

2020 NATIONAL BUDGET

VOLUME 1 ECONOMIC AND DEVELOPMENT POLICIES

For the year ending 31st December 2020

PRESENTED BY

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MINISTER FOR TREASURY

ON THE OCCASION OF THE PRESENTATION OF THE 2020 NATIONAL BUDGET

FOREWORD

On behalf of the Marape-Steven Government, I am honoured to present the 2020 National Budget under the theme: **“Take Back PNG.”**

The 2020 Budget is the start of a five-year strategy for climbing out of the deep economic hole left by the years of mismanagement under the former Prime Minister. The 2020 Budget continues the painful process of budget repair and economic recovery. The starting point at the time of my appointment as Treasurer on 27 August has now been revealed as a debt to GDP ratio of 42 per cent. The starting point was a budget deficit equivalent to 5.8 per cent of our economy. The starting point was a budget deficit of nearly K5.0 billion. The starting point was a difference between income and spending of K550 for every person in PNG. The legacy of the O'Neill years was incredibly irresponsible budgeting.

Under the 2020 Budget, we continue the process of fiscal consolidation which started with the 2019 Supplementary Budget. The 2020 Budget will reduce the starting point from 5.8 per cent down to 5.0 per cent. This process of fiscal consolidation will continue and by 2024 the cash deficit would have fallen to a much more sustainable rate of 1.9 per cent. This is a serious pace of fiscal consolidation. The debt to GDP ratio will be reduced from 42 per cent down to 38 per cent. Under a new expenditure rule, control will be taken of years of irresponsible increases in the operating budget at the expense of the Public Investment Program. Wages and goods and services expenditure will be reduced from 16 per cent of non-resource GDP down to 10.6 per cent - a very major reduction. Additional arrears will be paid down – totalling K2.5 billion over three years in fixing up unpaid bills since 2019. At the same time, there will be major increases in capital spending. Capital spending will increase from K4,715.0 million in the 2019 Supplementary Budget to reach K8,584.0 million by 2024. This represents a very major shift in the structure of the budget.

A major worry in recent years has been the decline in revenues. We must raise money to pay for the delivery of basic services and, build our infrastructure. Unfortunately, our major revenue areas of personal income taxes, the company income tax and the GST has shown very little growth over the last five years. This must be turned around. The current strategy is based on total revenue increasing from K13,022.4 million in 2019 to reach K14,095.4 million in 2020, and K18,833.8 million by 2024. However, this is not enough. This still represents a decline in the share of revenue to GDP from 15.4 per cent down to 14.9 per cent. An on-going priority will be to develop strategies to lift revenue. Take back PNG will require more financing which is then spent wisely. I believe that we can do this, especially by enforcing greater compliance. The aim is not to increase taxes, the aim is to level the playing field and make sure everyone pays their legal obligations.


The Government will continue to pursue financing on the terms best suited to Papua New Guinea. The announcement with the Prime Minister about the new landmark funding package of K1.0 billion demonstrates the credibility of the reforms being pursued by the Marape-Steven Government. The 2020 Budget will continue this approach of seeking financing on the best terms suited to Papua New Guinea.

As part of this process of re-building credibility, PNG will explore the option of a program with the IMF. The IMF have indicated that they are supportive of PNG's own reform directions, and on the basis of these, they will consider entering into a Staff Monitored Program. This will lift PNG's profile and credibility. It will provide a framework for supportive advice for the growth orientated reforms we will be embarking upon. It will open the doors for more good, cheap financing. This is a historic action which demonstrates to the world the seriousness of the reform program to take back PNG.

Within the 2020 Budget is a markedly different approach towards our country's development. When we look at our national Key Performance Indicators (KPIs) we have traditionally focused on measures such as GDP. The discussion then focuses on the resource sector. The non-resource sector, the place where most of our people earn their livelihoods, had been left to last. This needs to be turned around. The 2020 Budget focuses on our people's livelihoods, on the actual number of formal sector jobs, on international measures of our economic management. Taking back PNG and making PNG rich requires a much broader definition of economic progress than just a GDP measure.

There is a clear path forward. The first step is being honest. The 2020 Budget continues with the honest and transparent approach of the Marape-Steven's Government in the 2019 Supplementary Budget. The 2020 Budget outlines the pathway forward on how we can take back PNG.

I commend the 2020 Budget to the Honorable Members and to the people of Papua New Guinea.



HON. IAN LING-STUCKEY, CMG. MP
MINISTER FOR TREASURY



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CHAPTER 1: BUDGET OVERVIEW

1.1 INTRODUCTION

In 2020, the Prime Minister's Manifesto is built around the theme of taking back Papua New Guinea (PNG). This vision is a call to rally the citizenry and development partners along a development path leading to a robust, inclusive and sustainable economy in which all Papua New Guineans have an increased stake. It rallies the country to build a stable social and political environment underpinned by a changed culture of contribution, service and civility. This is the Marape-Steven Government's overarching development strategy.

The guiding doctrines of development espoused by the Five National Goals and Directive Principles, the National Strategy of Responsible Sustainable Development (StaRS), and PNG's commitment to the 17 United Nations Sustainable Development Goals (SDGs), have been captured in the development principles defined by Vision 2050, and Development Strategic Plan 2030, and woven into the prescriptions of MTDPs II and III.

The central message in these plans is for Papua New Guinean citizens to take responsibility of the socio-economic destiny of the country and reposition and develop it to be a fair and happy society, where no child is left behind. This can be achieved through smartly designed and wisely executed Government intervention programmes.

The Marape-Steven government is cognizant of the intergenerational relevance and value of these development goals. Accordingly, it advanced the 'LOLOATA COMMITMENT' as its rescue and reconstruction strategy going forward. It is a two phase strategy that began with a reality check of the fiscal situation of the country. A Due Diligence exercise was undertaken and based on the findings, painful but necessary corrective measures were put in place through the 2019 Supplementary Budget. These corrective measures set the basic building blocks for the 2020 and subsequent Budget Strategies.

To this effect, the following document presents the National Government's 2020 Budget and Reform priorities. These priorities for the 2020 Budget are based on 10 principles:

- spend the money we have more wisely,
- raise the revenues more fairly,
- finance the debt more cheaply,
- leverage friendly international support more intelligently,
- focus on growth in the agriculture, forestry and fishing sector, SMEs and the informal economy,
- distribute resource benefits more equitably,
- stimulate non-resource growth back to at least 5.0 per cent annually,
- comprehensive Government SOE reform program for cheaper energy, internet and water,
- getting foreign exchange flowing more freely, and
- create at least 10,000 jobs annually.

1.2 ECONOMIC OUTLOOK

Growth in global economic activity for 2019 is projected to weaken to 3.0 per cent, its lowest rate since 2008-09 levels during the Global Financial Crisis. The sluggish global growth is a reflection of increasing trade and geopolitical tensions amongst major advanced economies that erupted in late 2018 and has continuously discouraged business confidence, international trade and investments. However, growth is expected to improve in 2020 to 3.4 per cent,

though somewhat weaker as was previously estimated. The medium-term outlook remains resilient as the global economy improves mainly from recoveries in emerging market economies through normalising of monetary policy distress and improved performance of the economies compared to past performances.

PNG's interlinkages to the international economy stems from the movements in commodity prices, which continued to be influenced by uncertainty in the global macroeconomic landscape with the biggest factor being the US-China trade tensions. The concerns over the US-China trade war together with oversupply and weak demand have been the story for most agriculture markets for much of 2019 and expected to continue into 2020. Reflecting these developments, all of PNG's key agricultural export prices are expected to remain low in 2020. Crude oil price that indexes Liquefied Natural Gas prices will be influenced by supply side risk on geo-political tensions keeping prices at US\$58.0 per barrel; copper, nickel and gold will improve on expectation that consumption in China will recover.

In 2019, real growth in the non-resource sector has been revised down to 2.9 per cent in 2019, 0.2 percentage points lower than the 2019 Budget estimate of 3.1 per cent. Growth in the agriculture, forestry and fishery (AFF) sector is projected at 2.5 per cent, 0.3 percentage points lower than the previous year. In addition, the growth forecasting methodology has been revised back to the usual practice of not incorporating the impact of new resource projects until there is a Final Investment Decision (FID). This means there is substantial upside to these forecasts when these projects reach FID.

The overall real GDP growth is projected at 5.0 per cent in 2019, much of which is attributed to strong recovery in production in the mining, oil and gas sector. The earthquake in 2018 depressed production while in 2019, production has been returned to slightly above previous levels. Over the medium-term (2020-2024) real growth is expected to return to 2.0 per cent in 2020 before increasing to 3.3 per cent by 2024. This is because gas production from PNG LNG in 2019 is likely to be sustained in 2020 at its capacity and going forward.

In 2020, real non-resource growth is projected at 3.3 per cent. This is below the government's objective of a 5% growth level, and reflects the persistent constraints in business conditions in the non-resource sectors due to legacy issues of foreign exchange shortages. Growth in the agriculture, forestry and fishing sector is expected to be 3.4 per cent. The growth in agriculture is driven by the on-season in coffee, increased projected Palm Oil production, and increased cocoa yields from the ongoing revitalization in the cocoa industry. The information and communication sector is expected to grow at 8.0 per cent reflecting better communications access flowing from the Coral Sea cable. This sector is expected to continue its strong growth for the following two years.

In 2020, overall GDP growth is expected to return to 2.0 per cent reflecting LNG production reverting back to normal production levels in the Oil & Gas sector following the stronger rebound in 2019 coupled with the maturing oil fields profile.

The gradual growth profile beyond 2020 is underpinned by expected improvement in sectors other than mining and petroleum driven by fiscal expansionary capital expenditures in the early years and major reforms targeted to improving SOE efficiency and bringing balance to the foreign exchange market. The resource sector is projected to stabilise in 2022-24 driven by assumed projected plateauing in output for petroleum and mining sectors over that period.

The GDP measure underpinning the 2020 Budget economic projections is based on the 2017 National Accounts statistics published by the National Statistics Office (NSO) on the 8th November 2019.

Total employment number has shown improvement in 2019. According to the BPNG's June employment statistics, total employment grew by 4.2 per cent driven largely by growth in the mining sector. However, with the Government's new reform agenda, employment in 2020 and beyond will be driven by the non-mining sector.

In 2019, the Bank of PNG (BPNG) shifted towards an accommodative monetary policy stance by lowering the Kina Facility Rate (KFR) to 5.5 per cent taking into account factors including the lower inflation outcomes, weaker momentum in global growth and relative stability in the Kina exchange rate. Going forward, the BPNG is expected to maintain an accommodative policy stance in the next five months, whilst closely monitoring developments in inflation and other macroeconomic indicators. Private sector borrowing remained positive in 2019, with an increase of 5.2 per cent and projected to lift to 5.7 per cent in 2020.

PNG is experiencing low headline inflation with average headline inflation falling to 4.4 per cent in 2019. However, inflation in 2020 is projected to rise to 5.7 per cent mostly driven by the effects of the planned reform in the finance sector that is anticipated to increase domestic prices.

The Kina appreciated by 4.6 per cent against the Australian Dollar, while it depreciated by 1.2 per cent against the US Dollar in 2019. The depreciation of the Kina against the US Dollar is attributed to a shortage in the foreign exchange market. Domestic demand remained relatively high against supply reflecting low foreign exchange build up. Foreign exchange inflow had improved in the second half of 2018 and first half of 2019, reflecting budget financing from external sources as well as improved inflows from the mining sector. However, the imbalance returned later in the year due to deferral of other external financing and a fundamental lack of net receipts from exports.

The current account recorded a surplus of K10,416.9 million in the first half of 2019, driven by a positive trade balance reflecting higher export values of gas and mineral commodities. In 2020, the current account surplus is expected to be 9.5 per cent higher than in 2019 reflecting higher gold, copper, nickel and cobalt production and gold prices together with increase coffee production.

The capital and financial account recorded a deficit of K10,803.6 million in the first half of the year, which is 28.0 per cent higher than the corresponding period of 2018. The higher deficit reflects a strong increase in other financial capital outflows, which was enough to offset a sharp decline in portfolio investment during the period. Overall, this account is expected to record a deficit of K19,260.0 million in 2019.

International reserves are expected to increase to US\$2,425.8 million by the end of 2019, sufficient for 6.1 months of total import cover and 14.4 months of non-mineral import cover. In 2020, external financing of the budget deficit from the grants and support financing, together with concessional, commercial and other sources are likely to be the main support for foreign exchange reserves.

The macroeconomic picture estimated by the Government has a number of inherent risks that will affect the execution of the 2020 Budget. These risks include the continuing international trade tensions and unexpected fluctuations in commodity prices. Domestically, there is a high risk from imbalance in supply and demand for foreign exchange which links with the execution of the budget strategy and planned external financing for 2020.

1.3 2019 FISCAL DEVELOPMENTS AND SUPPLEMENTARY BUDGET

The 2019 National Budget was framed by the previous O'Neill – Abel led Government. The implementation of the 2019 Budget was a challenge in the first half of the year.

Revenue generally trended below projections. Specifically, Corporate Income Tax (CIT), Mining and Petroleum Tax (MPT), dividend collections and Public Money Management Regularisation (PMMR) proceeds were trailing below budget estimates. The 2019 MYEFO projected expenditure to be higher than the 2019 Budget driven by projections of higher personnel emolument (PE) expenditures, rentals and utilities, and interest costs.

The MYEFO projected the fiscal deficit in 2019 at K2,373.1 million (2.7 per cent of GDP), higher by K506.3 million than previously estimated. However, this deficit blowout in the middle of the year was also severely underestimated. Furthermore, failure to secure the programmed external finance combined with the fiscal overhang from 2018, meant the financing program was thrown off track and budget execution derailed. Most of the Medium-Term Debt Strategy (MTDS) and Medium-Term Revenue Strategy (MTRS) targets were delayed over the first half of 2019.

The lower CIT collection was due to a weak business environment and the re-emergence of the foreign exchange imbalance issue after a moderate relief in the last quarter of 2018. MPT collections were impacted by a downtrend in mineral and petroleum commodity prices. On the other hand, taxes on goods and services such as import excises and duties performed better than respective 2019 Budget projections, and offset the slight decrease observed in taxes on international trade. All other tax heads taken together were mostly on trend.

The lower statutory PMMR collection was due to ambitious targets as it was the first time this revenue item was included in the budget resulting in shortfalls in revenue expectations from transfer targets and Fees & Charges. The dividend income from SOEs was reduced to almost a third of the original expectation in 2019.

Following the release of the 2019 MYEFO, a Due Diligence exercise was initiated by the new Treasurer to reassess the MYEFO outcome and the true state of the economy. The due diligence exercise estimated the budget deficit (without policy response) at K4,586.0 million due to a 9.0 per cent deterioration in estimated revenue collection and 12 per cent increase in the expenditures from PE, goods and services, as well as arrears that had been built up in 2019.

The Due Diligence exercise also identified significant government arrears that were outstanding and unrecognised as part of the Government's obligations. The level of these outstanding arrears has become clearer and larger even after the Due Diligence exercise. The results of the Due Diligence exercise were then largely confirmed by the International Monetary Fund during consultation on the Article IV – indeed, the IMF estimated the MYEFO had understated the budget deficit by K2,263 million, K50 million more than the Due Diligence exercise. This demonstrated the scale of the budget challenge inherited by the Marape-Steven Government with the deficit increasing from 3 per cent to 5.8 per cent and debt-to-GDP moving from 31.8 per cent to 41.3 per cent.

Table 1: Due Diligence and IMF review (Kina, million)

	2019 Budget	MYEFO totals	Due Diligence Totals	Interim IMF Article IV Totals	Total change from MYEFO	Recommended Minimum Supplementary Budget Cuts	Supplementary Budget Totals
Revenue	14,267	14,010	12,983	13,022	-987		13,022
Expenditure	16,134	16,383	17,569	17,658	1,275	-1,132	16,526
Deficit	-1,867	-2,373	-4,586	-4,636	-2,263		-3,504
Debt to GDP	30.8%	31.8%	41.2%	41.3%			39.8%
% GDP Interim IMF	-2.3%	-3.0%	-5.7%	-5.8%			-4.4%

Source: Department of Treasury

In managing this scenario, the new Treasurer introduced the 2019 Supplementary Budget which approved a reduction in the 2019 Budget expenditure of K1,482.1 million comprising K1,082.1 million from Capital Expenditure and K400.0 million from the Operational Expenditure. Additional expenditure of K392.6 million was also appropriated in the revised money plan and the re-appropriation of K1,874.7 million in expenditure was due to:

- K856.5 million increase to personnel emoluments (PE), which highlights the Government's struggle in containing PE over the years;
- K521.0 million to cover Government arrears including utilities and rental cost;
- K300.0 million comprising of K100.0 million in Economic projects to Department of Commerce; K100.0 million for disaster funding; K50.0 million to Department of Works for Missing Links Road upgrade and K50.0 million funding for Bougainville infrastructure;
- An additional K122.4 million to cover the increased interest cost payments; and
- An additional K74.8 million for goods and services.

The Supplementary Budget also cut expenditures by K286.5 million from the Service Improvement Program (SIP) and K795.0 million from the Public Investment Program. The NEC quarantined the Health and Education sectors as much as possible and only 13.0 per cent of non-essential expenditures were cut from these sectors. An additional K400.0 million was cut from the operational budget; mostly from administration and other sectors of the budget to avoid cuts from the Health and Education sector.

After instituting the cuts, the Government avoided PNG experiencing its largest ever deficit. The lower deficit required financing of K3,503.9 million and a substantially different financing arrangement for 2019. The previous financing strategy had to be abandoned given its expensive and commercial nature. Approximately K1.2 billion of the deficit will be financed by cash balance left over from the 2018 Sovereign Bond proceeds. The remaining 2019 deficit will be financed by concessional Budget support loans from the ADB and Australia. The K1 billion loan from Australia was sourced at highly concessional rates compared to commercial financing. This demonstrates the Marape-Steven Government's focus on cheap financing from credible and reputable sources. The government is also raising increased funds on the domestic market to fund the deficit.

The 2019 Supplementary Budget also made adjustments to the Government's debt stock from 2018 over and above the deficit. Specifically, the Government recognised a valuation change to the debt stock and state guaranteed loans for which interests were being paid from the central budget to better align with the actual definitions in the Financial Responsibility Act and international best practice on advice from the International Monetary Fund. Together with the revision in the nominal GDP, the 2019 Debt Stock is now estimated to be K32,536.5 million (38.5 per cent of GDP). These figures also exclude substantial arrears which would lift the total figure to K34,518.0 million or 39.8 per cent of GDP. Since the 41.3 per cent legacy figure breached the previous upper limit of Debt to GDP ratio set out in the *Fiscal Responsibility Act 2006* (FRA), the Supplementary Budget also accompanied an amendment to the FRA to move the upper limit of Debt to GDP temporarily to 45.0 per cent. The upper limit for the Debt to GDP ratio shall be reduced to 40.0 per cent in 5 years and to 35.0 per cent in 10 years, and then declining gradually back to the 30 per cent level.

The FRA amendments also defined "concessional debt" being debt raised at less than 5.0 per cent annual interest rate, and "reconstruction and growth debt" being multilateral concessional lending. The FRA amendments will allow flexibility for the Government to allow budget repair by raising cheap and concessional lending, and builds commitment to begin fiscal consolidation over the medium term.

1.4 2020 BUDGET

The 2020 Budget is guided by the Marape Manifesto, which contains 10 declarations covering landowner benefits, economic growth, health and education, security, Small and Medium Enterprises (SME) promotion, a strong Christian identity and public sector efficiency. This Manifesto is made in alignment with the Vision 2050, PNG Development Strategic Plan (DSP) (2010-2030), the Medium Term Development Plan (MTDP) III, the National Strategy for Responsible Sustainable Development (StaRS 2017), and the *Fiscal Responsibility Act 2006 (FRA)* as amended in 2019.

Building on the strategies initiated in the 2019 Supplementary Budget, the 2020 National Budget will focus on achieving expenditure efficiency amidst growing recurrent spending, supporting sustainable investments, broadening the revenue base, lowering costs of borrowing, clearing verified arrears, and reducing exposure to risks and fluctuations.

A key feature of the 2020 Budget is the Government's commitment to address arrears. The table below shows the reconciliation between the IMF figures and the 2020 budget. The IMF figures were developed around the Government's requirement to allow flexibility to pay down arrears and increase capital expenditure. As a result, these are excluded from the measure of the deficit the IMF will use to assess the 2020 budget. As a result, the IMF will only assess performance on this core deficit figure, which the Government is committed through some of the controls and measures included in the 2020 Budget. This allows us to both achieve fiscal restraint but invest in building the PNG and paying the country's debts. This also reflects the Government's achievements in setting the terms of our engagement with the IMF and international partners to meet and align with PNG priorities and objectives.

Table 2: Budget Balance 2020–2024 (% of GDP)

	2019 Pre-Cuts	2020 Budget	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.
Deficit (minus arrears and PIP)	-4,294.8	-2,889.1	-2,746.6	-2,329.5	-2,142.6	-2,288.0
%GDP	-5.2%	-3.1%	-2.7%	-2.1%	-1.8%	-1.8%
Adjuster (arrears)		1052	930			
Adjuster (PIP)		500				
Deficit overall	-4,936	-4,631	-3,677	-2,329	-2,143	-2,288
%GDP	-5.8%	-5.0%	-3.6%	-2.1%	-1.8%	-1.8%

Source: Department of Treasury.

1.3.1 REVENUE

2019 was challenging for revenues but the Government will continue to build on the 2017-18 efforts of broadening the revenue base by progressing revenue reforms and increasing compliance measures.

Total Revenue and Grants for 2020 has been projected at K14,095.4 million (15.3 per cent of GDP). This is K1,073.0 million higher than the 2019 Supplementary Budget estimate of K13,022.4 million. Revenues in 2020 will be supported by compliance work and by a recovery in economic growth, especially in the non-mining sector, Government spending and credit, slight increase in price for gold and expected higher growth in the Agriculture, Forestry and Fishing sector.

Table 3: Revenue 2018-2020 (Kina, million)

	2018 Actuals	2019 Sup. Budget	2020 Budget	Variation
Tax Revenue	10,475.9	10,667.7	11,307.8	640.1
<i>Per cent of GDP</i>	13.2%	12.6%	12.3%	0.0
Grants	1,835.7	943.1	932.1	-11.0
<i>Per cent of GDP</i>	2.3%	1.1%	1.0%	0.0
Other Revenue	1,773.6	1,411.6	1,855.5	444.0
<i>Per cent of GDP</i>	2.2%	1.7%	2.0%	0.0
Total Revenue & Grants	14,085.1	13,022.4	14,095.4	1,073.0
<i>Per cent of GDP</i>	17.8%	15.4%	15.3%	0.0

Source: Department of Treasury

Taxes on Income and Profits are projected at K6,229.5 million in 2020, 1.9 per cent higher than 2019. In Personal Income Taxes (PIT) the administration of credit offsets will continue to be prohibited. Economic recovery of 2019 is expected to flow through to increase Corporate Income Tax (CIT) collections. The 2020 MPTs are estimated to be below 2019 due to sluggish prices of key PNG commodities, especially oil and gas.

Taxes on Goods and Services is projected to be K4,195.1 million in 2020, which is 11.8 per cent higher than 2019. Net GST transfer to WPA will be in line with revised 2019 Supplementary Budget projections factoring in economic growth. Increased excise indexation for alcohol and tobacco will raise revenue collections. Other taxes on goods and services are also factored to increase driven by economic growth.

Total tax collections from International Trade and Transactions in 2020 is projected at K883.2 million, which is 10.7 per cent higher than 2019. In 2020, moderate economic growth combined with the continued implementation of the tariff policy rates and compliance efforts will continue to boost revenues from Import Duties. Soft potential for growth in the international economy is also likely to raise export tax collections but by less than the domestic growth rate.

In 2020, the Other Revenues is projected to increase to K1,855.5 million, which is 31.4 per cent higher than 2019. A total of K800.0 million is expected from dividends in the State's Mining and Petroleum interests and another K150.0 million is expected from the non-mining interests. Reforms in the Department of Lands and Physical Planning will support revenue collections in addition to revenues from PMMR, Fees and Charges.

Tax reforms in 2020 were considered against the backdrop of the difficult fiscal situation. The Marape-Steven Government considered an increase to the GST to help meet the budget deficit but this was rejected due to concerns about the impact on the cost of living for PNG households. Instead a more targeted approach was taken by introducing a simplified SME taxation regime with lower effective tax rates, actions to dramatically reduce anti-social drinking, enhancing land rental collections, addressing revenue loss through the illicit market, giving more concessions to passengers from abroad, increasing the concession to alcohol made from local produce and limiting revenue leakage through the infrastructure tax credit. Specifically, these include:

- Introduce a simplified and more concessionary tax regime for SMEs to encourage more SMEs into the formal sector;
- Enhance Land Lease Rental Payments;
- Address anti-social drinking by increasing excise on "anti-social drinks" by up to 400 per cent including those high alcohol content with stimulants such as coffee;
- Increase on homebrew fines from K200 to between K1'000 and K50,000;
- Increase alcohol and cigarette excise by 10.0 per cent, remove suspension of six-monthly excise indexation rate and revert to 5.0 per cent six monthly increases,

continue applying 2nd Tier to address illicit (untaxed) market, and remove earlier specific excise tax concession for new breweries or manufacturers;

- Capture resource rent on the export of unprocessed old - growth logs by increasing the progressive duty rate from the current average of 32.0 per cent to an average of 50.0 per cent;
- Reduce import excise on imported new and used vehicles;
- Uplift the concessional threshold to K6,000.0 for passengers from abroad over 18 years;
- Broaden the concessional treatment with Tariff Item 2206.00.10 to include alcoholic drinks substantially made from edible produce grown in PNG;
- Tightening the Thin Capitalisation rule;
- Increase the Telecommunication Universal Access Levy and design actions for increasing License Fees; and
- Increase Banking License Fees and examine increases targeting the spreads on foreign exchange spreads.

Revenue measures announced in the 2020 Budget for development, which are to be implemented by 2021 include:

- Rewrite the *Income Tax Act 1959*;
- Introduce tariffs on imports of refined petroleum products; and
- Review the revised tax credit scheme guideline.

1.3.2 EXPENDITURE

In 2020, the Government's approach to a more cost effective and coordinated budgeting has resulted in all priority programs and projects being funded despite a tight fiscal space.

The total expenditure and net lending in 2020 is budgeted at K18,726.5 million, of which, K16,429.4 million is funded by the Government. This is comprised of K12,746.4 million for operational expenditure and K5,980.5 million for capital investment expenditure (note that K300 million for payment of capital arrears is initially allocated to the operational budget). The operational component has been increased by 10.9 per cent to support the implementation of ongoing and priority projects while the capital expenditure has increased by 18.8 per cent to stimulate public investment and private business activity. Total expenditure is higher by K2,593.0 million or 16.0 per cent from the 2019 Budget.

Table 4: 2020 Aggregate Expenditure (Kina, million)

Budget Component	2019 Budget	2019 Supp. Budget	2020 Budget
Operational	10,636.4	11,490.2	12,746.4
Compensation of Employees*	4,522.6	5,379.1	5,672.8
Goods & Services	3,030.6	3,519.3	3,821.6
Function Grants	490.3	490.3	508.7
Debt (Interest Repayment)	1,979.4	2,101.5	2,156.9
GST & Book makers	613.6	613.6	586.4
Capital	5,497.1	5,036.0	5,980.5
PIP	2,563.0	2,387.9	2,573.4
SIP	1,174.4	888.0	1,110.0
Loan Drawdowns	943.1	817.0	1,365.0
Donor Grants	816.9	943.1	932.1
Total Expenditure	16,133.5	16,526.2	18,726.5

Source: Department of Treasury

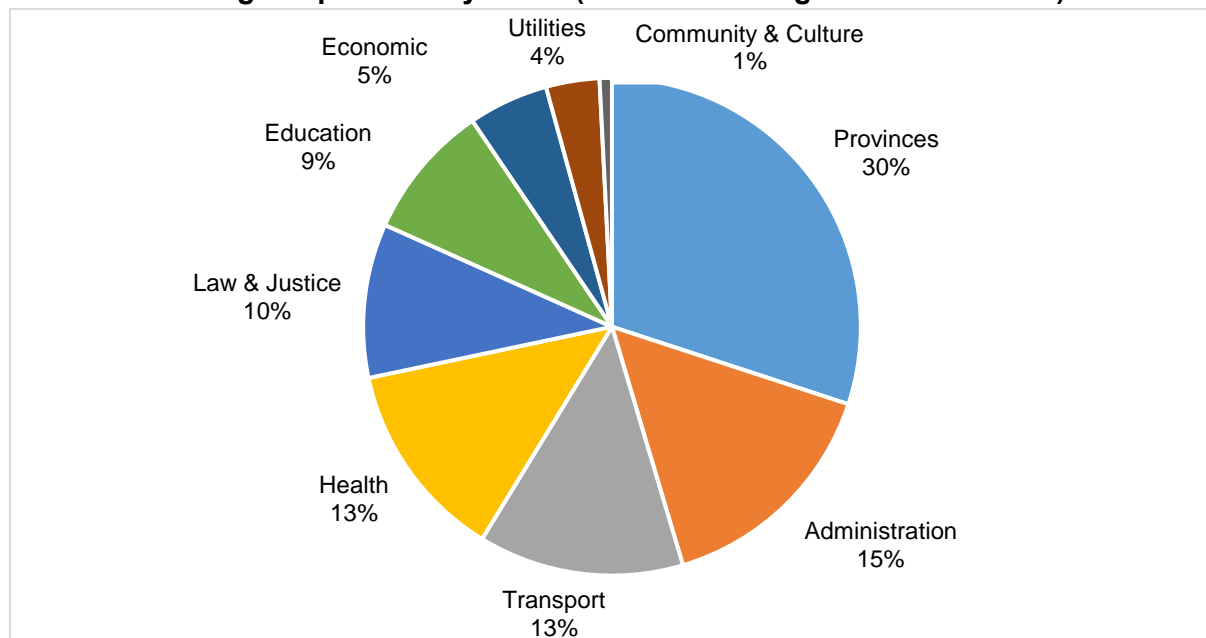
*Formerly referred to as Personnel Emoluments under 1986 GFS framework.

The increase in the operational budget is driven by increases in Compensation of Employees (COE) and Goods and Services (GS) because of the importance to pay down outstanding liabilities in these categories, i.e. public service exit payments worth K430 million in 2020, and rental and utility arrears. Funding and payments for all arrears (including K300 million for capital arrears) and liabilities have been centralised and parked under Treasury, Finance, and Miscellaneous Vote (207).

