,000,000.00	0	0
Obura-Wanenara	20,000,000.00	0	0
Okapa	20,000,000.00	0	0
Unggai-Bena	20,000,000.00	0	0
Kandep	20,000,000.00	0	0
Kompiani-Ambun	20,000,000.00	0	0
Lagaip-Porgera	20,000,000.00	0	0
Wabag	20,000,000.00	0	0
Wapenamanda	20,000,000.00	0	0
Kerema	20,000,000.00	0	0
Kikori	20,000,000.00	0	0
Bogia	20,000,000.00	0	0
Madang	20,000,000.00	0	0
Middle Ramu	20,000,000.00	0	0
Raikos	20,000,000.00	0	0
Sumkar	20,000,000.00	0	0
Usino-Bundi	20,000,000.00	0	0
Manus	20,000,000.00	0	0
Alotau / Rabaraba	20,000,000.00	0	0
Esa'ala	20,000,000.00	0	0
Kiriwina	20,000,000.00	0	0
SamaraiMurua	20,000,000.00	0	0
Bulolo	20,000,000.00	0	0
Finschafen	20,000,000.00	0	0
Huon Gulf	20,000,000.00	0	0
Kabwum	20,000,000.00	0	0
Lae	20,000,000.00	0	0
Markham	20,000,000.00	0	0
Menyamya	20,000,000.00	0	0

District	Total Fund Paid into Trust since 2012	Opening Balance as at 1 st Jan 17	Balance as at 30 th Sept 17
Nawaeb	20,000,000.00	0	0
Tewa-Siassi	20,000,000.00	0	0
Moresby North East	20,000,000.00	0	0
Moresby North West	20,000,000.00	0	0
Moresby South	20,000,000.00	0	0
Kavieng	20,000,000.00	0	0
Namatanai	20,000,000.00	0	0
Central Bougainville	20,000,000.00	0	0
North Bougainville	20,000,000.00	0	0
South Bougainville	20,000,000.00	0	0
Ijivitari	20,000,000.00	0	0
Sohe	20,000,000.00	0	0
Aitape-Lumi	20,000,000.00	0	0
Nuku	20,000,000.00	0	0
Telefomin	20,000,000.00	0	0
Vanimo-Green	20,000,000.00	0	0
Chuave	20,000,000.00	0	0
Gumine	20,000,000.00	0	0
Karamui-Nomane	20,000,000.00	0	0
Kerowagi	20,000,000.00	0	0
Kundiawa-Gembogl	20,000,000.00	0	0
Sinasina-Yongumugl	20,000,000.00	0	0
Ialibu-Pangia	20,000,000.00	0	0
Imbongu	20,000,000.00	0	0
Kagua-Erave	20,000,000.00	0	0
Komo-Magarima	20,000,000.00	0	0
Koroba-L/Kopiago	20,000,000.00	0	0
Mendi	20,000,000.00	0	0
Nipa-Kutubu	20,000,000.00	0	0
Tari-Pori	20,000,000.00	0	0
Kandrian	20,000,000.00	0	0
Talasea	20,000,000.00	0	0
Middle Fly	20,000,000.00	0	0
North Fly	20,000,000.00	0	0
South Fly	20,000,000.00	0	0
ODEi	20,000,000.00	0	0
Hagen	20,000,000.00	0	0
Jimi	20,000,000.00	0	0
Mul/Bayer	20,000,000.00	0	0
North Waghi	20,000,000.00	0	0
South Waghi	20,000,000.00	0	0
Tambul-Nebiler	20,000,000.00	0	0
TOTAL	1, 780,000,000	0	0

Source: Department of Finance

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

The funds have been transferred from the DSIP Trust Accounts to the new opened Accounts in the name of DSIP Operating Accounts in the Districts in September 2016.

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

CHAPTER 7: TAX EXPENDITURE

7.1 OVERVIEW

The GoPNG provides a number of tax incentives, tax holidays, zero-ratings and deferral schemes to the commercial sector in order to incentivise business activity and thereby reduce the cost of doing business in PNG. The tax expenditure through incentives and credit schemes can also be deemed as Government expenditures towards specific sectors.

Over the years, the number of tax incentives scheme has increased, driven by successive Governments' economic policies and priorities and as a part of its reform agenda, the Government will strengthen the governance and reporting mechanisms around these tax incentives provided to its taxpayers. As direct Government expenditures are scrutinised during the annual Budget process by Parliament and Parliamentary committees, the media and the general public, tax expenditures by the Government will now receive the same level of scrutiny.

In the 2018 Budget, the Government will provide an overview of these schemes and a brief update on the tax revenue forgone to taxpayers. This will increase transparency around those schemes. Transparent reporting of tax expenditures also assist and inform debate on the design and development of the tax system including its effect on the distribution and allocation of scarce resources.

As a first step towards publishing a Tax Expenditure Statement (TES) annually, this chapter discusses the incentives provided under the *Income Tax Act 1959* (ITA), particularly the Infrastructure Tax Credit scheme; and zero ratings under the *Goods and Services Tax Act 2003*.

7.2 INFRASTRUCTURE TAX CREDITS (ITC)

Under this scheme, Government allows companies in difficult geographic locations or very specific skills (civil works etc.), to provide essential infrastructure in those areas. The ITC scheme allows mining, petroleum or gas operators and taxpayers engaged in primary production and the tourism industry to offset expenditure on approved infrastructure development projects against their tax liabilities and credits can be claimed as the lesser of the expenditure made or a share of the assessable income of the company for that year as follows:

- in the case of taxpayers engaged in tourism the amount of tax payable or 1.5 per cent of the assessable income for the year;
- in the case of taxpayers engaged in primary production the amount of tax payable or 1.5 per cent of the assessable income for the year; and
- in the case of taxpayers engaged in mining, petroleum or gas operations the amount of tax payable or 0.75 per cent of the assessable income for the year.

Although the assets are owned by the State, the scheme encourages operators in resource projects to undertake approved infrastructure on schools, hospitals, roads or other capital assets as well as maintenance activities.

For projects under K500,000.0 the Project Screening Committee (PSC) within Department of National Planning and Monitoring (DNPM) approves the projects. For projects above this threshold, an inter-departmental Project Approval Committee (PAC) comprising

representatives of the Department of Works, Internal Revenue Commission (IRC), Department of Treasury, Department of Petroleum & Energy, Mineral Resource Authority, Department of Agriculture & Livestock and DNPM who is the Chair to the PAC endorse the project.

Subsequently, expenditures must be certified as incurred by both the DNPM and IRC before the credits are awarded and if a tax payer spends less on the approved project than his allowable share, the excess can be carried forward for a period of two years. The section below will provide details on the ITC scheme from 2013 to 2016.

7.2.1 ITC participants and Impact Areas

Currently, ten (10) developers are registered to participate in ITC. However, only six (6) have implemented projects between 2013 and 2016. These include: Oil Search Ltd (OSL), Porgera Joint Venture (PJV), Lihir Gold Ltd (LGL), Ok Tedi Mining Ltd (OTML), Hargy Oil Palm Ltd (HOPL) and New Britain Palm Oil Ltd (NBPOL).

Projects were implemented in nine (9) provinces including Western, West Sepik, Enga, Southern Highlands, Chimbu, New Ireland, West New Britain, National Capital District (NCD) and Central. The ITC projects covered various Medium Term Development Plan (MDTP) enablers such as education, health, law and justice, utilities, transport and administration. These projects range from: the construction of school buildings and teachers' houses; provision of school materials; construction of district hospitals and health centres; construction of police stations and barracks; provision of water tanks and sanitation facilities; roads, bridges and jetties; upgrading sporting facilities; and constructing and renovating Government institutional houses and offices.

7.2.2 ITC Approvals, Expenditure and Tax Offsets

During the period 2013 to 2016, 131 projects including the administration Budgets totalling K901.2 million were approved through the ITC process administered by the DNPM and through various NEC Decisions including construction of Marea Haus and the construction of the National Football Stadium (NFS).

In 2013, the total approvals for ITC projects amounted to K458.9 million. This reflects the reconstruction of Marea Haus and the construction of the National Football Stadium at a cost of K90.3 million and K171.0 million respectively, both were approved by the NEC to be undertaken through special ITC provisions. Also, K197.6 million worth of projects were approved by PAC under the standard ITC rates. A total of K86.8 million was spent on the approved projects in 2013 with some projects continuing beyond 2013.

In 2014, K31.4 million worth of projects were approved which was lower than the 2013 approvals. This is because the developers focused on implementing the ongoing projects. In 2015, total approvals amounted to K195.9 million while 2016 approvals amounted K215.0 million.

For those approved projects, the expenditure incurred up to the end of 2016 amounted to K607.7 million. Most of these projects were under construction stages in the years 2013, 2014 and 2015 and completed in 2016. Major expenses were incurred by the Marea Haus (now Manasupe Haus) and National Football Stadium Redevelopment projects and the Construction of Erave to Samberigi Road with expenditure over K100.0 million.

The amount of tax offset claimed by developers in any given year is determined by the rates set in Section 219C of the ITA. This relates to the NITCS projects and the major road projects in the Southern Highlands Province. The costs of Manasupe Haus and the National Football

Stadium can be claimed above the tax credit limit as they are infrastructures of national importance approved by NEC through special ITC provisions. Note that the special ITC provisions temporarily halted upon recognition of the negative implications on Government revenue.

Table 29 provides a summary of the ITC projects approved, expenditures incurred from 2013 to 2016 and credits claimed for that period by all ITC participants. Table 1.1 of appendix 1 provide information specifically for resource sector ITC projects.

Table 29: Summary of ITC projects approved and expenditure incurred (Kina Million)

	2013	2014	2015	2016
Approval	458.9	31.4	195.9	215.0
Expenditure	86.8	190.4	219.9	111.1
Credits Claimed¹	51.7	127.8	112.3	50.0

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

7.2.3 Expenditure By Developer

OSL and OTML undertook ITC projects outside of the project impact provinces such as OSL implementing projects in the Southern Highlands, Hela, Enga, Western Highlands, Chimbu, Central and NCD. All other developers expended funds in the respective impact provinces with LGL implementing projects in New Ireland, PJV implementing projects in Enga, HOPL and NBPOL implementing projects in West New Britain Province.

OSL expended 56.5 per cent (K397.0 million) of the total amount for projects approved for 2013 to 2016 however, the expenditure reported only covers projects implemented under the general 0.75 per cent to December 2016 while the NITCS projects were only reported up to March 2016. The large amount of expenditure is composed of the major projects such as the Manasupe Haus, National Football Stadium, Kupiano District Hospital Upgrade, the Erave - Samberigi Road Construction and the Komo to Aijagaiba road project in addition to other projects.

OTML expended 17.2 per cent (K120.6 million) of the total amount approved for various projects for 2013 to 2016 but this amount does not include 2016 due to the company not providing the actual amount of funds expended against projects during the year to December 2016. However, it should be noted that the company has completed major infrastructure projects in 2016 such as the construction and expansion of the seven (7) Fly River Jetties in the Western Province, recommenced implementation of other major infrastructure projects such as the Kiunga Town Sub-division project, Kiunga Water and Sewerage Project in addition to other projects that are currently being implemented.

LGL expended 10 per cent (K70.0 million) of the total amount for various TCS projects approved for 2013 to 2016 including completion of the rehabilitation of Tanir High School, Nasko High School, Lihir Secondary School, Namatanai Secondary School, the Upgrading of roads in Namatanai and Kavieng. Also they were other school infrastructure upgrade projects such as the roll-out of the Water Sanitation & Hygiene (WASH) Program currently being implemented.

NBPOL expended 2.7 per cent (K18.7 million) of the total amount for various TCS projects approved for 2013 to 2016. This was basically on the maintenance of the New Britain Highway, Village Oil Palm roads, Land Settlement Scheme roads and OPIC roads in West New Britain Province.

Table 30: TCS Expenditure and Approvals by Developer (Kina Million)

Developer		2013	2014	2015	2016
NBPOL	Approval	0.0	4.4	12.8	42.2
	Expenditure	2.1	2.8	0.0	18.7
HOPL	Approval	1.7	0.4	0.0	0.0
	Expenditure	1.0	0.0	0.0	0.0
PJV	Approval	33.1	2.4	4.2	91.6
	Expenditure	11.7	21.8	11.0	12.4
OSL	Approval	329.7	2.6	143.5	20.7
	Expenditure	24.4	105.5	180.1	82.1
OTML	Approval	57.1	13.9	23.2	58.5
	Expenditure	27.7	54.6	10.8	0.0
LGL	Approval	32.6	7.7	12.2	40.0
	Expenditure	17.1	10.4	20.6	16.5
RAI	Approval	4.0	0.0	0.0	0.0
	Expenditure	0.0	0.0	0.0	0.0
Kula	Approval	0.6	0.0	0.0	0.0
	Expenditure	0.0	0.0	0.0	0.0

Source: Department of National Planning and Monitoring

The Government will review positions of approved excess credits carried forward and revise the expenditure statement when the review is complete to ensure there is good governance, accountability, coordination and transparency and value for money spent on these infrastructure projects.

The Government notes the view of the tax review committee that there is not enough administrative capacity to monitor the quality of the infrastructure built through the credit scheme and so far funds spent towards such infrastructure are thought to have fallen short of providing benefits at a coverage that would have been possible had the funds been spent as part of the national priorities through the Budget. With this view, the Government has established a moratorium on approvals of new projects under the scheme and has decided to do a review of the tax credit scheme in the upcoming reviews planned in the MTRS.

7.2.4 Progress of TCS Projects in 2017

There are currently 51 new and ongoing projects totalling K927.6 million approved for implementation under the ITC including the APEC Haus, Marea Haus and the National Football Stadium. Note that due to the nature of the NITCS projects, expenditures and credits are still being incurred and claimed under these projects. Furthermore, 29 projects will be continued in 2018 and 2019, including the APEC Haus costing K170.0 million in ITC.

7.3 GOODS AND SERVICES TAX INCENTIVES

Suppliers may also be exempted from the Goods and Services Tax (GST) or may be eligible to get refunds on certain amounts of the GST payment depending on the type of sale and purchase made. There are two kinds of GST incentives in the GST law: Zero rated sales (i.e. sales of goods that are charged GST at 0.0 per cent of the sale price but claim credits for GST paid on the inputs); and GST exempt sales.

Zero rating of goods is a standard practice in the application of any VAT regime to keep exports competitive in the international market. It may be extended in special circumstances to other

sectors to incentivise the sale and purchase of goods. The input tax relating to these sales is refundable in most cases.

The following categories of sales fall under the zero rating regime in PNG:

- exported goods and services;
- perishable goods bought for consumption outside of PNG;
- supply of prescription medical equipment, prescription drugs and lenses;
- supply of goods and services to a mining, petroleum or gas company (exception: cars); and
- supply of unprocessed crude oil.

In addition, a small category of sales are exempt from applying GST. As opposed to zero rating, the exempt sales are not eligible to reclaim input tax paid at the time of purchase. These include:

- supply of financial services;
- supply of educational services;
- supply of medical services; and
- supply of housing or a motor vehicle to an employee as part of an employment contract.

7.3.1 Goods and Services Tax Expenditure

Between 2014-17 the Government spent K1.6 billion on average per year in GST zero rating, primarily for exports of mining and petroleum products to keep the industries cost competitive with another K470.0 million and K38.0 million on average was allowed as GST exempt output sales and input credits respectively. While the Government plans to include the GST and Duties in law in its review of tax incentives for 2018, the broader view on the GST regime of key stakeholders is that this is currently an adequate system of exemptions and credits, consistent with international practices and the ultimate goal of maintaining export competitiveness.

Table 31: Summary of revenue foregone on GST exempt sales, zero rate sales and import deferral schemes (Kina, Million)

	2014		2015		2016		2017 est	
	No.	Amt	No.	Amt	No.	Amt	No.	Amt
GST exempt sales (output debit)	230	52.4	499	417.5	462	547.4	369	405.9
GST zero rated sales	510	272.5	916	1,643.9	812	1,596.7	623	1,219.9
Deferred import liabilities	0	-	0	-	107	1.98	24	0.6
GST exempt sales (input Credit)	59	5.0	169	38.5	167	37.9	94	30.6
Grand Total		329.9		2,099.8		2,183.9		1,657.0

Source: Internal Revenue Commission

7.4 OTHER TAX INCENTIVES

There are a number of tax incentives provided for under the various tax legislation to promote specific policy priorities of the Government. For a detailed and current list of tax incentives, refer to the IRC's 'Guide to the Taxation Incentives for Business & Investment in Papua New Guinea'.

In addition to the tax incentives laid out in the tax legislation, there are tax incentives which the Government had agreed through the Fiscal Stability Contracts with specific projects and

tax payers such as the Ramu Nickel Project and the PNG LNG Project. This includes for example, exemption from import duties, tax holidays, accelerated depreciation and infrastructure tax credits.

Appendix 1 shows tax expenditure tables that show the revenue forgone in incentives across the Income Tax Act applicable to commercial enterprises. The revenue foregone in income tax incentives represents 5.0 per cent of total Government revenue and 6.0 per cent of tax revenue on average per year.

Stamp duty collected on sale and purchase of assets is exempt under 5 schemes of the Stamp Duties Act and the Income Tax Act. Future tax expenditure statements will show records of incentives issued under the Stamp Duties Act with more accuracy.

7.5 CHALLENGES AND RISKS

As noted, a significant amount is forgone in current and future revenue from the overall tax incentives granted across the economy. A major challenge is the need for the establishment of a streamlined and transparent process to ensure that incentives effectively encourage competitiveness in the economy.

Incentives given to a particular sector always have an opportunity cost and, in some cases, this opportunity cost is borne by other sectors in the economy. A higher revenue burden on some sectors to compensate for others breeds unfairness in the system.

Finally, to navigate the complexity of incentive structures and schemes often requires the services of a tax agent, which is costly especially for Small Medium Enterprises. This means that only high income earners are able to take advantage of the incentives built into the system.

The above challenges of PNG's tax incentive framework create some risks going forward. The primary risk is the large amount of revenue forgone for the central and provincial Governments that may be essential for Budget outlays.

This risk is compounded by a weak economic environment and an overall decline in revenue as a share of GDP. The lack of an industry wide framework and incentives being provided on a case by case basis compromise the Government's ability to negotiate further commercial deals and also creates an uncompetitive environment, jeopardizing future investments in the economy.

To carry forward with social development expenditures, it often creates pressure to impose additional tax costs on the economy to generate additional revenue to cover the revenue foregone.

The Government of PNG has recognized that the incentive framework in PNG is due for a review along with its general review of various revenue laws. The Government plans on implementing a tax incentives review in 2018 that will provide recommendations for reform of the tax incentive framework in the MTRS which will then be implemented via various Budget and administrative initiatives from 2019 onwards and over the period of the MTRS.

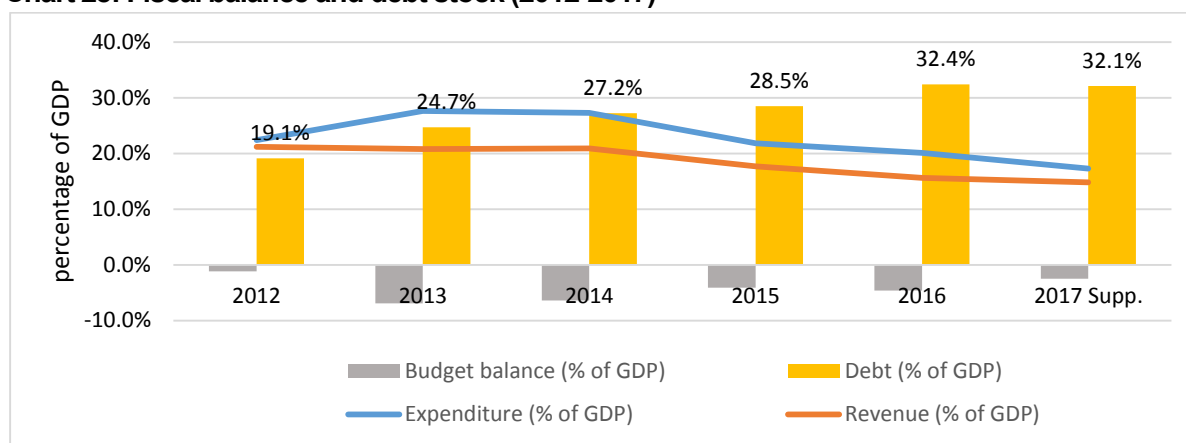
CHAPTER 8: FINANCING AND DEBT MANAGEMENT STRATEGY

8.1 FINANCING BACKGROUND TO THE 2018 BUDGET

With the unanticipated decline in revenue in recent years and maintenance of key Government expenditure priorities, together with difficulties in reducing more rigid expenditure categories, the Government has been forced to run higher than programmed Budget deficits. While the actual Budget deficits have trended lower since 2013-14, the required financing amount remained significant, resulting in the accumulation of substantial debt and associated debt service.

Constraints on accessing the already saturated domestic debt market meant that the Budget was unable to be executed effectively, resulting in cash flow shortages at times and a preoccupation with rearranging expenditures and managing arrears.

Chart 28: Fiscal balance and debt stock (2012-2017)



Source: Department of Treasury

To finance these deficits, the Government increased the debt stock from K8,478.0 million in 2012 to K21,944.0 million in 2016 with the main source of the increased borrowing has been the domestic market – with an increase in Treasury Bills and Inscribed Stock of 168.0 per cent between 2012 and 2016 from K6,118.0 million to K16,437.0 million. The debt to GDP ratio reached 32.6 per cent in 2016 above the FRA limit of 30.0 per cent which required amendments to the Act.

Similar fiscal trends continued into 2017 as presented in the 2017 MYEFO report with the consequential rise in domestic securities on issue being rather pronounced, placing limits on further expansion of this market and increasing domestic rollover risk – a problem also exacerbated by the trend to shorter duration and the rising cost of the debt.

To manage the financing issue, Government placed strict controls on warrants again in 2017, but higher expenditures driven by higher personnel emolument cost coupled with lower revenues forced the enactment of a Supplementary Budget that reduced expenditures substantially to hold the fiscal deficit at the programmed 2.5 per cent of Debt to GDP ratio.

Given the Government's desire to make the necessary adjustments to ensure fiscal sustainability and to give the Government some flexibility to manage fiscal and financing policies through protracted economic cycles, the Fiscal Responsibility Act was amended from

having the single line 30.0 per cent debt to GDP ceiling to a range of 30 to 35 per cent of GDP for 2018 and beyond. To ensure a prudent and responsible approach to debt management, the Government also amended the FRA to compel the Government in its Medium Term Debt Strategy 2018-22 to target the lower 30.0 per cent boundary.

Subsequent to the 2017 Supplementary Budget, revenue trends have continued to weaken and, although expenditures have been contained somewhat, arrears have continued to mount and furthermore, the reduction in the programmed external commercial financing has again placed further pressure on the domestic Treasury Bill market. The continuation of the foreign exchange constraint has also heightened uncertainty over the permanency of system liquidity, forcing banks into the shorter end of the domestic yield curve which has increased rollover risk in the Government's portfolio.

Consequently, the 2018 Budget has been formulated against a very difficult set of financing constraints. It is the first Budget in the new Medium Term Debt Strategy 2018-22 that will seek to navigate a course that meets the Government's financing, yet places the portfolio on a declining debt to GDP trend wherein a 30.0 per cent ratio will be attained by 2022 – in compliance with the FRA.

8.2 FINANCING REQUIREMENTS 2018 BUDGET AND 2019-22 PERIOD

Over the next few years the Government aims to increase revenues substantially and rebalance expenditures which will result in the fiscal deficit declining to around 1 per cent of GDP by end 2022. To secure the substantial Budget financing requirements in 2018, against the background of domestic financing limits which will be exacerbated following the transfer of trust account balances in 2018 due to the adverse impact on system liquidity, the Government will need to shift the composition of its debt raising decisively toward external financing.

Development policy operations by the World Bank and a Budget Support Facility from the ADB will provide substantial financing, but should be further bolstered by external commercial borrowing through an inaugural USD bond issuance program. This strategy is incorporated into the new Medium Term Debt Strategy (MTDS) 2018-22 outlined further below.

The estimated net Budget financing requirement for 2018 is K1,987.2 million.

Commensurate with the new MTDS 2018-22, this Budget deficit is projected to be financed through external and domestic sources comprising K1,613.4 million from external sources and K373.8 million from domestic sources. Net domestic financing will comprise K30.2 million from Treasury Bills and K343.6 million from Treasury Bonds.

The external financing will be funded from concessionary Budget support from the ADB and World Bank, commercial financing through the inaugural US dollar bond program and some minor external loans, and the remaining balance of K337.4 million (in net terms) from concessional donor program loans.

The table below shows the composition of financing by instrument for the 2018 Budget and over the projection horizon to 2022.

Table 32: Deficit Financing Projections by Instrument 2018-2022 (Kina, Million)

Debt Instruments	2017 Supp.	2018	2019	2020	2021	2022
Domestic Net Financing	912.5	373.8	200.6	454.7	816.2	862.1
Securities	912.5	373.8	200.6	454.7	816.2	862.1
New Instruments	10258.3	10388.5	10580.5	11036.5	11024.2	10963.0
Amortisation	-9345.8	-10014.7	-10379.9	-10581.8	-10208.1	-10100.9

Treasury Bills	694.8	30.2	-108.0	156.0	87.7	-61.3
New Instruments	9358.3	9388.5	9280.5	9436.5	9524.2	9463.0
Amortisation	-8663.5	-9358.3	-9388.5	-9280.5	-9436.5	-9524.2
Inscribed Stock	217.7	343.6	308.6	298.7	728.5	923.4
New Instruments	900.0	1000.0	1300.0	1600.0	1500.0	1500.0
Amortisation	-682.3	-656.4	-991.4	-1301.3	-771.6	-576.7
External Net Financing	963.9	1613.4	1696.9	1221.1	592.3	399.3
Securities	0.0	640.0	640.0	320.0	0.0	-640.0
New Instruments	0.0	640.0	640.0	320.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0	-640.0
Sovereign Bond	0.0	640.0	640.0	320.0	0.0	-640.0
New Instruments	0.0	640.0	640.0	320.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0	-640.0
Loans	963.9	973.4	1056.9	901.1	592.3	1039.3
New Instrument	1236.5	1273.7	1456.9	1803.3	1534.6	1961.0
Amortisation	-272.6	-300.3	-400.0	-902.2	-942.2	-921.7
Concessional Loans	298.3	337.4	480.6	808.3	1123.4	1389.7
New Instrument	526.5	593.9	816.9	1163.3	1534.6	1961.0
Amortisation	-228.2	-256.5	-336.3	-355.0	-411.2	-571.4
Commercial	703.0	39.8	-17.9	-513.9	-513.9	-337.9
New Instrument	703.0	39.8	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	-17.9	-513.9	-513.9	-337.9
Extraordinary	-37.4	596.2	594.2	606.7	-17.1	-12.4
New Instrument	7.0	640.0	640.0	640.0	0.0	0.0
Amortisation	-44.4	-43.8	-45.8	-33.3	-17.1	-12.4
Total Net Financing	1876.4	1987.2	1897.5	1675.8	1408.5	1261.4

Source: Department of Treasury

The financing requirement for 2018 will result in total Government debt reaching K25,807.6 million by end 2018, equivalent to 32.2 per cent of GDP. By end-2018 the composition of total debt is projected to comprise of:

- external debt amounting to 10.1 per cent of GDP (K8,084.4 million) and domestic debt 22.1 per cent of GDP (K17,723.2 million) predominantly loans from multilateral, bilateral and commercial creditors.

Multilateral debt will account for 62.2 per cent of total external public debt. The largest multilateral creditor is the ADB (79.3 per cent), followed by the World Bank (16.8 per cent).

Bilateral debt will account for 27.6 per cent of the external public debt stock. The largest bilateral creditor is China (85.8 per cent), followed by Japan (13.5 per cent); and,

- domestic public debt comprising of predominantly marketable securities with 53.0 per cent (K9,388.5 million) being in T-bills with maturities of 91, 182, 274 and 364 days and 47.0 per cent (K8,334.7 million) in medium to longer-term Treasury Bonds.

For 2018 PNG's total interest cost on Government debt is low in relation to GDP but quite high in relation to total revenue excluding grant (15.9 per cent) where it is double the average of low middle income countries. Importantly it is projected to increase further over the medium term.

Annual interest payments in 2018 are estimated to be 2.3 per cent of GDP, with interest payments on external debt accounting for 0.35 per cent and interest payment on domestic debt 1.9 per cent of GDP. At the end of 2017, the weighted average interest rate on the total debt portfolio was 7.1 per cent with external being 1.1 percentage points and domestic 6.0 percentage points.

Table 33: Debt stock as a share of GDP 2017-2022 (Kina, Million)

	2017 Supp.	2018	2019	2020	2021	2022
Gross Government Debt	23,820.4	25,807.6	27,705.1	29,380.9	30,789.4	32,050.8
% of GDP	32.1%	32.2%	32.2%	31.9%	31.1%	30.0%
<i>Domestic</i>	17,349.4	17,723.2	17,923.8	18,378.5	19,194.6	20,056.7
<i>% of GDP</i>	23.4%	22.1%	20.9%	19.9%	19.4%	18.8%
<i>External</i>	6,471.0	8,084.4	9,781.3	11,002.4	11,594.7	11,994.1
<i>% of GDP</i>	8.7%	10.1%	11.4%	11.9%	11.7%	11.2%

Source: Department of Treasury

8.3 MEDIUM TERM DEBT STRATEGY (MTDS)

8.3.1 Review of the MTDS 2013-17

The MTDS 2013-2017 was aimed at maintaining debt and financial risks at sustainable levels while minimising the cost of debt but with revenue lower than anticipated in recent years, the Government was forced to run higher than programmed Budget deficits. The increased debt and associated debt service placed significant pressure on the Budget as well as financing demands.

This impacted adversely on the implementation of the MTDS.

To finance these deficits, Government increased the debt stock from K8,478.0 million in 2012 to K21,944.0 million in 2016 and to K23,820.0 million in 2017. The main source of the increased borrowing has been the domestic market – with an increase in Treasury Bills and Inscribed Stock of 184 per cent between 2012 and 2017, from K6,118.3 million to K17,349.4 million.

As a result, debt to GDP ratio exceeded the FRA 30 per cent limit in 2016 and 2017, and financial risk has increased as the duration of the domestic debt portfolio has declined and as the stock of Treasury Bills continued to increase in proportion to total Government securities on issue. In 2017, the proportion of Treasury Bills and Inscribed Stock to total Government domestic securities on issue was 53.9 per cent and 46.1 per cent respectively, well short of the 30-70 per cent respective targets in the Strategy and foreign currency debt as a proportion of total central Government debt was 27.2 per cent which was well below the target of 40 per cent set in the MTDS 2013-17.

The 2016 IMF Debt Sustainability Analysis concluded that the risk of debt distress in PNG remains low based on an assessment of public and publicly guaranteed external debt. However, factoring in public domestic and private external debt, the overall risk of debt distress remains with the substantial private sector debt of large mining companies tending to be secured through holding offshore foreign currency accounts and therefore limits debt risk in PNG.

In the 2016 Article IV report, the IMF concluded that the ratio of central Government debt to GDP was low, but that liquidity risks remain high but a failure to consolidate the fiscal position,

including through obtaining more cost effective and longer-term financing, would worsen debt dynamics.

The trend over the past three years signals that there is reduced appetite for the Government securities, particularly longer dated Treasury Bonds. In 2017 the significant unplanned increase in the issuance of shorter term treasury bills resulting from the fiscal overhang at the end of 2016 and the need to offset the failure to obtain the planned amount of external commercial financing in 2017 have meant that financial risk (both rollover and interest rate risk) from the domestic market has increased significantly.

The persistent foreign exchange imbalance, which tends to tie up banking sector liquidity, has resulted in substantial constraints being placed on additional issuance over 2018. This, coupled with constraints on the level of the Government securities that can be held on banks' balance sheets because of exposure limits and asset-liability mismatches, implies that these difficulties are likely to extend into 2018.

Importantly, despite these trends, the Government remains committed to lowering the deficit and debt to GDP ratio over the medium term. The Government amended the FRA in 2017 allowing the debt to GDP ratio to move within a band of 30-35 per cent, but that the authorities will target a debt to GDP ratio of 30.0 per cent by the end of the projection period in 2022.

In addition, the Government is required to target a zero average annual non-resource primary balance over the medium term (assumed to be somewhat longer than the projection period). The latter target will tend to be more binding on fiscal expansion should resource developments increase significantly above the baseline assumptions and as such, under the baseline assumptions the 30.0 per cent debt to GDP target is the main anchor on fiscal excesses.

8.3.2 Medium Term Debt Strategy 2018-22

The Medium-Term Debt Strategy (MTDS) lays down the plan to achieve the desired funding for the Government's Budgets over the 2018-22 period and in managing the Government's debt portfolio. The overall objective of the MTDS 2018-22 is to:

“raise the required amount of Budget financing and manage the debt portfolio to achieve prudent risk and cost minimisation objectives, and develop and maintain an efficient market for Government securities and diversification of funding sources.”

The MTDS operationalizes this objective in order to achieve the desired composition of the Government's debt portfolio which captures the Government's strategy with regard to the cost-risk trade-offs. The major strategies to support the debt management objective comprise:

- maintaining debt at sustainable levels. The FRA target band of debt to GDP of 30-35 per cent and the 30.0 per cent target by 2022 will constrain debt to sustainable levels, although the band only applies to central Government debt and does not include arrears, SOE borrowings or contingent liabilities;
- maintaining financial risk at prudent levels. The reduction in the domestic debt target relative to foreign debt is a trade-off between domestic liquidity and interest rate risk against foreign exchange risk, and the lengthening of the average time to maturity is a trade-off between cost and refinancing risk;
- developing and efficiently managing the domestic debt market involves broadening and deepening the market in domestic securities and improving the market infrastructure; and

- developing and managing the offshore commercial market, including the inaugural sovereign bond issuance that will diversify funding sources, provide an alternative market based financing instrument, ease domestic liquidity and foreign exchange constraints and provide PNG a sovereign reference price. This will allow international investors to take a position in PNG which will also facilitate non-resident purchases of domestic bonds through a market based assessment of interest differentials.

The MTDS is guided by the legal framework governing Government borrowing including the authority to borrow and to issue new debt, invest and undertake transactions on the Government's behalf. Key legislation governing securities and domestic debt include the *Loans and Securities Act 1973*, the *Treasury Bills Act 1974* and the *Central Bank Act 2000*. Legislation relating to foreign loans include the *Loans (Overseas Borrowings) Act 1973*, *Loans (Overseas Borrowings) (No. 2) Act 1976* and *Loans and Assistance (International Agencies) Act 1971*.

Legislation relating to the authority to borrow is outlined in the *Public Finances (Management) Act 1995*. For fiscal consideration purposes, limits set on debt are prescribed in the *Fiscal Responsibility Act 2006*. The legal framework puts the emphasis on greater accountability and outlines the desired reporting and audit requirements.

The MTDS 2018-2022 is formulated against the revenue and expenditure assumptions presented in the Medium Term Fiscal Strategy 2018-22 which targets further fiscal consolidation. However, given both the constraints and risks in raising significantly more financing from the domestic market and the conclusions from the IMF (2016) DSA and Treasury's own analysis for 2017 on debt sustainability and risks, the MTDS 2018-22 will:

- engineer a portfolio shift from domestic debt securities to foreign currency debt with a foreign debt to total debt target of at least 35 per cent by 2022 while domestic debt will decline to a target of at least 65 per cent. This will be achieved through the issuance of World Bank/ADB highly concessionary external Budget support debt and through the issuance of a USD bond program, together with the normal net inflows of donor project loans.

The issuance of a USD bond program will require substantial efforts to arrange and manage the program which will run throughout the projection period; and

- within the domestic debt target, Treasury Bills and Treasury Bonds as a share of total domestic debt will be split at 50 per cent each to give an improved alignment with current investor preferences and market demand. This will be consistent with the goals of minimising the cost of debt and the Government's tolerance for financial risk.

To achieve this rebalancing the market in domestic bonds, including access to the market by non-residents, will need to be developed significantly particularly in 2018 where a number of prerequisites will need to be addressed urgently.

The change in the portfolio mix will also mean significant foreign exchange inflows, some of which will be used to clear the foreign exchange imbalance. The crowding out impact on private sector credit will also be reduced, lending support to private sector credit growth in this important area.

8.4 MANAGING PORTFOLIO RISK AND DEVELOPING THE BOND MARKET 2018-22

In implementing the financing strategy, the Government will be managing a number of risks including exchange rate risk, liquidity risk, interest rate risk, refinancing risk and others. These risks will be reduced through:

- managing the currency composition of external debt, especially as it increases as a proportion of debt, to ensure the composition is aligned with export receipts and foreign exchange reserves;
- continuing the through-the-year practice of accumulating funds in the dedicated debt account to pay debt service and redemptions when falling due and to cover issuance shortfalls;
- smoothing out the maturity and repayment profile of the domestic debt service schedule, within the projected financing envelopes, through debt switches and buybacks and establishing a reduced number of more liquid benchmark issues. To facilitate this measure, the Loans Securities Act 1960 and the T-Bills Act 1974 will need to be amended to clearly state the authority for Treasury to actively manage Government debt.

The publication of a more detailed and timely borrowing plan will also be undertaken in 2018;

- lengthening the duration of the domestic portfolio to reduce refinancing risk through the development of the domestic bond market and targeting compositional changes between shorter term treasury bills and longer-term treasury bonds;
- addressing a number of preconditions for the development of the domestic bond market including: improving the efficiency of the primary market (the current manual and cumbersome processes will need to be changed to attract non-resident investors and encourage secondary trading); promoting money market and interbank transactions through repurchase agreements; developing automated clearing, settlement and custody facilities; establishing a bond market code of conduct with effective oversight by BPNG; promoting the establishment of pools of liquidity to allow small investors access to the market; improved coordination between monetary, fiscal and regulatory authorities and market participants; and developing and maintaining a centralised source for bond market information and data.²⁹ These preconditions will underpin the goals of expanding the existing highly concentrated investor base and promoting a more liquid and efficient secondary market;
- addressing the concerns by non-residents that seek to invest in domestic securities, namely through rectifying the current foreign exchange imbalance and restrictions on access to foreign currency at redemption or repurchase, implementing access and disposal arrangements through improved market infrastructure for automated clearing, settlement and depository functions, and facilitating secondary market liquidity; and
- documenting and monitoring debts of state-owned enterprises and contingent liabilities and providing advice on management and exposure levels, with the more significant being the domestic commercial loans taken out by Kumul Consolidated Holdings (KCH) to finance the Motukea Port relocation, Eda Kopa Solwara 1 Project and the NCD Roads Project. Records relating to these liabilities are available in Statement I of the annual Public Accounts Statement.

²⁹ Refer to World Bank, Review of the PNG Government Bond and Capital Market Development, August 2015

Table 34: Percentage of Foreign Currency Debt to total Central Government Debt

Target	2016 Actual	2017 Revised	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.	2022 Proj.
Up to 40%	25.10%	27.17%	31.3%	35.3%	37.5%	37.6%	37.4%

Source: Department of Treasury

Table 35: Percentage of Treasury Bills to Domestic Debt Portfolio

Target	2016 Actual	2017 Est	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.	2022 Proj.
50%	52.70%	53.94%	53.0%	51.8%	51.3%	49.6%	47.2%

Source: Department of Treasury.

Table 36: Average Maturity of the Domestic Debt Portfolio

Target	2016 Actual	2017 Est	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.	2022 Proj.
5 Years	4.4	4.2	4.5	4.6	4.7	4.8	4.8

Source: Department of Treasury.

To undertake the measures presented in the MTDS 2018-22, the Government will establish a high-level debt development and management committee comprising Treasury and BPNG senior staff.

CHAPTER 9: NATIONAL REFORM AGENDA

9.1 OVERVIEW

The Government in 2018 will implement a number of reforms to ensure macroeconomic stability and sustained economic growth which will be critical to achieve the objectives of the various development goals as outlined in the Government's development policies and strategies, such as the Vision 2050, MTFS, MTRS and MTDP.

Thus, the Government will fast track a number of public finance management reforms in accordance with the Public Expenditure and Financial Accountability (PEFA) roadmap 2016 to tackle some of the structural issues preventing transparent and effective use of public money including accelerating reforms around the management of the public service and the associated wage bill. The Government through the Public Sector Reform Working Group (PSRWG) and the Organisational, Staffing and Personnel Emolument Audit Committee (OSPEAC) will continue with efforts to improve institutions and administrative systems that will nurture and encourage proper management of public resources, improve fiscal management and transparency in Budgeting.

This will be supported by reforms in a number of areas including procurement, management of arrears as well as better management of contract and capital projects.

On the revenue side, a comprehensive reform program has been developed and outlined in MTRS which aims to broaden the tax base and rationalise tax concessions with a view to reducing income taxes. This should increase Government revenues in a more equitable and efficient manner and provide the private sector with an improved and more competitive tax regime.

The Government also intends to improve its debt management as outlined in the new MTDS which will assist the Government meet its debt payment obligations, increase its public investment and provide greater scope for private sector credit and the development of the financial sector.

Furthermore, these medium term strategies will be supported with comprehensive national reform agenda. This will support greater private sector participation at the micro-level aimed at creating an enabling and conducive environment for private sector growth and development. As part of this reform agenda, the Government will partner with key stakeholders in removing barriers to doing business and investment in PNG.

Central to this set of reforms are the recommendations captured in the Consumer and Competition Framework Review and the Financial Services Sector Review which will be endorsed and implemented in 2018.

Another significant Government agenda in 2018 is the hosting of the APEC Meeting for which preparations began in 2016. The hosting of APEC is of great significance as it will market PNG to the region, increase domestic demand for goods and services, and lift public and private sector confidence, all of which should lead to greater investment levels and economic growth in the future and will also assist in facilitating the upcoming US dollar bond issuance program by lowering country risk perceptions.

9.2 PUBLIC SECTOR REFORM

The Government will continue with the ongoing reform initiatives and programs to explore further reform opportunities for improving the productivity and effectiveness of the public service and create an environment that is conducive to private sector expansion and growth.

As part of this strategy and in line with Vision 2050, the Government envisages further devolution of responsibilities from the National Government to the Provinces. The MTDP provides agencies at all levels of Government with guidance for meeting new service delivery standards.