Budget for COE in 2020 is K5,672.8 million or 44.5 per cent of the operational budget. The COE budget includes salaries and allowances but does not capture social benefits (retirement, retrenchment, gratuities and superannuation) expenditures. Funding for social benefits expenditure is captured under the Treasury and Finance Miscellaneous Vote for better coordination in terms of expending those funds. In 2020, in an effort to manage the overruns, the government will initiate the process of linking the Integrated Financial Management System (IFMS) and the Alesco payroll system to ensure salary expenditures are kept within the monthly warrant ceilings.

The District and Provincial Service Improvement Programs (SIPs) are fully funded at K1,110.0 million. The Government's Public Investment Program (PIP) is budgeted to be K2,573.4 million or 7.8 per cent higher than the previous year (excluding K300 million in capital arrears). The new PIP budget has been revised upwards to correct for the severe undercapitalisation of public investment in recent years and incorporation of the new administration's development agenda. The government also plans on drawing down K1,365.0 million in concessional funding tied to capital projects in 2020. Together the Government's planned capital investment is budgeted at K4,862.4 million and donor planned capital is estimated at K932.1 million.

Chart 1: 2020 Budget Expenditure by Sector (ex. Debt servicing and miscellaneous)



Source: Department of Treasury

The 2020 Budget continues the policy of paying down the Government's arrears accrued over the last few years. Of the total deficit, K1,050.0 million is recognised as Government debt from Industrial Pay Fixation Agreement with Public Servants Association (K120.0 million), Nambawan Supa exit payments (K430.0 million) and contractual arrears of miscellaneous kinds (K500.0 million). In 2020, the new administration is cognizant that Government arrears could be larger and existing arrears have to be paid after verification of claims.

The Government will establish an interagency office in the Treasury to identify, verify and pay outstanding arrears.

The Department of Treasury issued Non-Financial Instructions (NFIs) in the 2020 Budget (Volume 1) for agencies to implement to improve budget operations. All government-funded agencies are expected to report on the implementation status of their respective NFI's in April 2020 as part of the Quarterly Budget review process conducted under the *Public finance (Management) Act 1995* every year. The NFI's are Generic that applies to all agencies and Specific NFIs for individual agencies.

Furthermore, reforms are planned under the Public Sector Organisational Reform Team (PSORT) and the Organisational Staffing Personnel Emoluments Audit Committee (OSPEAC) to control expenditures.

1.3.3 FINANCING

The 2020 financing requirement of K4,631.1 million will take the Government total Debt Stock (including arrears) to K38,115.6 million in 2020. The large deficit also contains repayment of K1.1 billion of the Government arrears which were not previously accounted under Debt Stock. Table 4 sets out the initial plans to finance the budget. The top figures reflect financing that is considered likely to occur. There is a conservative bias in these "confident" financing figures. For example, the domestic financing is shown as K1,000 million even though the formal estimate in Table 27 is a net raising of K1,257.2 million. A further potential domestic financing is shown of an additional K1,000 million in the table and this contributes to the contingency planning of seeking more financing than actually required given the uncertainties of whether all possible financing will be achieved.

Table 5: Composition of financing by instrument for 2020-2021 (Kina, million)

Debt Instruments	2020 Budget	2021 Budget
Cash Deficits (including once-offs)	-4,631	-3,769
Commercial & Other Repayments (excluding net items below)	-899	-920
Total Financing Requirement	-5,530	-4,689
Net Domestic Financing	1,000	1,000
Net Concessional (Project)	992	1,209
ADB and WB Budget Support	544	-
Net Australian Support \$US200m	600	-
Confident financing	3,136	2,209
Funding gap (total financing less confident funding)	-2,394	-2,481
Potential Financing	3,550	3,700
Additional Domestic financing (Nambawan etc)	1,000	1,000
ADB Partial Credit Commercial	900	600
Further WB ADB Budget Support		600
ADB SOE budget support		
Additional Australian \$US500m	1,650	1,500
Funding gap (total financing less confident funding)	-2,394	-2,481
Finance Over-funding (Funding gap after total potential)	1,156	1,219
Additional Financing Requirements		
NCD Roads	-103	-50
Solwara (April 2021)		-375

Source: Department of Treasury

In 2020, the Government also has commitments to pay down K2,354.0 million in amortization expenses for NCD roads state guarantee, commercial lending, concessional loan repayments and the Australian EFA facility.

In 2020, the Government's focus is to re-invigorate the updated Medium Term Debt Strategy (MTdS) to use cheaper external financing as a higher share of overall requirement. Moreover, the Government is aggressively pursuing concessional form of loans from international partners and completed extensive consultations to identify sources of funds that could be used at sub 5 per cent interest rates. These include:

- K1,365.0 million in utilizing the existing concessional loan programs which the Government has signed;
- possible Australian budget support facility that could refinance the 2019 EFA facility;
- existing budget support facilities from the ADB and World Bank totalling to approximately K544 million;
- Possible K900 million in commercial financing through an ADB Partial Guarantee Scheme which would reduce the interest rate to concessional rates; and
- Subscription of a conservative estimate of around K1,000 million in net new issuance from Treasury Bills and Bonds with current financing tables (Table 27) based on around K1,000 million net from Treasury Bonds and a balancing item of around another K300 million net from Treasury Bills less the domestic loan amortisation for NCD roads.

1.5 TAX EXPENDITURE

The 2020 Budget will present the Government's Tax Expenditure Statement (TES). The TES is an effort by the Government to cost the revenue foregone by the Government in tax incentives across different sectors. The TES allows the government to measure the use of the tax incentive against its intended economic benefits to evaluate whether the incentive has achieved its desired goal.

A major change in this edition of the TES is that the estimates of revenue foregone in incentives used in 2018 are more reliable. In 2019, the declaration of the use of corporate tax incentives in the CIT form was made mandatory for the tax to be assessed. This provided better data in the aid of estimating the revenue foregone as previously, the declaration of incentives annually were optional.

In 2018, estimated revenue foregone in corporate income tax incentives in the non-resource sector was K49.0 million and in the resource sector was K65.3 million. In the GST regime, the total GST exemption in the compliant population is estimated at K36.9 million and the estimated cost of zero-rated sales as opposed to regular 10 per cent GST rate is K110.9 million. Finally, the estimated revenue foregone from exemptions in excise and international trade tax regime is K138.5 million. The estimates for revenue foregone in excise and international trade require substantial refinement because data accuracy is low.

Further refinements to estimates will be presented in subsequent editions of the TES. These TES estimates were not reviewed in the Due Diligence exercise.

1.6 NATIONAL REFORM AGENDA

The Government recognises the importance and benefits of undertaking key reforms necessary to help achieve the key development goals and aspirations for PNG. These include:

- the Higher Education Loan Program (HELP) will ensure equitable access to tertiary institutions for Papua New Guineans with zero interest loans that will only be repaid only when earning a reasonable income. HELP will ensure PNG has a workforce equipped to take forward and drive the economy,
- Connect PNG will re-establish and maintain economic corridor across the country that will bring PNG's valuable agriculture sector closer to domestic markets and open to the growing markets across the Asia region;
- reinvigorating labour mobility for PNG workers overseas by establishing a dedicated Labour Mobility Unit at the Department of Treasury. This will work closely with Provinces and Districts to mobilise workers to Australia and New Zealand with the potential to contribute up to K140m in revenues per Province per year; and
- Up to K200m to support SMEs with funding to assist with access to finance, development of an Incubation Centre, construction of infrastructure for Tourism Hubs and development of Industrial Centres. This also complements the tax changes to simplify taxation and reporting to encourage more SMEs in the formal sector.

The Government in 2020, will continue a number of key and existing reform initiatives to strengthen and promote governance, in particular, the transparent and effective management of public monies in the delivery of public goods and services, as well as providing a conducive environment for the growth and expansion of the private sector.

For the 2019 Fiscal year, the Equalisation Amount for provinces under the *Intergovernmental Relations (Functions and Funding) Act 2009* has increased by K15.4 million, a slight increase from K547.3 million in 2018 to K562.7 million. This Grant amount ensures fair distribution of the Government's revenue to each of the provinces based on the cost of minimum services and amount of tax collected from each province. Current allocation arrangements will be reviewed in 2020.

Amalgamation of agencies is also another important expenditure efficiency measure, which the PSORT is implementing to improve the PNG public service. Five agencies have been merged into existing departments while another 6 are in progress. This policy will help in achieving the Government's aim to provide service delivery in a more coordinated manner and in the most cost efficient way.

To ensure that the budget is aligned to the policy priorities, the Government continues to implement the following reforms in Budget process:

- a) Government Finance Statistic (GFS): The 2020 Budget marks the transition into adopting the updated version of GFS 2014 framework, thus making it GFS expenditure compliant. In 2020, the Government will fully roll out the GFS framework to the public sector including public corporations;
- b) Integrated Budgeting: Integrated Budget is being implemented through the collaboration of Departments of Treasury, National Planning, and Monitoring;
- c) Multi-year budgeting process: Partly, already implemented, the multi-year budgeting process enables the Government to provide editable rolling forward estimates that form the baseline for budgets over 5 years to maintain consistency in policy;
- d) Sector led-budgeting: Implemented from the 2018 Budget, is a strategic approach in ensuring agencies within a sector align the delivery of their policies to their sector's plans. 4 sectors have already identified lead agencies and established coordinating committees to feed into the Budget while the rest are being educated;

- e) Policy-driven budgeting: The MTDP III provides targets and strategic investment areas to achieve the critical development goals in the Medium Term;
- f) Performance based budgeting: Monitoring and Evaluation outcomes of the previous budget(s) will determine the allocation of the preceding budget; and
- g) Two-stage budgeting: Two-stage budgeting improves the submission and approval processes in accordance within the Annual Budget Cycle.

The Government will meet its 2019 obligation for Industrial Pay Fixation Agreement for the Public Service Employee Association in 2020 and negotiations for the next pay increase from 2020-2022 will begin this year. The establishment of the OSPEAC secretariat be completed to improve scrutiny and management over payroll. The Government is also undertaking a review of the State's unfunded superannuation liability owed prior to NSL before 1990, which is expected to be completed in mid-2020. The Government will also complete an independent audit of payroll and employment practices to establish a program of reforms.

The Government remains committed to its earlier announcement of reform objectives to improve the performance of the private sector. This includes reforms in the private sector competitiveness legislative and regulatory frameworks, pricing reforms in the transport sector, regulatory reforms in telecommunications to prepare for the on-boarding of the submarine cable, broad reforms under the SME Policy and SME Master Plan, and financial sector under sector development, inclusion programs, consumer protection framework and microfinance.

In 2020, PNG will once again participate in APEC meetings that will be hosted in Malaysia. Through the APEC's 'Three Pillars': Trade and Investment Liberalisation; Business Facilitation; and Economic and Technical Cooperation, PNG was able to achieve a number of deliverables in the various APEC fora including the Committee on Trade and Investment (CTI), Steering Committee on Economic and Technical Cooperation (SCE), Economic Committee (EC) and the Finance Ministers' Process (FMP).

Finally, in 2020, a transitional arrangement will be organised by the Government (formalised through policy) towards the establishment of the SWF Board. As the major feeders into the SWF, both Kumul Petroleum Holdings Limited and Kumul Mining Holdings Limited will undergo a policy mandate restructure, to prudently have a Cabinet Oversight Committee and Technical SWF Establishment Working Committee to assist the State Departments and Agencies to appoint the Board and work towards operationalising the SWF.

1.7 ENHANCING STATE'S INVESTMENTS

1.3.4 EXTRACTIVE SECTOR PROJECT UPDATE

The **Porgera Gold Mine** has reached its leased mine life span in August 2019 and the developer has submitted an application for 20 years Special Mining Lease (SML) extension. This provides opportunity for the State to consider renegotiating the Mining Development Contract (MDC) with the view of increasing Government take in the project or other options to obtain better returns from the project.

OK Tedi mine has picked up after drought affected its operations in August 2015. Current resource projection indicates potential production for further 10 years after its current extension. It also holds a large portfolio of exploration leases near its current operations therefore, continues to undertake exploration activities.

The **Lihir Gold Mine** is the largest in the country and is currently producing over one (1) million ounces of gold per annum. The mine is currently operating in the new pit licensed for operation and production for another 20 years. Due to additional capital expenditures on the new pit, State's Corporate Income Tax (CIT) revenue has dropped. The Government will ensure additional revenue mechanisms are in place through introduction of measurable fiscal terms.

Ramu Nickel, in operation for 9 years, has submitted extension for the project at the cost of US\$2.1 billion. The Government will continue to address any disagreements between the State and project developers to allow continuous production into the future.

The proposed **Wafi-Golpu** project will be producing copper and gold for an estimated mine life of 28 years with an annual production rate of 16.0 million tonnes per annum (mtpa). The project developer submitted its application for Special Mining Lease (SML) in 2016. Initial investment cost is estimated at US\$2.8 billion and the Government is expected to generate US\$9.2 billion from the project. The Government will ensure any disagreements between landowners and project proponents are settled on mutually beneficial terms.

The **Frieda River Copper-Gold Mine (FRCGM)**, part of Sepik Development Project (SDP) submitted a SML application in 2018, with its updated feasibility study report. The project is expected to engage Australian Aid and PNG Government support, under Public – Private Partnership (PPP) program, for infrastructural developments (roads) and other major infrastructural developments.

The Government also notices the importance of other small-scale mining projects which will/are making valuable contributions towards the economy. This includes: Hidden Valley mine, Simberi gold mine, and Woodlark Mining project.

The **PNG LNG Project** is into its fifth year of production. Its production has been above its nameplate capacity of 6.9 million tonnes per annum (mtpa), averaging above 8.0 mtpa since 2016. The project is expected to complete repayment of its debt financing by 2024 and this should ensure increased revenue to its Joint Venture Partners including the State.

The Government expects the proposed **Papua LNG Project** to generate total revenue of US\$40.0 billion for 25 years. The project's infrastructure will include a Gas Conditioning Plant at the field site, pipelines to the PNG LNG liquefaction plant and construction of two LNG trains. Initial construction is expected to commence in 2021 and production in 2024. Its Gas Agreement (GA) was executed between the State, Total E & P, Exxon Mobil and Oil Search Limited in April 2019. State will take-up 22.5 per cent which will be carried by Total at 7.0 per cent interest. The State also secured a 5.0 per cent of annual gas production for Domestic Market Obligation (DMO).

Pasca-A Gas Project, PNG's first offshore gas project, will be developed in two phases of production and sale of natural gas liquids and production and export of liquefied natural gas (LNG). The project is expected to have a life of 26 years.

P'nyang Gas Project has a reserve certification of 4.36 trillion cubic feet (tcf), as indicated in the updated appraisal and included in its Application for Petroleum Development Licence (APDL). The Government ensured that P'nyang Gas project is a stand-alone project and will have a separate Gas Agreement (GA).

The Government has signed Gas Agreement (GA) for the development of **Stanley Gas Project** and issued Petroleum Development Licence (PDL10) in 2014. However, due to unfavourable oil price deemed the economics of the project unviable has meant production has not started. In 2018, the State served a Show Cause Notice to the developer and its

partners for failing to develop the project. The Developers have taken the matter to International Arbitration. This is currently in progress.

In 2019, the PNGEITI Multi Stakeholder Group (MSG) continued to work on the development of the PNGEITI National Policy and subsequent Legislation to provide the avenue for the PNGEITI's transition into an independent entity. The National Executive Council (NEC) in March 2019 approved and endorsed the 'National Policy on Transparency and Accountability in the Extractives Sector in PNG' (PNGEITI Policy). This Policy conforms to a set of objectives that entail the establishment of an independent administrative body to sustain EITI implementation in the country as well as a reporting framework that outlines various disclosure and compliance requirements as subscribed under the EITI Global Standard.

In 2020, the PNGEITI MSG will continue various projects such as Beneficial Ownership disclosure, reporting of Sub-national Payments and other projects proposed including a Scoping Study into the operations of State Owned Entities (SOEs) involved in the extractive sector, a EITI Reporting Law, and a Scoping Study into the possibility of establishing a platform for online reporting for PNGEITI annual report publications. These projects are intended to be undertaken with support from development partners such as JICA and the World Bank.

1.3.5 MANAGING THE RENEWABLE RESOURCES SECTOR

The Government has emphasized prioritizing development of the agriculture sector via reintroduction of agriculture extension services, especially small-scale subsistence agriculture and small-medium scale commercial agriculture. The Government will establish a National Advisory Committee (NACA) on Agriculture comprising representatives from relevant State Agencies to advise the Government through the NEC to implement the reform program,.

The Government has a long-term plan to increase coffee production and ensure better quality control as the global coffee market has become very competitive. The Government through the Coffee Industry Corporation will focus on a Coffee Rehabilitation and Expansion program to rehabilitate existing plantations and consider establishing new smallholder plantations.

The Government will continue to support the coconut industry through funding and supporting the main projects undertaken by Kokonas Industri Koporesen (KIK) to rehabilitate and expand the industry. These projects include Hazard Analysis Critical Control Point (HACCP), Coconut Nurseries Establishment and Seed Distribution (CNESD), Coconut Industry Capacity Building Project (CICBP) and Integrated Coconut Pest and Disease Management (ICPDM).

The Government through the PNG Forest Authority (PNGFA) will start the process of phasing out round log export and increasing downstream processing of timber within country. By 2025, there will be a complete ban on round log exports and all logs have to be processed in country and exported to ensure PNG maximises its return from the harvested timber, while in the long-run promote sustainable forestry.

1.3.6 BROADER REFORMS

The Government's sectoral reform envisions that a comprehensive review in 2020 will outline the framework for developing an Investment registry reporting framework and a contextual sectoral investment plan for most performing sectors of the economy. The reporting framework will assist reporting and consolidating all of the Government fiscal operations on investments at the state agency level to the national government reporting level.

Some of the broader reforms in enhancing the state's investments planned for 2020 are:

- To undertake the development of the next Public Expenditure and Financial Accountability (PEFA) roadmap as a result of the National PEFA assessment conducted in mid-2019. The rationale behind the assessment and reforms is to increase efficiency and effectiveness of service delivery and development outcomes.
- To amend the Public Monies Management Regularization (PMMR) Act to extend its operation of the revenue sharing provisions to a future date endorsed by NEC and expand its coverage to other relevant agencies and authorities. The Act requires 90.0 per cent of the revenue derived from fees and charges collected by state agencies be remitted back to the governments consolidated revenue fund (CRF).
- To develop a relevant and inclusive country Disaster Risk Financing (DRF) strategy that should underpin Government's policy priorities to strengthen financial resilience against natural disasters. Collaboration with the World Bank is already underway to amend the structure of board membership fees and allowances under the Review of the Board (Fees & Allowances) Act 1995. The last amendment of the structure of fees and allowance for boards of state agencies was in 2006.

The Government recognises the state's interests in the extractives sector and its management thereof has paid insufficient benefits to the Government and landowners. As a result, the Government has recognized reforms in the management of the state's extractive interests by:

- completing amendment of the *Mining Act 1992* and amend the *Petroleum Act 1998* to better regulate the extractive industry;
- introduce new policy guiding State participation in resource projects and third party access in the sector;
- introduce a sustainable benefits distribution policy guiding the distribution and management of benefits to landowners and sub-national governments;
- introduce policies on Domestic Market Obligation (DMO) for gas and petroleum products; and
- introduce policies and frameworks ensuring national content in resource projects.

The extractive sector is continuously affected by changing technologies which has altered the monetization of mines and petroleum fields. With lessons learnt from recent projects, the Government plans to strengthen its concessional fiscal regime that has the following goals:

- revenue maximization – minimum State share in total proceeds in a project must be more than 50.0 per cent;
- ensure early revenue stream – emphasis on production rather than profit base taxes;
- project segmentation – projects will be treated upstream and mid-stream to collect resource rents effectively;
- opportunity costs – equity financing risks must be lessened by well analysed and managed revenue from projects;
- fiscal terms – current fiscal terms will be standardized to correct concession and to make them comparable to similar economies globally; and,
- investors – politically free and conducive business environment will be provided for investments in the sector.

CHAPTER 2: ECONOMIC DEVELOPMENTS AND OUTLOOK

2.1 WORLD ECONOMIC GROWTH AND OUTLOOK – DECELERATING GROWTH MOMENTUM, WEAK TRADE AND INDUSTRIAL PRODUCTION

Developments in the global economy and the outlook for key macroeconomic indicators are important determining factors for the PNG economic outlook.

The IMF October 2019 World Economic Outlook (WEO) report indicates a precarious global economic outlook amidst considerable downside risks. Key international variables including movements in commodity prices for PNG exports and foreign investor decisions for pipeline projects developments, and global inflation through PNG imports borne by consumers and businesses alike all affect revenue inflows to Government revenues. The PNG Kina exchange rate and domestic interest rates are also affected which in turn affects valuations for PNG's outstanding loans as well as new borrowing from domestic and overseas markets. The updates on these variables, as presented in the WEO report, present a delicate scenario for the 2020 Budget framework.

The 2020 Budget needs to make assumptions on these key international variables and the basis of these assumptions are presented in the following sections.

2.1.1 Economic Activity

Growth in global economic activity for 2019 is projected to weaken further to its lowest rate since 2008-09. The lower estimated growth rate for 2019 follows the sharp slowdown of the last three quarter of 2018 and the slower paced growth over the first half of 2019.

The risks to global growth have emerged from both economic and political shocks at the micro and macro levels of economies around the world. With many of the downside risks in motion and a precarious outlook ahead, global growth is projected to decline to 3.0 per cent in 2019, which is 0.3 percentage points lower than the April 2019 WEO forecast and the lowest since the Global Financial Crisis (GFC). Growth is projected to rebound to 3.4 per cent in 2020, although still weaker by 0.2 percentage points compared to the April WEO.

Sluggish global growth reflects increasing trade and geopolitical tensions amongst major advanced economies that erupted in late 2018 and has continuously lowered business confidence and discouraged international trade and investments. Growth is expected to improve in 2020 and beyond reflecting moderate growth in major advanced economies.

The medium-term outlook incorporates some resilience as the global economy is expected to improve mainly from recoveries in emerging market economies through the normalization of monetary policy distress and some improved performance of the major economies.

Advanced Economies

Growth in advanced economies moderated in the first half of 2019, after a sharp decline in the second half of 2018. Overall, growth has fallen sharply among advanced economies reflecting a broad-based slowdown in industrial output due to weaker external demand and the repercussions of trade tensions increasing uncertainty for businesses affecting confidence and investment levels. Growth in advanced economies is projected to weaken to 1.7 per cent

in 2019 from 2.3 per cent in 2018. In 2020, growth in advanced economies is forecast to be at the same pace as 2019 with much of the global growth driven by emerging market economies.

The growth rate of advanced economies is expected to remain subdued over the medium term, reflecting a moderate pace of productivity growth and slow labour force growth due to aging populations.

Growth in the United States in 2019 is expected to moderate to 2.4 per cent and further soften to 2.1 per cent in 2020. The expected moderation reflects an assumed shift in the fiscal stance from expansionary in 2019 to broadly neutral in 2020 as policy stimulus from the recently adopted two-year budget deal offsets the impact of the 2017 Tax Cuts and Jobs Act.

Trade-related policy uncertainty has negatively impacted the US economy, but signs of trade resolution late in 2019, the two-year budget deal and the Federal Reserve's policy rate cuts are likely to yield net upward revisions to growth.

Growth in the euro area is expected to improve modestly to 1.2 per cent in 2019 and 1.4 per cent in 2020 as external demand regains some momentum. Effects of some temporary factors like the new emission standards that hit Germany's car production should fade. In 2020 and beyond, growth is expected to improve reflecting firmer domestic demand and the likely conclusion of Brexit to help restore market confidence to lift investment and trade levels.

Japan's growth in 2019 is projected to pick-up marginally to 0.9 per cent, 0.1 percentage points above the 2018 growth rate. In 2020 growth in the Japanese economy is projected to moderate to 0.5 per cent. This reflects expected fiscal accommodation measures to offset the anticipated decline in private consumption resulting from the October 2019 increase in the consumption tax rate.

Emerging Markets & Developing Economies (EMDEs)

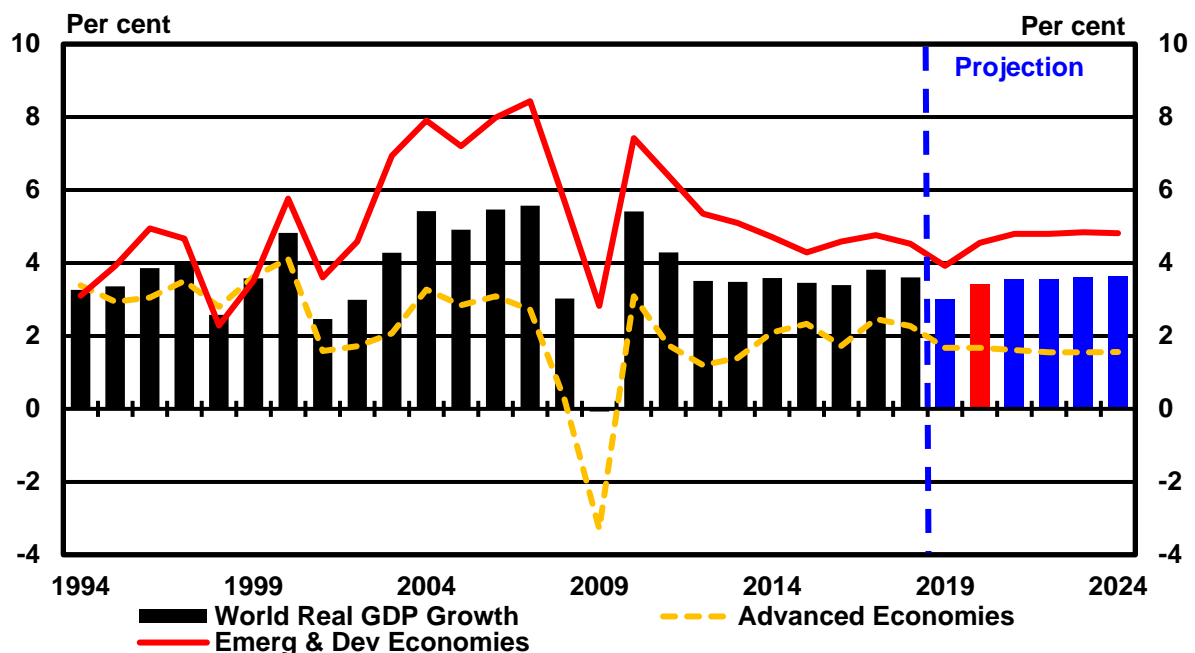
Growth in emerging markets and developing economies is expected to bottom out at 3.9 per cent in 2019 and rising to 4.6 per cent in 2020.

In China, the slowdown in growth associated with structural reforms has been exacerbated by the effects of escalating tariffs and weaker external demand. Fiscal stimulus is expected to continue to support activity. Chinese growth is projected to grow at 6.1 per cent in 2019 and 5.8 per cent in 2020.

Growth in India is projected to slow modestly from 6.8 per cent in 2018 to 6.1 per cent in 2019 and rebound up to 7.0 per cent in 2020. In 2020 growth is projected to improve on the back of the lagged effect of monetary policy easing, a reduction in corporate income tax, recent measures to address corporate and environmental regulatory uncertainty, and government programs to support rural consumption.

Growth in Latin America and the Caribbean region is expected to decline to 0.2 per cent in 2019. The downward revision reflects downgrades to Brazil where mining activity was hurt by disruptions and Mexico where investment levels remain weak and private consumption has slowed due to policy uncertainty, lower confidence and higher borrowing costs.

The overall growth for the region is expected to firm up to 1.8 per cent in 2020, as Brazil recovers on the back of accommodative monetary policy and with improved conditions in Mexico, Argentina and Venezuela.

Chart 2: World Economic Growth (1994-2024)

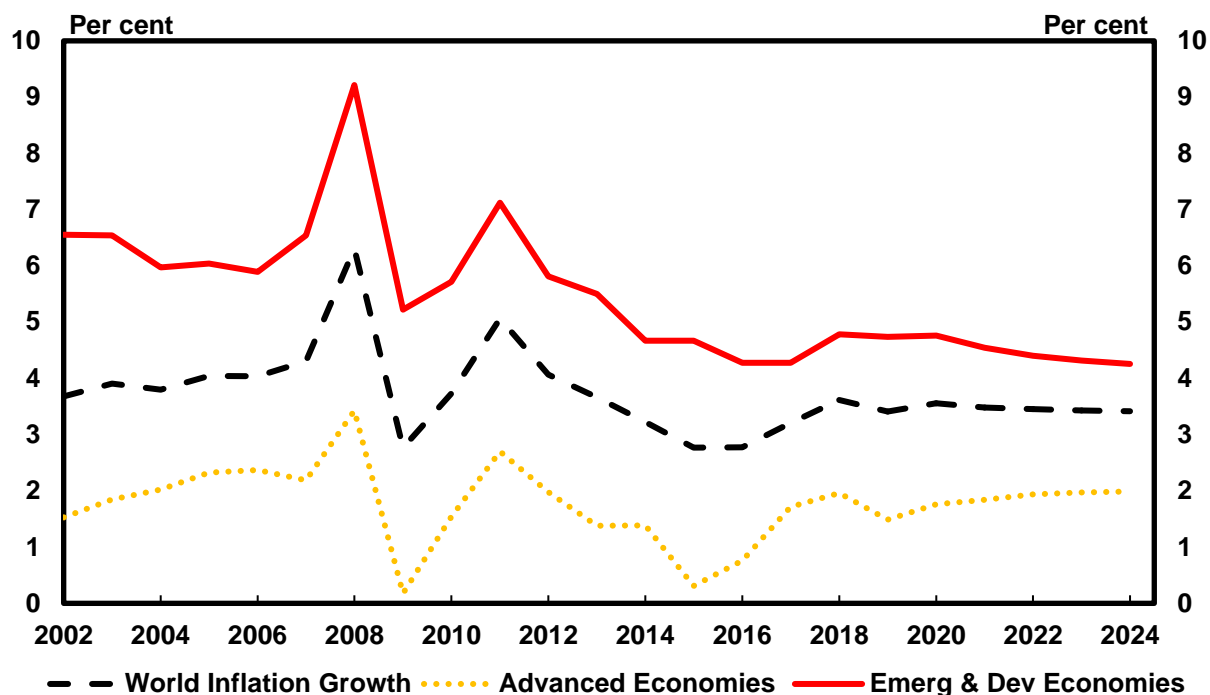
Source: International Monetary Fund (IMF), World Economic Outlook (WEO) October 2018

The global economy remains at an uncertain juncture with per capita growth projected to stay below past norms across most country groups over the medium term. Moreover, conditions are more challenging for a number of emerging market economies that need to adjust their macroeconomic policies sharply. On the outlook, global growth is confronted with a diverse set of headwinds that will affect countries differently. The paramount priority for countries is to remove policy-induced uncertainty such as the no-deal Brexit, the US-China trade dispute, policies toward the Middle East and divergences in climate change action.

2.1.3 World Inflation

Advanced Economies

Inflation in advanced economies has closely tracked the fall in energy prices and moderation in global growth and is expected to average 1.5 per cent in 2019, down from 2.0 per cent in 2018.