In 2018, the Government will divert from its focus on meeting the new service delivery standards by reducing excess spending and resource wastage, and redirect funds to key priority impact projects in the Provinces and Districts in the areas of Health, Education, Infrastructure and Law & Order to foster growth and development.

9.2.1 Equitable Resource Allocations to Provincial Governments

The *Inter-Governmental Relations (Functions and Funding) Act 2009* sets out the revenue sharing formula between National, Provincial and Local-level governments under the Inter- Governmental financing system ensuring that the total revenues of the Provinces and the costs of delivering a minimum level of basic services are taken into consideration when determining the grants for the Provincial and Local level governments.

The overall goods and services grants for distribution (referred to as the Equalisation Amount) depend on a set proportion of tax revenue which excludes variable mining and petroleum taxes (referred to as Net National Revenue) that is available to the National Government each year and which is intended to provide greater certainty for Provincial and Local-Level Governments as well as ensuring that the system remains affordable.

The equalisation amount is then distributed based on how much it costs to deliver the basic set of services. Since its implementation, the total grants to Provincial Governments have increased from K135.0 million in 2009 to K492.3 million in 2018.

For the 2018 fiscal year, the equalisation amount is K547.3 million, a slight reduction of K17.9 million from 2017 was arrived at by applying the prescribed percentage of 6.57 per cent to the 2016 actual net national revenue amount of K8,329.6 million. The reduction is primarily due to the lower total tax revenue collections in 2016 compared to 2015 and as a result, several Provincial and Local-Level government grants calculations have been reduced slightly for the 2018 Budget.

9.2.2 Mergers of National Departments and Agencies

The Government is concerned that there are a number of departments and agencies with overlapping roles and responsibilities resulting in additional costs, inefficiencies, unnecessary complexity, a lack of accountability and hence the potential for uncoordinated advice and avoidable costs.

In 2018, no agencies will be created without the prior approval from the Departments of Personal Management, Finance and Treasury. This is to ensure alignment with the development plan as well as to contain costs.

In addition, the amalgamation agenda is carried out by the PSRWG. This Group will be re-tasked to be a strategic committee overseeing the actual amalgamation work carried out by the OSPEAC. The OSPEAC then should report to the PSRWG. Both groups/committees will

be resourced sufficiently to effectively carry out the merging exercise. The proposed mergers for 2018 are as follows:

Table 37: Merging Agencies

Agency	Merged Into
Boarder Development Authority (BDA)	Department of National Planning & Monitoring (DNPM), Treasury and Department Of Provincial Affairs (DPLGA);
Konebada Petroleum Park Authority to be abolished	Funds transferred to Miscellaneous, and Assets to Department of Petroleum & Energy
PNG Science Secretariat	Department of Higher Education Science and Technology (DHERST);
Coastal Fisheries Development Agency	National Fisheries Authority

Source: Department of Treasury

9.2.3 Budget Reforms

The Government will continue to reform the National Budget to enhance its capabilities in meeting the additional complexities of public finances and delivering value for money through the efficient and effective allocation of the Government's limited financial resources.

Significant progress has been made in recent years, including implementation of the "Two Stage budget process" which allows for rationalisation of high cost public service proposals early in the budget process. The Government will further strengthen the integration of the former development and recurrent budgets to prevent funding duplication and ensure expenditures from both components of the budget are aligned in achieving government deliverables by establishing an interdepartmental committee. The committee to be co-chaired by Department of Planning and monitoring and Department of Treasury and members will comprise relevant state departments and agencies to appraise and oversee the technical and financial accountability of significant new projects.

9.2.4 Management of Manpower and Personnel Emolument Ceilings

The Government, in its drive to better control public expenditure, has re-established OSPEAC to enhance controls over compensation of employees with two specific mandates: (i) scrutinize the Governments public service pay bill; and (ii) determine causes of over expenditure and recommend and implement corrective measures. The NEC requires a number of immediate steps to be taken that will be implemented and institutionalised over the medium term including the following:

- i. ceasing all PE warrants and payments through the PGAS (and all other funding sources outside of ALESCO);
- ii. endorsing the following system controls to offset:
 - public servants being paid at the wrong grade or receiving wrong allowances;
 - fraud - ghost employees, misdirection of termination payments etc;
 - poor recording of leave taken, resulting in the employee being paid normal pay while not at work and accumulating their leave balance year on year so that, on termination, they are overpaid;
 - Payment at the resumption of leave when the employee does not return to work;
 - Unnecessary or incorrect payment of Higher Duties Allowance;

- iii. ceasing all unbudgeted back pays; and
- iv. freezing all reorganisations unless the reorganisation will result in cost savings.

As part of this work, the recruitment freeze will continue into 2018 for agencies that have unattached officers, including those in the Provinces, until they have been redeployed, retrenched or retired. K20.0 million was allocated in the 2017 Budget to assist with retirements and a further allocation has been made in the 2018 Budget for this purpose.

9.2.5 Industrial Pay Fixation Agreement

Starting in 2018 and over the medium term, the Government will ensure that public servant pay increases reflect affordability and the extent of rationalisation savings in this area. Under the MTFS, a fiscal anchor for annual PE expenditures has been set at a maximum of 40.0 per cent of non-resource, non-grant, revenue and PE costs should not expand at more than 5.0 per cent annually and as such public sector pay increases above this rate will have to be offset with reductions to positions or removal of ghost workers.

9.2.6 Superannuation Reforms

The State is obliged to make a mandatory superannuation contribution of 8.4 per cent of the base salary of each employee to an Authorised Superannuation Fund (ASF), as an employer contribution, in accordance with Section 76 of the *Superannuation General Provision Act 2000*. Employees are also required to contribute 6.0 per cent of their base salary as the employee contribution to an ASF.

The Government provides funding to two ASF's for its employer contribution to meet its superannuation obligations as stipulated under the superannuation legislation. These are the Nambawan Super Limited (NSL) Fund and Defence Force Retirement Benefit (DFRB) Fund. The NSL manages the superannuation contributions for the public sector employees in Papua New Guinea. In 2017, the Government reimbursed NSL for the costs covering employees that had exited for the period from November 2014 to December 2015.

The Government now is in the process of evaluating the subsequently incurred outstanding amounts and once the quantum of this liability has been established, the Government will look at options on how best to address this issue over time given the large size of the liability and the current constraints on cash flows.

The Defence Force Retirement Benefit (DFRB) Fund was initially established as a defined benefit (pension) scheme for the members of the PNG Defence Force. The Government will continue its effort to meet its superannuation obligations under the amended DFRB Act in the 2018 Budget.

9.3 A COMPETITIVE AND DYNAMIC PRIVATE SECTOR

A competitive, vibrant and diverse private sector is a key driver of economic growth. The business framework needs to be established such that fair and effective competition is encouraged. This will improve economic efficiency and inclusive economic growth as well as consumer welfare. To meet these goals, Government will:

- encourage efficiencies in State Owned Enterprises (SOEs) and increase the nature and level of competition within markets where SOEs operate, particularly in the telecommunications, electricity and transport sectors such as shipping and aviation;

- ensure a strong regulatory enforcement of the competition and consumer law so that markets operate competitively with ethical traders, while safeguarding small businesses and consumers against unfair treatment and abuse;
- improve the productivity of sectors particularly important to the rural and remote areas of PNG such as tourism and agriculture;
- 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
- encourage the operation and transition of participants in the informal economy to the formal economy.

9.4 REFORMS FOR ENHANCING COMPETITION IN PRIVATE SECTOR

The Government remains committed to developing an environment that is conducive to private sector development. The following are some of the priority reform activities that will continue to support these objectives in 2018:

9.4.1 Consumer & Competition Framework Review

In 2018, the recommendations of the Consumer and Competition Framework Review (CCFR) will be considered, endorsed and implemented. The review was part of the Government's plan to ensure that PNG has a strong regulator that is equipped with the vital tools to enforce the competition and consumer protection laws.

The framework covered three main areas:

- consumer protection and economic empowerment of disadvantaged groups;
- market competition and fair trading; and
- industry regulation and price oversight.

9.4.2 Competition Regulation and Consumer Protection

The Government, through the ICCC, will continue to implement price control arrangements for certain declared regulated industries and goods and services throughout 2018. This includes regulatory oversight of the supply of electricity, water and sewerage, compulsory third-party motor vehicle insurance, postal services and port services, and for specific regulated products like rice, sugar, flour and refined petroleum products.

The ICCC will also undertake productivity inquiries in other key sectors, namely the Housing and Real Estate Industry, Liquid Petroleum Gas market, Jet A-1 fuel market and the Aviation Industry. These inquiries will enable the Government to establish the degree of competition, impediments affecting these industries, structural and regulatory settings and the level of efficiency in these industries.

The Government, through the ICCC, commenced reviewing the current price path, minimum service standards, penalty mechanisms and reporting requirements under the current Regulatory Contracts for Motor Vehicle Insurance Limited (MVIL) and PNG Power Limited. Once completed, new regulatory arrangements will be put in place for the respective entities for the next five-year period, commencing 2018 to 2022.

The ICCC is also expected to undertake a comprehensive review into the existing PNG Power Limited's electricity network infrastructure. The findings from this review will inform the final determinations for the new Electricity Regulatory Contract for the next 5 years, commencing in 2018.

9.4.3 Aviation Industry Review

In 2018, the Government with technical assistance from PNG's development partners will undertake a diagnostic assessment into the aviation industry to identify business impediments in the aviation industry caused by uncoordinated regulation and barriers to competition. The outcome of the assessment will be used as the basis to formulate a strategy to address policy gaps and regulatory impediments to enhance more competition in the industry hence reduce airfares.

9.4.4 Information and Communications Technology (ICT) Industry

The National Information and Communications Technology Authority (NICTA) will continue to conduct public inquiries examining impediments to access and affordability of ICT and investigating misuse for the purpose of providing recommendations for the Government's consideration. Going forward, the Government through NICTA will roll out the following programs:

- **Laying of a new International Submarine Cable:** the Australian Government will gift the PNG Government a new high speed submarine cable which will future proof the country's high speed Internet needs for the next 25 years. Details are currently being negotiated with implementation expected to take 24 months.
- **Expansion of Mobile Telephony & Broadband Services:** support investment in the new and upgraded mobile network infrastructure and facilities to expand the availability of mobile broadband signals and services (3G or higher level) to the widest possible portion of the population. The Government is also in discussions/negotiations over the major undersea cable project from Sydney to Port Moresby which will significantly improve connectivity and band width.
- **Community Information Centres and Institutional Broadband Networks:** NICTA will also continue to support the expansion of access to (fixed) high-speed broadband internet connectivity for selected communities, to bring connections to priority local institutions as well as public access for local citizens.
- **PNG Internet Exchange Point (PNGIXP) and Spectrum Monitoring System:** In line with security preparations for PNG hosting APEC in 2018, the Government through NICTA is also currently facilitating establishment of the PNG CIRT. The primary objective of establishing the facility is to ensure security of the PNG cyber space (or internet space) at a technical level where most cyber threats and attacks occur.

The system is essential and is part of NICTA's obligation towards the Government's commitment to hosting APEC 2018.

9.4.5 The Informal Sector and Small-Medium Enterprises

The endorsement of the SME Policy in 2016 and the SME Master Plan 2016–2030 (Policy Reform) and the establishment of the SME Corporation replacing the Small Business Development Corporation (Institutional Reform) was a significant progress. SMEC as the lead

agency has planned to address the seven SME development constraints identified in the SME Policy. These constraints include:

- access to credit/finance;
- capacity building;
- access to market and market information;
- access to business and commercial land;
- access to business and physical infrastructure;
- access to ICT infrastructure and application of technology; and
- conducive legal, regulatory and policies to build an enabling business environment.

To support the SME policy implementation, certain enabling legislations are required. In 2018, the Government in partnership with our development partners will undertake a review of the legal and regulatory framework of the SME framework in the country with a view to creating an environment that can stimulate SME development and growth. This will also encourage the informal sector businesses to transit into the formal economy, thus registering as SME.

SMEC is also implementing its transition from the old SBDC to SMEC and building its institutional capacity to implement the SME policy requirements.

9.4.6 Financial Services Sector Review

The “*Financial Sector Development Strategy (FSDS)*” will arm the Government with a reform agenda for implementation in 2018 and over the next few years. Such reform areas include:

- the architecture of PNG’s financial sector regulatory and supervisory arrangements;
- development of PNG’s Government bond and capital markets;
- development of the national payments system; and
- expanding financial inclusion in PNG.

The recommendations for improvement in the payment system and for financial inclusion are ongoing projects which will continue in 2018. More emphasis will be given to the regulatory architecture and the development of the Government bond and capital markets in 2018 and over the next few years.

9.4.7 Microfinance Expansion Program

The Microfinance Expansion Project (MEP) is an important reform of the Government that was initiated in 2012 and was planned to end in 2017, but extended for completion in 2019. The Project is co-financed by the Asian Development Bank (ADB), the Government of Australia and the Government of PNG. The Bank of PNG (BPNG) is the executing agency of this project.

The MEP is a key development project for enhancing financial inclusion by extending financial services to the bulk of the rural population in PNG. The project has delivered on most of the objectives with almost 90–100 per cent complete.

9.4.8 Property Sector Development

The Government had undertaken several initiatives and projects under the National Land and Affordable Housing Program as an immediate measure to provide affordable housing to public servants. One such project is the Gerehu Stage 3B Housing Project which is progressing and

the Government will continue to make further progress in 2018 with the aim of making properties more affordable to ordinary Papua New Guineans.

In addition, the Government, through the ICCC, will undertake productivity inquiries into the Housing and Real Estate Industry which will help identify the factors causing the high cost of property development and high rentals. Initial discussions are also underway to develop a National Housing Policy that will provide an overarching framework for housing developments and affordability in the country.

9.5 ASIA PACIFIC ECONOMIC COOPERATION (APEC)

The hosting of APEC meetings will be a significant focus of the Government in 2018. More importantly, it is viewed as an opportunity for the Government to utilise the collective expertise of APEC economies to further our domestic reform efforts through improved trade relations in the APEC region and to also encourage longer-term sustainable investment and development in PNG. APEC discussions seeks to support *APEC's 'Three Pillars': Trade and Investment Liberalisation; Business Facilitation; and Economic and Technical Cooperation.*

9.5.1 PNG APEC 2018 Host

In 2018, PNG will play host to the APEC events. As the tradition of APEC hosting, PNG will be responsible for chairing the APEC Economic Leaders' Meeting (AELM), selected Ministerial Meetings, Senior Officials Meetings (SOM) and other related meetings.

Since the successful bid to host APEC Meetings in 2018, PNG has been actively attending APEC meetings, not only to aid preparations to host but also to ensure PNG utilises the collective expertise of APEC economies to further domestic reform efforts.

9.5.2 APEC Structural Reform Agenda

Excellent progress has also been made on key economic reforms in 2017 including an update of PNG's Renewed APEC Agenda on Structural Reform (RAASR) Individual Action Plans (IAP) which was launched in 2016 as a focus of the APEC Economic Committee (EC) from 2016 through to 2020 with its mid-term review to be conducted in PNG's host year.

RAASR supports a robust, comprehensive and ambitious structural reform agenda to reduce inequality and stimulate growth in APEC economies, and contribute to APEC's overarching goal to promote balanced, inclusive, sustainable, innovative and secure growth.

9.5.3 APEC Finance Ministers' Process

The APEC Finance Minister Process (FMP) is another key group of events that PNG is also going to host in 2018 that focuses on the economy. The APEC FMP serves as a forum for APEC member economies to address regional macroeconomic and financial issues as well as domestic and regional financial policy priorities.

PNG officials have also been active in this Committee in a range of areas focusing on financial inclusiveness and access to finance for small and medium enterprises, long-term infrastructure financing, and Base Erosion and Profit Shifting (BEPS) relating to tax payments. PNG's host year is scheduled as a checkpoint for the Cebu Action Plan (CAP) in which all APEC economies will be providing an update on the progress of their implementation of their CAP initiatives which serves as a roadmap to promote policies, rules and practices across APEC economies to support strong, sustainable, inclusive and balanced growth throughout the region.

PNG will also be giving its update as part of the APEC member group.

Other APEC priorities under the FMP that PNG has been involved in include infrastructure financing, supporting anti-terrorism and money laundering initiatives, disaster risk financing, and the women in the economy forum.

9.6 IMPLEMENTATION OF THE SOVEREIGN WEALTH FUND OF PAPUA NEW GUINEA

The Sovereign Wealth Fund (SWF) of Papua New Guinea (PNG) was established to prudently, responsibly and efficiently manage revenues from the mineral and petroleum resource sectors to ensure maximum benefit for PNG citizens. The main objective of the SWF of PNG is to protect the PNG economy through supporting macroeconomic stabilisation and prudent asset management in relation to financial assets accrued by the State from these sectors, while helping to spread the country's wealth more equitably across generations.

The certification of the Organic Law on the Sovereign Wealth Fund (OLSWF) paved way for the operationalisation of the provisions to establish the SWF Board of PNG commenced in mid-2016. In compliance with the OLSWF and to maintain independence in the appointment process, an independent and reputable firm was engaged to carry out the executive search for potential candidates for possible appointment as members and chairman and successfully concluded with the submission of the Final report to Treasury to prepare a shortlist of candidates for screening by the Screening Committee and subsequently to an Appointments Committee for possible appointments.

The SWF Board of PNG is expected to be in place by early 2018 even though it is expected to play a limited role in the area of investment of funds in the initial stages. These works will feature predominantly in the next phase of the implementation process, which shall commence upon gazettal of the OLSWF.

Furthermore, the preliminary work for the formulation of an Investment Mandate for the SWF Board has commenced. The investment mandate will express the Government's expectations for the management of funds on a prudent commercial basis and consistent with international best practice portfolio management and investment strategies.

CHAPTER 10: IMPROVING STATE'S COMMERCIAL INTEREST

10.1 OVERVIEW

The State-Owned Entities (SOEs) are profit-oriented commercial entities that aim to generate revenue through the provision of essential services. The Government has invested significantly in SOEs through direct capital investment or indirectly through retained profits. The Government expects positive dividend and cost effective service delivery.

This chapter presents policy reforms that will promote greater efficiencies in the management and governance of the state's corporate enterprises. This includes steps to be implemented in 2018 and over the medium term to establish proper policy structures and frameworks to boost SOE social and commercial performance going forward.

The policy seeks to achieve the following objectives:

- improving SOE institutional structures and governance to support investments through meaningful interactions with our development partners and stakeholders;
- improving SOE performance and efficiencies to provide affordable services while encouraging a fair return to the State to support other development needs;
- improving SOE financial planning, management and investment returns through the application of the Borrowing Policy, the Community Service Obligation (CSO) Policy, the Dividend Policy, the Guarantee Policy and the On-Lending Policy;
- monitoring existing resource projects through continued consultation with stakeholders and evaluating and assessing new resource investment prospects in the country;
- monitoring and assessing landowner interests in new and existing extractive industry projects, including oversight of landowner related trust funds;
- promoting the development of agriculture and other renewable resource sectors through sound economic and institutional reforms;
- identifying areas of government intervention into the agriculture, forestry, fisheries and tourism sectors through sector reviews and recommending appropriate course of actions; and
- progressing work in diversifying the economy through sector reforms in the renewable resource sector.

10.2 STATE OWNED ENTERPRISE POLICIES

In line with the above objectives and through the implementation of various policies, the Government aims to improve the performance of SOEs through enhancements of financial planning, management and investment decisions and support transparent and stringent governance frameworks within these entities.

The policies that will be implemented in 2018 and over the medium term includes: the On-Lending Policy, the State Guarantee Policy, the Dividend Policy, and the Community CSO.

10.2.1 Community Service Obligation (CSO) Policy

The CSO Policy aims to provide a rational framework for the delivery of CSOs which do not give a financial return are costed fully, clearly defined in contracts and are implemented

in a transparent and effective manner so as not to impede the financial performance of SOE's or are overly burdensome to the Government.

The Policy requires SOEs to distinguish between CSO activities from their commercial operations which shall allow the State to understand the true cost of delivering CSOs and placing the Government in a better position to assess the scope for private sector involvement.

Lessons expected to be learnt from the pilot CSO program with the National Airports Corporation (NAC) will inform the Government to enable the broader roll-out of the CSO policy in the medium to longer term.

10.3 STATE INVESTMENTS PERFORMANCE

The Kumul Consolidation framework was designed to enable efficient management of SOE's ensuring better financial performance and value addition from the State's Investments. As a result, all the State's commercial assets were consolidated and managed by the following three Kumul holding entities:

1. **Kumul Consolidated Holdings (KCH)** which oversees the management of the States infrastructure and service provision through its SOEs. KCH is the holding entity of assets formerly managed by the Independent Public Business Corporation (IPBC);
2. **Kumul Minerals Holdings (KMH)** holds all State interests in mining projects including those previously held by Petromin; and
3. **Kumul Petroleum Holdings (KPH)** holds the State's interests in oil and gas projects including the PNG LNG project. It also holds those assets formerly held by the National Petroleum Company of PNG (NPCP).

In 2018, the Government will review the Kumul Consolidation framework legislation and governance structures. This is to tighten and establish more prudent fiscal management in the state's investments especially in the SOEs. This review is aligned with the ongoing PFM reforms.