Chart 3: World Inflation (Per cent Growth)

Source: International Monetary Fund (IMF), World Economic (WEO) October 2018

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

Inflation in emerging markets and developing economies is expected to decline modestly to 4.7 per cent in 2019, down from 4.8 per cent in 2018, excluding Venezuela and Argentina due to currency depreciation and Russia due to the introduction of the value added tax this year. As expectations become better anchored around targets in some economies and the pass-through from previous depreciations wanes, inflation in the emerging market economy group is set to moderate to about 4.4 per cent over the medium-term.

In China, headline inflation is projected to be at 2.3 per cent in 2019, up from 2.1 per cent in 2018. It is projected to further climb to 2.4 per cent in 2020 and 3.0 per cent over the medium-term, reflecting policy stimulus to increase spending and consumption. Inflation in India has maintained 2018 levels of 3.4 per cent in 2019 and is projected to increase to 4.1 per cent in 2020 and slide back to 4.0 per cent over the medium-term.

2.1.4 Mineral and Petroleum Commodities

Movements in commodity prices continued to track developments in the global economy in 2019 with prices of PNG's major mineral exports, including crude oil, copper and gold displaying different trends during the year.

Despite the production cuts and the supply disruptions, crude oil prices have trended lower together with copper prices, while the gold price has improved. Recent developments including US-China trade tensions, falling industrial output, ongoing uncertainty over Brexit, macroeconomic strains in emerging and developing economies, OPEC and non-OPEC decisions on oil supply, rising geopolitical tensions and prospects of weak global growth have all contributed to the varying trajectories that commodity prices have displayed in 2019.

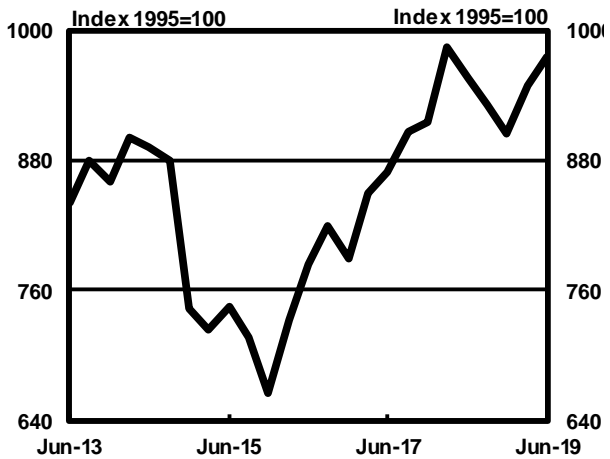
The Bank of Papua New Guinea's (BPNG) All Price Commodity Index¹ shows movements in PNG's key commodity export prices. The index increased by 2.0 per cent in the first half of 2019 following a 10.0 per cent rise over the same period in 2018. Recent data shows the prices of crude oil and base metals weakening somewhat. After trending higher in 2019, gold has also weakened modestly in late 2019. On agricultural commodities, cocoa prices have improved while all other agricultural commodity prices have steadily declined.

Chart 4: IMF All Commodity Price Index



Source: International Monetary Fund (IMF) October WEO

Chart 5: PNG All Commodity Price Index



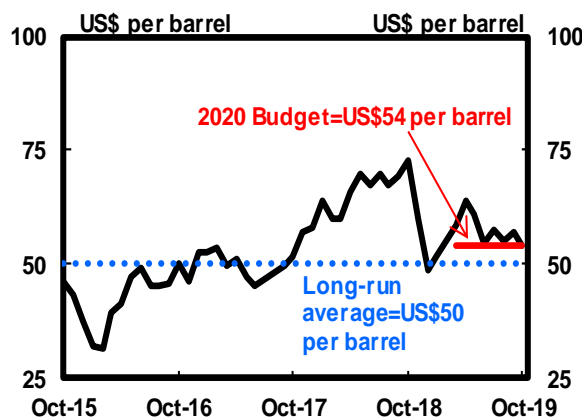
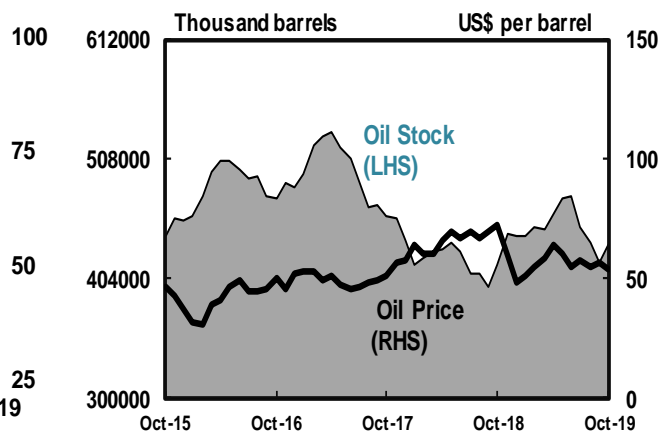
Source: Bank of PNG

Crude Oil

After falling in late 2018, crude oil prices have remained relatively stable, trading within a narrow range through 2019. In April, oil prices (Brent) peaked at US\$71 per barrel (WTI traded above US\$60.0 per barrel and peaked at US\$65.0 per barrel), driven by positive momentum in the financial market, supply cuts and declining US shale oil stockpile. Since then, however, oil prices have declined significantly due to record high production growth in the United States and subdued world economic growth (especially in the emerging markets). In response to the price decline, OPEC and non-OPEC oil exporters in July agreed to extend their December 2018 production cuts until March 2020.

Over the year to October 2019, oil prices (WTI) averaged around US\$56.8 per barrel, 12.2 per cent lower than average 2018 prices. In line with international factors including the weaker global growth prospects, ongoing US-China trade tensions and growth in US shale production, prices are anticipated to fall further over 2020, although are expected to remain higher than in 2015 to 2017 when oil prices dipped below US\$50.0 per barrel which drastically affected oil-related tax collections in PNG. Overall, oil prices are expected to average around US\$58.0 per barrel in 2019.

¹ BPNG 2019 June quarter QEB data.

Chart 6: Crude Oil Price**Chart 7: Crude Oil Price against Stock**

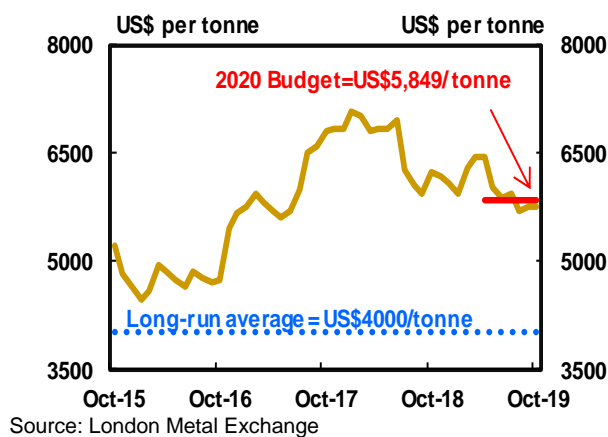
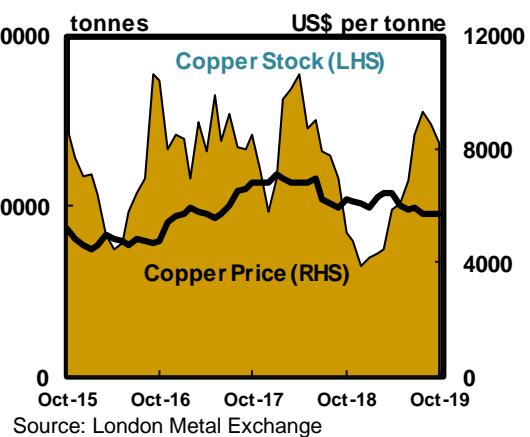
Source: International Monetary Fund (IMF) & US Energy Information Administration (EIA)

Looking ahead into 2020, OPEC and non-OPEC oil exporters' compliance to production cuts will be crucial in supporting prices amidst growing US shale production and weak global demand conditions. Although US production has been modest in 2019, it is expected to rise substantially in 2020 thus putting downward pressure on prices. Balancing these anticipated developments, the oil price assumption underpinning the 2020 Budget is for prices to average around US\$ 54.0 per barrel in 2020.

Copper

After the cyclical peak in 2018, the copper price has subsequently extended its declining trend to October 2019 driven by reduced industrial activity in China and concerns surrounding the weaker global economic growth trends. After falling initially in first half of 2019, the price declined to a year-low of US\$5,537.0 per tonne in September.

China accounts for around half of the world's refined copper consumption. The reduced industrial activity in China coupled with negative impacts of the US-China trade tensions continued to weigh on Chinese copper demand this year. In addition, recent updates on the global economy indicates lower copper consumption in other economies apart from China. This bearish demand outlook is offset in part by lower supply projections including recent production cuts in the Republic of Congo, a labour dispute in Chuquibambilla (Chile), and increasing extraction costs in Indonesia's Grasberg mine. In 2019, copper prices have averaged around US\$5,742.9 per tonne, about 11.9 per cent lower than 2018 levels. Overall, copper prices are assumed to average around US\$5,989.0 per tonne in 2019.

Chart 8: Copper Price**Chart 9: Copper Price against Stock**

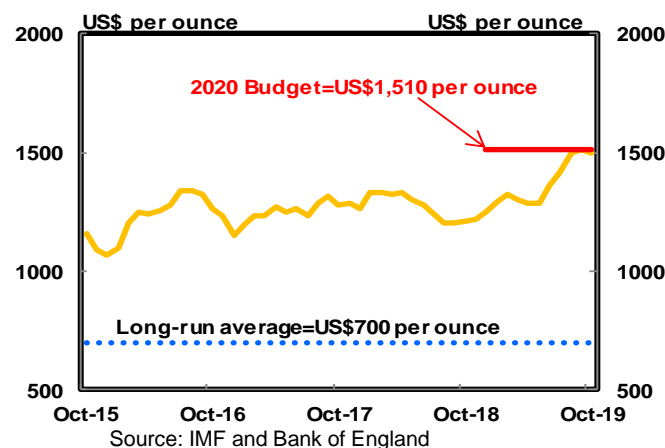
Looking ahead into 2020, while trade tensions and slower paced global growth are expected to continue to weigh on copper prices, fundamental drivers, including an expected rebound in consumption from China driven by government spending on infrastructure and investment supported by expanding demand outside China are likely to result in upside risks to prices.

On the supply side, risks relating to strikes and natural phenomena pose a continual threat to supply. Balancing these factors, the copper price assumption underpinning the 2020 Budget is for an average copper price of US\$5,849.0 per tonne in 2020.

Gold

Gold prices have sustained an upward trend since December 2018, reaching a six-year high of US\$1,500 per ounce in early September 2019. This increase was supported by the rise in safe-haven demand for gold due to the escalation of trade tensions between US and China, volatility in financial markets, escalating US-Iran tensions and easing monetary policy in the US and elsewhere. Gold purchases by central banks have also provided some support to the gold price.

Over the year to October 2019, gold prices have averaged around US\$1,376.0 per ounce, 8.4 per cent higher than 2018 levels. As markets respond to ongoing trade tensions and geopolitical problems, gold demand is expected to continue to be robust over the remainder of 2019. Based on these developments, the gold price is assumed to average around US\$1,380.0 per ounce in 2019.

Chart 10: Gold Price

In 2020, the expectation that the US-China trade tensions will continue for some time yet and with strong central bank appetite for gold over the next few years, gold's safe haven appeal should continue. Balancing these developments, the gold price assumption underpinning the 2020 Budget is for gold to average around US\$1,510.0 per ounce in 2020.

2.1.5 Agriculture Commodities

Prices for all PNG's key agricultural export commodities, except cocoa, have displayed a declining trend over 2019, which has been largely due to international supply and demand.

Coffee

The global coffee market has remained well supplied in the 2018/19 coffee season resulting in coffee prices displaying a downward trend during the year. The oversupply is largely due to a bumper crop harvest in 2018/19 by most of the major coffee producing countries.

On the demand side, world coffee consumption has steadily declined in line with lower global growth in 2019 and this trend is expected to be maintained next year. With demand falling and production expected to be more than adequate in the current coffee year, coffee prices in 2019 are expected to trade below 2018 levels.

Furthermore, if favourable weather conditions continue for the major coffee growing countries, markets should remain well supplied, with the lower prices of 2019 persisting into 2020.

Cocoa

Cocoa price movements continued to reflect fluctuations in supply and demand in the cocoa market. Cocoa prices increased during the first half of 2019 supported by tight supply in Ivory Coast and Ghana (the two leading cocoa producing countries) due to unfavourable weather conditions. This lent support to cocoa prices initially. Favourable weather conditions experienced in July and August by West Africa boosted production in that region thus exerting downward pressure on cocoa prices temporarily.

Since then, the cocoa price has rebounded and peaked in October 2019 driven by increasing demand from Asia, particularly in India and China as well as some recovery of the British pound against the US Dollar². At the same time, cocoa exports from the Ivory Coast to US have recently come under scrutiny after US warnings that it would block cocoa imports into US unless shipments are demonstrated to be free of child labour. Barring Ivory Coast cocoa from reaching US could dampen supply and thus put upward pressure on prices.

With markets not well supplied in 2019 and increasing demand, cocoa prices are expected to be slightly higher than 2018 levels in 2019. This trend is expected to be maintained in 2020, although some downward price pressure could result from favourable weather conditions.

Palm Oil

Palm oil prices continue to be dictated by supply developments in Southeast Asia and demand growth in advanced and emerging markets. Prices have dropped in 2019 reflecting ample supply in Indonesia and Malaysia (the two largest oil palm producers) due to favourable weather. In contrast, demand was less supported owing to some importing countries reducing

² The historical center of the cocoa market (buying, selling and pricing) has been in London, therefore, the price of cocoa tends to move higher and lower with the value of the British pound against US dollar. When pound strengthen against US dollar, price of cocoa rise and vice versa.

imports on environmental concerns, rising competition from other substitutes (soybeans, etc.), US-China trade issues and subdued global growth.

With the market well supplied and weakening demand, prices are expected to fall below 2018 levels in 2019, however, are expected to pick up in 2020 reflecting more balanced demand and supply fundamentals in the oil palm market.

Copra Oil

Copra oil prices have been on a decline since the start of 2019 due to oversupply in the market. The major producer – the Philippines - has been lifting output after the adverse weather conditions (typhoons) in 2017. Likewise, demand has also been affected by bad market publicity recently. The World Health Organisation (WHO) raised concerns that coconut oil increases cholesterol levels and the risk of heart diseases. Increasing coconut oil production against lower demand has resulted in a decline in copra oil prices. Looking ahead, output is expected to increase with higher export volumes from major producing countries including the Philippines and Indonesia.

With the market in surplus and demand softer, coconut oil prices are expected to remain low in 2019 and 2020.

Chart 11: Price Index of Palm Oil & Coffee

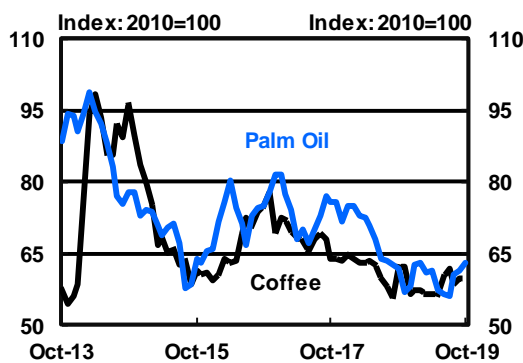
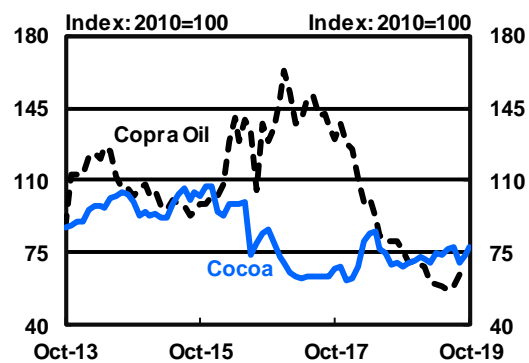


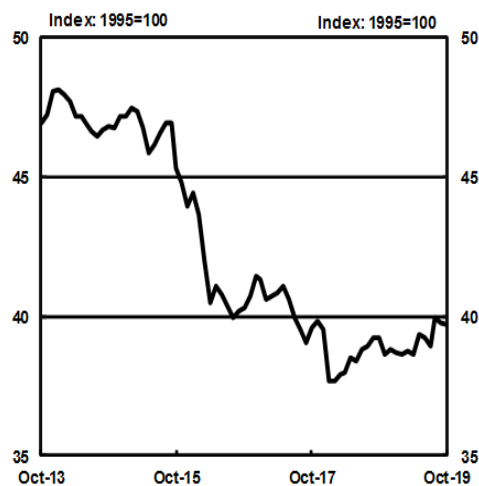
Chart 12: Price Index of Copra & Cocoa



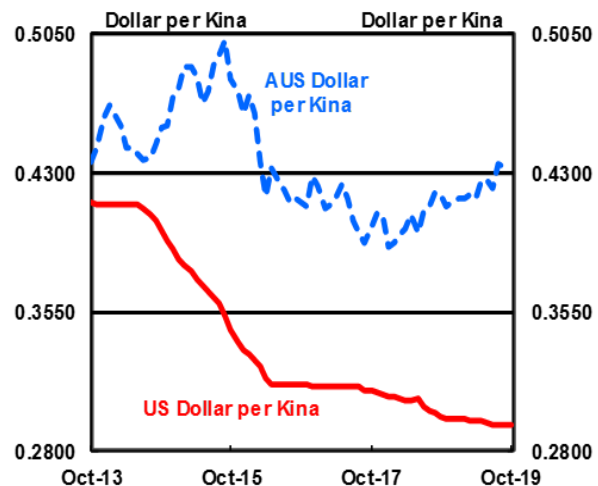
Source: International Monetary Fund (IMF) and Reuters

2.2 EXCHANGE RATE DEVELOPMENTS

After significant falls in recent years, PNG's Trade Weighted Index (TWI) rose in 2018 and has maintained a steady increase in 2019. Over the year to October 2019, the PNG TWI rose by 1.9 per cent, compared to the corresponding period last year. The rise in the TWI reflects appreciation of Kina against its major trading partners particularly the Australian Dollar, which more than offset the depreciation against the US Dollar. The Kina depreciated by 1.2 per cent against the US dollar and appreciated by 4.6 per cent against the Australian Dollar over the same period.

Chart 13: Trade Weighted Index

Source: Bank of Papua New Guinea

Chart 14: Exchange Rate Developments

Between end 2018 and October 2019, the Kina also appreciated against the Chinese Renminbi (+2.0 per cent), New Zealand dollar (+6.4 per cent) and Euro by (+2.0 per cent), however, depreciated against the Singapore dollar (-1.0 per cent), Malaysian Ringgit (-0.7 per cent), the Japanese Yen (-4.7 per cent) and the Hong Kong dollar (-0.7 per cent).

The appreciation of the Kina against Australian dollar is due to the weakening of the Australian dollar against the US Dollar reflecting Australian monetary relaxation and decrease in commodity prices. In contrast, the depreciation of the Kina against US Dollar is attributed to the shortage in the foreign exchange market for US Dollars.

2.3 DOMESTIC ECONOMIC DEVELOPMENTS AND OUTLOOK

DOMESTIC ECONOMIC DEVELOPMENTS AND OUTLOOK

2.3.1 Summary of Developments in 2019 and Outlook

Subdued demand and uncertainties over supply in global markets have affected prices of key PNG petroleum, metal and agricultural commodity exports, except for gold.

In particular, the Oil and Gas sector has rebounded substantially in 2019 lifting by 14.4 per cent driven by higher production resulting from strong PNG LNG production after the 2018 earthquake disruptions.

The Mining & Quarrying sector is expected to grow, in real terms, at 2.3 per cent in 2019, an improvement from 1.0 per cent growth reported in the 2019 MYEFO. The improved outlook reflects increased gold output which more than offset downgrades in nickel, cobalt and copper output.

In 2019, the Agriculture, Fisheries and Forestry sector (AFF) is expected to grow at a slightly lower growth rate of 2.5 per cent, down from 2.7 per cent reported in the 2019 MYEFO.

Growth in the Non-Mining sector is unchanged (on the 2019 MYEFO projection) at 2.9 per cent for 2019, reflecting supply constraints in the AFF sector and flat domestic demand reflected in

the business liaison survey³. For 2019, economic activity shown in the Business Liaison Survey looks flat reflecting subdued demand in the goods market from the household sector and increased operational costs in the business sector.

Overall, the PNG economy is projected to grow, in real terms, at 5.0 per cent in 2019 – a stronger than expected rebound from the 4.4 per cent reported at the time of the 2019 MYEFO. This reflects predominately the higher-than-expected rebound in Oil and Gas sector output following earthquake related disruption to output in early 2018, supported by an improvement in Mining and Quarrying sector growth.

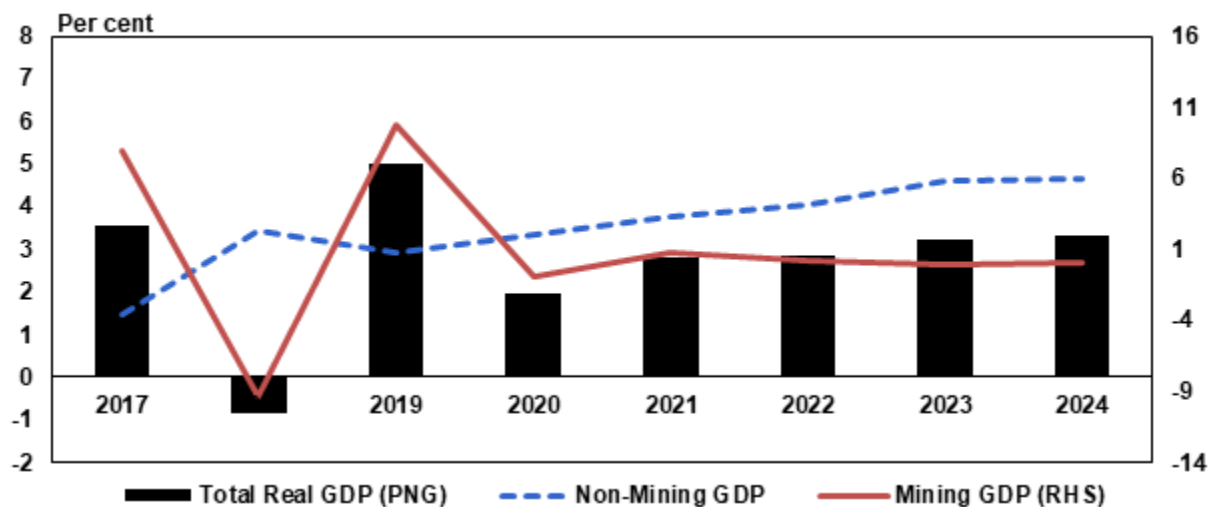
Over the medium-term (2020-2024) real growth is projected to decelerate to 2.0 per cent in 2020 before recovering gradually over the medium term. The deceleration in 2020 growth is mainly attributed to the Oil and Gas sector, which reflects LNG and Condensate production return back to usual levels from the increase in 2019. The gradual growth profile beyond 2020 is underpinned by expected improvement in sectors other than mining and petroleum driven by expansionary fiscal capital expenditure in the early years and major reforms targeted at improving State Owned Enterprises (SOEs) efficiencies and bringing balance back to the foreign exchange market. The resource sector is projected to flatten in 2022-24 driven by assumed projected plateauing in output for petroleum and mining sectors over that period. No new large resource projects have been assumed in the projections and, if these were to occur, then there are clearly upside benefits to the projections.

The real and nominal Gross Domestic Product measures underpinning the 2020 Budget economic projections are based on the recently released 2017 National Accounts statistics published by the National Statistical Office (NSO) on the 8th November 2019.

2.3.2 Domestic Economic Activity

The domestic economy is estimated to expand by 5.0 per cent in 2019. This is higher by 0.6 and 1.0 percentage points compared to the growth forecast reported in the 2019 MYEFO and the 2019 Budget, respectively. The upgrade in growth is driven primarily by the resource sector, particularly the stronger than expected growth in Gas and Condensate output reported by Exxon in October, supported by an uptick in mining output, whilst growth for the non-resource sector has been revised down slightly from 3.1 per cent in the 2019 Budget to 2.9 per cent.

³ The Business Liaison Sectors (BLS) are all sectors of the economy except AFF, Mining & Quarrying and Oil and Gas. Growth projection in these sectors are maintained through the Treasury's business liaison group which has large industry representatives.

Chart 15: Real Economic Growth (2008-2024)

Source: Department of Treasury

Growth in the Oil and Gas sector for 2019 is projected to rebound strongly at 14.4 per cent. This is higher than the 13.0 per cent growth envisaged in the 2019 MYEFO. After the abnormalities relating to the earthquake in February 2018, the LNG project increased output substantially ramping up production rates to 8.6 million tonnes per annum (mtpa) in the first half of 2019, well above the project's nameplate of 6.9 mtpa. According to Oil Search Limited's first half results for 2019, the PNG LNG project production is projected at a range of 8.1 to 8.7 mtpa.

The projected uptick in the Mining and Quarrying sector growth of 2.3 per cent has also supported overall growth. This is an improvement from the 1.0 per cent growth forecast in the 2019 MYEFO. The improved growth rate reflects mostly higher than expected gold output in a number of gold mines including Ok Tedi and Porgera, while output from Lihir is expected to remain flat. Operations of these mines were also affected by the earthquake in 2018.

Growth in Non-Mining GDP has been revised down slightly by 0.2 percentage points from 3.1 per cent in the 2019 Budget to 2.9 per cent. The downward revision is due to lower growth in the Agriculture Forestry and Fishing (AFF) sector (revised down to 2.5 per cent from 2.8 per cent) driven by: (i) lower palm oil output due to the impact of volcanic activity in the West New Britain Province and (ii) the removal of early works spending of new extractive projects that were initially incorporated in the baseline of the 2019 Budget to commence in the second half of this year⁴.

The Business Liaison Sectors (BLS) have been severely constrained by softness in demand largely due to subdued economic conditions and this is expected to continue over the remainder of 2019. In part this reflects the tightness in government spending over 2019 to date. The persistence of the foreign exchange imbalance and increasing utilities' rates, such as electricity and telecommunications, have also dampened growth in the majority of the BLS sectors.

⁴ Note – economic impacts of such projects are not factored in the growth projection until Final Investment Decision (FID) is reached. Delays in confirming FID meant the economic impact of these projects were removed until a further update on respective FIDs.

2.4 2020 ECONOMIC OUTLOOK

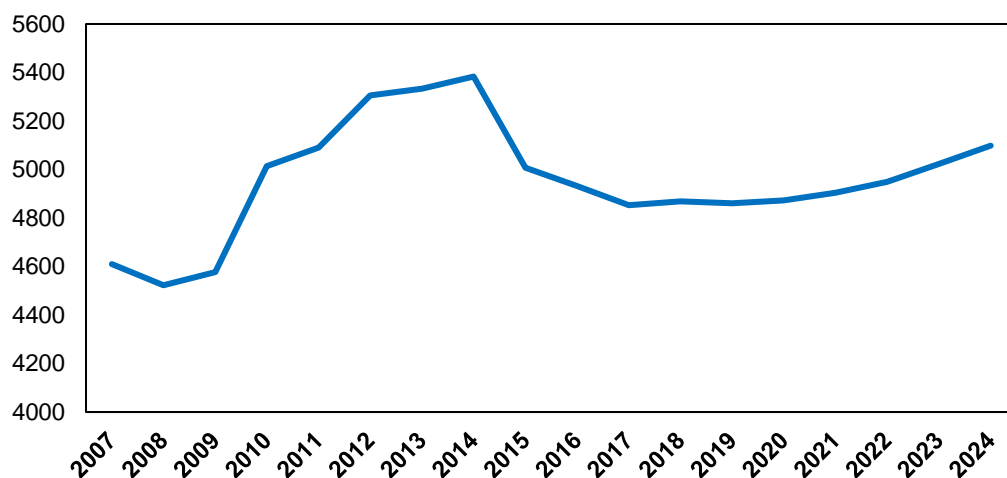
The 2020 economic outlook seeks to combine a better understanding of some key economic variables. The Marape-Steven Government will concentrate its economic attention on broad-based, inclusive growth. The focus will be on incomes, jobs and better economic management.

Living Standards

Future discussions of PNG's economic outlook will place greater attention on the non-resource sector. This is the area of the economy which has the greatest impact on the livelihoods of most people within the country. For PNG, the best measure of economic livelihoods is the measure of non-resource GDP, which also takes into account the impacts of inflation (price increases) and a growing population. This measure is called "real non-resource GDP per capita".

Chart 16 sets out the measure of the "real non-resource GDP per capita" livelihoods indicator from 2007 to 2017, and then estimates through to 2024 based on NSO numbers and Treasury projections. After reasonable growth in the 2000s, which continued through the PNG LNG construction phase, there has been a major slowdown. Average living standards are estimated to have declined by K520.0 for every person in the country from an average of K5,380.0 in 2014 down to K4,860.0 in 2019. There is a slow process of recovery based on current policies to increase growth in the non-resource sector. The new Government is committed to lifting the growth rate of the non-resource economy to over 5.0 per cent per annum.

Chart 16: Non-Resource GDP per capita



Source: Department of Treasury

Gross Domestic Product (GDP)

In 2020, real non-resource growth is projected at 3.3 per cent, which is an improvement from 2019. Growth in the agriculture, forestry and fishery sector is expected to be 3.4 per cent. The growth in agriculture is driven by the on-season in coffee, increased projected Palm Oil production, and increased cocoa yields from the ongoing revitalization in the cocoa industry. The information and communication sector is expected to grow at 8.0 per cent reflecting better communications access flowing from the Coral Sea cable. This sector is expected to continue its strong growth for the following two years.

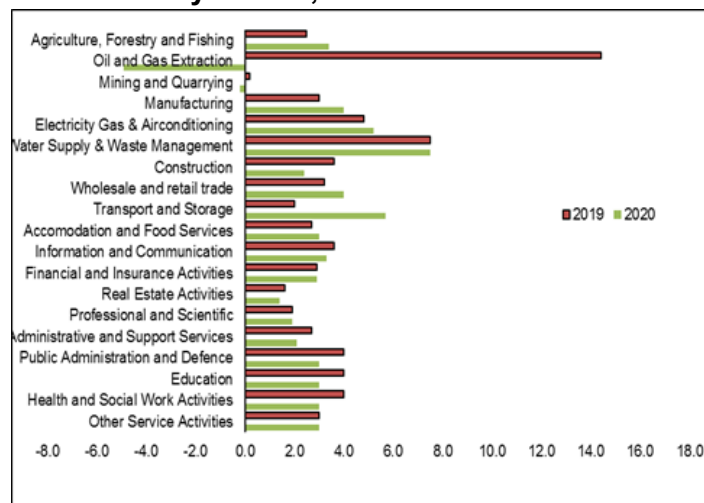
In 2020, the PNG economy is expected to return to a lower real growth rate of 2.0 per cent reflecting lower Oil & Gas sector growth as LNG production reverting back to normal production levels following the stronger rebound in 2019, coupled with the maturing oil fields' profile.

The Oil and Gas sector is projected to decline by 4.9 per cent from the historically high levels of 2019, with LNG and Condensate production declining by 1.8 per cent to 437 Tbtu from 445 Tbtu and 18.2 per cent to 9.0 MB from 11.0 MB, respectively. The projected stronger growth in the Mining and Quarrying and AFF sectors are expected to offset the decline in the Oil & Gas sector.

In 2020, the Mining and Quarrying sector is projected to grow at 6.2 per cent, 4.0 percentage points higher than the growth rate in 2019. This reflects higher projected gold, copper, nickel and cobalt production in key mining projects. Gold production is expected to increase over 2019 levels in Porgera and Ok Tedi, with the latter increasing copper production as well.

The AFF sector is projected to grow at 3.4 per cent in 2020 driven by the anticipated higher yields from Cocoa and Coffee as a result of current replanting programmes in the cocoa industry and the on-season effect for coffee. This is expected to more than offset the slight decline in palm oil production caused by volcanic activity with the impact being felt in next year harvest.

Chart 17: Contribution to Growth by Sectors, 2019 and 2020



Source: Department of Treasury

The Non-Mining sector is expected to grow by 3.3 per cent in 2020. Besides a strong growth contribution coming from the AFF sector, the Government's expansionary capital expenditure program, the operationalisation of the submarine cable, planned reforms targeting higher efficiencies in selected SOE operations and an easing of the imbalance in the foreign exchange market, are all expected to generate a more positive growth trend in the non-mining sector. Whilst these growth factors are expected to be supportive of specific sectors, spill-over benefits will be extended to other non-mining sectors.

The construction sector is expected to grow at 3.5 per cent in 2020 driven by the anticipated government-led projects consistent with the planned expansionary capital expenditure program in the 2020 Budget. The government (fiscal) multiplier effect is assumed to be 0.4 per cent. This growth rate also reflects expected private sector construction spending including the recently announced Steamships building in downtown CBD and construction of the new shopping mall beside City Hall in Waigani.

The Information and Communication sector is forecast to expand in real terms by 7.3 per cent in 2020, compared to 3.6 per cent in 2019. This reflects the anticipated increased connectivity

both internationally and domestically through new projects under the pipeline. On the international front, the completion of the Coral Sea Submarine Cable (C2) project system for commercial use from January 2020 is expected to boost international connectivity.

The new system is expected to boost capacity, speed and accessibility for internet, communication and technology in the economy. Domestically, a sub-project known as the Kumul Submarine Cable Network (KSCN) is a domestic cable that runs along the coastline of the country. The KSCN consists of three systems with system 2 operationalised in early 2019, and systems 1 and 3 expected to be operational by mid-2020. The spill-over benefit of those projects is expected to affect other sectors in terms of reduction in internet and communication costs and increase in productivity from having access to fast and accessible internet services.

Electricity Gas & Air Conditioning is estimated to expand in real terms by 5.0 per cent in 2020, compared to 4.8 per cent in 2019. This growth accounts for full operation of the Niupower Limited Gas-Fired power plant outside Port Moresby – a new independent power producer co-owned by Oil Search and the State (through KPHL), with the potential to supply around 58 megawatts (MW) into the Port Moresby City grid from January 2020.

In 2020, the oil and gas sector is expected to fall by 4.9 per cent, reflecting underlying declines in gas and oil production with the end of the “rebound” effect in LNG production after the earthquake. On the other hand, strong growth is projected in the mining and quarrying sector (6.2 per cent) driven by projected increased production in copper (Ok Tedi), gold (Ok Tedi and Porgera while Lihir is flat) and Nickel & Cobalt from Ramu Nico.

Medium Term Outlook (2020-2024)

Over the medium-term, the PNG economy is expected to grow at an average compounded rate of 3.1 per cent, which is to be driven primarily by growth in the Non-Mining sector. The Non-Mining sector is projected to expand on average by 4.3 per cent over the medium term.

Non-Mining sector's growth is mainly supported by the AFF sector which is projected to grow at an average annual growth rate of 5.8 per cent over the medium-term. Growth in the AFF sector reflects increased yields from the new plantings in the cocoa industry associated with agreements between the Cocoa Board and 13 cocoa growing districts to plant one million cocoa clone trees in each of the participating districts. This initiative is part of the Private Partnership Agreement Project (PPAP) between the World Bank and Government of PNG with the objective to revitalise the cocoa industry following the destructive cocoa pod borer (CPB) infestation.

Apart from the AFF sector, planned reforms targeted at transforming SOEs to have greater operational efficiency, mostly in the electricity and telecommunication sectors, is expected to have broad-based positive effects on other sectors in terms of cost reduction. In addition, financial sector reforms aimed at eliminating the current bottleneck to international trade, including the removal of the foreign exchange imbalance, will improve trade and business confidence and activity. Overall, these reforms are crucial and will exert a needed boost to economic activity in the economy.

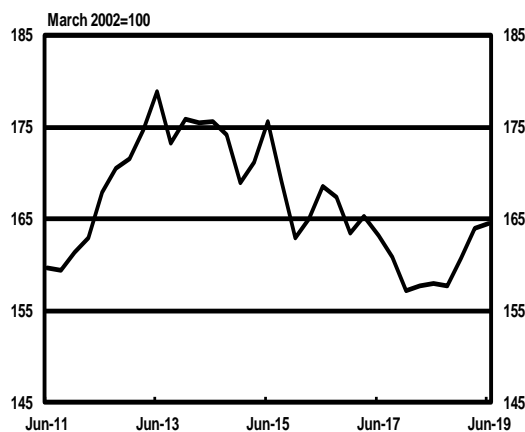
The Mining and Quarrying sector is expected to expand modestly by 1.9 and 0.4 per cent in 2021 and 2022, respectively, before plateauing in 2023-24. This projected growth profile is underpinned by an expected flattening in output on the assumption that mines are maturing. There are, however, projects in the pipeline where additional mines are likely to come online, thereby changing the growth profile of the sector.

The Oil and Gas sector over the medium term is forecast to achieve zero growth driven by the plateauing of gas, condensate and oil production. The PNG LNG project output is expected to be flat as the project maintains its production rate at sustainable levels. Despite the maturing oil fields, optimisation activities by Oil Search are anticipated to maintain oil production levels over the projection period. According to Oil Search's Managing Director, the company is confident of extending oil production until 2024 given its extensive oil field optimisation program in operated oil fields. These developments support Treasury's view of a flat growth profile.

2.5 LABOUR MARKET

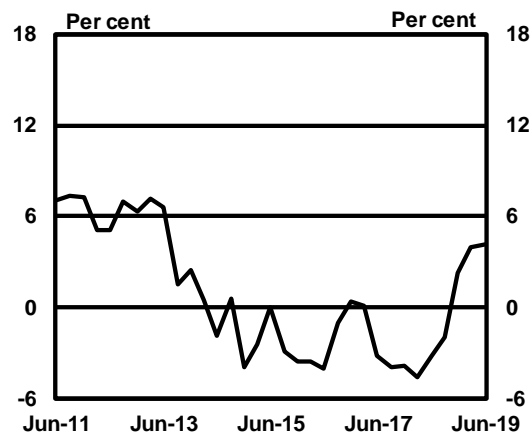
Total employment numbers have shown improvement in 2019. According to the BPNG's June employment statistics, total employment grew by 4.2 per cent (see Chart 19) through the year to the June quarter of 2019 driven largely by a 21.0 per cent growth in mining sector employment (see Chart 20).

Chart 18: Employment Index



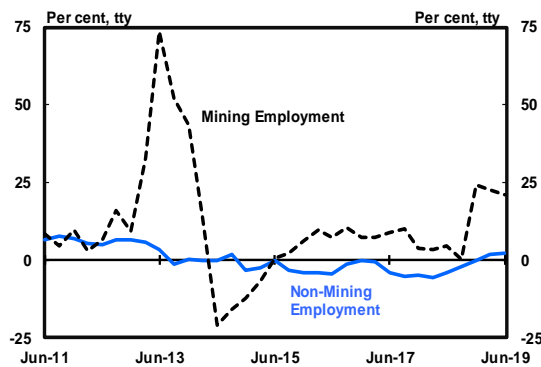
Source: Department of Treasury and Bank of PNG

Chart 19: Total Employment Growth

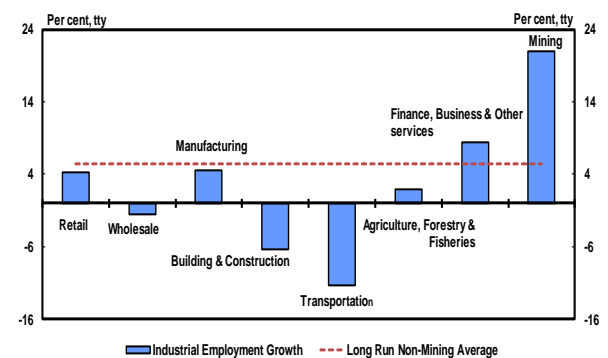


Growth in non-mining sector employment increased by 2.1 per cent over the same period (see Chart 18) reflecting increased activity in the retail, manufacturing, finance and agricultural sectors. Increased foreign exchange inflows and private sector borrowing have supported activity in these sectors. In addition, discussions during the recent Treasury Business Survey⁵ revealed that a number of manufacturing and retail companies highlighted that they have recruited additional workers in 2019 to cater for new products lines and new supermarkets, as well as re-employing employees who have been laid off due to the weak business conditions experienced in 2018.

⁵ The survey was conducted in March 2019 on major companies in business sectors including retail, wholesale, manufacturing, agriculture, construction and finance.

Chart 20: Mining & Non Mining Employment Growth

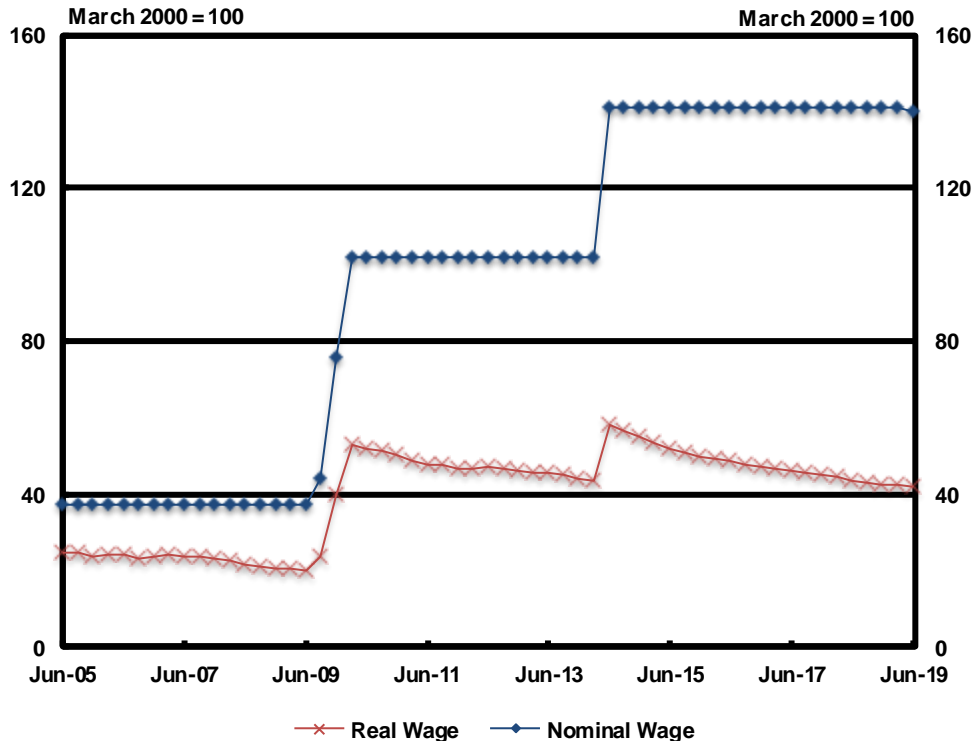
Source: Bank of PNG

Chart 21: Industrial Employment Growth

Through-the-year to the June quarter 2019, the non-mining sectors that have contracted employment were transportation (down 11.3 per cent), building & construction (down 6.4 per cent) and wholesale (down 1.5 per cent), while positive growth was seen in financial, businesses & other services (up 8.5 per cent), manufacturing (up 4.6 per cent), retail (4.2 per cent) and agriculture, forestry & fishery up by 1.9 per cent.

Nominal Salary and Wages

The last Minimum Wage Board (MWB) Determination was in July 2016 that remains in effect with the nominal salary and wages index in PNG set at K140.8 per week.

Chart 22: Wages Index

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

The MWB Determination in July 2016 was the third and final phase of an increase to the minimum wage⁶ hourly rate with the rate increasing to K3.50 per hour from K3.36 per hour in July 2015 and K3.20 per hour in July 2014. This increase was to accommodate inflationary pressures on minimum wage earners' income since the last determination.

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.

2.6 MONETARY DEVELOPMENTS

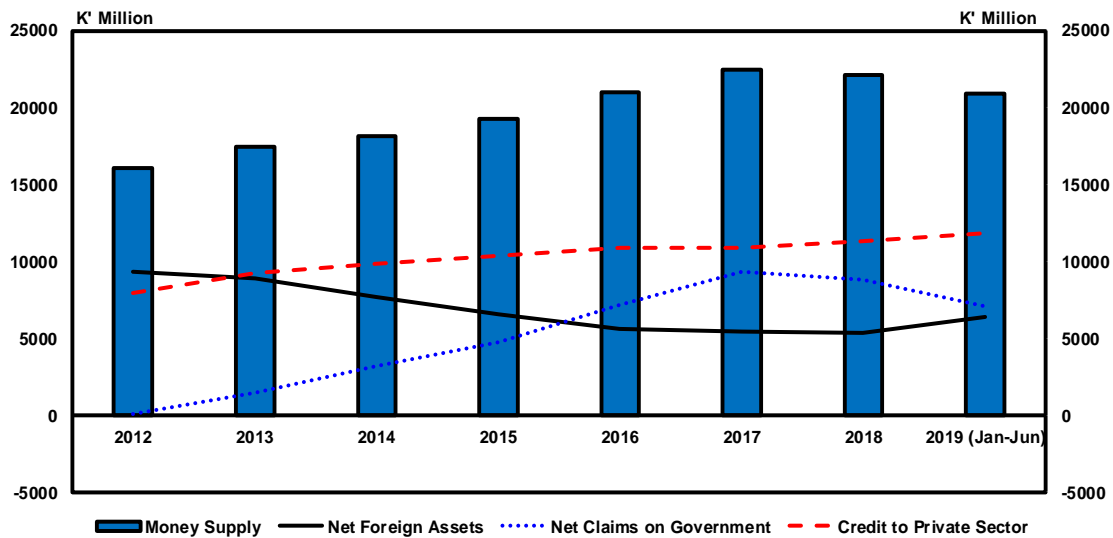
The Central Bank (the Bank) shifted towards an accommodative monetary policy stance in July 2019 after maintaining a neutral stance since March 2013. Considering factors including the lower inflation outcomes since December 2018, a weaker momentum in global growth and relative stability in the Kina exchange rate, the Bank initially reduced its policy signaling rate, the Kina Facility Rate (KFR), by 25 basis points in July 2019, with a further easing by 50 basis points in August 2019. As a result, the KFR was reduced to 5.50 per cent in August from 6.0 per cent in July. Going forward, the Bank is expected to maintain an accommodative policy stance in the next five months, whilst closely monitoring developments on inflation and other macroeconomic indicators.

According to the Bank's 2019 September Monetary Policy Statement, the broad money supply is projected to increase by 3.3 per cent in 2019 due to increased inflows from Net Foreign Assets (NFA) (up 12.0 per cent) and, to a lesser extent, credit to the private sector, which is up 7.3 per cent. The increase in NFA reflects higher inflows from export earnings due to increased production of key export commodities, mining and petroleum taxes and dividends, and expected inflows from the Government's external financing.

Meanwhile, the Bank projects Net Domestic Assets to decline by 2.3 per cent which is due to an expected contraction by 19.6 per cent in net claims by Government reflecting the shift in Government's debt financing strategy from domestic to external sources. That is expected to more-than-offset projected growth of 7.3 per cent in private sector credit.

In the first half of 2019, the money supply declined by 5.3 per cent to an average of K20,951.6 million from an average of K22,131.0 million over the same period last year as net domestic borrowing by the Government slowed down significantly by 20.2 per cent. Net earnings from foreign assets, however, increased by 19.7 per cent.

The successful drawdown of the ADB development policy loan and the Australian EFA loan is expected to lift the inflow from NFA. Meanwhile, private sector borrowing remained positive, with an increase of 5.2 per cent to support economic activity.

Chart 23: Money Supply (Annual, Kina Million)

Source: Bank of PNG

According to the Bank's September Monetary Policy Statement, net inflows from foreign assets for 2020 is projected to contract by 0.1 per cent, while net domestic borrowing⁷ by the Government is projected to contract by a further 2.3 per cent as the Government maintains its domestic debt retirement strategy. Private sector borrowing is projected to lift by another 5.7 per cent to support economic activity and the money supply is projected to increase by 3.1 per cent while the monetary base is projected to increase by 0.5 per cent reflecting these trends.

2.7 CONSUMER PRICE INDEX

PNG is experiencing a relatively low headline inflation rate recently. Average headline inflation has fallen from a high of 6.7 per cent in 2016 to 4.7 per cent in 2018 and to an estimated 4.4 per cent in 2019. This declining trend in the headline inflation rate reflects the managed gradual depreciation of the Kina against the US dollar (although the Kina has appreciated against the Australian dollar); lower international food and fuel prices; lower prices of seasonal items including fruits, vegetables and betelnut due to improved supply conditions; increased competition particularly in the retail and wholesale sector; tight fiscal conditions of the government; and weak private sector investment over the period. The tariff reduction program, which ends in 2018, also placed downward pressure on prices for some of the imported items.

2019 Inflation Update

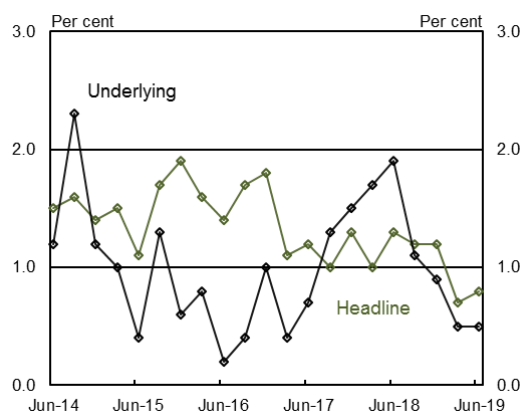
In the June quarter of 2019, headline inflation grew by 0.8 per cent, slightly higher than the 0.7 per cent recorded in the previous quarter (Chart 22). This was attributed to an increase in the prices of Transport (up 2.5 per cent), Recreation (up 1.9 per cent), Restaurant and Hotels (up 1.7 per cent) and Alcoholic Beverages, Tobacco and Betelnut (up 1.5 per cent) which more than offset price falls in Communications (down 3.0 per cent), Health (down 1.4 per cent) and Clothing and Footwear (down 1.0 per cent), while price of Education remained unchanged.

⁷ The September MPS is based on actual data up to June 2019. Therefore, monetary indicators projections therein are informed by information on half year performance.

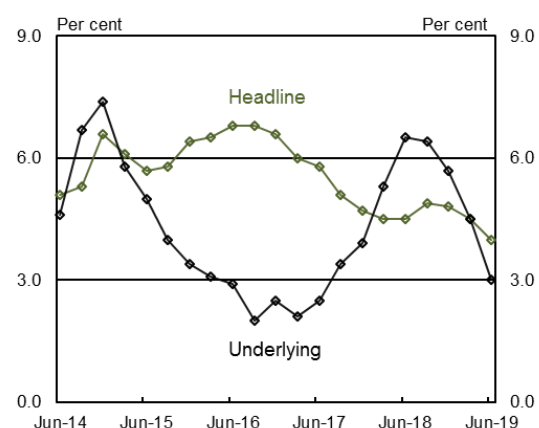
Through the year to the June quarter 2019, headline inflation grew by 4.0 per cent (Chart 23) driven by increases in Transport (up 8.4 per cent), Restaurant and Hotels (up 7.0 per cent), Recreation (up 5.1 per cent), Housing (up 4.9 per cent), Alcoholic Beverages Tobacco and Betelnut (up 3.9 per cent), Food and Non-Alcoholic Beverages (up 3.6 per cent), Miscellaneous (up 2.8 per cent), Household Equipment (up 2.3 per cent), Education (up 2.2 per cent) and Health (up 2.0 per cent). These more than offset the fall in the price of Communications (down 3.0 per cent).

The underlying inflation rate increased by 0.5 per cent in the June quarter to be 3.0 per cent lower in through the year terms (see Chart 23). The decrease in underlying inflation this quarter marks the fourth consecutive quarter of a fall in core inflation, which is due largely to the lagged impacts of the appreciation of the Kina against importing countries and lower oil prices steadily filtering through into the domestic economy over the past 12 months.

**Chart 24: Headline & Underlying CPI
Quarterly**



**Chart 25: Headline & Underlying CPI
Through-the-year**



Source: National Statistics Office (NSO)

Tradable and Non-Tradable Goods

Prices of tradable goods continued to fall, decreasing by 1.3 per cent through the year to the June quarter 2019 compared to a 9.3 per cent increase in the corresponding quarter last year (see Chart 25). This is a sharp decrease and reflects the appreciation in the Kina TWI exchange rate, lower oil prices and the improvement in the foreign exchange imbalance over the first half of 2019.

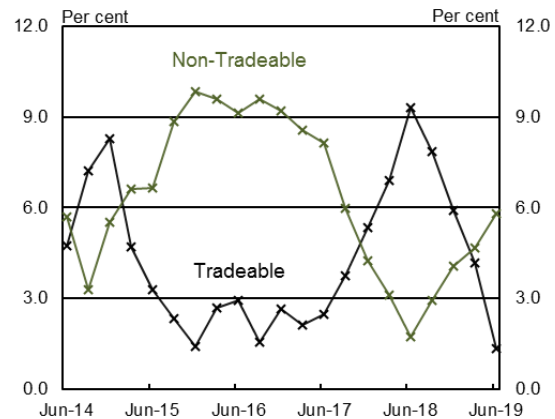
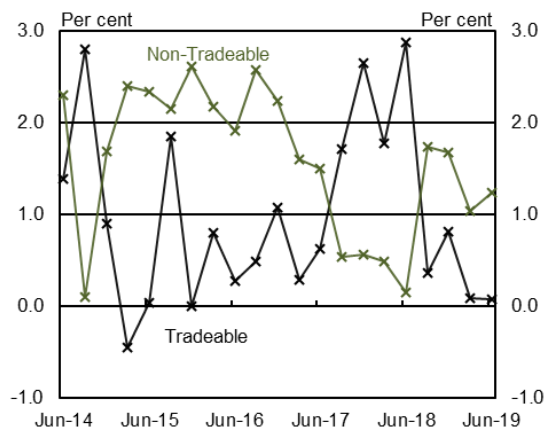
In particular, and in assessing developments of these factors over the past year, the following factors have been observed:

- The Kina has depreciated by 1.2 per cent against the US Dollar, however, has appreciated by 4.6 per cent against the Australian dollar over the past year. Since Australia is our major trading partner, the strengthening of the Kina against the Australian Dollar has resulted in cheaper imports of goods particularly food and beverages from Australia;
- Oil prices have fallen from around US\$67.0 per barrel in the first half of 2018 to around US\$57.0 per barrel the same time this year. Given the import parity pricing formulae, this is expected to have translated into lower transportation costs which have been passed on to consumers in the form of lower fuel prices;

- According to the Bank's September 2019 Monetary Policy Statment, foreign exchange inflows have improved (reduction in import orders and waiting time for accessing foreign exchange) late in the second half of 2018 and this trend continued into the first half of 2019, reflecting budget financing from external sources, particularly the US\$500.0 million sovereign bond proceeds as well as improved inflows from the mining sector that freed up financing for lower cost imports.

While tradable inflation appears to be on a downward trend, non-tradable (or domestic) inflation has risen over the past year, rising by 1.2 per cent in the June quarter 2019 to be 5.8 per cent up through the year, compared to a quarterly growth rate of 0.1 per cent and a through the year growth rate of 1.7 per cent in the corresponding quarter last year. This is due largely to increases in the prices of major domestic items including fares, electricity, fruits and vegetables, medical services and postal services among others. Inefficient industry structures and a lack of competition are likely to be responsible in part for the increases.

Chart 26: Tradeable vs Non-Tradeable inflation - Quarterly **Chart 27: Tradeable vs Non-Tradeable inflation – Through-the-year**

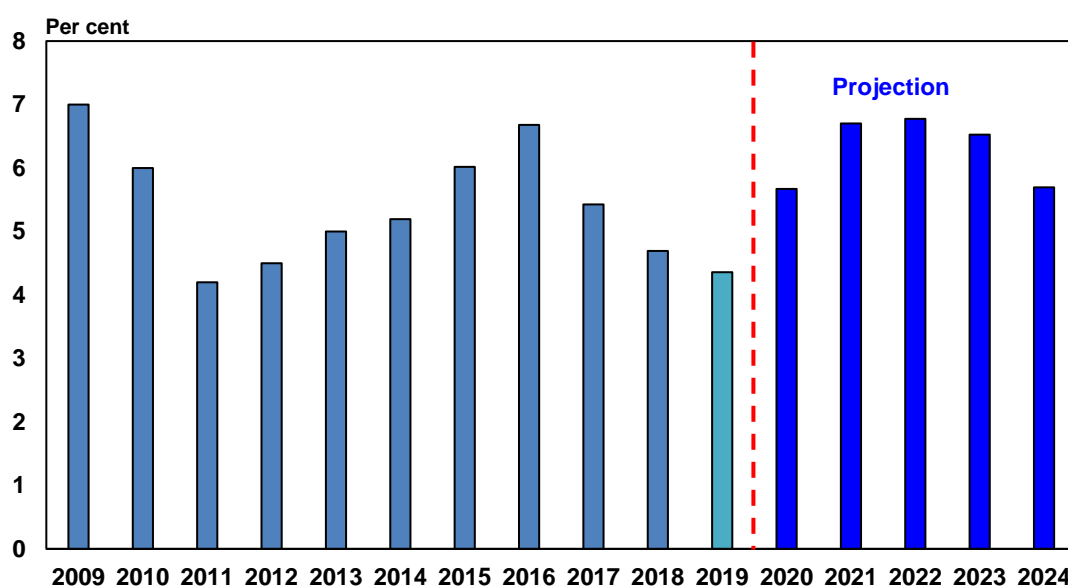


Source: National Statistical Office (NSO)

Inflation Outlook

Inflation in 2019 has been revised down to 4.4 per cent, lower than 4.8 per cent as projected in the 2019 MYEFO and the 5.4 per cent projected in the 2019 Budget with this downward revision due largely to the lower quarterly outcomes of the consumer price index reported by the NSO and lower oil prices. This more than offsets upside pressure from a depreciating Kina against the US Dollar and the slight pickup of the Australian consumer price index- Australia is our major trading partner.

Quarterly outcomes in the CPI reported in March and June in 2019 have been lower than Treasury's initial expectations. The lower index numbers for both quarters accounted for the bulk of the downward revision to the 2019 inflation forecast.

Chart 28: Inflation outcome and projection 2009-2024

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

2020 Inflation Outlook

Inflation in 2020 is projected to pick up to 5.7 per cent mostly driven by the effects of the planned reforms in the finance sector targeted to ease the foreign exchange imbalances and expansionary fiscal policy that are anticipated to increase general price levels domestically. Without these reforms, inflation is forecast to rise marginally to 4.6 per cent driven mostly due to domestic demand-push factors including the on-season in agricultural activity that is anticipated to increase farmers consumptions as they earn more from increased production, assumed stability in the Kina exchange rate and softer economic growth.

Over the medium-term, inflation is expected to average around 6.4 per cent under the reform scenario while without reforms, inflation is projected to average 4.8 per cent per annum. The outlook is driven by the assumption of a well-coordinated fiscal and monetary policy framework.

2.8 BALANCE OF PAYMENTS AND INTERNATIONAL RESERVES

2019 Update

The current account recorded a surplus of K10,416.9 million in the first half of 2019, driven by a positive trade balance of K11,127.0 million reflecting higher export values of LNG, condensate, gold and copper commodities driven by higher volumes for all of those commodities as well as higher gold prices. Gains from those commodities more than offset lower export values recorded by crude oil, nickel, cobalt and almost all agricultural commodities due to lower commodity prices and volumes. On the import side, the improvement in foreign exchange inflows supported business activity resulting in higher import activity in general imports in the first half of the year.

With higher production of LNG, condensate, gold and copper, and higher gold prices expected for the remainder of 2019, this will translate into an expected trade surplus of K21,466.5 million and a current account surplus of K20,365.0 million by end of 2019.

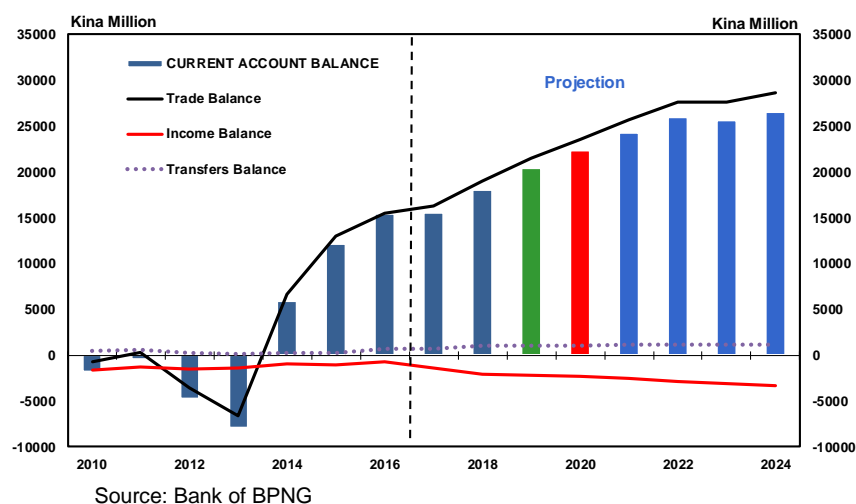
The income account recorded a deficit of K1,287.8 million in the first six (6) months of the year, up 36.3 per cent from the corresponding period of 2018. The deficit is due to higher income and dividend payments to non-residents driven by an easing in the foreign exchange imbalance, offsetting higher interest receipts in the first six (6) months of the year. This condition is expected to continue in the second half of the year with the income account projected to record a deficit of K2,161.2 million by year end.