10.3.1 The General Business Trust Assets

KCH, as trustee of the General Business Trust (GBT), seeks to ensure the highest level of visibility, monitoring and accountability on behalf of the State in all SOEs. KCH will continue to maintain oversight of the financial positions and fiscal risks associated with the operation of the SOEs that are vested through the *Kumul Consolidate Holdings Act 2002* (KCHA).

In the 2015 Kumul restructuring arrangement, the investment in the National Petroleum Company PNG (NPCP) was subsequently transferred to Kumul Petroleum Holdings Ltd. This has reduced the total net asset value of the GBT by K3.9 billion and a corresponding increase in the assets of Kumul Petroleum Holdings Ltd and as a result, in previous years the GBT total net assets were recorded at K9.8 billion, but are now recorded as K5.9 billion.

As shown in Table 38, the valuation of the total GBT Assets as at 31st December 2016 is K5.9 billion. Of the total assets, the value of investments in unlisted equity (majority SOEs) is K3.9 billion. Other (minor) unlisted equities is K1.1 billion and investment in Listed Equities is K795.0 million.

Table 38: General Business Trust (GBT Assets), as at 31st December 2016.

PARTICULARS	SHARES (%)	2015	2016	YTD 30 th Sept 2017 (K million)
UNLISTED EQUITY INVESTMENTS IN GBT K3.9 billion				
Air Niugini Ltd	100	450.0	450.0	450.0
Eda Ranu Ltd	100	110.0	110.0	110.0
Motor Vehicle Insurance Ltd	100	525.0	525.0	525.0
National Development Bank	100	467.0	467.0	467.0
PNG Ports Corporation Ltd	100	472.0	472.0	457.0
PNG Power Ltd	100	682.0	682.0	671.0
PNG DataCo	100	187.0	185.0	206.0
Water PNG	100	62.0	62.0	62.0
Post PNG Ltd	100	102.0	102.0	102.0
Telikom PNG Ltd	100	430.0	430.0	430.0
Bmobile	85	140.0	140.0	135.0
National Petroleum Company PNG (NPCP)	0	0.0	0.0	0.0
PNG Dams Ltd	100	304.0	304.0	304.0
Port Moresby Private Hospital Ltd	100	100.0	19.0	19.0
Other Unlisted Investments (K1.13 billion)		1,060.0	1,133.0	1,206.0
Listed Equity Investments (K795 million)				
Bank of South Pacific	18	632.0	789.0	809.0
Highlands Pacific Ltd	4.4	6.0	6.0	5.0
TOTAL ASSETS K5.9 billion		5,729.0	5,876.0	5,958.0

Source: GBT Report as at 31st December 2016 and GBT Management Accounts as at 30th Sept 2017.

Dividends paid to the State form part of the Governments revenue and contribute significantly to the national budget to support PNG's development needs.

The KCH is yet to make dividend payments to the State in 2017 despite a projection of K100.0 million. The KCH proposed dividend payment of K20.0 million for 2017 was re-directed to fund the Port Moresby (POM) Sewerage System Upgrade Project. KPH paid a K300.0 million dividend while OK Tedi Mining Limited paid a K130.7 million dividend to the State in 2017.

All SOEs and other State entities are expected to make dividend contributions in 2018 and onwards in line with the approved Dividend Policy.

Table 39: Dividends to the State. (K Million)

State Entity	2015	2016	2017	2018
Kumul Consolidated Holdings Limited	360.0	0.0	0.0	100.0
Kumul Petroleum Holdings Limited	86.4	100.0	300.0	300.0
OK Tedi Mining Limited	0.0	0.0	130.7	200.0

Source: Department of Treasury

10.4 BROADER REFORMS

In 2018, the Government will continue to review a number of policy reforms to improve the performance of the State in terms of actively participating in specific sectors and to

better manage the available resources. The broad sector reforms that will continue into the medium term include:

- undertaking a review into the agriculture and other renewable resource sectors (forestry, fisheries, tourism, agriculture and livestock) to identify constraints, challenges and opportunities with the aim of supporting increased production;
- formulating the Agriculture Commercialization Equity Fund (ACEF) guidelines to ensure that the State provides relevant financial support to the proposed impact agricultural projects;
- improving the performance of the renewable resource sectors through a consultation process with the aim of identifying sectoral issues and better addressing the issues faced by stakeholders through specific policy designs for Government's intervention; and
- enforcing PFMA 2016 (*Public Finance Management Act 1995*) and the dividend policy to:
 - improve compliance, monitoring and regulation of the revenue streams going to the Consolidated Revenue Fund (CRF) to support the national budget; and
 - assist the Government in terms of sourcing information and determining all revenue made by State entities going forward.

10.4.1 Supporting the Renewable Resource Sectors

In 2017, a review was made into various state agencies involved in the agricultural sector including the commodity boards. The review which will be continued in 2018 aimed to identify major issues, constraints, challenges and opportunities being faced in these sectors with the intention of identifying Government intervention programs to support increased production in this sector.

10.4.2 Public Financial Management Act (PFMA) Reforms

An Inter-Departmental Committee (IDC) has been set up to review the management of all Public Funds. The review team comprises the Department of Prime Minister & NEC, Department of Finance and Department of Treasury.

The IDC review committee will review all Trust Accounts (TAs) managed by public bodies, statutory bodies and SOE's. Any state entity that deals with public funds will now come under the scrutiny of the revised PFMA.

Part of the review process will deal with public finance management and governance issues regarding all statutory bodies. There are many statutory bodies being set up and operating without a set of investment parameters or guidelines provided by the Government.

The Government has mandated the Departments of Finance and Treasury to review all proposals for creation of statutory bodies consistent with the revised PFMA. Starting 2018, all statutory bodies are required to remit up to 90.0 per cent of all fees and charges collected to CRF.

Further, the Government through its 100 Day Plan has committed to bring all collections from fees and charges to CRF and to allow only 10.0 per cent of the total collection of each agency to be retained and is committed to give legal effect to this arrangement as part of the 2018 Budget through the introduction of the Public Money Management Bill. This will ensure all funds come through CRF and agency expenditure will now be based predominately on budgetary priorities and appropriations.

10.5 PUBLIC PRIVATE PARTNERSHIP (PPP)

Public Private Partnerships (PPP) are long term contracts between the State and private entities for the delivery of public infrastructure and services. The PPP Policy and PPP Act will guide PNG's approach in using PPP arrangements to implement major infrastructure projects.

In 2018, a PPP Center will be established to implement the PPP Act and monitor the use and arrangements under the PPP Policy.

Some of activities envisaged in 2018 include:

- i. developing a roadmap that will assist the Government to identify and implement a pipeline of projects under PPP arrangements;
- ii. ensuring that relevant projects are selected, developed, delivered and managed in a structured, transparent and efficient manner; and
- iii. facilitate the procurement for all PPP projects.

10.6 MANAGING MINING AND PETROLEUM ASSETS

In the medium to long term, prices are expected to pick-up allowing revenues to flow into the SWF and thus drawdowns into the Budget consistent with the formula of the SWF Organic Law. This ensures that the SWF plays its important role in stabilizing the economy.

In the medium term, potential major mining and petroleum projects such as the Elk-Antelope, Stanley Gas, P'nyang, Wafi-Golpu and Frieda River mining projects are expected to contribute to the domestic economy. All these projects are projected to have a positive effect on domestic economic activity and government revenue in the medium to long term.

In the interim the Fiscal Responsibility Act was amended in 2017 to require the Government to target a zero average annual non-resource primary balance over the medium term. This will assist inflows into the SWF should these major resource projects be implemented over this period.

10.6.1 State Equity Participation

Based on the findings of the Tax Review Committee the Government will develop a framework to guide State investment decisions in relation to equity acquisition in mining, oil and the gas projects which should make the equity participation decision more transparent and ensure good governance. A policy draft has been prepared for further consultation with external stakeholders and a decision will be made in 2018.

10.6.2 Template Gas Agreement

The Government has initiated development of a Template Gas Agreement that aims to ensure transparency and more consistency in negotiating oil and gas project

agreements with prospective developers. The Template Gas Agreement has been completed and Government approval is expected in 2018.

10.6.3 Domestic Market Obligation

Government is formulating a policy on reserving a certain amount of gas production for domestic use. Policy drafting is progressing and is expected to be completed by the end of 2018.

10.7 EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE (PNG EITI)

In 2018 and onwards, PNG EITI Multi-Stakeholder Group (MSG) will continue working to develop the EITI National Policy and subsequently the National EITI Law to provide the avenue for PNG EITI's transformation into an independent office.

The MSG will engage in a comprehensive consultative process with other stakeholders, industry, development partners and the general public to identify and address any issues arising in the development of this policy.

The publication of the 2015 & 2016 Financial Year (FY) Reports is expected to be released by December 2017.

APPENDIX 1: REVENUE TABLES

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

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 1.5: Revenue foregone on GST exempt sales, zero rate sales and import deferral schemes (Kina)

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

	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Est 2016
Total Mining & Petroleum & Gas Taxes Paid	1,077	1,947	2,334	1,991	749	1,476	2,073	1,033	662	794	195	89
Net Mining & Petroleum Taxes Paid by Companies claiming ITC	1,077	1,947	2,334	1,991	744	605	1,926	1,025	642	643	195	89
Total ITC Claimed & Allowed ¹	20	23	21	25	92	60	53	34	51	115	110	50
Expenditure Incurred on Approved ITC Projects ²	85	63	62	39	70	70	42	33	84	196	217	
Tax Credit Claimed as Percentage of Taxes Paid by Companies Subject to ITC	1.9	1.2	0.9	1.3	12.3	9.9	2.5	3.3	7.8	14.5	56.1	56.2
Excess Credits Carried Forward (from prior years) ³	na	na	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.

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

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

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

Section	Description	2014 Number	Amount	2015 Number	Amount	2016 est. Number	Amount
35	Interest	54	267,416.18	59	56,203.35	47	62,916.53
035A	Fishing operations	1	19.81	3	24,519.97	2	24,332.56
42	Dividends	16	15,366.43	17	32,330.50	19	18,192.74
045B	Export sales	10	81,513.83	9	46,182.34	8	24,420.50
045I	Rural development incentive	3	731.42	7	-5,408.43	8	24,862.85
045N	Bougainville incentive	2	3,000.00	0	0.00	0	0.00
068A	Solar heating	2	3.95	1	13.79	0	0.00
069A	Gifts-Sporting bodies	21	245.97	17	429.03	11	77.50
069C	Gifts-Law /Order/Justice	5	53.49	4	14.63	4	173.35
069E	Gifts-Charitable organizations	46	1,808.14	52	1,026.84	20	281.07
069H	Gifts-Law /order projects	1	10.00	0	0.00	1	25.00
069I	Gifts-National Day Celebrations	4	17.30	7	25.01	1	3.00
069K	Gifts-PNG Sports Federation	5	1,026.89	6	3,906.19	1	12.78
069M	Island Forum	0	0.00	0	0.00	0	0.00
070A	Education expenses(individuals only)	55	727.17	52	973.81	26	860.80
072A	Double deduction - Staff Training	85	59,402.56	92	101,197.46	60	109,036.46
072C	Double deduction - Export Market Development - Manufacturing	5	470.49	3	377.03	3	91.99
072C	Double deduction - Export market development - Tourism	2	283.42	6	910.59	5	751.67
073(3)	Depreciation - 20% loading	20	63,844.16	24	16,385.94	19	3,181.26
073(4)	Depreciation - Fuel conservation	0	-	0	-	0	-
073(5)	Depreciation - Non-oild-fired (converted)	9	34,415.90	17	50,827.94	13	60,048.35
073(6)	Depreciation - Non-oil-fired (acquired)	3	3,198.61	4	5,108.86	2	2,321.71
073(7)	Depreciation - Industrial development	17	91,336.76	21	36,906.14	12	29,447.49
073(9)	Depreciation - Primary production	9	7,912.63	11	28,967.45	9	37,964.89
095(1)	Research + Development expenditure	9	5,007.58	19	19,065.09	16	17,404.42
097A	Primary production development expenditure	2	13,013.39	3	15,095.84	1	926.94
097B(1)	1.5 Extension services expenditure	3	436.84	3	451.40	2	31.10
0155J	Double deduction - Unit of property	0	0.00	0	0.00	0	0.00
0155N	Amortisation - Exploration expenditure	1	3,435.27	1	78.50	1	80.20
0156D	Amortisation - Exploration expenditure - Mining	0	0.00	0	0.00	0	0.00
0156E	Double deduction - Exploration expenditure - Mining	0	0.00	0	0.00	0	0.00
0158J	Amortisation - Allow able Capital Expenditure	2	622.42	2	746.98	2	22.07
0Ch119	Pioneer industries	0	0.00	0	0.00	1	6.40
0219D	Expenditure for the provision of remote banking services	1	14,243.82	1	6,460.38	1	10,378.65
0	Other	21	13,266.79	27	80,393.85	16	83,598.16
GRAND Total			682,831.22		523,190.48		511,450.46

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	2014		2015		2016 est.	
		Number	Amount	Number	Amount	Number	Amount
073(3)	Depreciation - 20% loading	20	63,844.16	24	16,385.94	19	3,181.26
073(4)	Depreciation - Fuel conservation	0	-	0	-	0	-
073(5)	Depreciation - Non-oil-fired (converted)	9	34,415.90	17	50,827.94	13	60,048.35
073(6)	Depreciation - Non-oil-fired (acquired)	3	3,198.61	4	5,108.86	2	2,321.71
073(7)	Depreciation - Industrial development	17	91,336.76	21	36,906.14	12	29,447.49
073(9)	Depreciation - Primary production	9	7,912.63	11	28,967.45	9	37,964.89
GRAND Total			200,708.05		138,196.33		132,963.70

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 the Stamp Duties Act (Kina)

Schedule 1	Description	2014 Number	Amount	2015 (Est.) Number	Amount	2016 (Est.) Number	amount
Item 5	1st and 2nd Time Home Buyers Exemption	681	4,262,746	406	3,244,774	10	65,728
Item 5	Charities/Educational Bodies Religious Bodies	9	50,394	6	171,371	3	NR
Item 8	Wills	7	138,750	6	90,000	-	0
Item 16A	Transfers of Marketable Securities	0	-	0	-	-	0
Section 6	Purchase of Property by State & Instrumentalities of state	21	2,010,631	10	130,425	-	0
GRAND Total			6,462,521		3,636,570		

Note: NR - No Record of consideration in SIGTAS
Number means number of transactions
- means no exemptions were granted

Source: Internal Revenue Commission

Table 1.5 Summary of Revenue foregone on GST exempt sales, zero rate sales and import deferral schemes (Kina Millions)

	2014		2015		2016		2017 est.	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
GST Exempt Sales (output debit)	230	52.36	499	417.45	462	547.36	369	405.89
GST Zero rated Sales	510	272.53	916	1,643.85	812	1,596.68	623	1,219.90
Deferred import liabilities	0	-	0	-	107	1.98	24	0.60
GST Exempt Sales (input credit)	59	5.01	169	38.45	167	37.91	94	30.61
GRAND Total		329.90		2,099.75		2,183.93		1,657.00

Notes: 1. Revenue forgone is calculated as 1/11th of GST Exempt Sales (output debit) and GST Zero rated sales

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

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

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 Local Level Governments (Kina Thousand)

Province	Personnel Emoluments						Goods and Services													Total Recurrent Grants (a) + (b)	
	Salaries		Leave fares		Allowances		Sub-total PE (a)	Health Function Grant	Education Function Grant	Transport Infrastructure Maintenance Function Grant	Primary Production Function Grant	Village Courts Function Grant	Land Mediation Grant	Other Service Delivery Function Grant	Administration Grant	Total Provincial Government Grants	Urban LLG Grants	Rural LLG Grants	Total LLG Grants		Sub - total G&S (b)
	PS Salaries	Teachers Salaries	PS leave fares	Teachers leave fares	Village Court Allowances	Land Mediation Allowances															
Western	14572996	39547025	2100000	2500000			58,720,021.00	10456.7	7,689.3	11,080.9	3,142.9	387.1	106.3	1,604.0	384.6	34,851.7	699.0	2,629	3,328	38,179.8	58,758,200.76
Gulf	11473435	17077206	300000	600000			29,450,641.00	5750.9	4,522.5	6,459.3	2,202.3	451.4	62.1	1,758.5	1,982.5	23,189.4	134.8	2,512	2,647	25,836.6	29,476,477.58
Central	15186288	52110688	300000	2300000			69,896,976.00	5407.3	5,716.5	9,524.0	1,867.9	330.8	50.6	2,347.8	1,544.2	26,789.1	0.0	1,809	1,809	28,598.0	69,925,573.96
NCD*	0	0	0	0			-												0		-
Milne Bay	8079884	55331509	320000	1000000			64,731,393.00	6319.0	6,666.6	6,374.3	2,236.1	352.7	51.6	3,287.3	1,817.5	27,105.2	271.6	2,161	2,433	29,538.2	64,760,931.16
Oro	11240774	24279142	500000	1100000			37,119,916.00	4591.0	4,042.8	4,124.8	2,032.9	334.8	66.3	1,996.1	1,105.6	18,294.3	674.7	1,537	2,211	20,505.8	37,140,421.77
Southern Highlands	25462343	68116015	370000	750000			94,698,358.00	5154.6	7,672.2	6,060.0	1,446.7	511.7	65.0	2,115.5	1,525.8	24,551.4	642.5	2,211	2,854	27,405.0	94,725,763.02
Hela	9649901	29156279	150000	260000			39,216,180.00	7193.9	5,308.7	5,305.4	2,086.9	534.2	86.4	2,012.5	2,777.6	25,305.4	899.7	1,347	2,246	27,551.9	39,243,731.86
Enga	10100651	66189364	200000	1000000			77,490,015.00	3146.7	4,073.2	6,997.7	800.7	326.6	35.2	1,741.7	1,239.8	18,361.5	224.0	2,336	2,560	20,921.7	77,510,936.71
Western Highlands	14235765	76279542	380000	1050000			91,945,307.00	3047.9	2,489.3	3,509.1	977.4	346.5	46.8	704.0	799.1	11,920.0	752.0	1,679	2,431	14,350.9	91,959,657.90
Jiwaka	11155107	43063317	125000	400000			54,743,424.00	5218.1	7,310.1	11,293.3	1,266.0	388.1	69.2	2,145.7	2,185.8	29,876.1	0.0	1,141	1,141	31,017.6	54,774,441.55
Simbu	19000383	63817353	200000	800000			83,817,736.00	6463.4	9,607.3	10,397.7	1,720.3	647.9	71.6	3,104.2	3,394.3	35,406.6	356.1	1,316	1,673	37,079.1	83,854,815.10
Eastern Highlands	9857458	81087376	700000	1000000			92,644,834.00	7448.3	11,451.2	18,143.7	2,760.5	681.1	89.0	3,669.0	3,090.4	47,333.2	700.1	2,427	3,127	50,459.9	92,695,293.92
Morobe	30567272	125294715	1200000	5000000			162,061,987.00	0.0	-	-	-	-	-	-	-	-	2338.9	4,319	6,658	6,658.4	162,068,645.41
Madang	24629044	85071466	700000	2000000			112,400,510.00	9493.8	9,422.4	12,968.4	3,755.3	585.6	66.6	3,722.5	3,570.5	43,585.2	823.9	3,435	4,259	47,844.2	112,448,354.20
East Sepik	18145667	76529698	1000000	1000000			96,675,365.00	11161.5	12,278.5	19,868.7	3,422.2	796.3	54.8	3,104.0	3,294.7	53,980.7	616.5	3,838	4,454	58,434.8	96,733,799.82
Sandaun	11648662	38625024	700000	1000000			51,973,686.00	9665.4	9,251.8	8,643.3	3,732.5	519.6	74.6	2,414.1	3,868.5	38,169.8	462.7	3,481	3,944	42,113.6	52,015,799.64
Manus	8216171	18409392	500000	500000			27,625,563.00	974.9	999.6	982.2	314.3	116.1	56.3	230.1	99.5	3,773.0	203.4	451	655	4,427.7	27,629,990.74
New Ireland	14115224	31217933	2350000	750000			48,433,157.00	0.0	-	-	-	-	-	-	-	-	383.1	969	1,352	1,352.3	48,434,509.33
East New Britain	19956340	71554921	300000	1200000			93,011,261.00	3111.2	3,066.4	3,211.1	2,154.8	221.9	50.2	737.1	534.4	13,087.2	841.8	2,369	3,211	16,298.0	93,027,559.02
West New Britain	16142245	46447001	1000000	2800000			66,389,246.00	3916.9	4,983.6	3,265.2	1,846.2	275.5	102.8	1,302.6	983.0	16,675.8	525.1	1,480	2,005	18,681.3	66,407,927.27
Bougainville*	28492084	52123683	465000	2400000			83,480,767.00														
TOTAL	331,927,694.00	1,161,328,649.00	13,860,000.00	29,410,000.00	-	-	1,536,526,343.00	108,521.51	116,551.71	148,209.04	37,765.86	7,807.88	1,205.29	37,996.58	34,197.75	492,255.62	11,549.81	43,449.29	54,999.10	547,254.72	1,453,592,830.72

Note:

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

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

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

Village Court and Land Mediation Allowances are now paid through the Alesco payroll system and are budgetted under the Village Court & Land Mediation Secretariat