The transfer account recorded a lower surplus of K577.6 million in the first six (6) months of the year, significantly below the K1,327.4 million surplus recorded a year ago. The significant drop is largely due to lower inflows of gifts and grants, superannuation funds, family maintenance, tax payments and licencing fees.

The expectation gift and grant inflows will increase more than total outflows in the second half of the year mean the transfer account is expected to be in surplus of K1,059.7 million by the end of 2019.

The capital and financial account recorded a deficit of K10,803.6 million in the first half of the year, which is 28.0 per cent higher than the corresponding period of 2018. The higher deficit reflects a strong increase in other financial capital outflows, which was enough to offset a sharp decline in portfolio investment during the period. Overall, this account is expected to record a deficit of K19,260.0 million in 2019.

Chart 29: Balance of Payment (BOP)



2020 BOP Outlook

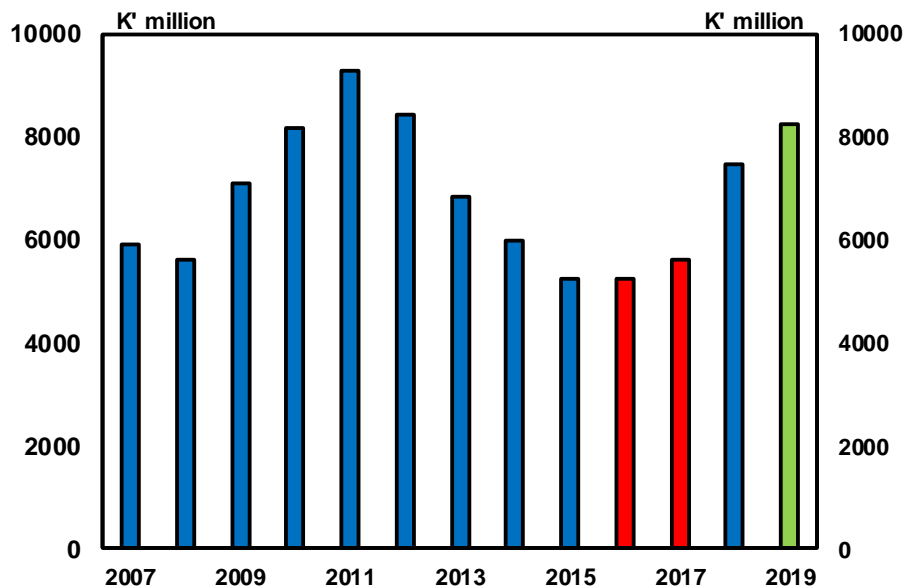
In 2020, the current account surplus is expected to be K22,308.8 million (20.1 per cent of GDP), a 9.5 per cent increase from the 2019 estimate. The higher surplus in the current account reflects higher gold, copper, nickel and cobalt production and gold prices together with increase coffee production due to on-season for coffee.

Medium Term Outlook (2021-2024)

The current account surplus is expected to increase steadily over the medium term driven by higher mineral and non-mineral export prices together with increased production of agricultural cash crops especially cocoa.

The revenues from the PNG LNG project are also expected to flow to the Government after investment cost has been paid and this is likely to improve financial and capital account balances and support the current account position.

Chart 30: International Reserves



Source: Bank of PNG

International reserves totalled US\$2,214.7 million at the end of 2018, which is 6.7 months of total import cover. This is expected to increase to US\$2,425.8 million by the end of 2019, sufficient for 6.1 months of total import cover and 14.4 months of non-mineral import cover. The increase expected in total reserves is due to inflows in Mining and Petroleum Tax (MPT) collections throughout the year, dividend inflows from state shares in mining and petroleum projects, and royalty and development levies from the PNG LNG project.

In addition, the net external financing requirement of the budget from the grants and support financing, together with concessional and other sources will add to foreign exchange reserves before the year ends. Overall, foreign exchange reserve levels are projected by the BPNG to decrease modestly by 0.1 per cent by the end of 2020, giving total import cover of 5.7 months.

2.9 RISKS TO MACROECONOMIC STABILITY

The 2020 Budget has been framed on the assumption of a detraction in growth from the oil and gas sector offset by solid growth in the mining and quarrying and agriculture sectors, improvements in the non-resource sector, higher levels of Government capital spending and an increase in production of key mineral commodities. Overall, growth in the domestic economy is projected to be soft in 2020 reflecting those anticipated developments. This economic outlook is, however, prone to a number of risks that could materialise during the course of 2020.

Regarding the broader economy, there are a number of risks:

Macroeconomic Risks:

- **Trade Tensions** – the unresolved global trade tensions between the US and China have weighed on global trade and activity in 2019. The US-China trade tensions, if not resolved in 2019, will continue to pose volatility risk that could impact adversely on

commodity prices and our exports in the agricultural, fishery and forestry sector and mining and quarrying and oil/gas sectors.

- **Global Growth/Commodity Prices** – Global growth has an important bearing on commodity prices and, should global demand strengthen, demand for commodities from developed and 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 decline further in 2020 and these swings in commodity prices could translate into fluctuations in revenues for the Government, private sector demand and budget financing limits.

Anticipated lower global demand and falling commodity prices would also impact the exchange rate with both business confidence and inflation being adversely impacted. 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 these trends continue to worsen in 2020, there is a risk that economic growth projections will not be achieved, impacting business sentiment, 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 many risks are 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.

The 2018 earthquake, which impacted the PNG LNG project, the Kutubu oil fields as well as key mines like Porgera, adversely impacted the operations of resource projects and again risk management strategies need to be employed.

Further, the recent 2019 volcanic activity which impacted palm oil production is a downside risk to palm oil output in 2020.

- **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 2020 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. However, any outbreak or reduction in funding to cope with agricultural pests poses risks to the outlook.

Fiscal Risks:

- **Unbudgeted Expenditures/Commitments.** The Government encourages all Departments, SOEs, Provincial Governments and Ministers to live within their means as any unbudgeted expenditures undertaken in 2020 will have fiscal implications and the credibility of the Government's budget strategy will be placed in jeopardy. In particular, Personnel Emolument (PE) overruns continue to remain a major issue with fiscal implications and the Government has put in place further controls over PE overruns in

the 2020 Budget, but failure to adhere to these restrictions will undermine the Budget forcing likely reductions in the capital budget.

Financing Risks:

- Debt Guarantees - Exposure through debt guarantees and contingent liabilities is a concern in determining the net worth of the State, thus has implications on the statutory debt ratio ceiling in the *FRA* and PNG's credit ratings;
- Whilst the Government was successful in rebalancing its debt portfolio in 2018 much more towards longer term external debt with some shorter-term domestic debt redemptions, the resulting higher foreign exchange risk needs to be managed; and
- With access to more external debt for budget financing, careful fiscal and financial management will be required to ensure liquidity is available to extinguish the foreign exchange imbalance and manage the impact on the domestic debt market, and to ensure overall debt levels remain sustainable and maintained on the programmed downward debt to GDP trend.

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 2020 Budget and medium-term fiscal targets. The Government remains mindful of such risks and will closely monitor developments. It will continue to aggressively implement its revised medium-term fiscal, revenue and debt strategies included in the 2020 Budget with mitigation strategies employed should any of these significant risks materialise.

CHAPTER 3: FISCAL STRATEGY AND OUTLOOK

3.1 FISCAL BACKGROUND – 2019 BUDGET UPDATE

The 2019 National Budget was framed by the previous O'Neill – Abel led Government. The budget aligned most of its development aspirations with the Alotau Accord II aimed at broadening the revenue base built on from 2017/18 success, improve expenditure efficiency, provide opportunities for our people and create an economic environment that is resilient against economic shocks.

The implementation of the 2019 Budget was a challenge in the first half of the year as revenue generally trended below projections. Specifically, Corporate Income Tax (CIT), dividend collections and the Public Money Management Regularisation (PMMR) proceeds trailed below budget estimates. Over the first half of 2019, failure to secure the programmed external finance, fiscal overhang from 2018 and increase in the political uncertainty meant that the financing program was thrown off track and budget execution derailed. Most of the Medium Term Debt Strategy (MTdS) targets were delayed over the first half of 2019.

The first half of 2019 saw deterioration in the fiscal conditions through expenditures as personnel emoluments (PE) continued to exceed Budget estimates, resulting in increase in the expenditure ratio. This higher ratio put the Budget on a challenging situation given lower than projected revenues for 2019.

The 2019 MYEFO Report projected total revenue and grants at K14,009.7 million, lower by K257.1 million than the 2019 Budget projection of K14,266.8 million. The projected decrease is mainly driven by lower company and mineral taxes, dividends, PMMR and fees and charges offsetting the slight increase in Personnel Income Tax, Dividend Withholding Tax, Gaming Machine Tax, Departure Tax and Import Duty.

Total expenditure for the 2019 MYEFO was projected at K16,382.8 million, higher by K249.3 million than the 2019 Budget projection of K16,133.5 million. The increase is mainly driven by projections of higher PE expenditures of K484.3 million, Goods and Services net adjustment increase of K74.8 million (inclusive of rentals and utilities increase of K204.0 million) and interest costs of K72.4 million. The 2019 MYEFO also projected underspending in capital by K382.2 million.

The fiscal deficit in the 2019 MYEFO was projected at K2,373.1 million (2.7 per cent of GDP), higher by K506.3 million that would result in a total public debt of K28,125.9 million (31.8 per cent of GDP) compared to the 2018 outcome of K26,981.3 million (32.8 per cent of GDP). This projected outcome included the full bond issuance amount and the downward revision to GDP.

3.2 2019 SUPPLEMENTARY BUDGET

Following the release of the 2019 MYEFO, a due diligence exercise was initiated by the incoming Treasurer to reassess the MYEFO outcome and the fiscal state of the economy. The due diligence exercise estimated the budget deficit (without policy response) at K4,985.8 million with a year-end debt to GDP level estimate to be 40.2 per cent.

In managing this scenario, the new Marape-Steven Government introduced the 2019 Supplementary Budget, which approved a reduction in the new 2019 Budget expenditure of K1,482.1 million comprising of K1,082.1 million from Capital Expenditure and K400.0 million

from the Operational Expenditure and re-appropriated to cover the expenditure overrun of K1,874.7 million in PE and other items. An additional expenditure K392.6 million was also appropriated in the revised money plan. This supported financing payments on older expenditures, which were in arrears from previous budgets.

However, even with the cuts, the Government needs financing to cover a deficit of K3,503.9 million. Financing this deficit will add to the debt levels, and using the revised GDP based on extensive consultations with the National Statistical Office (NSO), the Bank of PNG (BPNG) and the International Monetary Fund (IMF), PNG's debt to GDP ratio is estimated at 38.5 per cent for end of 2019. Since this breached the upper limit of Debt to GDP ratio set out in the *Fiscal Responsibility Act 2006*, the Supplementary Budget also accompanied an amendment to the FRA to increase the upper limit of Debt to GDP to 45.0 per cent. This change builds flexibility to cover certain state guarantees falling onto the Government's book and create some extra fiscal space to allow additional financing to cater for development projects.

Table 6: 2019 Supplementary Budget (Kina, million)

Details	2019 Budget	2019 Pre-cuts	2019 Supp. Budget
Total Revenue and Grants	14,266.8	13,022.4	13,022.4
Total Expenditure and Net Lending	16,133.6	18,008.2	16,526.2
Net Lending (+)/Net Borrowing (-)	-1,866.8	-4,985.8	-3,503.9
% of GDP	-2.2	-5.9	-3.8

Source: Department of Treasury

The re-appropriation of K1,874.7 million in Expenditure was due to:

- Additional K856.5 million increase to PE, which highlights the Government's struggle in containing PE over the years;
- An additional K521.0 million to cover Government arrears including utilities and rental cost as failure to pay these bills ultimately hurts the private sector, the budget and the economy;
- Additional K300.0 million comprises of K100.0 million Economic projects to Department of Commerce; K100.0 million for disaster funding; K50.0 million to Department of Works for Missing links road upgrade and K50.0 million funding for Bougainville infrastructure;
- An additional K122.4 million to cover the increased interest cost payments; and
- An additional K74.8 million for goods and services.

The Supplementary Budget also cut expenditures of K1,482.1 million. K286.5 million cut to the Service Improvement Program (SIP) and a K795.0 million cut from the Public Investment Program (PIP) accumulated to a total of K1,081.5 million cut in the capital investment. The NEC quarantined the Health and Education sector as much as possible and only 13.0 per cent non-essential expenditures were cut from these sectors. An additional K400.0 million was cut from the operational budget; most of these cuts coming from administration and other sectors of the budget to avoid cuts from the Health and Education sector.

Table 7: Expenditure Summary (Kina, million)

Details	2019 Original Budget	2019 Pre-Cuts	2019 Supp. Budget
TOTAL EXPENDITURE	16,133.6	18,008.2	16,526.2
Operating Budget	10,636.5	11,890.2	11,811.2
Personnel Emoluments	4,522.6	5,379.1	5,379.1
Debt Service	1,979.1	2,101.5	2,101.5
Other Operating	4,134.8	4,409.6	4,330.6
Capital Budget/PIP	5,497.1	6,118.0	4,715.0
GoPNG Funded	3,737.0	4,357.9	2,954.9
Grant Funded	943.1	943.1	943.1
Loan Funded	817.0	817.0	817.0

Source: Department of Treasury

Financing and Debt

Even after the K1,482.0 million in cuts, this still left a financing gap of K3,503.9 million, nearly double the amount of what was projected in the 2019 Original budget and K1,130.7 million more than projected in the 2019 MYEFO. The budget deficit will be supported by the loans from Australia for about K1 billion and the ADB.

3.3 THE 2020 BUDGET STRATEGY

The 2020 Budget will be guided by the recent Marape-Manifesto, which contains 10 declarations covering landowner benefits, economic growth, health and education, security, Small and Medium Enterprises (SME) promotion, a strong Christian Identity and Public Sector efficiency. This Manifesto is made in alignment with the *Vision 2050*, *PNG Development Strategic Plan (DSP) (2010-2030)*, the *Medium Term Development Plan (MTDP) III*, the *National Strategy for Responsible Sustainable Development (StaRS 2017)*, and the *Fiscal Responsibility Act 2006 (FRA)* as amended in 2019.

Building on the strategies initiated in the 2019 Supplementary Budget, the 2020 National Budget will focus on achieving expenditure efficiency amidst growing recurrent spending, supporting sustainable investments, broadening revenue base, lowering costs of borrowing, clearing verified arrears, and reducing exposure to risks and fluctuations.

Though 2019 was a challenging year on the revenue front, the Government will continue to build on the 2017/18 efforts of broadening revenue base. This will involve progressing the reforms and increasing compliance measures as planned in the *Medium Term Revenue Strategy 2018-22*. Accelerated implementation of the MTRS will support 2020 revenue collections.

The Total Revenue and Grants for 2020 has been projected at K14,095.4 million (15.3 per cent of GDP). This is K1,073.0 million higher than the 2019 Supplementary Budget estimate of K13,022.4 million.

Table 8: 2020 and Medium Term Revenue Projections (Kina, million)

	2019 Supp. Budget	2020 Budget	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.
Tax Revenue	10,667.7	11,307.8	12,198.9	13,455.4	14,664.2	15,631.8
<i>Taxes on Income, Profits and Capital Gains</i>	6,115.5	6,229.5	6,976.6	7,641.2	8,296.9	8,900.1
<i>Taxes on Payroll and Workforce</i>	1.6	0.0	0.0	0.0	0.0	0.0
<i>Taxes on Goods and Services</i>	3,753.1	4,195.1	4,279.6	4,778.2	5,273.8	5,591.4
<i>Taxes on International Trade and Transactions</i>	797.6	883.2	942.6	1,035.9	1,093.4	1,140.3
Donor Grants	943.1	932.1	1,008.3	1,092.7	1,076.5	1,145.8
Other Revenue	1,411.6	1,855.5	1,853.6	1,912.6	1,983.7	2,056.2
TOTAL REVENUE AND GRANTS	13,022.4	14,095.4	15,060.8	16,460.6	17,724.4	18,833.8
<i>% of GDP</i>	15.4%	15.3%	14.9%	14.9%	14.9%	14.9%

Source: Department of Treasury

On Expenditure, the Marape-Steven Government's primary focus is on increasing investments in more sustainable sectors such as agriculture, tourism and SMEs. This aims to increase the contribution of the non-resources sector to the country's economic growth, which 85.0 per cent of the country's population relies for employment. This approach will be complimented by even more investments on improving infrastructure with sustainable and disaster resilient quality. The Government will invest substantially in key and critical transport infrastructure to reduce cost of doing business and to expand and stimulate economic growth. Reliable and affordable electricity supply to households and for industrial use will be expanded with increase in power generation including renewable energy and extension of main grid throughout the country. Information and communication technology (ICT) is expected to improve dramatically with the submarine cable between Sydney and Port Moresby becoming operational by early 2020, thus reducing the cost of internet usage which should lead to an expansion in the communication sector.

The 2020 Budget will also focus on investing in Micro Small Medium Enterprises or MSMEs e-Commerce training and support platforms to expand and formalize the current 50,000 or so companies in this sector and provide business start-up programs nationwide with the support of the World Economic Forum (WEF). The 2020 Budget will also support downstream processing and value-adding in agriculture, fisheries, forestry and tourism.

Table 9: 2020 and Medium Term Expenditure Estimates (Kina, million)

	2019 Supp. Budget	2020 Budget	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.
TOTAL EXPENDITURE	16,526.2	18,726.9	18,737.5	18,790.2	19,867.1	21,126.6
Operating Budget	9,709.7	10,289.5	10,068.7	9,582.5	9,707.9	9,919.6
Personnel Emoluments	5,379.1	5,672.8	5,874.0	5,524.0	5,733.9	5,944.7
Other Operating	4,330.6	4,616.7	4,194.8	4,058.5	3,974.1	3,974.9
<i>Share of PE and G&S in total expenditure</i>	58.8%	54.9%	53.7%	51.0%	48.9%	47.0%
Capital Budget/PIP	4,715.0	6,280.5	6,463.8	6,918.4	7,659.6	8,584.6
GoPNG Funded	2,954.9	3,983.4	3,817.5	3,860.1	4,224.3	4,608.3
Grant Funded	943.1	932.1	1,008.3	1,092.7	1,076.6	1,145.8
Loan Funded	817.0	1,365.0	1,638.0	1,965.6	2,358.7	2,830.5
<i>Share of Capital (PIP) in total expenditure</i>	28.5%	33.5%	34.5%	36.8%	38.6%	40.6%
Debt Service	2,101.5	2,156.9	2,205.0	2,289.3	2,499.6	2,622.4

<i>Share of debt servicing (PIP) in total expenditure</i>	12.7%	11.5%	11.8%	12.2%	12.6%	12.4%
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Source: Department of Treasury

Note: The pattern of expenditures in the above table differ from the 2020 Budget Strategy for the following reasons: 1. Debt Service: is lower than anticipated in the BSP, reflecting savings when further financing was identified and costs estimated; 2. Personnel Emoluments: has been revised down fairly substantially; and 3 Capital (GoPNG): has been revised up a significant amount (reflecting the government's desire to redirect more of the budget from operational expenditure to capital expenditure known as the 'expenditure rule').

The Government will focus on achieving efficiency in its spending and value for money by addressing legacy and structural issues that resulted in wastages and overruns in rigid expenditures such as PE. It will look at issues surrounding the public service including auditing its payroll, setting clear recruitment policy framework and a freeze on recruitment in non-essential areas in the public service. The Government will continue to merge agencies with duplicate roles and cease creation of new statutory bodies that create additional funding loopholes in 2020 and beyond. Good progress on these efficiency exercises will create more fiscal space for further capital investments.

The Government will ensure processes and staff are put in place to drive the revised MTRS reforms, including ensuring the operations of the MTRS steering committee. Successful implementation of the revised MTRS is crucial to the medium-term objectives of greater capital spending to address the development aspirations of the Government. In addition, the Government is working to improve revenue analytics and estimation to support better budgeting in line with available planned resources.

Interest payments have increased as a proportion of revenue in recent years. This reflects the increase in domestic and external debt, but also the interest payments on so-called guarantees, as well as the lower average revenue trends. However, the MTFS projects a stabilisation of interest to revenue ratios as MTRS implementation lifts revenues and as the debt management reforms lower international interest rates.

The Government will also review the payment arrangements for Rentals and Utilities shifting the responsibility to individual agencies to manage. Decentralisation in managing these items will assist in reducing the build-up of arrears. Heads of agencies will have to prioritise by managing these items and will be held responsible for any related arrears. By the end 2020, the Government expects arrears on rentals and utilities to be largely extinguished.

As the Government's expenditure strategy is focused on controlling operating expenditure to promote growth in capital expenditure, helping reduce the investment deficit and generate non-resource growth. The Government will utilise available donor funds for capital spending, in order to promote greater development, while ensuring we protect crucial social spending across health, education and law and order sectors.

The Government is committed to increasing capital investment in PNG to support economic growth. To ensure allocated resources are perused effectively, a strong and effective Monitoring and Evaluation (M&E) framework is essential. Rigorous monitoring and evaluation are essential to monitor the delivery of capital projects and to ensure they realise their intended outcomes. A concentrated monitoring and evaluation process also form part of the Government's risk mitigation strategy and enhances return on investment.

Responsibility for the monitoring & evaluation of Government investment through the Capital investment budget primarily resides with the Department of National Planning and Monitoring (DNPM) through individual Project Steering Committees (PSCs) that oversee each project. The

PSCs provide support, guidance and monitors the progress of each project and approve the release of funding for the project, which is contingent on performance.

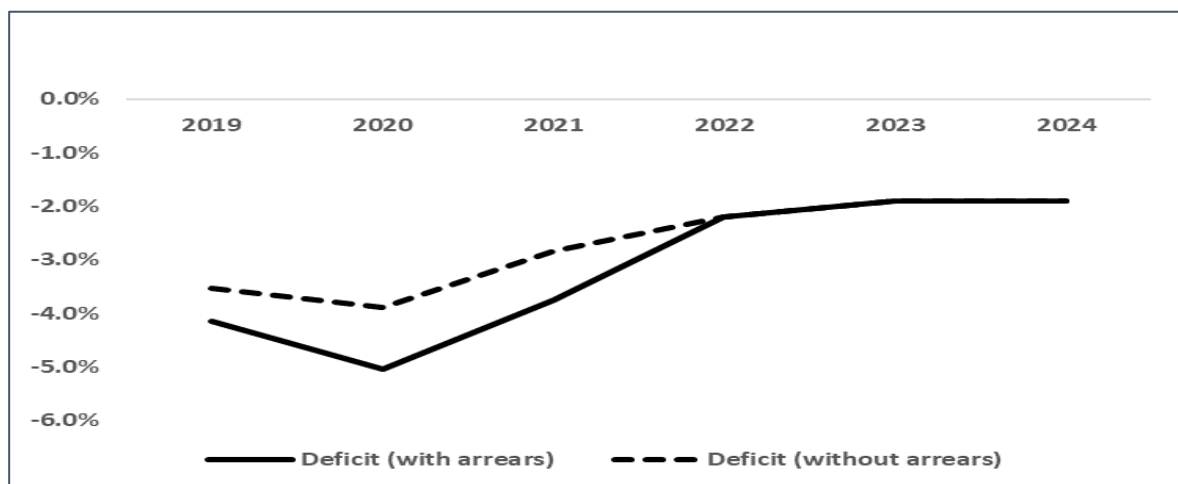
Reports from the PSCs will form the basis of quarterly reports provided by DNPM to the Central Agencies Coordinating Committee (CACC) and the Strategic Budget Committee (SBC). After consideration, these reports should inform the Budget Strategy Paper for the following year.

These measures not only inform the delivery of outcomes for the current budget but ensure continuity in funding for specific investments and a more efficient and results oriented budget over the medium term.

The medium-term projections incorporate a significant amount of arrears payment, amounting to an estimated K1,050.0 million in 2020. This will include arrears under personnel emoluments of K430.0 million for exit payments; and K120.0 million for the 3.0 per cent pay increase for 2019. An extra K200.0 million will be set aside to reduce the Goods and Services arrears, in a sensible and cautious manner, and the Government will introduce a process within Treasury to validate and clear these arrears.

Finally, K300.0 million will be set aside to reduce the arrears stock under the capital budget. Arrears payments will continue through to 2021 (see Chart 31) clearing a total of an estimated K2.6 billion in arrears in the next two years. However, this figure will adjust depending on the results of the validation and identification process.

Chart 31: Deficit with and without arrears



Source: Department of Treasury

With a total revenue of K14,095.4 million and a total expenditure of K18,726.5 million, it will result in a deficit of K4,631.1 million (5.0 per cent of GDP). This is estimated to increase the public debt level to K37,186.6.0 million (40.3 per cent of GDP) excluding outstanding arrears of K930 million which are scheduled to be repaid in 2021.

The Government expects to finance K2,986.9 million of the K4,631.1 million through external borrowing on more concessional terms. The remainder will be financed by domestic borrowing and additional commercial borrowings.

The Government expects to obtain additional WB and the ADB development policy operation loans, utilise proceeds from the Australian loan and explore other options for international finance. These external funds will help restructure the Government's debt profile. Further, it will also provide the foreign exchange resources that will allow injections into the market to extinguish the foreign exchange imbalance.

Table 10: Budget Balance 2018-2020 (Kina, million)

Fiscal Indicator	2018 Actual	2019 Budget	2019 Supp. Budget	2020 Budget
Revenue	14,085.1	14,266.7	13,022.4	14,095.4
Expenditure	16,134.1	16,133.6	16,525.9	18,726.5
Net Borrowing	-2,049.0	-1,866.9	-3,503.9	-4,631.1
as % of GDP	-2.6%	-2.1%	-4.1%	-5.0%
Debt as % of GDP	37.8%	37.6%	38.5%	40.3%
Non-resource Primary Balance	-1,523.50	-1,772.7	-2,918.1	-3,796.6
as % of GDP	-1.9%	-2.0%	-3.4%	-4.1%

Source: Department of Treasury

3.4 THE MEDIUM-TERM FISCAL OUTLOOK

The Medium-Term Fiscal Outlook is now determined by the revised Medium-Term Fiscal Strategy under the new Marape-Steven Government agenda driven by 'Take back PNG'. To achieve this, the Government has set its own guidelines and objectives set in the *Marape Manifesto* and made necessary changes to the medium-term fiscal anchors and strategic objectives that were first presented in the MTFS 2018-22 in the 2018 Budget. These changes are done in alignment with Government objectives and policies and changing economic conditions in 2020. At the mid-point of implementation of the MTFS 2018-2022 the Government has taken a stock of the performance so far and made adjustments to bring the strategy in line with the vision of the new administration.

The Marape-Steven Government's approach in the medium term will be guided by the principles;

- Spend the money we have more wisely (improving expenditure efficiency, avoiding wastages and encourage equal distribution of the nation's wealth and resources);
- Raise revenues more fairly (more emphasis on increasing revenue base in a fair and investor friendly manner);
- Finance public debt cheaply (borrow on concessional terms and restructure the debt profile);
- Get foreign exchange flow more freely (encouraging business activities while also having sufficient FX for external debt obligations);
- Focus more on sustainable investment options (especially in agriculture, tourism, SMEs, and downstream processing);
- Stimulate non-resource growth back to 5.0 per cent annually going forward;
- Create more employment cater for the increasing number of graduates to complement the revised TFF policy and the new HELP policy; and
- Redirect more of the budget towards capital expenditure rather than operational expenditure (the expenditure rule).

Table 11: Budget Balance 2020–2024 (% of GDP)

	2019 Pre-Cuts	2020 Budget	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.
Revenues and Grants	13,022	14,095	15,061	16,461	17,724	18,834
Expenditure (excluding arrears provision)	17,317	17,674	17,807	18,790	19,867	21,122
<i>Net Lending/Borrowing (Cash Deficit)</i>	<i>-4,294.8</i>	<i>-3,578.8</i>	<i>-2,746.6</i>	<i>-2,329.5</i>	<i>-2,142.6</i>	<i>-2,288.0</i>
%GDP	-5.2%	-3.9%	-2.7%	-2.1%	-1.8%	-1.8%
Expenditure (including arrears provision)	17,958	18,726	18,737	18,790	19,867	21,122
<i>Net Lending/Borrowing (Cash Deficit)</i>	<i>-4,936</i>	<i>-4,631</i>	<i>-3,677</i>	<i>-2,329</i>	<i>-2,143</i>	<i>-2,288</i>
%GDP	-5.8%	-5.0%	-3.6%	-2.1%	-1.8%	-1.8%
Debt/GDP	40.8%	41.3%	40.5%	38.9%	38.0%	37.5%

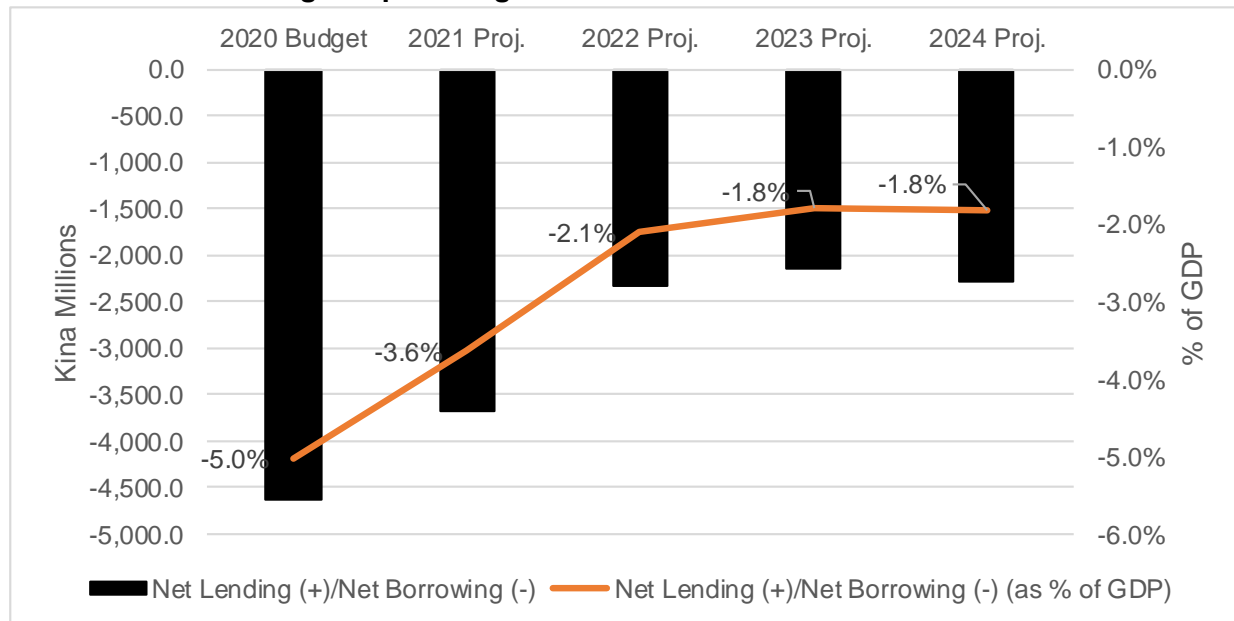
Source: Department of Treasury.