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

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	58,758,200.8	3,777.7	0.0	15,800.0	982.6	58,778,761.0
Gulf	29,476,477.6	1,651.6	0.0	0.0	785.2	29,478,914.4
Central	69,925,574.0	2,148.4	0.0	0.0	12,521.3	69,940,243.7
NCD*	0.0	248,067.1	5,531.40	0.0	0.0	253,598.5
Milne Bay	64,760,931.2	6,672.7	0.0	0.0	5,172.7	64,772,776.6
Oro	37,140,421.8	3,660.7	0.0	0.0	780.9	37,144,863.4
Southern Highlands	94,725,763.0	6,886.2	0.0	10,599.1	1,015.3	94,744,263.6
Hela	39,243,731.9	876.2	0.0	0.0	0.0	39,244,608.0
Enga	77,510,936.7	2,125.7	0.0	19,585.8	18,715.4	77,551,363.6
Western Highlands	91,959,657.9	28,536.5	391.7	0.0	3,671.9	91,992,258.0
Jiwaka	54,774,441.6	285.6	0.0	0.0	0.0	54,774,727.2
Simbu	83,854,815.1	3,116.7	0.0	0.0	1,531.8	83,859,463.5
Eastern Highlands	92,695,293.9	12,502.0	440.5	0.0	3,247.3	92,711,483.7
Morobe	162,068,645.4	95,318.9	1,130.7	2,621.2	15,428.9	162,183,144.9
Madang	112,448,354.2	12,635.2	825.1	0.0	2,245.2	112,464,059.7
East Sepik	96,733,799.8	8,896.5	0.0	0.0	2,931.6	96,745,628.0
Sandaun	52,015,799.6	3,314.2	0.0	0.0	2,555.4	52,021,669.2
Manus	27,629,990.7	19,236.9	0.0	0.0	743.5	27,649,971.2
New Ireland	48,434,509.3	6,420.8	0.0	52,938.9	1,582.8	48,495,451.8
East New Britain	93,027,559.0	23,907.0	341.3	0.0	14,244.7	93,066,051.9
West New Britain	66,407,927.3	11,420.3	0.0	0.0	5,283.5	66,424,631.1
Bougainville*	0.0	1,919.0	0.0	0.0	0.0	1,919.0
TOTAL	1,453,592,830.7	503,375.7	8,660.7	101,545.0	93,440.1	1,454,299,852.1

Notes

- 1) GST is based on 60% of the 2016 net inland GST collections, to be distributed to each province in 2018
- 2) Bookmakers is 100% of 2016 net collections
- 3) NEFC estimate based on 2016 actual collections which includes dividends from equity shares of mining and petroleum resource projects
- 4) NEFC estimate based on 2016 Actuals
- 5) NEFC does not provide *Own Source Revenue (4)* estimates for NCD and Bougainville as these provinces are not part of Intergovernmental Financing Arrangement

APPENDIX 3: TABLES ON ECONOMIC AND FISCAL DATA

Table 1:	Gross Domestic Product by Economic Activity at Current and Constant Prices
Table 2:	Contributions to Growth in Real Gross Domestic Product
Table 3:	Prices of Main Export Commodities
Table 4:	Volume of Main Export Commodities
Table 5:	Value of Main Export Commodities
Table 6:	Summary of Balance of Payments
Table 7:	Employment Classified by Industry
Table 8:	Monetary Aggregates
Table 9:	Major Assumptions Underlying the Budget
Table 10:	Statement of Operations for the General Government
Table 11:	Statement of Sources and Uses of Cash for the General Government
Table 12:	General Government Revenue by Economic Classification
Table 13A:	General Government Expense by Economic Classification
Table 13B:	General Government Expense by Agency Type and Economic Classification
Table 14:	Transactions in Assets and Liabilities for the General Government
Table 15:	Stocks of General Government Debt
Table 16:	Sovereign Wealth Fund – Stabilisation Fund
Table 17:	Sovereign Wealth Fund – Savings Fund

Government Finance Statistics (GFS)

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

The Government of Papua New Guinea (GoPNG) in the 2013 Budget announced that it would move from the International Monetary Fund (IMF) *GFSM 1986* framework to the *GFSM 2014*.

The *GFSM 2014* framework allows for harmonization with other macroeconomic frameworks, such as the *System of National Accounts (SNA) 2008*, the *Monetary and Financial Statistics Manual* and the IMF's *sixth edition of the Balance of Payments and International Investment Position (BOP)*, the harmonization also allows for cross-country comparisons. The *GFSM 2014* presentation was introduced for the first time in the Volume 1 of the 2016 Budget. It represents a significant modernization and expansion of the coverage of the previously used *GFSM 1986*.

The *GFSM 2014* better defines the public sector and the general government (GG) sector, as it is based on the concept of institutional unit coverage. The GG sector consists of all government units, representing budgetary central government, extra budgetary accounts, provincial government and local government 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.

Changes in the presentation between *GFSM 1986* and *GFSM 2014* are illustrated in the Box below.

The *GFSM 2014* will produce the following two key balances for fiscal analysis:

- a) **The gross operating balance:** 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 a reflection of the total change in net worth of the GG sector due to transactions and is a measure of the sustainability of government's operations.
- b) **Net lending / net borrowing:** The gross operating balance minus the net acquisition of nonfinancial assets gives net lending / net borrowing. Net lending / net borrowing is also equal to net acquisition of financial assets minus net incurrence of liabilities. In essence net lending / net 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 an indicator of the financial impact of government's 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 / net borrowing is like the surplus / deficit under *GFSM 1986*; however, there are two major differences:

- i) Net lending / net borrowing does not include any financing transactions, whereas the overall deficit / surplus included lending for policy purposes; *and*

- ii) net lending / net borrowing is an accrual concept, while the overall deficit / surplus is a cash concept.

The following statements are produced as part of the GFS framework:

- a. Statement of operations-Table 10
- b. Statement of sources and uses of cash-Table 11
- c. Statement of revenue-Table 12
- d. Statement of expense-Tables 13A and 13B
- e. Statement of transactions in assets and liabilities-Table 14
- f. Statement of general government debt stock-Table 15

The **Statement of Operations** presents details of transactions in revenue and expense, as well as the net investment in nonfinancial 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. Except for consumption of fixed capital, in-kind and imputed transactions, and other accounts receivable/payable, all the line items in the Statement of Operations can be applied to both cash and accrual data. In the case the GoPNG a modified cash-basis approach is taken where some accrual-like information is available.

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 nonfinancial 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.

Under the *GFSM 2014* methodology **Revenue** transactions are recorded on a gross basis and in the GoPNG context non-payable infrastructure tax credits, revenue from asset sales, injection from trust accounts and recoveries of previous years are not classified as revenue. Goods and Services Tax collections and bookmakers' license 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 Statement of Expense. Under the *GFSM 2014* methodology, sales of fixed assets are deducted from the total nonfinancial assets to reflect the net investment in nonfinancial assets. New borrowing acquired and received by the Government is regarded as a balance sheet transaction, financial instruments, incurrence of a liability and is therefore recorded as a transaction in assets and liabilities. The *GFSM 2014* includes all in kind related receipts where data is available.

The classification of **Expense** by economic type under *GFSM 2014* is broadly corresponding to the classification in the *GFSM 1986*. The primary exception is that acquisitions of nonfinancial assets are not considered an expense and repayment of borrowing is regarded as a balance sheet, financial instrument, and transactions in assets in liabilities under *GFSM 2014*. Other differences include: consumption of fixed capital (CFC) which is an expense (non-cash item) under *GFSM 2014* and was not included under the *GFSM 1986* framework.

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* includes all in kind related payments where data is available. Table 13A details the General Government Expense Economic Classification. The table provides for a summary of expense per economic classification and Table 13B provides final demand expenditure for the National Government, Provincial Governments, Autonomous Bougainville

Government and Commercial and Statutory Authorities. Local Level Government and District grants will be recorded as grants from National and Provincial Government respectively until such time the GoPNG can consolidate these transactions for presentation purposes in the National Budget.

Classification of Functions of Government (CoFoG) shows the cross-economic functional classification of expenditure for the GG, 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 functions with respective details on each function in GFS. It is an internationally standardised table that allows cross-country comparisons of government priorities.

Box below Illustration of the changes in presentation between the *GFSM 1986* and the *GFSM 2014*

STATEMENT OF OPERATIONS GFSM 1986 PRESENTATION	STATEMENT OF OPERATIONS GFSM 2014 PRESENTATION
<u>TOTAL REVENUE AND GRANTS</u>	<u>REVENUE</u>
Tax and nontax revenue	Tax and nontax revenue
Capital revenue	
Sales of fixed assets, stocks, land, and intangible assets	
Capital transfers from nongovernmental sources	Capital transfers from nongovernmental sources
Grants	Grants
<u>TOTAL EXPENDITURE</u>	<u>EXPENSE</u>
Current expenditure	Current expenditure
Capital expenditure	
Purchases of fixed assets, stocks, land, and intangible assets	Capital transfers
Capital transfers	Net / Gross operating balance
	<u>NET INVESTMENT OF NONFINANCIAL ASSETS (NINFA)</u>
	Purchases of fixed assets, stocks, land, and intangible assets
	Sales of fixed assets, stocks, land, and intangible assets
<u>LENDING <i>minus</i> REPAYMENTS</u>	<u>EXPENDITURE (=EXPENSE+NINFA)</u>
Lending <i>minus</i> repayments (for policy purposes)	<u>NET LENDING / NET BORROWING</u>
<u>(DEFICIT) / SURPLUS</u>	<u>NET ACQUISITION OF FINANCIAL ASSETS</u>
<u>FINANCING</u>	Change in cash, deposits, securities & equity held for liquidity purposes
Change in cash, deposits, securities & equity held for liquidity purposes	Privatization proceeds
Privatization proceeds	Lending <i>minus</i> repayments (for policy purposes)
	<u>NET INCURRENCE OF LIABILITIES</u>
Net Borrowing	Net Borrowing

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

Kina Million

	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Est	2016 Est	2017 Proj	2018 Proj	2019 Proj	2020 Proj	2021 Proj	2022 Proj
Agriculture, Forestry and Fishing																
nominal	5550.0	6358.0	6929.0	7599.0	8187.0	8552.0	9191.0	10106.0	10911.5	12007.5	13078.1	14295.9	15393.3	16620.8	17906.9	19335.2
deflator	74.5	84.2	86.7	92.5	98.8	97.4	100.0	106.4	112.5	119.7	127.1	134.7	140.9	147.3	153.9	160.8
real	7453.0	7553.0	7992.0	8217.0	8287.0	8781.0	9191.0	9494.0	9701.3	10028.9	10291.2	10611.7	10923.8	11284.2	11636.3	12022.4
rate of real growth	-1.1	1.3	5.8	2.8	0.9	6.0	4.7	3.3	2.2	3.4	2.6	3.1	2.9	3.3	3.1	3.3
Oil and Gas Extraction																
nominal	1977.0	2347.0	1094.0	1490.0	1674.0	1399.0	1515.0	6403.0	9800.4	11086.4	11791.4	11981.4	12017.1	12294.5	12490.1	12923.9
deflator	88.3	119.1	66.9	86.9	112.4	95.6	100.0	109.1	86.4	95.4	103.8	107.1	111.1	115.3	118.7	124.2
real	2239.0	1970.0	1636.0	1715.0	1489.0	1463.0	1515.0	5870.0	11349.3	11616.8	11362.4	11183.5	10814.7	10659.7	10525.2	10408.5
rate of real growth	4.0	-12.0	-17.0	4.8	-13.2	-1.7	3.6	287.5	93.3	2.4	-2.2	-1.6	-3.3	-1.4	-1.3	-1.1
Mining and Quarrying																
nominal	5253.0	5607.0	5016.0	6415.0	6281.0	4856.0	4963.0	5179.0	4716.8	5552.9	6945.7	7241.2	7497.6	7391.7	7724.7	8204.1
deflator	101.5	112.4	76.8	100.2	116.3	103.3	100.0	98.8	92.0	96.5	106.3	109.3	110.1	112.5	114.1	115.2
real	5173.0	4989.0	6531.0	6401.0	5399.0	4703.0	4963.0	5241.0	5126.9	5754.7	6536.9	6626.9	6807.1	6567.8	6771.4	7124.6
rate of real growth	0.1	-3.6	30.9	-2.0	-15.7	-12.9	5.5	5.6	-2.2	12.2	13.6	1.4	2.7	-3.5	3.1	5.2
Manufacturing																
nominal	682.0	792.0	830.0	946.0	1070.0	1094.0	1165.0	1216.0	1302.4	1417.2	1545.5	1718.5	1890.3	2077.2	2283.3	2510.1
deflator	68.5	75.9	81.1	86.0	93.0	95.5	100.0	105.2	111.5	119.0	126.0	134.7	142.5	150.5	159.1	168.2
real	995.0	1043.0	1023.0	1100.0	1151.0	1145.0	1165.0	1156.0	1167.6	1190.9	1226.6	1275.7	1326.7	1379.8	1435.0	1492.4
rate of real growth	13.2	4.8	-1.9	7.5	4.6	-0.5	1.7	-0.8	1.0	2.0	3.0	4.0	4.0	4.0	4.0	4.0
Electricity Gas & Airconditioning																
nominal	229.0	255.0	294.0	307.0	348.0	386.0	453.0	497.0	548.7	608.8	670.3	749.0	831.8	922.8	1024.1	1136.7
deflator	68.6	75.9	81.2	86.0	93.0	95.5	100.0	105.2	111.5	119.0	126.0	134.7	142.5	150.5	159.1	168.2
real	334.0	336.0	362.0	357.0	374.0	404.0	453.0	473.0	491.9	511.6	532.1	556.0	583.8	613.0	643.6	675.8
rate of real growth	7.8	0.6	7.7	-1.4	4.8	8.0	12.1	4.4	4.0	4.0	4.0	4.5	5.0	5.0	5.0	5.0
Water Supply & Waste Management																
nominal	44.0	53.0	57.0	61.0	77.0	83.0	96.0	112.0	123.0	136.4	152.4	173.5	197.3	224.1	254.6	289.3
deflator	67.7	75.7	80.3	85.9	92.8	96.5	100.0	105.2	111.5	119.0	126.0	134.7	142.5	150.5	159.1	168.2
real	65.0	70.0	71.0	71.0	83.0	86.0	96.0	106.0	110.2	114.6	121.0	128.8	138.5	148.9	160.0	172.0
rate of real growth	15.6	7.7	1.4	0.0	16.9	3.6	11.6	10.4	4.0	4.0	5.5	6.5	7.5	7.5	7.5	7.5
Construction																
nominal	1591.0	1783.0	2240.0	3635.0	3913.0	4417.0	4473.0	4695.0	4973.5	5390.6	5798.6	6447.9	7092.3	7793.6	8567.0	9417.9
deflator	68.5	75.8	81.1	86.0	93.0	95.6	100.0	105.2	111.5	119.0	126.0	134.7	142.5	150.5	159.1	168.2
real	2324.0	2351.0	2763.0	4230.0	4206.0	4621.0	4473.0	4463.0	4468.5	4529.9	4602.4	4786.4	4977.9	5177.0	5384.1	5595.5
rate of real growth	13.2	1.2	17.5	53.1	-0.6	9.9	-3.2	-0.2	-0.1	1.6	1.6	4.0	4.0	4.0	4.0	4.0
Wholesale and retail trade																
nominal	3173.0	3647.0	3986.0	4326.0	4791.0	5130.0	5543.0	5886.0	6354.7	6847.0	7394.1	8238.0	9061.3	9957.2	10945.4	12032.5
deflator	69.7	77.2	82.6	86.8	91.7	95.4	100.0	105.2	111.5	119.0	126.0	134.7	142.5	150.5	159.1	168.2
real	4551.0	4723.0	4826.0	4984.0	5223.0	5380.0	5543.0	5596.0	5696.7	5753.7	5868.8	6115.3	6359.9	6614.3	6878.8	7154.0
rate of real growth	7.0	3.8	2.2	3.3	4.8	3.0	3.0	1.0	1.8	1.0	2.0	4.2	4.0	4.0	4.0	4.0
Transport and Storage																
nominal	661.0	821.0	843.0	1092.0	1256.0	1314.0	1423.0	1423.0	1397.2	1436.6	1488.8	1687.9	1808.5	1955.3	2086.7	2226.8
deflator	76.8	80.7	83.5	88.3	94.6	98.7	100.0	106.4	102.5	104.3	106.0	113.1	116.5	121.2	124.3	127.6
real	861.0	1017.0	1009.0	1237.0	1327.0	1331.0	1423.0	1337.0	1363.7	1377.4	1404.9	1492.0	1551.7	1613.8	1678.3	1745.5
rate of real growth	0.1	18.1	-0.8	22.6	7.3	0.3	6.9	-6.0	2.0	1.0	2.0	6.2	4.0	4.0	4.0	4.0
Accommodation and Food Services																
nominal	590.0	650.0	671.0	721.0	810.0	879.0	949.0	1002.0	1065.1	1142.0	1233.2	1388.5	1512.6	1646.1	1792.1	1951.1
deflator	69.6	77.0	82.5	86.8	91.8	95.3	100.0	105.2	111.5	119.0	126.0	134.7	142.5	150.5	159.1	168.2
real	833.0	844.0	813.0	831.0	882.0	922.0	949.0	952.0	954.9	959.6	978.8	1030.7	1061.6	1093.5	1126.3	1160.1
rate of real growth	7.6	1.3	-3.7	2.2	6.1	4.5	2.9	0.3	0.3	0.5	2.0	5.3	3.0	3.0	3.0	3.0
Information and Communication																
nominal	249.0	389.0	550.0	662.0	714.0	730.0	774.0	966.0	1065.0	1181.6	1282.3	1442.3	1586.4	1743.3	1916.3	2106.6
deflator	68.4	75.8	80.9	85.9	93.1	95.5	100.0	105.2	111.5	119.0	126.0	134.7	142.5	150.5	159.1	168.2
real	364.0	513.0	680.0	771.0	767.0	764.0	774.0	918.0	954.7	992.9	1017.7	1070.7	1113.5	1158.0	1204.3	1252.5
rate of real growth	5.7	40.9	32.6	13.4	-0.5	-0.4	1.3	18.6	4.0	4.0	2.5	5.2	4.0	4.0	4.0	4.0
Financial and Insurance Activities																
nominal	879.0	927.0	969.0	1389.0	1648.0	1999.0	2340.0	2073.0	1813.9	1702.8	1750.6	1948.5	2143.2	2355.1	2588.9	2846.0
deflator	68.6	76.0	81.2	86.0	92.9	95.6	100.0	105.2	111.5	119.0	126.0	134.7	142.5	150.5	159.1	168.2
real	1282.0	1220.0	1193.0	1615.0	1773.0	2092.0	2340.0	1971.0	1626.1	1430.9	1389.4	1446.4	1504.3	1564.4	1627.0	1692.1
rate of real growth	32.5	-4.8	-2.2	35.4	9.8	16.0	11.9	-15.8	-17.5	-12.0	-2.9	4.1	4.0	4.0	4.0	4.0
Real Estate Activities																
nominal	1683.0	1948.0	2111.0	2356.0	2571.0	2753.0	3057.0	3307.0	3594.8	3873.3	4182.8	4606.5	5018.2	5461.3	5945.6	6473.2
deflator	70.1	77.6	83.0	87.0	91.4	95.3	100.0	105.2	111.5	119.0	126.0	134.7	142.5	150.5	159.1	168.2
real	2402.0	2511.0	2543.0	2709.0	2812.0	2889.0	3057.0	3144.0	3222.6	3254.8	3319.9	3419.5	3522.1	3627.8	3736.5	3848.7
rate of real growth	4.8	4.5	1.3	6.5	3.8	2.7	5.8	2.8	2.5	1.0	2.0	3.0	3.0	3.0	3.0	3.0
Professional and Scientific																
nominal	227.0	262.0	268.0	400.0	790.0	853.0	863.0	835.0	850.3	906.9	981.5	1080.9	1177.5	1281.5	1395.2	1519.0
deflator	68.4	75.7	81.2	85.8	93.1	95.6	100.0	105.2	111.5	119.0	126.0	134.7	142.5	150.5	159.1	168.2
real	332.0	346.0	330.0	466.0	849.0	892.0	863.0	794.0	762.2	763.8	779.0	802.4	826.5	851.3	876.8	903.1
rate of real growth	15.2	4.2	-4.6	41.2	82.2	5.1	-3.3	-8.0	-4.0	0.2	2.0	3.0	3.0	3.0	3.0	3.0
Administrative and Support Services																
nominal	1814.0	2031.0	2139.0	2735.0	3398.0	3888.0	3949.0	4166.0	4430.6	4740.8	5119.6	5829.8	6474.1	7114.2	7745.1	8432.4
deflator	68.6	76.0	81.2	86.0	92.9	95.6	100.0	105.2	111.5	119.0	126.0	134.7	142.5	150.5	159.1	168.2
real	2645.0	2674.0	2633.0	3179.0	3657.0	4069.0	3949.0	3960.0	3971.9	3983.8	4063.5	4327.6	4544.0	4725.7	4867.5	5013.5
rate of real growth	20.9	1.1	-1.5	20.7	15.0	11.3	-2.9	0.3	0.3	0.3	2.0	6.5	5.0	4.0	3.0	3.0
Public Administration and Defence																
nominal	1405.0	1285.0	1442.0	1686.0	1953.0	2003.0	2334.0	2737.0	2985.6	3312.4	3612.2	3978.1	4333.6	4716.3	5134.5	5590.1
rate of real growth	21.1	-12.7	9.0	13.3	5.4	-1.3	8.5	9.2	5.0	4.0	3.0	3.0	3.0	3.0	3.0	3.0
Education																
nominal	726.0	702.0	776.0	799.0	994.											