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.***Table 12: Revised MTFs Plans and Outcomes 2019-2024**

	2019 Sup Budget	2020 Budget	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.
Budget Deficit (% of GDP)	-4.1	-5.0	-3.6	-2.1	-1.8	-1.8
Expenditure Rule (Operating Budget as % of Non-resource GDP)	14.0	14.1	12.5	11.0	10.5	10.1
Non-resource primary balance (% of Non-resource GDP)	-5.1	-5.8	-3.5	-1.4	-0.9	-0.9
FRA deficit (% of Non-resource GDP)	-3.7	-3.7	-1.3	1.0	1.9	2.2
Debt ex. arrears (% of GDP)	38.5	40.3	40.5	39.0	38.0	37.6
Debt incl. arrears (% of GDP)	40.8	41.3	40.5	38.9	38.0	37.5

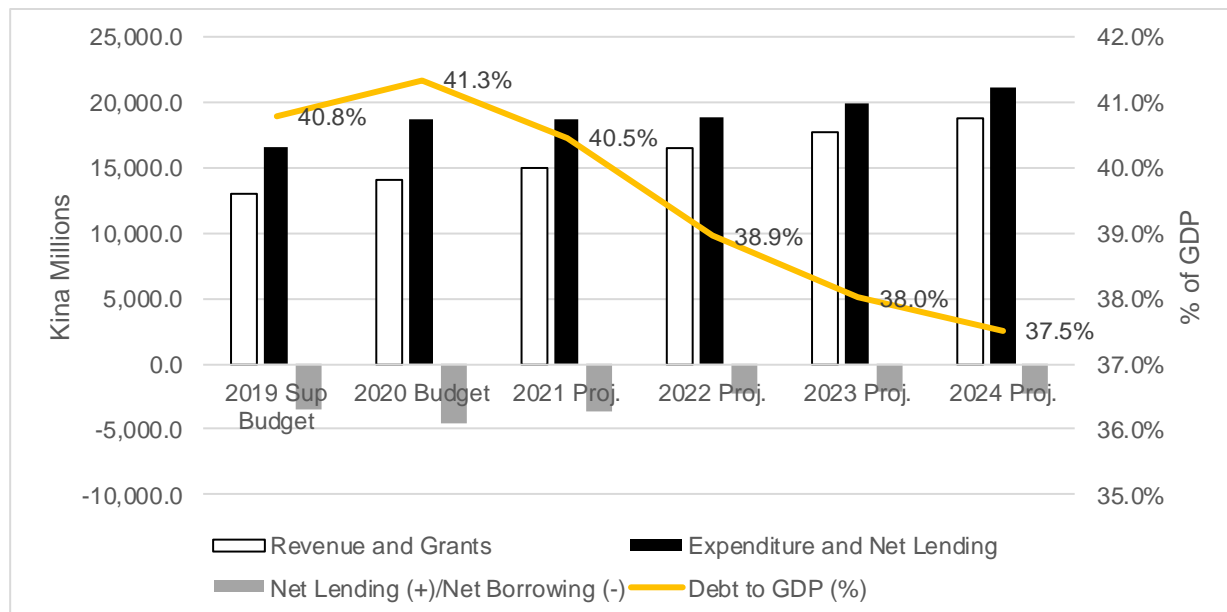
Source: Department of Treasury

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

Chart 32: Net Borrowing as a percentage of GDP over the Medium Term

Source: Department of Treasury

The total Debt to GDP ratio will also improve from an estimated 38.5 per cent in 2019, to 37.6 per cent, by 2024 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 0.4 per cent over the medium-term (ending in 2024) which will ensure that if resource revenues pick up over the medium-term, funds will accumulate in the Sovereign Wealth Fund (SWF).

Chart 33: Medium Term Fiscal Outlook

Source: Department of Treasury

CHAPTER 4: REVENUE

4.1 REVENUE DEVELOPMENTS AND OUTLOOK 2019 AND 2020

Total Revenue and Grants for 2019 is now estimated to be K13,022.4 million, the same as presented in the 2019 Supplementary Budget, down from the original 2019 Budget projection of K14,266.8 million - K1,244.4 million or 8.7 per cent lower than the 2019 Budget projection.

The revised projection highlights the expected shortfalls in a number of major tax heads, particularly Company Income Tax (CIT), Mining and Petroleum Tax (MPT) and statutory PMMR collections. The lower CIT collection was due to flat business trends and the re-emergence of the foreign exchange imbalance issue after some moderate relief observed in late 2018 and early 2019. MPT collections was largely impacted by downtrend in mineral and petroleum commodity prices. The lower statutory PMMR collection was mainly attributed to lower revenues generated by some of the major contributing agencies due to the subdued economic conditions.

The 2019 September outturn report confirms the 2019 Supplementary Budget estimate is broadly on track with a slight shortfall expected in the MPT revised projection. Personal Income Tax (PIT), Company Income Tax (CIT), Royalties and Management Tax, Dividend Withholding Tax Non-Mining (DWT), Goods and Services Tax (GST), Bookmakers Turnover Tax (BTT), Departure Tax and Interest Withholding Tax (IWT) appear to be on track with the 2019 Supplementary Budget estimates.

Inland Excise and Import Duty Taxes are also expected to perform above the Supplementary Budget projections, which will offset some anticipated falls in other International Trade Taxes such as Export Tax and Import Excise Tax.

Total collections of Dividends from Statutory Bodies of the Government, PMMR and Fees & Charges are likely to meet their 2019 Supplementary Budget targets by year-end.

Total Revenue and Grants for 2020 is projected to increase by K1,073.0 million to K14,095.4 million, or 8.2 per cent higher than the 2019 Supplementary Budget projection and current estimate. This mainly comprises of K11,307.8 million in Tax Revenue, K1,855.5 million in Other Revenue and K932.1 million in Donor Grants.

Table 13: Total Revenue and Grants 2019-2020 (Kina, million)

	2018 Actuals	2019 Sup. Budget	2020 Budget	Variation
Tax Revenue	10,475.9	10,667.7	11,307.8	640.1
<i>Per cent of GDP</i>	13.2%	12.6%	12.3%	0.0
Grants	1,835.7	943.1	932.1	-11.0
<i>Per cent of GDP</i>	2.3%	1.1%	1.0%	0.0
Other Revenue	1,773.6	1,411.6	1,855.5	444.0
<i>Per cent of GDP</i>	2.2%	1.7%	2.0%	0.0
Total Revenue & Grants	14,085.1	13,022.4	14,095.4	1,073.0
<i>Per cent of GDP</i>	17.8%	15.4%	15.3%	0.0

Source: Department of Treasury

Revenues in 2020 will be supported by a recovery in economic growth (especially in the non-mining sector), Government spending and private sector credit growth, an expected increase in price for gold, expected higher growth in the Agriculture, Forestry and Fishing sector and progress on the Medium Term Revenue Strategy (MTRS) initiatives. Further, the introduction of

new revenue measures is expected to raise on balance K218.0 million to support revenue collections in 2020.

4.2 TAX REVENUE

4.2.1 Taxes on Income and Profits

Taxes on Income and Profits are projected at K6,229.5 million in 2020, comprising mainly of K3,215.0 million in PIT, K2,085.4 million in CIT, K561.2 million in MPT, K171.0 million in DWT, K107.3 million in IWT, K49.4 million in Royalties and Management Tax and K40.0 million in Non-Resident Insurers Withholding Tax (see Table 13).

In 2019, PIT has been tracking well against target collections with 74.7 per cent of the 2019 Supplementary Budget projection collected up to end September. This has been underpinned mainly by employment growth in the mining sector, higher salaries for public sector employees and observed annual salary increases to private sector employees as indicated in the Bank of PNG's June Quarter Economic Bulletin.

In 2020, the administration of credit offsets against PIT liabilities will continue to be prohibited. PIT is estimated to be K3,215.0 million in 2020.

Table 14: Taxes on Income and Profits 2019-2020 (Kina, million)

	2018 Actuals	2019 Sup. Budget	2020 Budget	Variation
Taxes on Income, Profits and Capital Gains	6,119.2	6,115.5	6,229.5	114.0
Personal Income Tax	3,101.9	2,999.6	3,215.0	215.5
Company Tax	1,933.0	1,923.6	2,085.4	161.8
Mining and Petroleum Taxes	775.0	805.0	561.2	-243.8
Royalties & Management Tax	43.9	44.7	49.4	4.7
Dividend Withholding Tax	154.6	219.8	171.0	-48.8
Interest Withholding Tax	110.8	86.9	107.3	20.4
Non-Resident Insurers Withholding Tax	0.0	35.8	40.0	-4.2
Tax Related Court Fines	0.0	0.0	0.0	0.0
Sundry IRC Taxes & Income	0.0	0.0	0.1	0.1

Source: Department of Treasury

Revenues from CIT up to end September 2019 are only 64.8 per cent of the projected amount in the Supplementary Budget. The downside impacts to revenue collections have translated from difficult economic conditions in 2018, lingering economic challenges faced by non-resource businesses in 2019 including foreign exchange imbalances and lack of Government and private sector stimulus and investment in the economy. The projected additional revenue of K200 million from compliance measures also has not materialized due to slow progress in implementing administrative and audit work by the IRC.

In 2020, CIT is projected at K2,085.4 million. The increase in CIT is a reflection of the growth expected in the non-mining sector and the additional banking levy being collected from January 1st 2020. The Banking levy, though technically not corporate income tax, is being included here as being collected from corporations.

MPT receipts have performed below the Supplementary Budget projection in 2019 as a result of the downward revision to mineral and petroleum price forecasts. In addition, one receipt due under MPT was paid using Infrastructure Tax Credits (ITCs) and, thus, bypassed the Budget appropriations process.

In 2020, MPT collections are estimated at K561.2 million, which is 30.3 per cent below the 2019 Supplementary projection. This reflects the international price expectations for oil and gas. The fall in the MPT estimate reflects a moderately sluggish commodity price trend in 2020 due to the continuous global trade war and elevated geopolitical tensions between major global economies. Gold is the only commodity where price movement in the future is favorable to PNG but not enough to offset the decrease in profits from lower prices in other resource commodities.

DWT has been performing well against the Supplementary Budget projections and by end September 2019, 68.7 per cent of the Supplementary Budget projection has been collected. If this trend continues, DWT is estimated to be K219.8 million by end 2019, on par with Supplementary Budget projections. In 2020, it is estimated that DWT will increase to K171.0 million largely because of nominal GDP growth and the backlog in offshore dividends being cleared next year as foreign exchange is made available. However, extinguishment of the foreign exchange imbalance remains a high risk.

IWT has been tracking below its Supplementary Budget expectations on a pro rata basis with 70 per cent of the Supplementary Budget target collected to end September and, as such, the Supplementary figure is not expected to be realized by year-end. Administrative measures planned for 2019 to tighten scrutiny over IWT exemptions for foreign lenders were slow to be implemented. The projections for 2020 IWT include a non-mining GDP growth component along with an acceleration of administrative tightening to disallow foreign lenders the ability to repatriate interest income tax free. The estimate for 2020 for IWT is K107.3 million.

Royalties and Management Tax collections trended well against the 2019 Supplementary budget projection with K32.0 million collected to end September. RMT collections are expected to increase to K49.4 million in 2020.

4.2.2 Taxes on Payroll and Workforce

Collections on Payroll and Workforce is from the Training Levy, which amounted to K1.2 million by end September due to the incoming streams of delayed filings from 2018 after the tax was repealed in the 2018 Budget. The 2019 Supplementary Budget projected K1.6 million collection with actual collections to continue flowing from unfulfilled obligations. In 2020, this tax category will cease to be applicable.

Table 15: Taxes on Payroll and Workforce 2019-2020 (Kina, million)

	2018 Actuals	2019 Sup. Budget	2020 Budget	Variation
Training Levy	8.6	1.6	0.0	-1.6
Total	8.6	1.6	0.0	-1.6

Source: Department of Treasury

4.2.3 Taxes on Goods and Services

Taxes on Goods and Services revenue is projected to be K4,195.1 million in 2020, comprising mainly of K2,341.9 million in GST, K1,215.0 million in Inland Excise Duty, K292.0 million in Import Excise, K246.7 million in Gaming Machine Tax, K55.5 million in Stamp Duties, K18.2 million in Bookmakers Turnover Tax (BTT) and K1.0 million in Customs Sundry (see Table 15).

Table 16: Taxes on Goods and Services 2019-2020 (Kina, million)

	2018 Actuals	2019 Sup. Budget	2020 Budget	Variation
Taxes on Goods and Services	3,537.3	3,753.1	4,195.1	442.1
GST ¹	2,067.1	2,062.0	2,341.9	279.9
Sales taxes	0.0	0.0	0.0	0.0
Bank Account Debit Fees	0.0	0.0	0.0	0.0
Stamp Duties	100.3	48.6	55.5	6.9
Excise Duty	774.0	1049.8	1,215.0	165.2
Import Excise	300.8	313.9	292.0	-21.8
Bookmakers' Turnover Tax	20.4	16.4	18.2	1.7
Gaming Machine Turnover Tax	205.1	237.3	246.7	9.4
Departure Tax	22.6	22.0	23.9	1.9
Motor Vehicle Tax	2.2	0.0	0.3	0.3
Other taxes on use of goods and services on permission to use goods or perform activities	0.6	0.0	0.6	0.6
Other taxes on goods and services	44.3	3.0	1.0	-2.0

Source: Department of Treasury

GST transfers to the Consolidated Revenue Fund (CRF) in 2019 are expected to be in line with the Supplementary Budget estimate. Higher than estimated refunds for 2019 due to a one-off payment in March was the reason the GST revenue transfer to CRF fell short of earlier projections and was revised down in the 2019 Supplementary Budget.

In 2020, net GST transferred to CRF is projected to increase to K2,341.9 million. Compliance in GST still remains a challenge especially for GST collected domestically (outside of the ports). While refunds are projected to fall marginally by 2.3 per cent from 2019, overall net GST transfers from the provinces combined is likely to grow by less than the non-mining GDP growth rate.

Inland Excise has performed well against the 2019 Supplementary Budget projection with collections amounting to 93.9 per cent of the budget by end September.

The introduction of a second tier for tobacco and the expected increase in consumption of locally produced tobacco due to the fight against the illicit tobacco trade, are expected to support excise duty collections over the remaining months of 2019. In 2020, Inland Excise Tax is projected to increase to K1,215.0 million. Consumption of excisable items is also expected to be driven by moderate growth in the economy while administrative efforts will continue to improve compliance. Further, the introduction of a one-off increase to cigarette excise, together with an excise increase for alcohol and social drinks, are anticipated to yield additional inland excise collections of K89.2 million next year.

Revenues from Import Excise have been trending below Supplementary Budget estimates of K313.9 million with collections up to 72.3 per cent at end September 2019. The lower-than-expected collections reflect reduced import volumes of used vehicles due to the Road Transport Authority cessation of imported used vehicles and the subdued domestic non-mining economic environment. The 2020 Budget projection of Import Excise is K292.0 million which is down by K8.8 million from the 2018 estimated outcome. The fall reflects mainly the revenue loss from the reduction in import duty on imported new and used cars.

Gaming Machine Tax revenue performed well against the Supplementary Budget estimate with 75.2 per cent of collections up to end September 2019. Revenue from this tax reflects the benefit from the tax policy to increase the Government's share from 46.0 per cent to 55.0 per cent and the impact of the increase in disposable income through PIT relief. In 2020, Gaming Machine Tax collections are projected to increase to K246.7 million reflecting moderate economic growth.

In 2019, Departure Tax collections were performing well against the Supplementary Budget estimate of K22.0 million. By end September, Departure Tax revenues amounted to K16.5 million which is 75.0 per cent of the Supplementary Budget estimate due to one-off payments from Air Niugini to cover a tax liability from previous years. For 2020, nominal growth of GDP is projected to increase collections of Departure Tax to K23.9 million, an 8.7 per cent increase from the 2019 Supplementary Budget estimate.

Other Tax revenues such as Bookmakers Tax and Stamp Duty Tax have performed well against the 2019 Supplementary Budget expectations. In the 2017 Budget, the Government merged Stamp Duty on bookmaking into the BTT rate and increased it to 15.0 per cent. The revenue generated from this measure is being shared between the National Government and Provincial Governments at a 60.0 per cent and 40.0 per cent ratio respectively. In 2020, BTT is expected to collect K18.2 million and Stamp Duties are expected to collect K55.5 million.

4.2.4 Taxes on International Trade and Transactions

Total tax collections from International Trade and Transactions in 2020 is projected at K883.2 million, comprising K455.4 million in Export Duty and K427.8 million in Import Duty.

Revenues from Import Duties have performed well against the 2019 Supplementary Budget estimate of K399.4 million with 74.3 per cent of the budget estimate collected as of end September. The positive collection trend from this tax reflects the successful implementation of the new modernized payment system at Customs, which was rolled out in September 2018.

In 2020, economic growth and compliance efforts will contribute to an increase in revenues from this tax to K427.8 million. As part of the compliance efforts, the second Container Examination Facility (CEF) in Lae will be operational, which will further boost compliance.

Table 17: Taxes on International Trade and Transactions 2019-2020 (Kina, million)

	2018 Actuals	2019 Sup. Budget	2020 Budget	Variation
Taxes on International Trade & Transactions	810.7	797.6	883.2	85.6
Import Duty	325.3	399.4	427.8	28.4
Other Import Taxes	93.0	0.0	0.0	0.0
Export Tax	392.4	398.2	455.4	57.3

Source: Department of Treasury

Revenues from Export Duty are on target to achieve the 2019 Supplementary Budget target of K398.2 million, with 77.0 per cent revenue being collected up to end September. The slower trend of revenue collections from Export Duty this year reflects the fall in export volumes of logs due to falling demand in China. Other factors include the slow implementation of compliance enforcement of the new duty rates on log exporters and the time lag in the harvest season for Sea Cucumbers.

In 2020, export tax is projected to increase to K455.4 million, above the 2019 estimated outcome by K57.3 million. This increase reflects tax measures to increase tax rates on unprocessed logs.

4.3 OTHER REVENUE

Expected receipts from the Other Revenue category were revised to K1,411.6 million in the 2019 Supplementary Budget. The estimate for the end of 2019 remains unchanged on the Supplementary Budget estimate, with K439.6 million expected from PMMR, K905.0 million expected in dividends and the remaining K66.9 million from Departmental Fees & Charges.

In 2018, the National Fisheries Authority (NFA) contributed 69.0 per cent of the PMMR revenues. The access fee collections, based on the Tuna Fishing Vessel Day Scheme (VDS), accounted for 96.0 per cent of the NFA revenue collections. It is sensitive to the number of days fished and the price of fishing per day. Tuna is a highly migratory species and as a result of dramatic changes in weather patterns, tuna appears to have migrated to other waters in the region thereby resulting in a declining population in PNG waters. The access fee charges (VDS price) for our waters is the highest in the region at US\$10,500.00/per day set by the NEC in 2019 and above the market determined rate of US\$8,500.00/per day.

The combination of the El Nino effect on tuna migration and excessive access fee charges have impacted 2019 NFA collections. The contribution to CRF has also been adversely impacted by the introduction of the fisheries rebate scheme in 2019, where up to 37.0 per cent is cash remitted to the industry with the aim of increasing on-shore processing consistent with the Government's overarching policy of enhancing downstream processing of PNG's natural resources. This scheme is up for review in 2020.

In 2020, the Other Revenue category is projected to increase to K1,855.5 million comprising mainly of K1,050.0 million in Dividends, K641.9 million in Statutory Transfers and K162.9 million in Departmental Fees & Charges.

Table 18: Other Revenue 2019-2020 (Kina, million)

	2018 Actuals	2019 Sup. Budget	2020 Budget	Variation
OTHER REVENUE	1,773.6	1,411.6	1,855.5	444.0
Property Income	1,063.6	934.2	1,153.7	219.5
Interest	0.0	0.0	0.7	0.7
Dividends	1033.5	905	1,050.0	145.0
<i>Mining Petroleum and Gas Dividends</i>	<i>653.5</i>	<i>700.0</i>	<i>800.0</i>	<i>100.0</i>
<i>Dividends from Statutory Authorities</i>	<i>380.0</i>	<i>100.0</i>	<i>150.0</i>	<i>50.0</i>
<i>Dividends from State Owned Enterprises</i>	<i>0.0</i>	<i>105.0</i>	<i>100.0</i>	<i>-5.0</i>
Withdrawals from income of quasi-corporations	0.0	0.0	0.0	0.0
Property income from investment income disbursements	0.0	0.0	0.0	0.0
Rent	30.1	29.2	103.1	73.9
Sales of goods and services	32.2	54.5	46.7	-7.8
<i>Sales by market establishments</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
<i>Administrative fees</i>	<i>8.2</i>	<i>30.3</i>	<i>4.0</i>	<i>-26.3</i>
<i>Incidental sales by nonmarket establishments</i>	<i>24.0</i>	<i>24.2</i>	<i>42.7</i>	<i>18.5</i>
<i>Imputed sales of goods and services</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
Fines, penalties, and forfeits	1.9	0.8	0.8	0.0
Transfers not elsewhere classified	675.9	451.9	654.3	202.4
<i>Current transfers not elsewhere classified</i>	<i>675.9</i>	<i>451.9</i>	<i>654.3</i>	<i>202.4</i>

Source: Department of Treasury

Of the Dividends, K500.0 million is expected from KPHL, K300.0 million from Ok Tedi, K150.0 million from BPNG, K80.0 million from Kumul Consolidated Holdings (KCH) and K20.0 million from the Motor Vehicle Insures Limited (MVIL). The Government expects its

current SOE dividend policy to be enforced and the funds repatriated to the CRF on a timely basis.

The Statutory Transfers include K416.9 million from NFA, K15.0 million from the National Maritime & Safety Authority (NMSA), K10.0 million from the Mineral Resource Authority (MRA), K5.0 million from the National Agriculture Quarantine and Inspection Authority (NAQIA), K140.0 million from the Department of Labour and Industrial Relations, K35.0 million from the Immigration & Citizenship Service Authority and K20.0 million from National Gaming Board.

Revenues from departmental fees and charges have been very weak over past years. In the 2019 Supplementary Budget, a total of K66.9 million was projected; however, key contributors such as revenue from land rental collections lagged behind. In 2020, a total of K162.9 million is projected for departmental fees and charges of which K80.0 million is expected compliance collections for land lease rentals by the Department of Lands.

In order for the Department of Lands and Physical Planning to undertake reforms to improve collections from land rentals, additional capital has been allocated in the 2020 Budget. The reform to increase revenue from land rentals is part of the broader revenue raising reforms initiated by the Marape-Steven Government. The Department of Treasury will work closely with the Department of Lands and Physical Planning to ensure that the reform is funded and revenues are collected accordingly.

4.4 GRANTS

Total Donor Grants have been tracking well against the 2019 Supplementary Budget projection of K943.1 million and the Supplementary projection is expected to be achieved by end 2019. In 2020, there is an expectation of similar Development Partners' contributions, which will be in support the 2020 Budget and other major infrastructure and project developments. Development partners, such as the Asian Development Bank (ADB), European Union (EU), Australia and other partners are expected to get on board and provide support in relation to higher Grant allocations going forward.

Table 19: Donor Grants 2019-2020 (Kina, million)

	2018 Actuals	2019 Supp. Budget	2020 Budget	Variation
GRANTS	1,835.7	943.1	932.1	-11.0
From Foreign Governments	1,562.4	775.5	766.2	-9.3
Current	1,249.9	620.4	612.9	-7.5
Cash	0.0	0.0	0.0	0.0
In-Kind	1,249.9	620.4	612.9	-7.5
Capital	312.5	155.1	153.2	-1.9
Cash	0.0	0.0	0.0	0.0
In-Kind	312.5	155.1	153.2	-1.9
From International Organizations	273.3	167.6	165.9	-1.7
Current	218.6	134.1	132.7	-1.4
Cash	0.0	0.0	0.0	0.0
In-Kind	218.6	134.1	132.7	-1.4
Capital	54.7	33.5	33.2	-0.3
Cash	0.0	0.0	0.0	0.0
In-Kind	54.7	33.5	33.2	-0.3

Source: Department of Treasury

4.5 MEDIUM TERM REVENUE OUTLOOK

REVENUE AND GRANTS

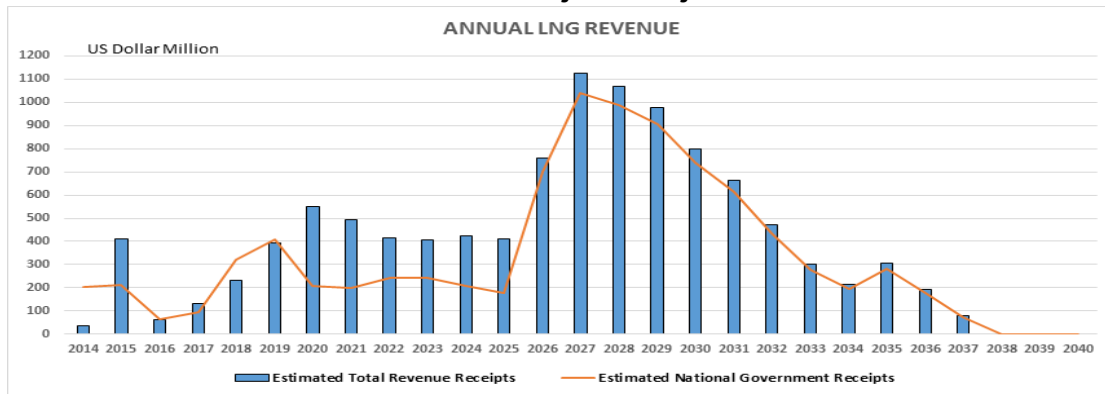
The Medium-Term Revenue Outlook is based on deliberations surrounding the implementation of the revised Medium Term Revenue Strategy, 2018-2022 with the new administration. Due to revised fiscal policies, the MTRS is undergoing a review such that a revised strategy can incorporate both changes in the Government's aspirations and external factors in revenue collection. There are also major changes that are expected to be injected by the new Government in terms of reviewing resource laws, introducing new policies and improving tax collection systems through proper funding and monitoring. With these policy frameworks and development mechanisms, the Government is expected to boost revenues from K14,905.4 million in 2020 to a level around K18,833.8 million by 2024.

The Government's revenue target, excluding grants, is to reach 19.0 per cent of nominal GDP by 2024, above the 14.0 per cent target for 2022 in the current MTRS. The higher revenue growth rate compared with the nominal GDP growth rate reflects expected efficiency improvements in the tax collection system with greater share of the revenue mix coming from resource projects.

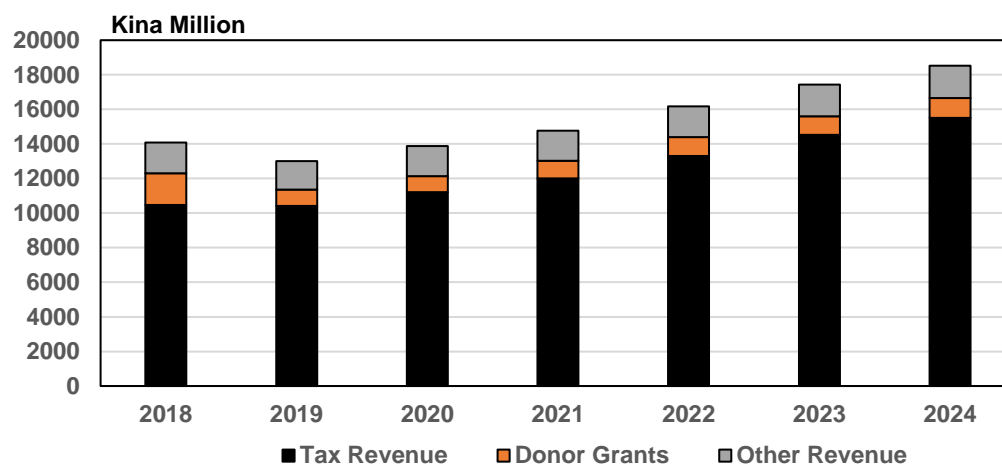
Tax Revenue is targeted to increase from K10,667.7 million in 2019 to reach K15,631.8 million by 2024, with a higher expected growth rate from the Large Taxpayer Office (LTO), second CEF by PNG Customs, the new tax regime for SMEs, and improved compliance across the board. The second CEF in Lae is expected to be operationalised by the second half 2020 boosting trade tax collections over the medium term. Overall, tax collections should be underpinned by the expected higher growth rates in the resource and non-resource sectors over the medium term.

Other Revenue is targeted to increase slightly to above K2.0 billion and will be supported by the implementation of the *Public Money Management Regularisation (PMMR) Act 2017*, which will see 100 per cent of fees and charges collected and remitted to the WPA by 2020 and the enforcement of the dividend policy which will lift payments to the State over the medium-term. The establishment of a Revenue Division in Treasury in 2020 is expected to facilitate an improvement in policies and collections. The Public Money Management Regularisation (PMMR) Act is amended to extend its operation of the revenue sharing provisions to a future date endorsed by NEC and will look to expand its coverage to other relevant agencies and authorities.

The Other Revenue category includes projections of SWF receipts; however, since the Fund is yet to be operationalised, the figures are indicative only. The projections account for 50 per cent of mineral and petroleum tax being channelled to the SWF Stabilisation Fund (but will still be available for Government expenditure in accordance with the drawdown thresholds) while the other 50 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 dividends and other proceeds stipulated in the SWF Organic Law.

Chart 34: Annual Revenue Inflows PNG LNG Project – Projections 2014-2040⁸

Source: Department of Treasury

Chart 35: Medium Term Revenue (2018-2024), Kina million

Source: Department of Treasury

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 projection for the medium term is expected to increase gradually reflecting an anticipated increase in current grants received from international organizations driven by expected increased partnerships between the new Government and international organizations such as the ADB.

⁸ Data is based on 2018 average prices. In estimated total revenues, the dividend estimate is the full amount estimated to flow to KPHL prior to the transfer to the public revenue account. The revenue figures for 2014 to 2017 are estimates based on updated prices and volumes and not actuals. The data has been produced from internal models of the Government. Production volume and price assumptions are based on recent updates (as published in this volume) for 2018 to 2023. For 2024 onwards, a five-year moving average price is used. PNG has yet to be able to fully benefit in terms of foreign exchange inflows as (i) most of the revenue from the PNG LNG Project has been held in offshore accounts for the servicing of project finance debt, (ii) the Government's tax receipts in the near term remain reduced due to amortization of the PNG LNG Project's loans, which is expected to end in 2025 and (iii) high (accelerated) depreciation expenses, which are expected to fall off substantially after 2025. Between 2014 and 2040, on the assumptions outlined in the notes to the graph above, it is estimated that the Government will receive approximately US\$10.9 billion in revenue receipts. This excludes any revenue received by the Government from the other joint venture partners from the flow-through of dividends from the project. Total revenue inflows to the national budget are estimated to be US\$9.0 billion between 2014 and 2040. There is no public debt tied to the project, and all revenue is expected to flow through into the public account or through government entities such as KPHL or the PNG SWF (once established) that will assist in servicing public debt. In 2016 and 2017, the tax revenue contribution from the PNG LNG Project was below K100.0 million; however, dividends passed through to the Government from KPHL were K300.0 million over the same period. The Government expects receipts from the PNG LNG Project to increase beginning in 2021 and accelerate significantly from 2025 onwards.

CHAPTER 5: TAX AND NON-TAX MEASURES AND DEVELOPMENTS

5.1 OVERVIEW

Revenue measures are introduced to support finance the 2020 Budget given the magnitude of the fiscal challenges inherited by the new Marape-Steven Government.

Tax measures introduced were sector based to help raise revenue as well as to target some of the areas with the most costly and damaging societal impacts. These changes focused on particular challenges such as anti-social drinking and the continuing exports of round logs and removing some previous concessions in the alcohol and cigarette areas. The Government's changes ensure the burden of increased taxation does not fall broadly ordinary citizens and targets the groups most able to afford the increases, including the banking and telecommunications sectors. These increases are necessary given the size of the fiscal deficit, and the need to make payments on outstanding bills from previous years. While savings have been made on the expenditure side, there is a necessity to maintain a level of government services substantial enough to support the general public. Other actions are being taken to support the government's economic growth agenda through the tax regime, such as introduction of a concessional and simplified tax regime for SMEs.

The 2020 Budget taxation reforms includes:

- Introducing a simplified and more concessionary tax regime for SME's to bring more SMEs into the formal sector.
- Increase excise on "anti-social drinks" by up to 400 per cent for those which combine high alcohol content with stimulants such as coffee (there is no net revenue effect expected as the Government is targeting a dramatic fall in consumption);
- Enhancing Land Lease Rental Payments **(+K80.0 million)**;
- Capture resource rent on export of unprocessed old – growth logs by increasing progressive duty rate from the current average of 32 per cent to an average of 50 per cent; **(K48.8 million)**;
- Increasing alcohol and cigarette excise by at least 10 per cent, remove suspension of six-monthly excise indexation rate and revert to 5.0 per cent six monthly indexation, continue applying 2nd Tier to address illicit (untaxed) market, and remove earlier specific excise tax concession for new breweries or manufacturers **(K79.2 million)**;
- Introducing a revised Telecommunication Universal Access Levy based on turnover rather than profits to strengthen compliance and increase License Fees possibly through an auction system (further discussions with industry will refine, but substantial increased amounts will be collected);
- Increasing Banking License Fees, or introducing a mechanism targeting foreign exchange transactions and spreads will require further discussions with industry to refine, but expect increased amounts will be collected;
- Reducing import excise on imported brand new and used vehicles as a measure to stimulate the local economy through direct and indirect job creation, **(- K40.0 million)**;

- Uplifting concessional threshold to K6,000.0 for passengers from abroad over 18 years and K3,000.0 for passengers below 18 years to reduce unnecessary compliance costs;
- Tightening the Thin Capitalisation rule; and
- Encouraging the use of local produce in beverages by broadening the coverage of Tariff Item 2206.00.10 to include alcoholic drinks made from edible produce grown in PNG, notably cassava.

Taxation reforms that require public consultation and further analysis in 2020 for implementation in 2020 as well as 2021 include:

- Rewriting of the *Income Tax Act 1959*;
- Imposing tariffs on imports of refined petroleum products; and
- Reviewing the revised tax credit scheme guideline.

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

5.2 MAJOR REVENUE POLICY MEASURES

5.2.1 INTRODUCTION OF SMALL MEDIUM ENTERPRISE (SME) TAXATION REGIME

Under the current tax regime, small and medium businesses have similar tax obligations to a big business. This provides a significant challenge to the SMEs in meeting their tax obligations as most SME's are not able to hire tax agents to assist in keeping accurate records, calculate tax liability due and file tax returns.

To assist SME's grow and flourish, the Government will introduce a special taxation regime for SMEs, which will be separated from the obligations of large tax payers and micro-businesses.

SMEs or small businesses are privately owned corporations, partnerships or sole proprietorships that have fewer employees and / or less annual revenue than regular-sized business or corporation.

A business with an annual turnover of less than K250,000.00 threshold is defined as a small business and is liable to pay business tax on quarterly basis at 2 per cent on the turnover per quarter. Those small businesses may elect to be either in the standard tax system or in the small business regime as is the option provided to the GST registrant entities with similar taxation thresholds.

The small businesses with turnover of less than K70,000.00 is categorized as micro-businesses to separate it from small businesses for purposes of taxation. Those micro-businesses are liable to pay an annual tax of K400.00.

As an incentive for small business to comply with tax law, a simplified accounting and tax rules are applied to small businesses and micro-businesses. Small businesses are entitled to the simplified accounting rules under the SME taxation regime as outlined below.

- Income will be taxed in the year it is received and costs are deducted when paid by the business on a cash basis.
- The entire cost of long-lived assets, which is normally written-off ('depreciated') over time is deducted when the assets are bought at the rate of 100 per cent with a limit of K5,000.00 on the asset values.

- iii. Purchases of trading stock are deducted in the year received. SME's are not required to value each item of trading stock on hand at the end of the income year, or account for any change in the value of trading stock on hand.
- iv. Limiting time for retaining records to 3 years for small businesses. This will reduce record keeping, compliance cost and improve tax administration.
- v. SMEs will have the option for a once-off opt-out provision so they can continue under the existing arrangements if they wish to.

This measure is expected to simplify record keeping, accounting and taxing rules for small businesses, reduce the tax burden on SMEs, and encourage them to enter the "formal sector" with a simplified, concessionary arrangement.

This measure will come into effect upon release of the Gazettal notice from the Office of the Governor General.

5.2.2 Increase in Excise on Anti-Social Drinks by up to 400.0 per cent especially those Combining High Alcohol Content with Stimulants

There are continuing concerns about the adverse impact of anti-social drinks (high alcohol mixed with stimulants) on PNG's communities. There is a need for improved regulation to ensure the advertised alcohol content is accurate, as well as health education on the dangers of home brew. In addition, changed excise arrangements can help discourage such consumption.

The Government has increased the excise rate by up to 400.0 per cent on anti-social drinks with high alcohol content and stimulants

This measure will be effective 6th December 2019.

5.2.3 Enhancing Land Rental Collections Through Compliance Measures

The estimated outstanding land lease rental from 2013 to 2020 is K400.0 million. This stems from lack of compliance by land leaseholders and issues relating to the ICT system called LAGIS system used by the Department of Lands and Physical Planning (DLPP).

The reform to modernize and enhance land lease rental collection started in 2008 under the Lagis Enhancement Application Program (LEAP) but has been disrupted at various times.

In 2017, a new phase of the LEAP project started. It involved releasing the 26 processes in stages by TechnologyOne through a new land lease rental revenue collection system called the Property and Rating (P&R) System and the management system called the Enterprise Content Management (ECM).

The timely management and execution of the LEAP project has been delayed due to the following issues:

- updating of the P&R and ECM to the latest versions of the software and then building the required environments;
- having only one resource for the configuration; and
- identifying and engaging additional resources with the required skillsets.

To quickly progress the implementation of the LEAP project, external consultants with relevant knowledge and experience are being engaged to address the situation. The consultants will

perform different specialist functions ranging from extraction of land lease rental receipts from PGAS and IFMS systems and migrate them to the P&R and ECM.

The Property and Rating (P&R) system will increase efficiency and effectiveness in the collection of the land lease rental and the management of the data base. It is envisaged that DLPP processes will be in one system, whereby all users can see all applications but only able to process and make changes to those that they have authority. Therefore, the processing of land titles to collection of land lease rentals will be reliable, repeatable, relevant and robust.

Once the land lease rental data (receipts) are extracted from PGAS and IFMS system to the P&R system, the system will generate billing. The billing when implemented will be for about 48,000 leases for 7 years (2014 to 2020). The billed amount is estimated to be K400.0 million.

Even after the P&R and ECM systems come online and fully operational, the outstanding land lease rental of K400.0 million will not all be collected in 2020. This is due to the fact that billing also includes debt recovery functions such as the ability to issue notices as well as functions to create payment arrangements on a regular basis. These functions should over time, reduce total rental outstanding.

Given that seven years of outstanding payments will be levied, it is unlikely many leases will be in a position to fully pay. It is estimated that K80 million of the outstanding land lease rental will be paid next year (2020). The funding requested for the latter is K3.0 million from 2019 Budget allocation of K4.5 million to support land lease rental collections.

5.2.4 Capture Resource Rent on Export of Unprocessed Old – Growth Logs by Increasing Progressive Export Duty Rate

Log duty is progressively applied based on the value of the log species. The export duty rate is applied at an average progressive export duty rate of 32.0 per cent.

Logging companies in PNG have had prolonged tax losses, hence do not pay corporate income taxes. This raises concerns that logging companies engage in sophisticated transfer pricing activities that result in a systematic under-reporting of actual log export revenue.

In this Budget, the Government further increases the average progressive export duty rate to 50 per cent. This is to ensure fair taxation treatment consistent with the value of logs, capture the resource rents of exploitable old-growth logs, encourage downstream processing and act as a default corporate tax. This measure does not apply to plantation logs. Table below shows the prescribed progressive rates.

Table 20: Stepped Fashion Progressive Export Duty rate

New 2020 Thresholds (FOB Prices, US\$/m³)	Proposed 2020 Export Duty Rates	Average Duty as a % of log Price
0.00	P*0.3500	35%
Above \$60.00	P*0.4893-3.56	44.6%
Above \$100.00	P*0.5585-4.76	52.0%
Above \$150.00	P*0.5791-12.36	50.8%
Above \$200.00	P*0.5884-16.36	51.6%
Average Duty as % of FOB Price/M ³		50.0%

This measure is expected to raise K48.8 million and will be effective on 1 January 2020.

5.2.5 Apply a one-off 10 per cent increase on Excise for Tobacco Products, 20 per cent one-off increase on Wine Products due to their higher alcohol content, apply a 50 per cent increase on spirits and apply 10 per cent one-off increase on other Alcohol Products starting 6th December and there after apply 5 per cent biannually and continue applying 2nd Tier to address Illicit market

Prior to December 2018, the excise on alcohol and tobacco were indexed (adjusted) every six months (June and December) at a rate of 5.0 per cent (10 per cent annually).

In the 2019 National Budget, the Government provided relief to the alcohol and tobacco industry by temporarily suspending the six-monthly excise indexations for alcohol and tobacco. For tobacco, the suspension was six months which expired on 31st May 2019 and indexation rate was reduced to 2.5 per cent every six months which commenced on 1st June 2019. The suspension on excise indexation for alcohol will end on 31st May 2020 with a 2.5 per cent indexation rate every six months to be applied thereon.

The Government will re-capture some of these revenue losses with an immediate 10 per cent increase on excise for tobacco products, 20 per cent one-off increase on wine products (as they have an alcohol content generally of over 10 per cent but under 20 per cent), 50 per cent one off increase on spirits (which generally have alcohol content over 10 per cent), and 10 per cent one-off increase in other alcohol products (which generally have an alcohol content of less than 10 per cent) starting 6th December 2019 to 31st May 2020 and uplift the temporary suspension of excise indexation and revert to 5 per cent biannually starting 1st June 2020.

To combat sale of illicit alcohol, the Government will increase the penalties for the production and sale of “home brews” from K200 to between K1,000 and K50,000 in early 2020. This will be administered at judges’ discretion.

The Government also introduced an additional measure to combat illicit issues affecting tobacco industry in the form of a 2nd tier excise for tobacco. The rationale is to legitimize untaxed (illicit) tobacco products produced and sold at very low price and bring them into the tax net.

The excise from alcohol and tobacco is expected to raise K79.2 million in 2020 and will be effective from 1st December 2019.

5.2.6 Introduction of a Telecommunication Universal Access Levy and Exploring Increases in License Fees

The Government will work with National Information and Communications Technology Authority (NICTA) as a regulator and relevant stakeholders to introduce a new universal access levy on telecommunications in 2020. A Universal Access Levy (UAL) is based on turnover, with a rate set in line with international practice and PNG’s needs in the range of 0.5-4 per cent. This will be done through a consultative approach among the relevant stakeholders including the telecommunication agencies.

The Government will work to determine the revenues this will apply to balance market growth alongside the need to raise revenue for the Universal Access Fund. In order not to affect important financial services provided by the banks and financial institutions such as the mobile money service, certain exclusions will be made on the application of this levy.

Further work will be done to improve the existing Universal Access Fund as part of this reform, through the development of rules and requirements with the appointment of an external fund manager. A mutualization policy will also be developed and adopted to ensure sharing of

infrastructure. The extent of this will be determined through consultation and should at minimum extend to the sharing of towers and support services, and should extend beyond those towers which are funded through the UAF. NICTA will play a key role in ensuring the opening of this competition at fair prices.

Treasury will work closely with industry groups and broader stakeholder groups to agree on rules on the disbursements from the fund and focus on mechanisms to utilize the fund to crowd in other finance and focus on tower development in under-developed areas. This will ensure we work towards quick disbursement from the fund to allow for the development of new towers.

There will also be development of proposals to increase the charges on telecommunication license fees. International best practice is to auction these licenses. Current indications are the license fees are set at a level which is too low compared to other countries.

5.2.7 Increase banking license fees

The Government will raise the license fees on banks and financial service operators. There will be consultations with the Bank of Papua New Guinea as the regulator with relevant stakeholders including the Department of Treasury and banks and financial service entities. The Government will also consider a revenue measure based on the level of forex spread/transactions, given the high profits banks in PNG make on these. The consultation is expected to commence in early 2020, with license fee increases to take place in 2020.

5.2.8 Reduce Import Excise on Vehicles

Excise on imported vehicles is based on the engine capacity, age and use. Vehicles with higher engine capacity attract higher excise than lower engine capacity. Also, brand new vehicles attract lower excise rate at 60 per cent compared to used vehicles at 80 per cent for the same engine capacity. Very low or no excise is applied on vehicles for agriculture purposes. A higher excise rate is currently applied on luxury and sporting vehicles, 110 per cent for new vehicles and 120 per cent for used vehicles.

The purpose of imposing excise on vehicles is to claw back cost of maintaining wear and tear of roads, promote anti-dumping by discouraging imports of very old vehicles, and minimize negative externalities such as air pollution from car fumes. However, the government recognizes the need for more ordinary citizens to own vehicles and reduce the cost of doing business in PNG. Particularly, in line with the theme of connecting PNG, the Government wants to reduce the cost of transporting people and transporting goods.

In this Budget, the Government introduced a significant reduction on the import excise rates of all brand-new vehicles as well as used vehicles. Overall, the excise on imported vehicles is reduced by 56 per cent. The duty rate for brand new and used vehicles with lower engine capacity is reduced from 60 and 80.0 per cent respectively to 20 per cent. The duty rate for sporting and luxury vehicles is reduced from 110 per cent and 120 per cent for new vehicles and used vehicles respectively to 40 per cent.

The measure is expected to reduce Government revenue by K40.0 million and will be effective 1st January 2020.

5.2.9 Uplifting the Concessional Threshold on Passengers' Personal Effects

The *Customs (Personal Effects) Regulation 1995* defines personal effects as the passenger's property and have been in the passenger's possession overseas. These goods are not intended

to be used by the passenger for any commercial purpose, including sale, lease, hire or exchange for a consideration. These are not goods that have been imported in such a quantity that, having regard to their nature or durability, the quantity represents, in the opinion of the Chief Commissioner, a commercial quantity.

Excessive compliance costs have been incurred in the current scheme which exempts duty for passengers of 18 years or above with personal effects of value not exceeding K1000.00, and for passengers below 18 years with personal effects of value not exceeding K500.00. To reduce these costs, this concession is now uplifted from K1000.0 to K6000.0 for passenger 18 years and above and from K500.0 to K3000.0 for passengers below 18 years.

It is hoped that this will have a positive impact on tourist perceptions upon entry to Papua New Guinea. Given the focus on tourism, the change in threshold applies only to arrival by air.

This measure will have negative implication on the Government revenue and will be effective 1st January 2020.

5.2.10 Tightening the Thin-Capitalisation Rule

PNG currently has a thin-capitalisation rule that denies a tax deduction for the portion of interest on foreign debt in excess of a 3-to-1 debt-to-equity ratio for companies operating in the extractive sector, and 2 to 1 for non-extractive sector. Experiences in other countries suggest the fixed debt-to-equity ratio rule should be tightened to further control the transfer of profits between related companies via high interest deductions. It was also supported by the Tax Review Committee findings that the debt to equity ratio of three to one (3:1) is considered generous in a number of countries. Further, there is no observable trend of allowing a different thin capitalization allowance for extractives sector.

This measure will further tighten the thin-capitalisation rule by aligning the 3:1 debt to equity ratio for extractive sector to that of non-extractive sector at 2:1.

This amendment will not affect the resource projects that have stability clauses and resource projects that are currently using the 3:1 debt to equity ratio prior to 2020.

This measure will be prospectively implemented as of 1 January 2020.

5.2.11 Encourage local content. Amend description of Excise Tariff item 2206.00.10. to broaden Tax Concession to Alcohol made from all local produce

The Excise Tariff Act 1956 contains a concessional excise tariff Item 2206.00.10, Other - Made from fruits grown in Papua New Guinea with the volume of alcohol content of up to 10 per cent".

The policy rationale to create this tariff item is to increase to create income earning opportunities for local people to supply home grown fruits to be used in the fermentation of alcohol.

This concessional rate is currently limited by the description of the item. The description refers to beer produced using only local fruits and must not be more than 10 percent alcohol. Any producer producing alcohol using local produce other than fruits will not be able to access a concessional excise rate under this tariff code.

The alcohol industry in PNG has expanded its production of alcohol to use locally grown cassava. Providing the concessional rate to cassava and other edible PNG products is consistent with the original policy intent.

By amending the description of concessional requirements will allow alcohol making companies to access this concessional rate for alcoholic drinks made from edible PNG products grown locally to create employment and income earning opportunities for local farmers and also discourage import of raw materials.

To avoid subsequent amendments and encourage simplification of the administration, the current law is amended to extend to other edible products grown locally to manufacture alcohol beverages. Therefore, an amendment is made to the description of Excise Tariff Item 2206.00.10 with the following new description: *“Other – Made substantially from edible products grown in PNG with a volume of alcohol content of up to 10 per cent”*.

This measure will be effective as of 1 December 2019.

5.2.12 Revenue Administration

There have been major failures in keeping revenue growth in line with economic growth. A compliance gap has opened over the last five years – possibly worth up to K3.0 billion. This is despite resources to the IRC increasing significantly. These have more than trebled Personal Emoluments over the last five years. Actions are required to urgently lift revenue performance.

The Government appreciates and recognises the important roles that revenue administrators play in the collection of tax and non-tax revenues and will continue to support administrative reform activities in both Internal Revenue Commission (IRC), PNG Customs Service (PNGCS) and other non-tax revenue generating agencies.

Some administrative reforms to improve revenue collections have progressed well. The establishment of the Large Taxpayers Office (LTO) by Internal Revenue Commission (IRC) has improved filing time and payment by large taxpayers. A total of seventy large taxpayers have since been migrated into the LTO with more than 100 large taxpayers are expected by end of 2019. This reform is targeted towards boosting compliance.

On the downside, there have been major failures in implementing the former strategy to lift revenues. The Department of Treasury needs to lift its game in oversighting administrative changes within the IRC to ensure the focus returns to revenue collection. The appointment of a permanent Tax Commissioner will help as long as it is a person focused on reforms to lift compliance and revenues. The IMF has targeted technical assistance in this area to support its assistance for PNG's reform efforts.

5.2.13 Revenue Policy

The Department of Treasury needs to increase its taxation policy function through increased capacity building. Treasury should immediately transform its current Tax Policy Branch into a Revenue Policy Division staffed with officers through recruitment. This should be supported with specialised training to analyse taxation policy outcomes and introduce new taxation policies that are able to counter aggressive tax planning as a result of evolving e-commerce and technology.

5.2.14 PNG Customs Services

PNG Customs Service (PNGCS) has made some good progress in its administrative reforms.

PNGCS has established an Anti-illicit Taskforce in accordance with an annual operational plan to curb all forms of smuggling. This includes the signing of a Memorandum of Understanding

with the Royal PNG Constabulary to empower PNGCS to lodge criminal cases against smugglers.

Progress has been made to improve effectiveness of Post Clearance Audit (PCA). This includes providing a PCA training refresher and restructuring PNGCS to give more prominence to the PCA function.

PNGCS continues to roll out ASYCUDA World to ports. This has been rolled out to 17 ports across the country but this project has been slowed by the communication network and fixed location addresses. The ASYCUDA World is expected to be fully rolled out to all ports by end of 2019.

5.2.15 Review of the Revised Infrastructure Tax Credit Scheme Guideline

The Infrastructure Tax Credit (ITC) scheme was introduced in 1992. It is a Public Private Partnership model that delivers infrastructure development in the remotest communities in this country utilising machinery and engineering capacities of the resource companies operating in those locations.

Under the scheme, the taxpayers are allowed to offset tax credits against corporate income tax liability for a given year instead of remitting the tax liability to the government. The ITC scheme is the only effective Public Private Partnership model that works in saving costs and accruing efficiencies in delivering infrastructure services to the country's most remote communities.

The resource companies can claim tax credits for expenditures incurred on prescribed infrastructures up to 0.75 per cent of assessable income in a given year. Whilst companies from the tourism and agriculture sectors can claim expenditure up to 1.5 per cent of assessable income in a year as tax credits. The Section 219C of the Income Tax Act provides for the operation of this scheme.

The Department of Treasury is determining the policy decisions on changes to tax credit rates and coverage of the scheme as such changes would have fiscal impact on the annual budget. However, the funding allocated under the ITC scheme is part of the development budget, the Department of National Planning and Monitoring (DNPM) is responsible for the administration of the scheme.

In 2018, ITC scheme guideline was reviewed with the aim to improve the implementation of the scheme. However, the review did not have benefit of ascertaining the fiscal impact on the budget and overall resource envelope to the Government. Further, an NEC Decision (No.238/2018) was made to increase ITC rates from 0.75 per cent and 1.5 per cent to 2 per cent across all sectors. The Department of Treasury did not implement the rate changes in the Budget as it tends to have significant fiscal implication.

In August 2019, the office of the Prime Minister raised concern the revised ITC guideline does not provide a modality that is acceptable by ITC program partners and relevant government agencies. Therefore, the Prime Minister requested for a review into the revised guideline in full consultation with all relevant government agencies and ITC partners from private sectors.

In this Budget, the Government is announcing a review into the revised ITC scheme guideline that will commence in early 2020. The Department of Treasury will take the lead in the review of the ITC scheme together with the Department of National Planning and Monitoring and other relevant stakeholders.

5.3 MINOR POLICY AND TECHNICAL AMENDMENT PROPOSALS

The following amendments are made to correct errors and clarify the law for ease of administration. The technical amendments will come into effect on 1st January 2020.

5.3.1 Ensuring tax law reflects policy intent

An amendment to make corrections to the Income Tax (2019 Budget) (Amendment) Bill 2018 with respect to the reduction in the period within which taxpayers can carry forward losses. This correction will reflect the true tax policy intent of the Government.

5.3.2 Reduce Amount of Disputed Tax

An amendment to *Income Tax Act 1959 (ITA)* to reduce the amount of disputed tax that is required to be paid before a tax appeal is determined. This reduction will enable quick revenue for the Government, and also ensure appeals are settled quickly.

5.3.3 Align Provisional Tax Due Dates with Substituted Accounting Period

An amendment to the due dates for Provisional Tax to align with companies operating under a Substituted Accounting Period. This change will allow the IRC's SIGTAS system to better manage this tax type.

5.3.4 Correct Discrepancies in the Coding and Descriptions for Imported Margarine

An Amendment to the *Customs Tariff Act 1990* to correct discrepancies in the coding and descriptions for imported Margarine (liquid and non-liquid) under Chapter 15 of Customs Harmonised System. The correct tariff code and description for margarine products are:

Tariff item	Description
1517.10.00	Margarine, excluding liquid margarine
1517.9	Other
1517.90.10	Liquid margarine for cooking
1517.90.90	Other, (Including, canned Dripping)

5.3 2020 POLICY DEVELOPMENT AREAS FOR ANNOUNCEMENTS

5.3.1 Rewrite of The *Income Tax Act 1959*

The PNG *Income Tax Act (ITA)* was enacted in 1959 and is one of the oldest income tax laws in force. In effect, it is an Australian Income Tax Legislation applied in PNG during the colonial period. The ITA has been amended many times since its original enactment and has become a complex piece of legislation running to around 800 sections and over 450 pages. The original taxation framework as encompassed in the provisions of the Act has been lost over time through these successive amendments. This has made it difficult for users - especially small businesses and ordinary citizens to navigate their way around the Act. Even IRC staff who use the ITA every day complain how hard it is to work with the current legislation.

Therefore, the Government is rewriting the *Income Tax Act* as part of the reforms to improve tax administration and compliance. The rewritten *Income Tax Act 1959* will focus on simplification and modernization as in other similar tax jurisdictions. It will be more user friendly and easier to read. It will help stakeholders understand the taxation law by applying a consistent, logical and orderly framework.

The technical team for the rewriting of the ITA is comprised of officers from the Department for Treasury and Internal Revenue Commission. A tax law expert is engaged by IMF will support.

Currently, a third draft of the rewritten ITA is being circulated for further inputs. By early 2020, a consolidated version of the rewritten ITA will be used for a final phase consultation with tax agents and accounting/consulting firms. The rewritten ITA is expected to be passed by Parliament in the middle of 2020. However, its implementation will come into effect on 1st January 2021 giving sufficient time for IRC to undertake other tax administrative reforms that are precursor to implementing the rewritten *Income Tax Act 1959*.

5.3.2 Ensuring there is a Level Playing Field in the Petroleum Industry

The 2018 Budget introduced a K0.10 per litre tariff on the import of refined petrol and diesel. This measure was designed to minimize excess profiteering by importers.

Industry has raised concerns that this measure is negatively impacting their operations and that it may not be applied to all refined diesel and petrol products coming into PNG. In addition to tax leakage, inconsistent application of the tariff would provide an unfair advantage to some market players. The Government of PNG, including the Independent Consumer Competition Commission (ICCC) will investigate these issues as part of a review of the Napa Napa Project Agreement and Import Parity Price (IPP) Formula.

A special cross-government team made up of ICCC, Office of the State Solicitor, PNG Customs and Department of Treasury will examine these issues.

5.3.3 Tax Clearance Certificates

The IRC is also looking at reviewing the current Tax Clearance legal framework and administration in 2020. Under the law, the tax clearance is linked with the Bank of PNG's foreign exchange regulations. Since the relaxing of the foreign exchange controls by BPNG, this linkage under the law needs to be updated.

The IRC will maintain the tax clearance as a tax compliance measure. Its administration will also change with Tax Clearance Certificates to be system-generated and the Certificates will be issued directly to the commercial banks.

CHAPTER 6: EXPENDITURE

6.1 OVERVIEW

The 2020 Budget is the first Budget for the Marape-Steven Government. This is also the third to facilitate the Medium-Term Development Plan (MTDPIII 2018-2022) while adhering to the fiscal parameters outlined in the revised Medium-Term Fiscal Strategy.

Despite the tight economic conditions predicted to persist into the 2020 fiscal year, the 2020 Budget is formulated with the foresight that there will be increases in revenues flowing into the Consolidated Revenue Fund (CRF) through the effective implementation of resource mobilisation strategies outlined in the Medium-Term Revenue Strategy (MTRS 2018-2022) and the Public Money Management Regulation Act (PMMR).

Allocation of the 2020 Budget is based on the strategy of taking a more cost-effective and more coordinated approach in distributing financial resources. This will allow the Government to strategically allocate available financial resources to fund Government policy priorities and development plans.

Sectoral allocations are guided by the priorities outlined in the MTDPIII with further direction from each sector in aligning their respective expenditure plans and policies to realise the Government's development goals and objectives.

The approach of being more cost-effective and more coordinated is done through the strategic allocation of funding by;

- Provide funding to new programs and projects that support and promote inclusive sustainable economic growth;
 - The Higher Education Loan Program (HELP) will cover fees for students attending tertiary institutions through zero interest loans to better invest in the country's future workforce;
 - Connect PNG will focus on re-establishing and maintaining country's economic corridors through enabling infrastructure to improve access to markets for the country's agriculture sector; and
 - K200m for SMEs and encourage their growth and development around the country.
- Providing funding to ongoing and social and development priority programs and projects that have performed well in 2019:
 - Subsidising 50.0 per cent of tuition fees for secondary and Tertiary education
 - Free Basic Health Care;
 - Medical Supplies procurement and distribution;
 - The roll out of the 2020 census;
 - Service Improvement Programs; and
 - Routine road maintenance.
- Funding ongoing critical projects for successful completions;
- Investing in new high impact projects to broaden the base for internal revenue generation in a sustainable manner;
- Centralising the funding and payments of all arrears, utilities bills and retirement costs under Treasury and Finance and Miscellaneous Vote (207) for better coordination in expending those funds;
- Continuing the rollout of the Sector Budgeting reform;

- Building and strengthening the monitoring and evaluation systems at all levels of Government through the Policy Monitoring and Evaluation Framework.

The 2020 Budget also marks the transition to Government Finance Statistics (GFS) 2014 framework. Both volumes 1 and 2 of the 2020 Budget Books are produced in accordance with the 2014 GFS framework. However, as a transitional measure, the Budget will also be presented in the GFS 1986 format to aid the transition to the GFS 2014 Framework.

6.2 2020 AGGREGATE EXPENDITURE

The total expenditure budget in 2020 is K18,726.5 million, of which, K16,429.4 million is Government funded and the remaining K2,297.1 million is PNG's Development Partners (K1,365.0 million in concessional loans and K932.1 million in donor support grants). The total expenditure is higher by K2,200.3 million or 13.3 per cent from the 2019 Supplementary Budget. Given the expenditure ceiling of K18,726.5 million with estimated revenue of K14,095.4 million will result in net borrowing of K4,631.1 million (5.0 per cent of GDP).

The 2020 Budget is comprised of K12,746.0 million for operational expenditure and K5,980.5 million for capital investment expenditure. The Operational component has increased by 10.9 per cent from the 2019 Supplementary Budget to effectively support the implementation of ongoing and priority projects. The 2020 capital expenditure has increased by 18.8 per cent from its 2019 Supplementary Budget. This is an increase of K944.5 million, which has allowed for a significant number of new projects to be considered in the 2020 Budget. Table 18 below shows 2020 aggregate expenditure.