Table 2: Contributions to Growth in Real Gross Domestic Product (Percentage points)

	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Est	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Est	2017 Proj	2018 Proj	2019 Proj	2020 Proj	2021 Proj	2022 Proj
Agriculture, Forestry and Fishing	0.2	0.3	1.2	0.6	0.2	1.1	0.9	0.6	0.4	0.6	0.4	0.5	0.5	0.6	0.5	0.6
Oil and Gas Extraction	0.3	-0.7	-0.9	0.2	-0.5	-0.1	0.1	9.1	10.2	0.5	-0.4	-0.3	-0.6	-0.2	-0.2	-0.2
Mining and Quarrying	0.0	-0.5	4.2	-0.3	-2.3	-1.6	0.6	0.6	-0.2	1.1	1.3	0.1	0.3	-0.4	0.3	0.5
Manufacturing	0.3	0.1	-0.1	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Electricity Gas & Airconditioning	0.1	0.0	0.1	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Water Supply & Waste Management	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Construction	0.8	0.1	1.1	3.7	-0.1	0.9	-0.3	0.0	0.0	0.1	0.1	0.3	0.3	0.3	0.3	0.3
Wholesale and retail trade	0.9	0.5	0.3	0.4	0.6	0.4	0.4	0.1	0.2	0.1	0.2	0.4	0.4	0.4	0.4	0.4
Transport and Storage	0.0	0.4	0.0	0.6	0.2	0.0	0.2	-0.2	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Accommodation and Food Services	0.2	0.0	-0.1	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Information and Communication	0.1	0.4	0.5	0.2	0.0	0.0	0.0	0.3	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1
Financial and Insurance Activities	0.9	-0.2	-0.1	1.1	0.4	0.7	0.5	-0.8	-0.6	-0.3	-0.1	0.1	0.1	0.1	0.1	0.1
Real Estate Activities	0.3	0.3	0.1	0.4	0.2	0.2	0.4	0.2	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Professional and Scientific	0.1	0.0	0.0	0.3	0.9	0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Administrative and Support Services	1.3	0.1	-0.1	1.4	1.1	0.9	-0.3	0.0	0.0	0.0	0.1	0.4	0.3	0.3	0.2	0.2
Public Administration and Defence	1.0	-0.7	0.4	0.6	0.3	-0.1	0.4	0.5	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Education	0.6	-0.2	0.2	0.0	0.3	0.2	0.4	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Health and Social Work Activities	0.4	0.0	0.1	0.2	0.1	0.2	0.1	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Other Service Activities	0.1	0.0	0.0	0.3	0.2	0.2	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL GDP*	8.4	-0.3	6.8	10.1	1.1	4.6	3.8	12.5	10.5	2.0	2.2	2.4	2.2	2.0	2.5	2.8
Total Non-mining GDP	10.4	1.2	4.4	12.9	4.8	7.5	3.6	3.3	0.7	0.7	1.9	3.5	3.5	3.6	3.3	3.3

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

Source: Actual National Statistical data up to 2014. Estimates and projections-Department of Treasury

Table 3: Prices of Main Export Commodities

	2014 Actual	2015 Actual	2016 Est	2017 Proj	2018 Proj	2019 Proj	2020 Proj	2021 Proj	2022 Proj
AGRICULTURE									
Copra	1322	1339	1595	1621	1629	1629	1629	1629	1629
Cocoa	7156	8260	9358	6451	6223	6465	6465	6465	6465
Coffee	9327	9220	9358	11004	11160	11686	12147	12147	12147
Palm Oil	2111	1720	1953	2008	1958	1965	1965	1965	1965
Rubber	4287	3534	3625	4999	5072	5123	5072	5072	5072
Tea	4021	3939	4406	5613	5720	5720	5693	5693	5693
Copra Oil	2586	2690	3504	5351	5457	5539	5539	5539	5539
Logs (K/m ³)	250	269	294	288	291	291	291	291	291
MINERALS									
Gold (US\$/oz)	1266	1160	1248	1254	1281	1293	1310	1320	1346
Copper (US\$/ton)	6864	5502	4865	5945	5960	6059	6183	6272	6357
Oil (Kutubu Crude: US\$/barrel)	93	49.0	44	50	51	52	54	55	57
LNG (US\$ per thousand cubic feet)	12.3	7.9	7.6	8.0	8.1	8.4	8.7	8.9	9.2
Nickel (US\$/tonne)	16847	11831	9595	10010	10516	11065	11819	12575	13757
Cobalt (US\$/tonne)	30724	29255	25639	52194	50014	44238	41813	40834	34728

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

Table 4: Volume of Main Export Commodities

	2014 Actual	2015 Actual	2016 Est	2017 Proj	2018 Proj	2019 Proj	2020 Proj	2021 Proj	2022 Proj
AGRICULTURE									
Copra	48.2	33.6	43.5	43.3	42.5	41.5	42.7	42.5	42.3
Cocoa	33.6	30.9	35.6	36.2	43.5	52.4	62.9	75.8	91.0
Coffee	48.4	42.8	60.5	48.6	58.7	52.6	53.5	52.6	53.5
Palm Oil	514.8	486.9	540.7	579.9	660.3	678.3	710.9	725.1	744.7
Rubber	3.2	2.2	2.4	2.4	2.3	2.3	2.3	2.3	2.3
Tea	2.1	1.3	0.9	0.4	0.4	0.4	0.4	0.4	0.4
Copra Oil	11.1	14.6	17.9	20.9	17.1	18.6	18.6	18.8	18.3
Logs	3800.2	3869.3	3605.9	3000.2	3010.1	3020.1	3020.1	3020.1	3020.1
Marine products	75.4	77.7	80.0	82.4	84.9	87.4	90.1	92.8	95.6
MINERAL									
Gold (tonnes)	58.1	53.5	56.3	57.2	59.2	60.0	57.6	58.9	57.0
Silver (tonnes)			19.08	31.98	36.31	38.64	38.64	38.64	38.64
Copper (tonnes)	89.6	46.4	71.0	98.9	91.5	97.8	88.9	97.2	137.5
Oil (million barrels)	8.2	7.0	9.2	8.5	7.5	6.4	5.6	4.8	4.2
LNG (Tbtu)	187.0	377.8	389.1	383.6	383.6	375.0	375.0	375.0	375.0
Condensate (MB)	6.4	10.4	11.0	11.0	11.0	11.0	11.0	11.0	11.0
Nickle (tonnes)	20,744.8	21,568.3	24,215.4	35,500.0	33,000.0	33,000.0	33,000.0	33,000.0	33,000.0
Cobalt (tonnes)	2113.33	2090.2	2377.7	3460.0	3300.0	3300.0	3300.0	3300.0	3300.0

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	2021	2022
	Actual	Actual	Est	Proj	Proj	Proj	Proj	Proj	Proj
AGRICULTURE, FORESTRY, FISHERIES									
Copra	63.7	45.0	69.4	70.2	69.2	67.6	69.6	69.2	68.9
Copra Oil	28.7	39.2	56.6	111.8	93.2	102.9	103.1	104.1	101.2
Cocoa	243.1	255.7	246.0	233.5	270.8	338.9	406.8	490.1	588.4
Coffee	450.3	393.5	571.4	534.7	655.4	614.1	649.4	638.3	649.4
Palm Oil	1086.4	837.6	1014.7	1164.4	1293.0	1333.0	1397.1	1425.1	1463.6
Rubber	13.8	7.9	8.0	12.0	11.8	11.9	11.8	11.8	11.8
Tea	8.4	4.9	3.8	2.1	2.2	2.3	2.2	2.2	2.2
Other Agriculture (a)	325.4	243.2	294.2	264.8	266.7	274.7	283.3	292.0	301.4
Forest Products	950.3	1040.1	964.3	864.9	876.5	879.5	877.8	877.8	877.8
Marine Products	354.9	496.9	573.1	438.2	482.5	525.7	572.1	622.8	678.1
Total Agricultural, Forestry, Fishing Exports	3525.0	3364.0	3801.5	3696.7	4021.4	4150.6	4373.2	4533.6	4742.8
MINERAL									
Gold	5462.5	5376.5	6606.5	7347.3	7803.5	7982.2	7768.1	7999.4	7893.3
Copper	1510.7	746.5	1114.9	1818.6	1694.1	1840.9	1708.4	1895.1	2717.1
Silver	83.3	61.2	32.8	57.5	67.3	72.4	73.5	75.3	77.1
Oil	2086.0	1003.4	1209.1	1294.8	1182.5	1030.7	924.4	817.4	732.7
LNG	5641.4	8206.6	9314.9	9770.9	9993.4	10091.5	10395.4	10639.4	11090.7
Condensate	1452.0	1412.5	1503.6	1741.6	1797.1	1842.0	1904.0	1940.2	2004.3
Nickel	883.2	695.1	728.3	1132.0	1110.5	1168.5	1248.0	1327.9	1452.7
Cobalt	112.1	164.6	191.1	575.3	528.1	467.2	441.5	431.2	366.7
Refined Petroleum Products	871.5	541.3	862.5	1019.0	1072.5	1121.3	1182.2	1228.8	1294.8
Total Mineral Exports	18102.7	18207.8	21563.6	24757.0	25249.0	25616.6	25645.6	26354.7	27629.5
TOTAL EXPORT VALUE	21627.7	21571.8	25365.1	28453.7	29270.4	29767.2	30018.7	30888.3	32372.3

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

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

Table 6: Summary of Balance of Payments

Kina Million

	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Proj	2018 Proj	2019 Proj	2020 Proj	2021 Proj	2022 Proj
CURRENT ACCOUNT BALANCE	550.0	2145.0	-1611.0	-1721.0	-407.0	-4792.7	-7745.0	5963.0	12152.0	16790.0	20322.7	20820.5	21172.0	21344.1	21952.7	23002.7
Trade Balance	1942.0	3449.0	-367.0	-627.0	319.0	-3519.6	-6594.0	6669.0	12952.5	16653.5	20010.8	20536.3	20908.0	21105.0	21740.4	22824.2
<i>Goods Balance</i>	6282.0	7196.0	4192.0	6026.0	6343.0	3263.2	1195.0	11780.0	16238.9	19096.4	22369.4	22957.3	23340.8	23525.0	24202.0	25376.2
Credit (Exports)	14079	15675	12101	15623	16396	13196	13357	21646	23323	24829	28454	29270	29767	30019	30888	32372
Debit (Imports)	-7797	-8479	-7909	-9597	-10053	-9932	-12162	-9866	-7084	-5732	-6084	-6313	-6426	-6494	-6686	-6996
<i>Services Balance</i>	-4340.0	-3747.0	-4559.0	-6653.0	-6024.0	-6782.8	-7789.0	-5111.0	-3286.4	-2442.9	-2358.7	-2421.0	-2432.8	-2420.0	-2461.6	-2552.1
Services Credit	1069	980	511	844	1006	994	937	515	404	519	393	434	474	517	563	612
Services Debit	-5409	-4727	-5070	-7497	-7030	-7777	-8726	-5626	-3691	-2962	-2752	-2855	-2907	-2937	-3024	-3164
Income Balance	-2134.0	-1740.0	-1721.0	-1610.0	-1305.0	-1520.1	-1448.0	-988.0	-1095.3	-660.5	-689.5	-765.3	-838.0	-917.7	-1001.5	-1093.1
Income Credit	310	230	128	114	95	93	87	41	27	11	35	35	35	35	35	35
Income Debit	-2444	-1970	-1849	-1724	-1400	-1613	-1535	-1029	-1122	-671	-724	-800	-873	-953	-1036	-1128
Transfers Balance	742.0	436.0	477.0	516.0	579.0	247.0	297.0	282.0	294.8	797.1	1001.4	1049.5	1102.0	1156.8	1213.8	1271.6
Transfers Credit	1219	1060	1046	1192	1368	1153	1203	1131	1047	1216	1454	1523	1596	1673	1753	1837
Transfers Debit	-477	-624	-569	-676	-789	-906	-906	-849	-752	-419	-452	-474	-494	-516	-539	-565
CAPITAL AND FINANCIAL ACCOUNT^(a)	1001	-2796	3294	3035	1599	3971	6190	-6794	-12831	-16776	-20323	-20820	-21172	-21344	-21953	-23003
NET ERRORS AND OMISSIONS	41.0	53.0	42.0	0.0	0.0	0.0	1555.0	831.0	678.7	-13.7	0.0	0.0	0.0	0.0	0.0	0.0
Current account balance as percentage of Gross Domestic Product (GDP)	1.9	6.8	-5.0	-4.4	-1.0	-10.8	-16.2	10.5	19.6	24.8	27.5	26.0	24.6	23.2	22.2	21.5

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

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

Table 7: Employment Classified by Industry

Index March 2002=100

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	Annual	Annual	Annual	Annual	Annual	Annual	Annual	Annual	Annual	Annual	Jun Qtr*
Retail	115.1	123.6	125.7	129.4	135.2	153.8	167.9	162.4	159.6	148.6	140.9
Wholesale	158.0	160.8	167.2	172.6	192.2	197.6	217.1	215.4	207.5	204.0	197.1
Manufacturing	142.4	156.6	166.0	163.7	176.6	185.2	198.7	188.3	180.2	178.4	175.2
Building and Construction	135.4	163.2	173.7	187.5	172.0	188.0	213.7	266.6	262.5	242.3	193.9
Transportation	115.2	125.2	126.5	122.0	150.8	165.2	177.0	174.4	172.7	172.4	166.8
Agriculture, Forestry, Fisheries	139.1	147.3	153.4	156.5	168.9	173.7	168.3	170.4	168.1	165.2	165.6
Financial and Business	114.4	122.7	132.9	132.5	136.3	139.9	133.6	124.4	123.7	119.6	121.4
TOTAL NON-MINERAL	131.1	141.9	148.6	149.6	159.4	168.2	172.2	170.9	169.7	166.1	158.6
MINERAL	128.5	137.8	141.8	150.7	163.6	177.7	266.1	240.1	241.2	262.2	278.6

Source: BPNG.

* June Quarter Preliminaries

Table 8: Monetary Aggregates

Kina Million											
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Jun Qtr*
Domestic Credit	4220.5	4681.6	6665.30	7169.4	7703.8	8833.6	10103.8	11724.1	13054.7	13920.3	13692.7
% Change	5.5	10.9	42.4	7.6	7.5	14.7	14.4	16.0	11.3	6.6	-1.6
Net Credit to Central Government	171.1	-538.6	574.1	-202.8	-1076.8	297.0	2755.5	4163.8	5345.3	9008.7	9239.3
% Change	-82.2	-414.8	-206.6	-135.3	431.0	-127.6	827.8	51.1	28.4	68.5	2.6
Credit to Private Sector	3961.2	5068.8	5901.8	6945.4	7519.0	8434.3	9910.6	10263.9	10611.9	11379.1	10922.1
% Change	34.3	28.0	16.4	17.7	8.3	12.2	17.5	3.6	3.4	7.2	-4.0
Money Supply	8994.9	9636.8	11822.6	13175.7	15292.2	16966.8	18105.6	18716.3	20218.6	22417.1	22645.3
% Change	27.8	7.1	22.7	11.4	16.1	11.0	6.7	3.4	8.0	10.9	1.0
Money Velocity (M3*) (average)	3.1	3.3	2.7	2.9	2.8	2.6	2.6	3.0	3.1	3.0	3.3

Source: BPNG

*June Quarter Preliminaries

Table 9: Major Assumptions Underlying the Budget

	2014 Actual	2015 Actual	2016 Actual	2017 Proj	2018 Proj	2019 Proj	2020 Proj	2021 Proj	2022 Proj
Economic Growth									
Total Real GDP (%)	12.5	10.5	2.0	2.2	2.4	2.2	2.0	2.5	2.8
Non-mining Real GDP (%)	3.3	0.7	0.7	1.9	3.5	3.5	3.6	3.3	3.3
Inflation									
Average on Average (%)	5.2	6.0	6.7	5.9	6.9	5.8	5.7	5.7	5.7
Dec on Dec (%)	6.6	6.4	6.6	5.9	6.9	5.1	5.7	5.7	5.7
Exchange rate									
Real Exchange Rate Index (2007 = 100)	153.2	141.0	129.4	131.5	136.5	140.8	145.2	149.7	154.4
Interest rate									
Kina Rate Facility (KFR)	6.25	6.25	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	9.7	9.70
Mineral Prices									
Gold (US\$/oz)	1266	1160	1248	1254	1281	1293	1310	1320	1346
Copper (US\$/ton)	6864	5502	4865	5945	5960	6059	6183	6272	6357
Oil (Kutubu Crude: US\$/barrel)	93	49	44	50	51	52	54	55	57
LNG (US\$ per thousand cubic feet)	12	8	8	8	8	8	9	9	9
Condensate (US\$/barrel)	93	49	44	50	51	52	54	55	57
Nickel (US\$/tonne)	16847	11831	9595	10010	10516	11065	11819	12575	13757
Cobalt (US\$/tonne)	30724	29255	25639	52194	50014	44238	41813	40834	34728

Source: Department of Treasury.

Table 10: Statement of Operations for General Government

Kina Million	Actuals		Est.	Projections				
	2015	2016	2017 Sup. Budget	2018 Budget	2019	2020	2021	2022
TRANSACTIONS AFFECTING NET WORTH:								
Revenue	11,003.1	10,485.5	10,979.2	12,730.7	12,582.6	13,551.6	14,665.9	15,876.0
Taxes	9,157.6	8,421.6	8,869.3	9,639.4	10,565.5	11,511.4	12,568.1	13,719.8
<i>Taxes on Income, profits, and capital gains</i>	5,894.2	5,286.2	5,534.8	5,564.9	6,150.9	6,723.0	7,368.9	8,070.2
<i>Taxes on payroll and workforce</i>	18.0	14.4	11.7	0.0	0.0	0.0	0.0	0.0
<i>Taxes on goods and services</i>	2,680.2	2,584.1	2,754.6	3,448.3	3,761.6	4,105.8	4,484.6	4,899.6
<i>Taxes on international trade and transactions</i>	565.2	536.8	568.2	626.1	653.0	682.5	714.6	750.1
Grants	819.5	1,430.1	968.1	1,024.6	943.1	932.1	932.1	932.1
Other Revenue	1,026.0	633.9	1,141.8	2,066.7	1,074.0	1,108.2	1,165.7	1,224.1
Resource Revenue	651.8	392.5	754.2	679.1	663.7	731.9	847.0	963.6
<i>Mining and Petroleum Taxes</i>	195.4	92.0	77.1	89.5	181.8	215.9	273.4	331.7
<i>Mining, Petroleum and Gas Dividends (KPH)</i>	456.4	300.5	600.0	500.0	300.0	300.0	300.0	300.0
<i>Grants Stabilization Fund (SWF)</i>	0.0	0.0	77.1	89.5	181.9	216.0	273.6	331.9
<i>Revenue as percentage of GDP</i>	17.7%	15.5%	14.8%	15.9%	14.6%	14.7%	14.8%	14.8%
Expenditure	13,788.8	13,572.5	12,855.6	14,717.9	14,480.1	15,227.3	16,074.3	17,137.2
Expense²	11,740.5	12,157.1	11,634.6	13,183.8	12,840.3	13,324.7	13,905.8	14,634.5
Compensation of employees	3,993.3	4,463.4	4,278.0	4,137.3	4,266.2	4,397.2	4,532.1	4,671.1
Use of goods and services	3,605.5	4,102.6	3,994.8	4,517.1	4,176.8	4,344.6	4,581.6	4,870.6
Interest	1,069.9	1,248.1	1,515.6	1,801.5	1,947.4	2,040.8	2,070.5	2,251.8
Grants	2,924.0	1,897.0	1,427.6	2,248.8	1,951.5	1,975.6	2,070.1	2,100.6
Social benefits	0.0	0.0	0.0	61.4	59.5	61.5	63.5	66.6
Other expense	147.8	446.1	418.6	417.6	438.9	505.0	587.9	673.8
Net Acquisition of Non-Financial Assets*	2,048.4	1,415.3	1,220.9	1,534.1	1,639.8	1,902.6	2,168.5	2,502.8
Fixed Assets	2,048.4	1,415.3	1,220.9	1,534.1	1,639.8	1,902.6	2,168.5	2,502.8
<i>Expense as percentage of GDP</i>	18.9%	17.9%	15.7%	16.5%	14.9%	14.5%	14.0%	13.7%
Gross Operating Balance	-737.4	-1,671.6	-655.4	-453.1	-257.7	226.9	760.2	1,241.5
Net Lending (+) / Net Borrowing (-)	-2,785.7	-3,086.9	-1,876.4	-1,987.2	-1,897.4	-1,675.7	-1,408.4	-1,261.3
<i>Net lending/borrowing as percentage of GDP</i>	-4.5%	-4.6%	-2.5%	-2.5%	-2.2%	-1.8%	-1.4%	-1.2%
Primary Balance	-1,715.8	-1,838.8	-360.7	-185.7	50.0	365.1	662.2	990.5
Non-resource net lending (+)/borrowing (-)	-3,437.5	-3,479.4	-2,630.6	-2,666.2	-2,561.1	-2,407.6	-2,255.4	-2,224.9
Non-resource primary balance	-2,367.6	-2,231.3	-1,115.0	-864.7	-613.7	-366.8	-184.8	26.9
Net Financial Transactions	3,012.4	3,086.9	1,876.4	1,987.2	1,897.5	1,675.8	1,408.5	1,261.4
Net Acquisition of Financial Assets	-410.6	857.0	-	-	-	-	-	-
Domestic	-410.6	857.0	-	-	-	-	-	-
External	-	-	-	-	-	-	-	-
Net Incurrence of Liabilities	2,601.8	3,943.9	1,876.4	1,987.2	1,897.5	1,675.8	1,408.5	1,261.4
Domestic	2,080.8	2,495.0	912.5	373.8	200.6	454.7	816.2	862.1
<i>Treasury Bills</i>	1,075.5	1,934.2	694.8	30.2	-108.0	156.0	87.7	-61.3
<i>Treasury Bonds</i>	1,005.3	560.8	217.7	343.6	308.6	298.7	728.5	923.4
External	521.0	1,448.9	963.9	1,613.4	1,696.9	1,221.1	592.3	399.3
<i>Debt securities</i>	0.0	0.0	0.0	640.0	640.0	320.0	0.0	-640.0
<i>Loans</i>	521.0	1,448.9	963.9	973.4	1,056.9	901.1	592.3	1,039.3
Government Deposits								
Gross Government debt	18,000.1	21,944.0	23,820.4	25,807.6	27,705.1	29,380.9	30,789.4	32,050.8
Domestic	13,942.0	16,436.9	17,349.4	17,723.2	17,923.8	18,378.5	19,194.6	20,056.7
<i>Treasury bills</i>	6,729.4	8,663.5	9,358.3	9,388.5	9,280.5	9,436.5	9,524.2	9,463.0
<i>Treasury bonds</i>	7,212.6	7,773.4	7,991.1	8,334.7	8,643.3	8,942.0	9,670.4	10,593.8
External	4,058.1	5,507.1	6,471.0	8,084.4	9,781.3	11,002.4	11,594.7	11,994.1
<i>Debt securities</i>	0.0	0.0	0.0	640.0	1,280.0	1,600.0	1,600.0	960.0
<i>Loans</i>	4,058.1	5,507.1	6,471.0	7,444.4	8,501.3	9,402.4	9,994.7	11,034.1
Net Change in Stock of Debt	3,012.4	3,943.9	1,876.4	1,987.2	1,897.5	1,675.8	1,408.5	1,261.4
Gross Domestic Product³	62,157.8	67,762.2	74,225.0	80,113.4	85,938.9	92,175.7	99,080.2	106,957.4

Source: Department of Treasury

1. General 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).

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

*Net Acquisition of Non-Financial Assets as per GFS classification excludes operational component of capital projects. These are captured under Use of Goods & Services & Grants

Table 11: Statement of Sources and Uses of Cash

Kina Million	Actuals		Est.	Projections				
	2015	2016	2017 Supp. Budget	2018 Budget	2019	2020	2021	2022
CASH FLOWS FROM OPERATING ACTIVITIES								
Revenue Cash Flows	10,202.7	9,055.4	10,011.1	9,603.1	11,706.1	11,648.1	12,628.7	13,743.0
Taxes	9,157.6	8,421.6	8,869.3	8,547.6	9,639.4	10,565.5	11,511.4	12,568.1
Grants	19.2	0.0	0.0	0.0	0.0	8.6	9.1	9.1
Other Revenue	1,026.0	633.9	1,141.8	1,055.5	2,066.7	1,074.0	1,108.2	1,165.7
<i>Revenue as percentage of GDP</i>	<i>16.4%</i>	<i>13.4%</i>	<i>13.5%</i>	<i>12.0%</i>	<i>13.6%</i>	<i>12.6%</i>	<i>12.7%</i>	<i>12.8%</i>
Expense cash flows²	10,841.2	10,607.2	10,558.2	11,975.7	11,728.1	12,218.1	12,793.0	13,512.5
Compensation of employees	3,894.3	4,343.5	4,169.6	4,015.2	4,148.0	4,275.0	4,405.8	4,538.6
Uses of goods and services	3,605.5	4,102.6	3,994.8	4,517.1	4,176.8	4,344.6	4,581.6	4,870.6
Interest	1,069.9	1,248.1	1,515.6	1,801.5	1,947.4	2,040.8	2,070.5	2,251.8
Grants	2,123.6	466.9	459.5	1,224.2	1,017.0	1,052.7	1,147.2	1,177.6
Other payments	147.8	446.1	418.6	417.6	438.9	505.0	587.9	673.8
<i>Expense as percentage of GDP</i>	<i>17.4%</i>	<i>15.7%</i>	<i>14.2%</i>	<i>14.9%</i>	<i>13.6%</i>	<i>13.3%</i>	<i>12.9%</i>	<i>12.6%</i>
Net cash inflow from operating activities	-638.4	-1,551.7	-547.1	-2,372.6	-22.0	-570.0	-164.2	230.6
CASH FLOWS FROM TRANSACTIONS IN NONFINANCIAL ASSETS:								
Net cash outflow from investment in nonfinancial assets	2,048.4	1,415.3	1,220.9	1,534.1	1,639.8	1,902.6	2,168.5	2,502.8
Fixed assets	2,048.4	1,415.3	1,220.9	1,534.1	1,639.8	1,902.6	2,168.5	2,502.8
Expenditure cash flows	12,889.5	12,022.5	11,779.1	13,509.8	13,367.8	14,120.7	14,961.5	16,015.2
Cash surplus (+) / Cash deficit (-)	-2,686.5	-2,967.1	-1,768.0	-3,906.6	-1,661.7	-2,472.6	-2,332.8	-2,272.2
<i>Surplus/Deficit as percentage of GDP</i>	<i>-4.3%</i>	<i>-4.4%</i>	<i>-2.4%</i>	<i>-4.9%</i>	<i>-1.9%</i>	<i>-2.7%</i>	<i>-2.4%</i>	<i>-2.1%</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	2,601.8	3,943.9	1,876.4	1,987.2	1,897.5	1,675.8	1,408.5	1,261.4
Domestic	2,080.8	2,495.0	912.5	373.8	200.6	454.7	816.2	862.1
External	521.0	1,448.9	963.9	1,613.4	1,696.9	1,221.1	592.3	399.3
Net cash inflow from financing activities	2,601.8	3,943.9	1,876.4	1,987.2	1,897.5	1,675.8	1,408.5	1,261.4
<i>Net cash inflow as percentage of GDP</i>	<i>4.2%</i>	<i>5.8%</i>	<i>2.5%</i>	<i>2.5%</i>	<i>2.2%</i>	<i>1.8%</i>	<i>1.4%</i>	<i>1.2%</i>
Net change in the stock of cash	-84.7	976.8	108.4	-1,919.5	235.8	-796.8	-924.3	-1,010.8
Gross Domestic Product	62,157.8	67,762.2	74,225.0	80,113.4	85,938.9	92,175.7	99,080.2	106,957.4

Source: Department of Treasury

1. General government representing National, Provincial and Local Level Governments, Autonomous
2. Include items that may require reclassification due to interfaces from the legacy systems, (The Provincial Government Accounting System, ALESCO payroll and the Department of Public Works and Implementation, Oracle system).
3. Total nominal GDP by economic activity, Actual: *National Statistics Office* and Projections: *Treasury*
4. Excludes in kind in Compensation of Employees and Donor Grants

Table 12: General Government Revenue by Economic Classification

Kina Million	Actuals		Est.	Projections				
	2015	2016	2017 Supp. Budget	2018 Budget	2019	2020	2021	2022
REVENUE¹	11,003.1	10,485.5	10,979.2	12,730.7	12,582.6	13,551.6	14,665.9	15,876.0
TAXES	9,157.6	8,421.6	8,869.3	9,639.4	10,565.5	11,511.4	12,568.1	13,719.8
Taxes on Income, Profits and Capital Gains	5,894.2	5,286.2	5,534.8	5,564.9	6,150.9	6,723.0	7,368.9	8,070.2
Payable by individuals	3,037.1	2,844.3	3,035.7	3,250.2	3,545.2	3,870.1	4,227.5	4,617.0
Personal Income Tax	3,037.1	2,844.3	3,035.7	3,250.2	3,545.2	3,870.1	4,227.5	4,617.0
Payable by corporations and other enterprises	2,621.6	2,230.1	2,267.2	2,092.9	2,367.3	2,600.8	2,874.3	3,169.5
Company Tax	2,374.8	2,093.8	2,143.6	1,971.5	2,150.6	2,346.9	2,559.3	2,792.3
Mining and Petroleum Taxes	195.4	92.0	77.1	89.5	181.8	215.9	273.4	331.7
Royalties Tax	30.8	26.6	27.3	18.9	20.6	22.5	24.6	26.9
Management Tax	20.5	17.7	19.2	13.0	14.2	15.5	16.9	18.5
Other taxes on income, profits and capital gains	235.6	211.8	231.9	221.8	238.4	252.1	267.1	283.7
Dividend Withholding Tax Non Mining	168.9	132.6	146.3	137.4	149.9	163.6	178.6	195.2
Interest Withholding Tax	66.0	78.7	85.0	84.2	88.3	88.3	88.3	88.3
Sundry IRC Taxes & Income	0.6	0.5	0.5	0.2	0.2	0.2	0.2	0.2
Taxes on Payroll and Workforce	18.0	14.4	11.7	0.0	0.0	0.0	0.0	0.0
Training Levy	18.0	14.4	11.7	0.0	0.0	0.0	0.0	0.0
Taxes on Goods and Services	2,680.2	2,584.1	2,754.6	3,448.3	3,761.6	4,105.8	4,484.6	4,899.6
General taxes on goods and services	1,693.2	1,521.8	1,535.6	2,034.2	2,225.1	2,433.9	2,663.1	2,914.5
Value Added Tax	1,567.0	1,442.6	1,484.7	1,974.2	2,159.6	2,362.1	2,584.6	2,828.5
GST ²	1,567.0	1,442.6	1,484.7	1,974.2	2,159.6	2,362.1	2,584.6	2,828.5
Taxes on financial and capital transactions	126.1	79.2	50.9	60.0	65.5	71.8	78.6	86.1
Stamp Duties	126.1	79.2	50.9	60.0	65.5	71.8	78.6	86.1
Excise	802.0	875.9	991.4	1,177.4	1,284.4	1,401.6	1,529.9	1,670.0
Excise Duty	503.3	603.7	691.1	782.3	853.4	931.3	1,016.2	1,108.0
Import Excise	298.7	272.2	300.3	395.1	431.0	470.3	513.7	561.0
Taxes on specific services	177.7	175.7	218.7	220.2	235.3	253.2	274.2	297.3
Bookmakers' Turnover Tax	9.4	7.8	36.4	33.0	36.0	39.3	42.9	46.9
Gaming Machine Turnover Tax	162.1	163.5	171.0	174.4	185.5	199.0	214.9	232.6
Departure Tax	6.2	4.4	11.3	12.8	13.8	15.0	16.4	17.8
Taxes on use of goods and on permission to use goods or perform activities	6.9	7.5	8.0	13.1	13.1	13.1	13.1	13.1
Motor vehicles taxes	5.7	6.8	7.2	11.9	11.9	11.9	11.9	11.9
Motor Vehicle Registration	5.5	6.2	6.2	11.2	11.2	11.2	11.2	11.2
Commercial Vehicle Licenses	0.2	0.5	1.0	0.7	0.7	0.7	0.7	0.7
Other taxes on use of goods and on permission to use goods or perform activities	1.1	0.8	0.8	1.2	1.2	1.2	1.2	1.2
Other taxes on goods and services	0.4	3.1	0.9	3.4	3.7	4.0	4.4	4.7
Sundry Taxes (Customs)	0.4	3.1	0.9	3.4	3.7	4.0	4.4	4.7
Taxes on International Trade and Transactions	565.2	536.8	568.2	626.1	653.0	682.5	714.6	750.1
Customs and other import duties	249.1	242.9	241.6	296.1	323.0	352.5	384.6	420.0
Import Duty	243.4	242.9	238.6	296.1	323.0	352.5	384.6	420.0
Taxes on exports	316.2	294.0	326.6	330.0	330.0	330.0	330.0	330.0
Export Tax	316.2	294.0	326.6	330.0	330.0	330.0	330.0	330.0
GRANTS	819.5	1,430.1	968.1	1,024.6	943.1	932.1	932.1	932.1
From Foreign Governments	778.8	1,261.4	829.4	752.8	928.0	922.6	922.6	922.6
Current	505.0	1,207.1	663.5	602.2	504.1	498.6	498.6	498.6
Cash	-	-	-	-	-	-	-	-
In-Kind	505.0	1,207.1	663.5	602.2	504.1	498.6	498.6	498.6
Capital	273.8	54.3	165.9	150.6	423.9	423.9	423.9	423.9
Cash	-	-	-	-	-	-	-	-
In-Kind	273.8	54.3	165.9	150.6	423.9	423.9	423.9	423.9
From International Organizations	40.7	168.7	138.7	271.8	15.1	9.5	9.5	9.5
Current	22.4	147.0	111.0	217.4	15.1	9.5	9.5	9.5
Cash	0.9	-	-	-	8.6	9.1	9.1	9.1
In-Kind	21.5	147.0	111.0	217.4	6.5	0.4	0.4	0.4
Capital	18.3	21.7	27.7	54.4	-	-	-	-
Cash	18.3	-	-	-	-	-	-	-
In-Kind	-	21.7	27.7	54.4	-	-	-	-
OTHER REVENUE	1,026.0	633.9	1,141.8	2,066.7	1,074.0	1,108.2	1,165.7	1,224.1
Property Income	943.1	551.3	925.1	1,321.9	741.9	741.9	741.9	741.9
Interest	-	-	4.0	0.7	0.7	0.7	0.7	0.7
Interest from residents other than general government	-	-	4.0	0.7	0.7	0.7	0.7	0.7
Dividends	911.4	528.9	870.0	1,250.0	700.0	700.0	700.0	700.0
Mining Petroleum and Gas Dividends	456.4	300.5	600.0	500.0	300.0	300.0	300.0	300.0
Dividends from Statutory Authorities	85.0	228.4	250.0	625.0	325.0	325.0	325.0	325.0
Dividends from State Owned Enterprises	370.0	-	20.0	125.0	75.0	75.0	75.0	75.0
Withdrawals from income of quasi-corporations	-	-	-	40.0	-	-	-	-
Rent	31.7	22.4	51.1	31.2	41.2	41.2	41.2	41.2
Land Lease Rental	27.6	18.3	47.6	27.8	37.8	37.8	37.8	37.8
Petroleum Prospecting Licenses	4.1	4.0	3.5	3.3	3.3	3.3	3.3	3.3
Sales of goods and services	65.6	63.5	115.2	112.5	132.5	132.5	132.5	132.5
Administrative fees	25.3	28.7	62.8	46.6	56.6	56.6	56.6	56.6
Work Permits	19.3	21.8	31.2	36.0	46.0	46.0	46.0	46.0
Election Fees	-	-	24.0	-	-	-	-	-
Incidental sales by nonmarket establishments	40.3	34.9	52.4	65.8	75.8	75.8	75.8	75.8
Fines, penalties, and forfeits	2.8	1.8	0.8	1.0	1.0	1.0	1.0	1.0
Transfers not elsewhere classified	14.4	17.2	100.7	631.4	198.7	232.8	290.4	348.7
Current transfers not elsewhere classified	14.4	17.2	100.7	631.4	198.7	232.8	290.4	348.7
Other current transfers	14.4	17.2	100.7	631.4	198.7	232.8	290.4	348.7
Payroll Commission	11.0	15.1	22.6	16.0	16.0	16.0	16.0	16.0
State Services and Statutory Authority	-	0.1	-	525.0	-	-	-	-
SWF	-	-	77.1	89.5	181.9	216.0	273.6	331.9
Premiums, fees and claims related to nonlife insurance and standardised guarantee schemes	-	-	-	-	-	-	-	-

1. Under the GFS 2014 methodology, non-payable infrastructure tax credits, revenue on asset sales, recoveries and Trust Accounts are not classified as revenue

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

Table 13A: General Government Expense by Economic Classification

Kina Million	Actuals		Est.	Projections				
	2015	2016	2017 Supp. Budget	2018 Budget	2019	2020	2021	2022
Compensation of Employees	3,993.3	4,463.4	4,278.0	4,137.3	4,266.2	4,397.2	4,532.1	4,671.1
Wages and salaries	3,662.5	4,021.6	3,897.0	3,750.3	3,891.4	4,009.7	4,131.7	4,251.2
Wages and salaries in cash	3,563.5	3,901.7	3,788.6	3,628.1	3,773.2	3,887.5	4,005.3	4,118.7
Wages and salaries in kind	98.9	119.9	108.4	122.1	118.2	122.2	126.3	132.5
Employers' social contributions	330.8	441.8	381.0	387.1	374.8	387.5	400.5	419.9
Actual social contributions	330.8	441.8	381.0	387.1	374.8	387.5	400.5	419.9
Use of goods and services*	3,605.5	4,102.6	3,994.8	4,517.1	4,176.8	4,344.6	4,581.6	4,870.6
Use of goods and services	3,605.5	4,102.6	3,994.8	4,517.1	4,176.8	4,344.6	4,581.6	4,870.6
Use of goods and services	3,605.5	4,102.6	3,994.8	4,517.1	4,176.8	4,344.6	4,581.6	4,870.6
Interest**	1,069.9	1,248.1	1,515.6	1,801.5	1,947.4	2,040.8	2,070.5	2,251.8
To nonresidents	83.8	1,171.1	167.9	249.1	268.4	281.3	285.4	310.4
Interest to Non residents	83.8	1,171.1	167.9	249.1	268.4	281.3	285.4	310.4
To residents other than general government	986.1	77.0	1,347.8	1,552.5	1,679.0	1,759.5	1,785.2	1,941.4
Interest to residents other than general governments	986.1	77.0	1,347.8	1,552.5	1,679.0	1,759.5	1,785.2	1,941.4
Grants***	2,924.0	1,897.0	1,427.6	2,248.8	1,951.5	1,975.6	2,070.1	2,100.6
Grants to other general government units	2,924.0	1,897.0	1,427.6	2,248.8	1,951.5	1,975.6	2,070.1	2,100.6
Grants to other general governments current	1,700.0	1,117.9	1,197.4	1,484.7	1,335.7	1,385.2	1,436.5	1,544.2
Grants to other general governments capital	1,224.0	779.1	230.2	764.1	615.8	590.4	633.6	556.4
Other expenses	147.8	446.1	418.6	417.6	438.9	505.0	587.9	673.8
Transfers not elsewhere classified	147.8	446.1	418.6	417.6	438.9	505.0	587.9	673.8
Other expense - Current transfers not elsewhere classified	147.8	446.1	418.6	417.6	438.9	505.0	587.9	673.8
Net Acquisition Nonfinancial assets****	2,048.4	1,415.3	1,220.9	1,534.1	1,639.8	1,902.6	2,168.5	2,502.8
Nonproduced assets	0.0	0.0	0.0	13.9	13.5	13.9	14.4	15.1
NFA: Intangible nonproduced assets	0.0	0.0	0.0	4.1	4.0	4.1	4.2	4.4
NFA: Land	0.0	0.0	0.0	9.8	9.5	9.8	10.2	10.7
Acquisition of Fixed assets (Buildings and Structures)	2,048.4	1,415.3	1,220.9	1,520.1	1,626.3	1,888.6	2,154.1	2,487.7
NFA: Buildings and structures	0.0	0.0	0.0	101.4	113.1	136.6	164.8	194.6
NFA: Dwellings	0.0	0.0	0.0	3.8	3.7	3.8	4.0	4.2
NFA: Fixed assets	1,990.5	1,353.7	1,186.2	1,278.7	1,369.9	1,593.2	1,811.5	2,094.6
NFA: Information, computer, & telecommunications equipment	19.0	20.3	17.4	20.4	19.7	20.4	21.1	22.1
NFA: Machinery & equipment other than transport equipment	24.7	24.2	16.2	15.6	15.2	15.7	16.2	17.0
NFA: Other structures	0.0	0.0	0.0	37.1	35.9	37.1	38.4	40.2
NFA: Transport equipment	14.2	17.1	1.1	4.0	3.8	4.0	4.1	4.3
Other expense - Current transfers not elsewhere classified	0.0	0.0	0.0	59.2	64.9	77.9	94.1	110.7
Social Benefits	0.0	0.0	0.0	61.4	59.5	61.5	63.5	66.6
Social assistance benefits	0.0	0.0	0.0	61.4	59.5	61.5	63.5	66.6
Social assistance benefits in cash	0.0	0.0	0.0	61.4	59.5	61.5	63.5	66.6
Total Expenditure and Net Lending	13,788.8	13,572.5	12,855.6	14,717.9	14,480.1	15,227.3	16,074.3	17,137.2
<i>as % of GDP</i>	<i>22.2%</i>	<i>20.0%</i>	<i>17.4%</i>	<i>18.4%</i>	<i>16.8%</i>	<i>16.5%</i>	<i>16.2%</i>	<i>16.0%</i>

* Use of Goods and Services includes operational cost of capital projects

** Excluding K63.2 million for fees captured under Use of Goods and Services

*** Grant inclusive of some portion of capital projects

**** Net Acquisition of Non-Financial Assets as per GFS classification excludes operational component of capital projects. These are captured under Use of Goods and Services and Grants

Table 13B: General Government Expense by Agency Type

Kina Million	Actuals		Est.	Projections				
	2015	2016	2017 Supp.Budget	2018 Budget	2019	2020	2021	2022
National Departments	6,337.6	5,390.3	6,096.8	6,472.8	6,162.5	6,370.6	6,635.9	6,958.9
Compensation of Employees	2,133.5	2,339.5	2,281.1	2,289.9	2,302.9	2,381.0	2,455.0	2,533.5
Wages and salaries	1,832.7	1,980.1	1,915.3	1,898.5	1,937.8	1,996.7	2,057.4	2,116.7
Wages and salaries in cash	1,776.6	1,913.3	1,853.6	1,827.5	1,869.0	1,925.6	1,983.8	2,039.6
Wages and salaries in kind	56.1	66.8	61.8	71.1	68.8	71.1	73.5	77.1
Employers' social contributions	30.9	41.4	365.8	384.3	372.1	384.7	397.6	416.9
Actual social contributions	301.0	414.4	365.8	384.3	372.1	384.7	397.6	416.9
Use of goods and services	2,174.0	1,746.2	2,524.1	2,660.5	2,372.8	2,459.5	2,599.8	2,767.5
Use of goods and services	2,174.0	1,746.2	2,524.1	2,660.5	2,372.8	2,459.5	2,599.8	2,767.5
Use of goods and services	2,174.0	1,746.2	2,524.1	2,660.5	2,372.8	2,459.5	2,599.8	2,767.5
Grants	893.0	610.7	694.6	643.5	623.1	644.1	665.7	698.0
Grants to other general government units	893.0	610.7	694.6	643.5	623.1	644.1	665.7	698.0
Grants to other general governments current	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants to other general governments capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other expenses	121.0	84.1	61.4	77.4	73.8	76.3	78.8	82.7
Transfers not elsewhere classified	121.0	84.1	61.4	77.4	73.8	76.3	78.8	82.7
Other expense - Current transfers not elsewhere classified	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Acquisition Nonfinancial assets	1,015.8	554.8	535.6	760.7	736.6	761.4	787.0	825.1
Nonproduced assets	0.0	0.0	0.0	13.9	13.5	13.9	14.4	15.1
NFA: Intangible nonproduced assets	0.0	0.0	0.0	4.1	4.0	4.1	4.2	4.4
NFA: Land	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Acquisition of Fixed assets (Buildings and Structures)	1,015.8	554.8	535.6	746.7	723.1	747.5	772.6	810.0
NFA: Buildings and structures	0.0	0.0	0.0	64.8	62.7	64.8	67.0	70.2
NFA: Dwellings	0.0	0.0	0.0	3.8	3.7	3.8	4.0	4.2
NFA: Fixed assets	981.7	506.2	514.8	665.0	585.8	606.6	626.0	656.0
NFA: Information, computer, & telecommunications equipment	20.1	11.1	6.9	19.4	17.8	19.4	19.0	19.9
NFA: Machinery & equipment other than transport equipment	20.1	22.0	14.0	13.9	13.4	13.9	14.3	15.0
NFA: Other structures	0.0	0.0	0.0	37.0	35.9	37.1	38.3	40.2
NFA: Transport equipment	11.9	16.5	0.9	3.9	3.7	3.9	4.0	4.2
Social Benefits	0.0	0.0	0.0	47.9	46.4	47.9	49.5	51.9
Social assistance benefits	0.0	0.0	0.0	47.9	46.4	47.9	49.5	51.9
Social assistance benefits in cash	0.0	0.0	0.0	47.9	46.4	47.9	49.5	51.9
Provincial Governments	3,949.8	3,658.4	2,959.9	3,606.4	3,429.1	3,498.8	3,639.7	3,708.1
Compensation of Employees	1,457.8	1,641.7	1,596.6	1,456.4	1,570.9	1,617.4	1,665.3	1,705.7
Wages and salaries	1,453.1	1,641.7	1,596.6	1,456.4	1,570.9	1,617.4	1,665.3	1,705.7
Wages and salaries in cash	1,420.9	1,599.9	1,556.1	1,416.0	1,531.8	1,576.9	1,623.5	1,661.9
Wages and salaries in kind	32.2	41.8	40.4	40.4	39.1	40.4	41.8	43.8
Employers' social contributions	4.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Actual social contributions	4.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Use of goods and services	568.6	809.7	644.7	719.4	696.6	720.1	744.3	780.4
Use of goods and services	568.6	809.7	644.7	719.4	696.6	720.1	744.3	780.4
Use of goods and services	568.6	809.7	644.7	719.4	696.6	720.1	744.3	780.4
Grants	1,883.9	1,184.0	577.1	1,402.0	1,134.1	1,132.7	1,200.5	1,191.1
Grants to other general government units	1,883.9	1,184.0	577.1	1,402.0	1,134.1	1,132.7	1,200.5	1,191.1
Grants to other general governments current*	741.9	468.9	424.3	711.9	589.9	616.4	643.5	715.0
Grants to other general governments capital	1,142.0	715.1	152.8	690.1	544.1	516.4	557.1	476.1
Net Acquisition Nonfinancial assets	39.5	23.0	141.6	28.5	27.6	28.5	29.5	30.9
Acquisition of Fixed assets (Buildings and Structures)	39.5	23.0	141.6	28.5	27.6	28.5	29.5	30.9
NFA: Fixed assets*	39.5	23.0	141.6	28.5	27.6	28.5	29.5	30.9
Autonomous Bougainville Government	232.3	211.0	218.6	213.2	206.4	213.4	220.5	231.2
Compensation of Employees	103.5	113.9	106.0	95.7	92.7	95.8	99.0	103.8
Wages and salaries	103.1	113.9	106.0	95.7	92.7	95.8	99.0	103.8
Wages and salaries in cash	100.6	112.1	103.6	92.8	89.9	92.9	96.0	100.7
Wages and salaries in kind	2.5	1.8	2.4	2.9	2.8	2.9	3.0	3.1
Employers' social contributions	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Actual social contributions	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Use of goods and services	26.8	24.8	22.7	27.8	26.9	27.8	28.7	30.1
Use of goods and services	26.8	24.8	22.7	27.8	26.9	27.8	28.7	30.1
Use of goods and services	26.8	24.8	22.7	27.8	26.9	27.8	28.7	30.1
Grants	102.0	72.3	89.9	89.7	86.9	89.8	92.8	97.3
Grants to other general government units	102.0	72.3	89.9	89.7	86.9	89.8	92.8	97.3
Grants to other general governments current	20.0	8.3	12.5	15.7	15.2	15.7	16.3	17.0
Grants to other general governments capital	82.0	64.0	77.4	74.0	71.7	74.1	76.6	80.3
Commercial & Statutory Authorities	667.7	624.6	626.4	942.4	912.5	943.3	975.0	1,022.3
Compensation of Employees	298.2	313.2	294.3	302.3	292.7	302.6	312.8	328.0
Wages and salaries	273.5	285.9	279.1	299.6	290.1	299.9	309.9	326.0
Wages and salaries in cash	265.4	276.3	265.8	285.8	280.5	290.1	301.9	316.9
Wages and salaries in kind	8.1	9.5	3.8	7.8	7.5	7.8	8.0	8.4
Employers' social contributions	24.8	27.3	15.3	2.8	2.7	2.8	2.9	3.0
Actual social contributions	24.8	27.3	15.3	2.8	2.7	2.8	2.9	3.0
Use of goods and services	185.5	185.0	142.5	390.6	378.2	391.0	404.1	423.7
Use of goods and services	185.5	185.0	142.5	390.6	378.2	391.0	404.1	423.7
Use of goods and services	185.5	185.0	142.5	390.6	378.2	391.0	404.1	423.7
Grants	23.5	18.2	38.9	61.6	59.6	61.6	63.7	66.8
Grants to other general government units	23.5	18.2	38.9	61.6	59.6	61.6	63.7	66.8
Grants to other general governments current	23.5	18.2	38.9	61.6	59.6	61.6	63.7	66.8
Other expenses	6.7	8.0	14.0	20.7	20.0	20.7	21.4	22.4
Transfers not elsewhere classified	6.7	8.0	14.0	20.7	20.0	20.7	21.4	22.4
Other expense - Current transfers not elsewhere classified	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Acquisition Nonfinancial assets	153.8	100.2	136.7	153.7	148.8	153.9	159.0	166.7
Acquisition of Fixed assets (Buildings and Structures)	153.8	100.2	136.7	153.7	148.8	153.9	159.0	166.7
NFA: Buildings and structures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NFA: Fixed assets	140.3	97.3	134.3	149.8	145.0	149.9	154.9	162.4
NFA: Machinery & equipment other than transport equipment	2.6	2.2	2.2	1.8	1.7	1.8	1.9	1.9
NFA: Other structures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NFA: Transport equipment	2.3	0.7	0.2	0.1	0.1	0.1	0.1	0.1
NFA: Information, computer, and telecommunications (ICT) equipment	8.6	0.0	0.0	2.0	1.9	2.0	2.1	2.2
Social Benefits	0.0	0.0	0.0	13.5	13.1	13.6	14.0	14.7
Social assistance benefits	0.0	0.0	0.0	13.5	13.1	13.6	14.0	14.7
Social assistance benefits in cash	0.0	0.0	0.0	13.5	13.1	13.6	14.0	14.7
Debt Service	1,074.7	1,264.3	1,532.8	1,864.7	2,009.5	2,105.9	2,136.6	2,323.6
Use of goods and services	4.8	16.2	17.2	63.1	62.1	65.1	66.0	71.8
Use of goods and services	4.8	16.2	17.2	63.1	62.1	65.1	66.0	71.8
Use of goods and services	4.8	16.2	17.2	63.1	62.1	65.1	66.0	71.8
Interest	1,069.9	1,248.1	1,515.6	1,801.5	1,947.4	2,040.8	2,070.5	2,251.8
To nonresidents	83.8	1,171.1	1,67.9	249.1	268.4	281.3	285.4	310.4
Interest to Non residents	83.8	1,171.1	1,67.9	249.1	268.4	281.3	285.4	310.4
To residents other than general government	986.1	77.0	1,347.8	1,552.5	1,679.0	1,759.5	1,785.2	1,941.4
Interest to residents other than general governments	986.1	77.0	1,347.8	1,552.5	1,679.0	1,759.5	1,785.2	1,941.4
Donor Support Grants	819.5	1,430.1	968.1	1,024.6	943.1	932.1	932.1	932.1
Use of goods and services	574.6	1,125.7	605.4	574.9	529.2	523.0	523.0	523.0
Use of goods and services	574.6	1,125.7	605.4	574.9	529.2	523.0	523.0	523.0
Use of goods and services	574.6	1,125.7	605.4	574.9	529.2	523.0	523.0	523.0
Grants	241.6	118.8	27.1	52.0	47.9	47.3	47.3	47.3
Grants to other general government units	241.6	118.8	27.1	52.0	47.9	47.3	47.3	47.3
Grants to other general governments current	21.6	11.8	27.1	52.0	47.9	47.3	47.3	47.3
Net Acquisition Nonfinancial assets	203.2	220.4	32.6	189.9	174.8	172.8	172.8	172.8
Acquisition of Fixed assets (Buildings and Structures)	203.2	220.4	32.6	189.9	174.8	172.8	172.8	172.8
NFA: Fixed assets	203.2	220.4	32.6	189.9	174.8	172.8	172.8	172.8
Other expense - Current transfers not elsewhere classified	0.0	0.0	0.0	36.3	33.4	33.0	33.0	33.0
Other expenses	20.1	72.2	303.0	207.8	191.2	189.0	189.0	189.0
Transfers not elsewhere classified	20.1	72.2	303.0	207.8	191.2	189.0	189.0	189.0
Other expense - Current transfers not elsewhere classified	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loan Drawdowns	707.3	993.8	452.8	593.9	816.9	1,163.3	1,534.6	1,905.9
Use of goods and services	71.3	195.0	38.2	80.8	111.1	158.2	215.6	274.2

Table 14: Transactions in Assets and Liabilities for General Government

Kina Million	Actuals		Est.	Projections				
	2015	2016	2017 Supp.	2018 Budget	2019	2020	2021	2022
Net Acquisition of Financial Assets	-410.6	857.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-410.6	857.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	-354.5	857.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	-56.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Incurrence of Liabilities	2,601.8	3,943.8	1,876.4	1,987.2	1,897.5	1,675.8	1,408.5	1,261.4
Domestic	2,080.8	2,494.9	912.5	373.8	200.6	454.7	816.2	862.1
Debt securities	2,080.8	2,494.9	912.5	373.8	200.6	454.7	816.2	862.1
<i>New instruments</i>	10,970.2	14,117.7	10,258.3	10,388.5	10,580.5	11,036.5	11,024.2	10,963.0
<i>Amortisation</i>	8,889.3	11,622.8	9,345.8	10,014.7	10,379.9	10,581.8	10,208.1	10,100.9
<i>Treasury Bills</i>	1,075.5	1,934.1	694.8	30.2	-108.0	156.0	87.7	-61.3
<i>New instruments</i>	9,473.8	13,092.9	9,358.3	9,388.5	9,280.5	9,436.5	9,524.2	9,463.0
<i>Amortisation</i>	8,398.3	11,158.8	8,663.5	9,358.3	9,388.5	9,280.5	9,436.5	9,524.2
<i>Treasury Bonds</i>	1,005.3	560.8	217.7	343.6	308.6	298.7	728.5	923.4
<i>New instruments</i>	1,496.4	1,024.8	900.0	1,000.0	1,300.0	1,600.0	1,500.0	1,500.0
<i>Amortisation</i>	491.1	464.0	682.3	656.4	991.4	1,301.3	771.6	576.7
Other accounts payable	0.0	0.0	0.0					
External	521.0	1,448.9	963.9	1,613.4	1,696.9	1,221.1	592.3	399.3
Debt securities	0.0	0.0	0.0	640.0	640.0	320.0	0.0	-640.0
<i>New instruments</i>	0.0	0.0	0.0	640.0	640.0	320.0	0.0	0.0
<i>Amortisation</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	640.0
Holdings gains and losse*								
<i>Concessional financing</i>	0.0	0.0	0.0	640.0	640.0	320.0	0.0	-640.0
<i>Commercial financing</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Extraordinary financing</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	521.0	1,448.9	963.9	973.4	1,056.9	901.1	592.3	1,039.3
<i>New borrowing</i>	707.3	1,680.6	1,075.9	1,273.7	1,456.9	1,803.3	1,534.6	1,961.0
<i>Amortisation</i>	186.3	231.7	272.6	300.3	400.0	902.2	942.2	921.7
Holdings gains and losse*	0.0	0.0	160.6	0.0	0.0	0.0	0.0	0.0
<i>Concessional financing</i>	567.7	803.6	170.2	337.4	480.6	808.3	1,123.4	1,389.7
<i>New borrowing</i>	707.3	993.8	398.4	593.9	816.9	1,163.3	1,534.6	1,961.0
<i>Amortisation</i>	139.6	190.2	228.2	256.5	336.3	355.0	411.2	571.4
Holdings gains and losse*			128.1					
<i>Commercial financing</i>	0.0	686.8	677.5	39.8	17.9	513.9	513.9	337.9
<i>New borrowing</i>	0.0	686.8	677.5	39.8	0.0	0.0	0.0	0.0
<i>Amortisation</i>	0.0	0.0	0.0	0.0	17.9	513.9	513.9	337.9
Holdings gains and losse*			25.5					
<i>Extraordinary financing</i>	-46.7	-41.5	-44.4	596.2	594.2	606.7	-17.1	-12.4
<i>New borrowing</i>	0.0	0.0	0.0	640.0	640.0	640.0	0.0	0.0
<i>Amortisation</i>	46.7	41.5	44.4	43.8	45.8	33.3	17.1	12.4
Holdings gains and losse*		0.0	7.0					

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

* Holdings gains and losses (or revaluation) is a change in the monetary value of an asset or liability resulting from changes in the level and structure of prices (for example, from changes in interest rates) and/or exchange rates, assuming that the assets or liabilities has not changed qualitatively or quantitatively.

Table 15: Stocks of General Government Debt

Kina, Million	Actuals		Est.	Projections				
	2015	2016	2017 Supp.Budget	2018 Budget	2019	2020	2021	2022
Domestic	13,942.0	16,436.9	17,349.4	17,723.2	17,923.8	18,378.5	19,194.6	20,056.7
Debt securities	13,942.0	16,436.9	17,349.4	17,723.2	17,923.8	18,378.5	19,194.6	20,056.7
<i>Treasury Bills</i>	6,729.4	8,663.5	9,358.3	9,388.5	9,280.5	9,436.5	9,524.2	9,463.0
<i>Treasury Bonds</i>	7,212.6	7,773.4	7,991.1	8,334.7	8,643.3	8,942.0	9,670.4	10,593.8
Loans	-	-	-	-	-	-	-	-
External	4,058.1	5,507.1	6,471.0	8,084.4	9,781.3	11,002.4	11,594.7	11,994.1
Debt securities	-	0.0	0.0	640.0	1,280.0	1,600.0	1,600.0	960.0
<i>Concessional financing</i>	-	0.0	0.0					
<i>Commercial financing</i>	-	0.0	0.0	640.0	1,280.0	1,600.0	1,600.0	960.0
<i>Extraordinary financing</i>	-	0.0	0.0					
Loans	4,058.1	5,507.1	6,471.0	7,444.4	8,501.3	9,402.4	9,994.7	11,034.1
<i>Concessional financing</i>	4,058.1	4,593.0	4,891.3	5,228.7	5,709.3	6,517.6	7,641.0	9,030.7
<i>Commercial financing</i>	-	686.8	1,389.8	1,429.6	1,411.7	897.8	383.9	46.0
<i>Extraordinary financing</i>	-	227.3	189.9	786.0	1,380.2	1,987.0	1,969.9	1,957.4
Total Central Government Debt	18,000.10	21,944.0	23,820.4	25,807.6	27,705.1	29,380.9	30,789.4	32,050.8
<i>Total debt as percentage of GDP</i>	<i>29.0%</i>	<i>32.4%</i>	<i>32.1%</i>	<i>32.2%</i>	<i>32.2%</i>	<i>31.9%</i>	<i>31.1%</i>	<i>30.0%</i>
Gross Domestic Product²	62,157.8	67,762.2	74,225.0	80,113.4	85,938.9	92,175.7	99,080.2	106,957.4

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

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

Table 16: Sovereign Wealth Fund – Stabilisation Fund

Kina Million	2017	2018	2019	2020	2021	2022
REVENUE						
TAXES	52.4	89.5	181.8	215.9	273.4	331.7
Taxes on Income, Profits and Capital Gains						
Mining and Petroleum Taxes	52.4	89.5	181.8	215.9	273.4	331.7
OTHER REVENUE	0.0	0.1	0.1	0.1	0.2	0.2
Property Income	0.0	0.1	0.1	0.1	0.2	0.2
Interest	0.0	0.1	0.1	0.1	0.2	0.2
Dividends	0.0	0.0	0.0	0.0	0.0	0.0
Mining Petroleum and Gas Dividends	0.0	0.0	0.0	0.0	0.0	0.0
Other Dividends (eg money paid into SWF from sale of shares)	0.0	0.0	0.0	0.0	0.0	0.0
Current Transfers n.e.c.	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL REVENUE	52.4	89.6	181.9	216.1	273.6	332.0
EXPENSES						
Use of Goods and Services	0.01	0.02	0.03	0.04	0.05	0.1
Transfers n.e.c.	52.4	89.5	181.9	216.0	273.6	331.9
Current (Transfer to Budget)	52.4	89.5	181.9	216.0	273.6	331.9
Current (Transfer to Savings Fund)	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL EXPENSES	52.4	89.6	181.9	216.1	273.6	332.0
GROSS/NET OPERATING BALANCE	0.0	0.0	0.0	0.0	0.0	0.0
NET ACQUISITION OF FINANCIAL ASSETS	0.0	0.0	0.0	0.0	0.0	0.0
Balance in Stabilisatio Fund at 31 December	0.0	0.0	0.0	0.0	0.0	0.0

Table 17: Sovereign Wealth Fund – Savings Fund

Kina Million	2017	2018	2019	2020	2021	2022
REVENUE						
OTHER REVENUE	0.0	0.0	0.0	0.0	0.0	0.0
Property Income	0.0	0.0	0.0	0.0	0.0	0.0
Interest	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0
Mining Petroleum and Gas Dividends	0.0	0.0	0.0	0.0	0.0	0.0
Other Dividends (eg money paid into SWF from sale of shares)	0	0	0	0	0	0
Current Transfers n.e.c.	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL REVENUE	0.0	0.0	0.0	0.0	0.0	0.0
EXPENSES						
Use of Goods and Services	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL EXPENSES	0.0	0.0	0.0	0.0	0.0	0.0
GROSS/NET OPERATING BALANCE	0.0	0.0	0.0	0.0	0.0	0.0
NET ACQUISITION OF FINANCIAL ASSETS	0.0	0.0	0.0	0.0	0.0	0.0
Balance in Savings Fund at 31 December	0.0	0.0	0.0	0.0	0.0	0.0