Table 21: 2020 Aggregate Expenditure (Kina, million)

Budget Component	2019 Budget	2019 Supp. Budget	2020 Budget	Change (%)
Operational	10,636.4	11,490.20	12,746.0	10.9
Compensation of Employees*	4,522.6	5,379.10	5,672.8	5.5
Goods & Services	3,030.6	2,905.7	3,821.2	8.6
Function Grants	490.3	490.3	508.7	3.8
Debt (Interest Repayment)	1,979.4	2,101.5	2,156.9	2.6
GST & Book makers	613.6	613.6	586.4	-4.4
Capital	5,497.1	5036.0	5,980.5	18.8
PIP	2,563	2,387.9	2,573.4	7.8
SIP	1,174.4	888.0	1,110.0	25.0
Loan Drawdowns	816.9	817	1,365.0	67.1
Donor Grants	943.1	943.1	932.1	-1.2
Total Expenditure	16,133.5	16,526.2	18,726.5	13.3

Source: Department of Treasury

*Formerly referred to as Personnel Emoluments under 1986 GFS framework.

N.B. The presentation in the above table differs slightly from that set out on pg. 41. Here the arrears are all recorded under Code 207, i.e. the operating budget, rather than where they will be expended. This makes the operating budget appears K300m higher in 2020, while in actuality these funds will be spent on capital arrears

The increase in the operational budget is driven by increases in Compensation of Employees (COE) and Goods and Services (GS) components by 5.5 per cent and 8.6 per cent from the 2019 Supplementary budget, respectively.

The allocations for Functional Grants and Debt interest repayment have also increased to support service delivery in the provinces and to maintain the government's commitment to debt repayments.

The 2020 GS budget is K3,821.2 million, which is 30.0 per cent of the total operational budget and 20.4 per cent of the total 2020 Budget. The GS budget increased by K302.3 million or

8.6 per cent from the 2019 Supplementary Budget to cater for government arrears and liabilities such as utility bills, rentals, superannuation payments and retirement costs. Funding and payments for all arrears and liabilities have been centralised and parked under Treasury, Finance, and Miscellaneous Vote (207).

Budget for COE takes up the largest portion of the budget with K5,672.8 million or 44.5 per cent of the operational budget making up 30.3 per cent of the total 2020 Budget. The COE budget includes salaries and allowances but does not capture the social benefits (retirement, retrenchment, gratuities and superannuation) expenditures. Funding for social benefits expenditure is captured under the Treasury and Finance Miscellaneous Vote for better coordination in terms of expending those funds.

Overruns in the COE expenditure continues to put pressure on the Budget. In 2020, in an effort to manage the overruns, the Government will initiate the process of linking the Integrated Financial Management System (IFMS) and the Alesco payroll system to ensure salary expenditures are kept within the monthly warrant ceilings. The implementation of this process will be headed by the Organisational Staffing Personnel Emoluments Audit Committee (OSPEAC) who are also responsible for implementing other government directives to control and manage the public service wage bill.

The 2020 capital investment budget comprises of K2,573.4 million for Public Investment Program (Go-PNG-PIP), K1,110.0 million for Service Improvement Program and K2,297.1 million from PNG's Development Partners (K1,365.0 million from concession loans and K932.1 million in donor grant funding).

The increase in the capital investment budget is driven by the significant increases in concessional loans by 67.1 per cent while SIPs funding has been increased by 25.0 per cent from the 2019 Supplementary Budget indicating the government support towards maintaining the funding for PSIPs, DSIPs and WSIPs. The Government will prioritise using the concessional funding to support the government's capital budget.

The 2020 capital budget will focus on funding ongoing projects and programs that have performed well in 2019, those that are critical and require urgent support from government, priority projects that will broaden the base for internal revenue generation in a sustainable manner and projects that promote inclusive economic growth.

6.3 SECTOR EXPENDITURE

The 2020 Budget funds a total of 153 government agencies, which are subsumed into nine (9) sectors. However, for budgeting and accounting purposes, debt interest and miscellaneous items are included to show total expenditure as depicted in Table 21 below.

Table 19 shows the detailed expenditure by sectors.

Table 22: 2020 Expenditure by Sector (Kina, million)

Sector	2020 Operational	2020 Capital	2020 Total Expenditure	% of Total Budget
Administration	852.3	1,307.7	2,160.0	11.5
Community & Culture	65.0	45.0	110.0	0.6
Economic	276.3	457.5	733.8	3.9
Education	1,082.1	160.6	1,242.7	6.6
Health	1,320.2	491.0	1,811.2	9.7
Law & Justice	1,224.2	188.4	1,412.4	7.5
Provinces	2,932.3	1,276.9	4,209.3	22.5
Transport	275.1	1,602.6	1,877.8	10.0
Utilities	39.8	451.0	490.8	2.6
Miscellaneous	2,521.6	0.0	2,521.6	13.5
Debt Services	2,156.9	0.0	2,156.9	11.5
Grand Total	12,745.8	5,980.5	18,726.5	100.0

Source: Department of Treasury

*Includes GST and BTT transfers to provinces.

**Includes PSIP and DSIP funding.

6.3.1 Administration Sector

A total of K2,160.0 million has been allocated for the Administration Sector in the 2020 Budget comprising of K852.3 million in operational expenditure and K1,307.7 million in capital investment expenditure. The total Operational Budget for the Administration Sector consists of K567.8 million for COE and K284.5 million for GS.

The Administration Sector focuses on Governance and Public Sector Management, National Statistical Systems, Foreign Policy, Immigration and Natural Disaster Management with the objective to ensure the public sector attains a high standard of public management in all levels and institutions of Government.

The sector is also concerned with effective coordination and creation of mechanisms to promote ethical conduct, enforce legislations, promote transparency and sound financial management and accountability practices.

Key interventions were undertaken over the recent years to improve governance and administration, financial accounting and service delivery. The Government has also strengthened its fiscal planning and expenditure management efforts towards improving medium term expenditure planning and prioritisation.

The sector's key priority programs/projects for 2020 include, the 2020 National Population Census (K50.0 million), NID Project (K20.0 million) and National Affordable Land and Housing Program (K20.0 million) and the District Town Development Program (K20.0 million).

The sector will continue to focus on timely production of corporate plans, operationalising the National Procurement Commission⁹, establishing District and Provincial Treasury Rollout Program with Finance Offices (K5.0 million) and operationalising the ICAC Act, the continued rollout of IFMS, establishment of the electronic voting system and implementation of PMMR Act. The Integrated Tax Administration System (ITAS) in alignment with the revised Medium-Term Revenue Strategy (MTRS) is aimed at improving timely compliance in tax remittance to government accounts from the business houses both regular and SMEs.

⁹ e-Procurement system to be established.

As foreshadowed in the 2019 Budget, funding for SIPs are now included in the budget allocation for the relevant provinces.

For efficiency and effective delivery in the expanding of funds in 2020, funding for big ticket items classified under the Administration sector, as well as other sectors are captured under Finance and Treasury Miscellaneous vote. Budget for Miscellaneous expenditures for 2020 is worth K2,521.7 million. This includes Government office allocations (K200.0 million), Superannuation for public servants (K306.1 million), retirement of public servants of age 65 plus (K430.0 million) and 3.0 per cent pay raise for 2019 (K121.0 million). Total Budget for arrears is K521.0 million and is comprised of capital budget arrears (K300.0 million), utilities arrears (K100.0 million) and rental (K121.0 million).

6.3.2 Community and Culture Sector

A total of K110.0 million has been allocated for the Community and Culture sector in the 2020 Budget of which K65.0 million is for operational and K45.0 million is for capital investment expenditure. The total Operational Budget for this sector consists of K39.9 million for COE and K25.4 million for GS.

The primary role of the Community and Culture sector is to safeguard our cultural heritage and protect, empower and support the segmented population to alleviate poverty.

The sector is focused on encouraging inclusive socio-economic growth through capacity building and infrastructure development to achieve the aspirations of MTDP III targets and the SDG. Progress in this sector is measured against the Human Development Index.

The sector's key policies include the National Policy on Professional Volunteerism, National Censorship Policy, National Youth Employment Policy, National Youth Policy, National Disability Policy, Policy for Integrated Community Development, Small to Medium Enterprise Policy, *Family Protection Act 2014*, *Lukautim Pikinini (Child Protection) Act 2015*, National Disability Policy and other policies¹⁰ that are under review and development.

In 2020, the government will continue to fund the following programs and projects; District Community Development Centers (K5.0 million), Church-State Partnership Program (K8.0 million), High Performance Centre (K2.0 million), Provincial Sports Infrastructure Development Program (K5.0 million); Child Protection Program (K1.0 million); National Youth Development Program (K2.0 million) and National Professional Volunteers Intervention for Sustainable development program (K1.0 million).

The National Cultural Commission (NCC) and National Museum and Art Gallery (NMAG) will continue to implement their priority interventions in preserving and safeguarding PNG's diverse cultural heritage. The government will continue to support communal participation in arts and cultural festivals and other international events to promote and develop PNG's tourism industry. NCC was given K3.0 million while NMAG was appropriated K2.0 million with the aim that these agencies will continue to build their capacity to sustainably drive revenue for the country.

The Community and Culture's operational budget includes K100.0 million for the 2020 Census, K15.0 million for 2020 PNG Games and K1.5 million for the Pacific Festival of Arts in Hawaii.

¹⁰ National Women and Gender Equality Policy, Informal Economy Policy, National Censorship Policy, National Culture Policy, National Sports Policy and GoPNG-CSO Partnership Policy.

Funding budgeted to this sector also caters for District Community Development Centres across the country and approximately 500 Volunteer recruits that are placed in various sites around the country with specialized skills in Agriculture, Health, Education, Fisheries and Sports.

6.3.3 Economic Sector

In 2020, a total of K733.8 million is allocated for the Economic sector of which K276.3 million is for operational and K457.5 million is for capital. The total Operational Budget for this sector consists of K183.4 million for COE and K92.8 million for GS.

The Economic Sector plays the important role in ensuring that the country's resources are strategically used to our advantage so that maximum benefits are realised in terms of revenue generation and wealth creation.

Over the past years, the sector's focus was to strategically develop PNG's abundant natural resources to improve the livelihood of the people. This has not been easy due to adverse effects such as fluctuation of commodity prices, increase in resource depletion rate and new emerging challenges such as climate change, bio-security threats and technology revolutions.

In responding to these challenges, the Government introduced a paradigm shift in the development agenda where the sector's strategies were re-scoped to incorporate the elements of inclusive, responsible and sustainable growth. This laid the foundation for deliberate investment in PNG's Strategic Assets - Forests and biodiversity; Tuna and marine resources; Fresh and pristine river system; Unique cultural and eco-tourism; Mineral and petroleum resources; Rich organic agriculture; and livestock grazing.

The MTDP III aims to build the next layer of economic growth by focusing on increasing the economic base of the country with investments towards the development of its strategic assets and its enabling sectors. Increasing exports and reducing imports of goods that can be produced locally such as rice, fruits, vegetables and animal dairy products. These are some of the potentials that once developed, will increase the national output, increase employment, broaden the tax base and ultimately improve living standards. The Government is looking at increasing national revenue within the medium term which this plan sets the structures to grow a sustainable revenue base through sector intervention programs and policies.

The policies are implemented through key programs such as; the cash crop rehabilitation and defence against bio-security threats; downstream processing; horticulture industry; credit facilities for SMEs; infrastructures development; State Equity; Tourism development; Land reform; sustainable mining and petroleum development and climate resilience.

With the Government vision to be economically independent, funding's been allocated to create a viable environment for economic growth. This includes K30.0 million for Land Acquisitions, K200.0 million to stimulate the economy through the provision of soft loans to SME's with a view growing SME business over the medium term, K15.0 million for timber rights purchase, K10.0 million for the Sirinimu and Rauna land owners' settlements.

6.3.3.1 Renewable sector

PNG's economy continues to depend heavily on extractive Industries to generate exports. The Government is now focused on the medium-term priorities of diversifying the economy through investment in fisheries, livestock grazing forestry and agriculture with the goal to do downstream processing. This will support the increase in internal revenue, substitute imports and create employment opportunities for Papua New Guineans.

The MTDP III Key Deliverables for the Renewable Sector in 2020 are: Coconut Research Program (K1.0 million), Strategic Defence of PNG Coffee Industry against CBB (K3.0 million), Coffee Access Roads (K5.0 million), Smallholder Oil Palm Roads (K10.0 million) and Regional Cocoa Nurseries (K7.0 million).

6.3.3.2 Non-Renewable Sector

Petroleum and mining industries have played a major role in the development of the economy. PNG currently has five productive oil fields and eight productive gas fields. The extractive industry has contributed 29.0 per cent to the country's GDP and 86.0 per cent of the total exports.

Currently, there are seven (7) major operating mines: Ok Tedi, Porgera, Lihir, Ramu, Hidden Valley, Simberi and Kainantu Gold Mine and five potential mining Projects includes Solwara 1, Wafi-Golpu, Woodlark, Frieda River and Yandera.

The focus of the mining sector for 2020 is to strengthen regulations and structural reforms to effectively address existing impediments such as poor revenue collection, non-compliance to legislations and agreements.

The non-renewable sector's key deliverables for 2020 includes the Review of Legislations for both Petroleum and Mining Industries, Final Investment Decision to be made on Wafi Golpu and Frieda River Project, New Petroleum Projects – Pasca, P'nyang and Papua LNG.

6.3.3.3 Trade and Investment

The Government's goal for Trade and Investment is to enhance trade facilitation in order to maximise trade and attract Foreign Direct Investment.

PNG's National Trade Policy 2017-2032 was developed to support the Government's efforts for economic transformation using international trade as a key driver of growth. However, shifting geopolitics, new business models, spread of international production networks and growth in the digital economy are emerging challenges faced by the sector.

The successful hosting of the APEC Summit in 2018, opened investment opportunities for PNG as well as marketing PNG's potential for tourism and trade. The APEC Summit supported cooperation between PNG and other countries to enhance foreign trade and attract foreign investment. The Government will continue to build an international framework to support international trade where trade is of benefit to PNG, consistent with PNG's Development Cooperation Policy 2018-2022.

SMEs are critical to increasing economic activity. Therefore, the Government is supporting SMEs through the 2020 Budget (K200.0 million) with funding for SMEs access to finance, development of an Incubation Centre, construction of infrastructure for Tourism Hubs and development of Industrial Centres.

6.3.4 Education Sector

A total of K1,242.7 million has been allocated to the Education Sector in the 2020 Budget comprising of K1,082.1 million for operational and K160.6 million for capital expenditures. The total operational budget of consists of K360.0 million for COE and K722.1 million for GS.

Development of education services is critical to ensure the PNG workforce has the skills to be competitive in a global environment. This will necessitate investment in early childhood, primary, secondary, Technical Vocational Educational Training (TVET) and tertiary education.

The Government will continue to make substantial investments in education by subsidising tuition fees for secondary and tertiary education through the Tuition Fee Free (TFF) policy, new infrastructure developments¹¹, TVET, TESAS scheme and the introduction of the “*Higher Education Loan Program (HELP)*”. The TFF policy has increased access in education from primary to secondary school levels but has also placed demands for further inclusive¹² infrastructural developments¹³ and facilities improvement including teacher education. The introduction of HELP ensures those wanting to attend tertiary institutions can access interest free loans that will only be repaid when earning an income.

The agenda for alternate pathways such as FODE and TVET will be supported to provide better opportunities for students leaving school. The Government further aims to increase accessibility and retention rates to more than 80.0 per cent by 2030 through the TFF policy and increase the skilled manpower graduating from higher education institutions through building absorptive capacity of TVET¹⁴ institutions, teachers and nursing colleges and other institutions.

Major investments include the BEST PNG Program with K8.8 million, Technical and Business College Rehabilitation–K8.0 million, and Centre for Excellency Information Technology – K4.0 million and Human Resource Development Phase II (HRDP2) (K11.5 million grant). The sector’s on-going investments include community education initiatives; nursing education and training; teachers and teacher training institutions, technical and business colleges; the establishment of polytechnic and national universities, the transition from Outcome-Based Education to Standard-Based Education curriculum and the TFF Policy.

The Education sector Budget services the TFF under the Education Subsidies totalling K488.7 million of which K250.7 million is for TFF funding, a reduction from the 2019 appropriation (just over 50.0 per cent of 2019 allocation has been reduced) and the balance of K238.0 million is for the “*Higher Education Loan Program (HELP)*”, K69.9 million for TESAS will cater for 14,000 students and K2.0 million for the National Scholarship Scheme.

The capital Investment Budget caters for K73.0 million for the rehabilitation and development of University, college and Secondary Schools.

¹¹Through Investments in building new infrastructure (dormitories, lecture theatres and other learning infrastructure) colleges and universities to improve the standard of the institutions and to create better learning environment for students in the higher education sector.

¹² This includes education for girls and children with special need.

¹³ Infrastructural development such as classrooms, administration buildings, toilets and ablution blocks

¹⁴ The TVET sector will focus on producing more skilled practitioners in the medium term to meet the demand of the industries. Major intervention into the TVET sub-sector is currently the highest priority.

6.3.5 Health Sector

The Health sectors total Budget for 2020 is K1,811.2 million comprising of K1,320.2 million for the operational and K491.0 million for the capital expenditures. Operational Budget consists of K711.1 million for COE and K609.0 million for GS.

Investment in improving health care is vital to improving the quality of life and life expectancy of the people of PNG. The sector aims to strengthen the existing health systems by undertaking rehabilitation and revitalization of health facilities and training institutions to increase its workforce to improve health outcomes.

Generally, access and quality of health services in PNG has improved over the years, resulting in slow and gradual improvement in all health indicators. Key indicators of performance are contained in the MTDP III Key Result Area 3, Sustainable Social Development and Key Result Area 8, Sustainable Population. Delivering an efficient, equitable and quality health services continues to be a challenge for PNG. The Polio outbreak in 2018 was an enormous challenge that called for a shift in the sector's focus from curative health care to preventative health care.

The Health sector's key programs include a continued investment into Rural Primary Health Sector Delivery - K23.7 million, Angau Memorial Hospital Redevelopment – K49.5 million as well as the implementation of Free Primary Health Care & Subsidised Specialist Services, health infrastructure, health systems and services, human resource strengthening and the implementation of provincial health authorities and Strengthened Partnerships.

The 2020 Budget follows the health sectors strategic plans of focusing funding to Government service delivery institutions. The budget has allocated K35.0 million for HIV/AIDS treatment, vaccines and drugs for Malaria and TB, K30.0 million for the Free Health care policy, K20.5 million for Provincial Health Authority's (PHA's) Personnel Emolument arrears and K10.0 million to service the Department of Health's arrears. Under GS, K253.3 million is allocated for medical supplies procurement and distribution processes.

The Budget continues to provide direct funding to the existing PHA's and also accounts for four new PHA's in Gulf, Jiwaka, East New Britain and Western Province. Furthermore, the Port Moresby General Hospital will receive its funding directly from the Department of Treasury.

6.3.6 Law and Justice Sector

A total of K1,412.4 million has been allocated to the Law and Justice Sector for the 2020 Budget comprising of K1,224.2 million for operational and K188.1 million for capital expenditure. Operational budget consists of K846.1 million for COE and K378.1 million is for GS.

Improved Law, Justice and National Security are critical enablers for social, economic and political developments. The primary role of the Law and Justice Sector is ensuring a just, safe, secure and stable environment for all citizens, visitors and businesses to conduct their affairs freely. Protection of national sovereignty is also a paramount function of the sector. The Law and Justice sector remains one of the key priorities of the government and is the fourth Key Result Area (KRA) of the MTDP III.

Over the recent years, the sector has been given prominence and has seen some improvements. Current investments include the expansion of the National Judiciary Services with the construction of new State of the Art Complex (Waigani National Court) and introduction of new Electronic Case Management Systems (ECMS).

Other ongoing developments include the increase in recruitment of disciplinary forces, upgrading of training infrastructure, legislative reviews, increase in the number of court circuits to reduce the backlog of cases and provision of justice services through the Village Court Officials (VCO) and Land Mediators (LM) at the village level.

The sector will continue to benefit from the Justice Services and Stability for Development (JSS4D) support from DFAT-AU with grant funding of K47.5 million earmarked for 2020. The program enhances the capacity of the sector to support communities in achieving a just, safe and secure society for all. Besides the JSS4D program, the Royal Papua New Guinea Constabulary (RPNGC) is also being supported by the Australian Federal Police under a separate policing arrangement (Australia – PNG Policing Program/ PNG-APP). A similar arrangement is also in place between the PNG Defence Force, and, Australia and New Zealand Defence Forces.

Law and Order issues continue to be an obstacle towards growing the economy by securing investor confidence for investment and tourism promotion. A multi-sectoral approach is required to address the law and order issues and effectively achieve the priorities of the Government.

The government has allocated a considerable amount of funding for this sector to ensure a secure environment for the growth of investment. The government has maintained its annual investment of K70.0 million for the development of the National Court House. The budget allocates K13.0 million, K5.0 million and K8.0 million respectively for Police, Correctional Services and Defense infrastructure.

6.3.7 Provincial Sector

The total budgetary allocation for the Provincial sector is K4,209.3 million of which K2,932.4 million is for operational budget and K1,276.9 million is for capital budget. Operational budget consists of K1,804.8 million for COE and K1,127.2 million is for GS. The GS component is inclusive of GST and BMTT.

The Capital Budget is inclusive of K220.0 million for the Provincial Support Improvement Program and K890.0 million for the District Support Improvement Program. It also caters to District Support Grants of K65.0 million and stand-alone Projects/programs.

Funding allocated to the Provincial sector has seen incremental increases and is directed at functional grants to ensure Minimum Priority Areas (MPA's) are serviced for in providing the government's service delivery obligations in the country's Provinces and districts. Provincial funding is disbursed through Provincial administrations however funding for Health is issued directly to Provincial Health Authorities (PHA's).

The Provincial sector objectives are to provide improved service delivery to the rural population and build and improve capacity development and for both institutional and human capital. Improving service delivery at the sub-national level¹⁵ is essential to improve the standard of living of the majority of Papua New Guineans.

The Government is focused on building capacity in human capital and infrastructure through the use of the established District Development Authorities (DDAs) to deliver strategic infrastructure investments of district hospitals, court houses, police stations, markets, district communities and other economic and social facilities.

¹⁵ MTDPIII 2018-2022, Vol.2, Implementation Framework and Investment Plan, p.98

It is critical for the sub-national governments to clearly align their respective strategies, policies and plans with the MTDP III priorities, which is to increase revenue, create wealth, increase exports and deliver quality services.

The strategies guiding the provinces sector goal in the MTDP III are: adopting a whole-of-government approach in service delivery, improving and implementing regulatory frameworks, building capacity for effective service delivery through DDAs, improving and strengthening procurement and service delivery mechanisms, strengthening partnerships with the private sector and community-based stakeholders to address service development, developing M&E mechanisms to ensure public institutions become accountable, enforcing the PFMA in provinces and districts and mandatory submission of annual audit reports by Districts and Provinces.

The key activities identified to drive the sector include delivery of education services, health services, law & order challenges contained, improvement of transport infrastructure, utilities provided, aligning all provincial and district development plans to MTDP III, submission by provinces of Section 119 Reports to DPLGA and establishment of audit units under provincial and district administrations.

In line with the MTDP III identified investment programs, the 2020 investments endorsed for the provinces include the fixed SIP commitments of District Support Improvement Program, Provincial Support Improvement Program, Special Support Program, Ward Support Improvement Program.

6.3.8 Transport Sector

A total of K1,877.8 million has been allocated for the Transport Sector for the 2020 Budget of which K275.1 million is for operational and K1,602.7 million for capital expenditures. The total operational budget consists of K126.8 million for COE and K148.3 million for GS.

Resilient infrastructure (roads, jetties, wharves, airstrips, etc.) in the transport network are critical enablers for socio-economic development. The Transport sector provides connectivity to link markets and facilitate trade.

Over the last two decades, a number of institutional, policy¹⁶ and legislative reforms have been undertaken to create a more responsive framework for planning, regulating and delivering public services in the transport sector. Safety oversight and economic regulation have been strengthened and separated from service delivery.

The creation of the National Roads Authority (NRA) was an important development but must be followed up with a modern responsive system of road user charges to sustain financing for maintenance of the core national road network.

Significant efforts have been put into arresting the deteriorated transport infrastructure assets including reconstruction of sections of the national highway, rehabilitation of selected provincial roads and the extension of Port Moresby International Airport.

¹⁶ The transport infrastructure system in PNG is supported by National Transport Strategy (NTS) 2010-2020, Medium Term Transport Plan (MTTP) 2014-2018, National Maritime and Waterways Safety, National Port Acts, Air Service Policy, Air Transport Policy, International Air Safety and Security Compliance (ICAO) and PNG Economic Road Network Development and Maintenance Plan 2018-2037

In 2020, this will focus on increasing total length of national roads to 10,000 km, increasing the number of operational National ports to 19 and the number of airports upgraded and maintained for higher seating capacity aircraft to 14.

The key priority programs/projects for 2020 include major Wharves Development Program (K16.0 million), Civil Aviation Development Investment Program (K16.0 million), CADIP Program Tranche 2 & 3 (K169.6 million), Rural Airstrip Upgrade (K5.0 million), National Bridges Program (K30.0 million) and NGI Shipping & Transport Connectivity (K2.0 million).

The government's investment in this sector provides K98.0 million for routine road maintenance, K100.0 million each for the district community roads program and to re-establish district plants and transport divisions. The Budget also provides K10.0 million each for the National Bridges program, to rehabilitate Provincial town roads and to open Missing Link roads and the economic corridors program. Funding is also allocated for the rehabilitation and maintenance of National Highways and rural airstrips.

6.3.9 Utilities Sector

The Utilities sector has been allocated K490.8 million in the 2020 Budget of which K39.8 million for operational expenditure and K451.0 million for capital expenditure. The operational budget consists of K29.3 million in COE and K10.5 million in GS.

Reliable utilities infrastructure is crucial to enable socio-economic development and a vital role in providing the basic amenities necessary for improving living standards.

The KRA 2 of the MTDP III emphasis on improving access to effective communication and information systems, provision of clean energy and water supply, and infrastructure to improve the quality of lives for all people. The Government in collaboration with Development Partners and Private Sector will continue to invest in renewable energy generation, rehabilitating deteriorated power grids, and extension to households. An affordable and Modern ICT platform will soon become a reality with the submarine fiber optic cable Program which is at the construction stage.

Transition of WASH PMU into establishing Water, Sanitation and Hygiene Authority is in progress with the objective of extending services to institutions¹⁷, villages and communities. The Government will continue to ensure housing is affordable for working class population. The major ongoing programs and projects are: Kumul Submarine Cable Project (K125.0 million), National Broadband Network (NBN) Project (K5.0 million), PNG Town Electrification Program Tranche 1&2 (K13.5 million) and National Affordable Land & Housing (K20.0 million).

6.4 EXPENDITURE EFFICIENCY MEASURES

Expenditure efficiency measures will continue to be implemented in the 2020 Budget through the Non-Financial instructions including amalgamations, Budget reforms and through the activities that OSPEAC will undertake in 2020.

6.4.1 Non-Financial Instructions

In deliberating the 2020 Budget, the Strategic Budget Committee (SBC) identified areas where improvements could be made to promote efficiency in the whole of the public sector. The

¹⁷ Schools and Health Facilities

Department of Treasury was directed to issue Non-Financial Instructions (NFIs) in the 2020 Budget (Volume 1) for agencies to implement accordingly.

All government funded agencies are expected to report on the implementation status of their respective NFI's in April 2020 as part of the Quarterly Budget review process conducted under the *Public finance (Management) Act 1995* every year. The NFI's are *Generic* which applies to all agencies and *Specific NFIs* for individual agencies.

Generic

1. All agencies, particularly those receiving funds from the National Budget are to;
 - a. Provide detailed quarterly reports to Department of Treasury and National Planning and Monitoring.
 - b. Attend second quarter budget review meetings.
 - c. Agencies with standalone payroll system to be migrated to Alesco payroll system. DPM to take lead in consultation with Treasury.
 - d. Finance to rollout the xx title IFMS to all Provinces in 2020
 - e. Attend Staffing and Establishment Review Meetings conducted by Department of Personnel Management (DPM).
 - f. Establish Project Steering Committees (PSC) for all projects funded under the capital budget and have quarterly meetings.
 - g. All loan-financing requests from agencies including multilateral, bilateral or any other financial institutions are to be channeled through Department of Treasury.
 - h. Have asset registers to keep track to all their assets.

Specific

National Housing Commission – To formulate a Housing policy for whole of Public Service. Coordinate all Government housing projects and manage them through project management units.

Department of Finance –

- a. To establish a Project Management Unit (PMU) to run the IFMS project.
- b. Government Office Allocation Committee (GOAC) – To coordinate and establish costs of maintenance, refurbishments and rentals. All agencies to go through GOAC for office allocation and subsequently rentals payments

Department of National Planning and Monitoring – To review all major project that do not have clear scopes and develop Terms of Reference (TORs) to guide these projects.

Office of Civil Registry and National Identification Office – To take lead in collection of population registers and link to the NID system.

Department of Foreign Affairs- To furnish a detailed report on the status of Foreign Missions to Treasury and Cabinet.

Disciplinary Forces

- a. Police, Defense and CIS to create an asset registry
- b. All vehicle hired by the disciplinary forces on retainer arrangements will go through the new Procurement Process commencing in 2020.

Department of Justice & Attorney General – DJAG to come up with amicable measures to address capacity issues (retaining specialized lawyers) and reduce the number of legal matters being briefed out.

National Judiciary Services, Office of Public Prosecutor, Office of Public Solicitor and Correctional Institutional Services – The responsible court circuiting agencies to provide statistics on number of cases successfully adjudicated on a quarterly basis through the budget reviews and to report on the strategies and initiatives developed to reduce the backlog of cases.

Electoral Commission (EC) – EC to provide a detailed report on the funds used for 2019 Local Level Government (LLG) elections to Treasury and Public Accounts Committee.

National Statistical Office (NSO) – NSO to include central agencies (Departments of Treasury, Finance and National Planning & Monitoring) in the 2020 National Census meetings.

Department of Provincial and Local Level Government – To coordinate a program on building of Provincial Headquarters. A status report to be provided in the 2020 first quarter budget review to Department of National Planning and Monitoring.

PNG Sports Foundation – To provide a revenue strategy plan in the first quarter of 2020.

Registrar of Political Parties – Review the statutory payment in the OLIPAC. A report to be provided in the 2020 second quarter budget review.

Department of Health – To have a drug management system that creates a data base for drug procurement, management and monitoring.

National Volunteer Services – To engage with the key central agencies (Treasury, DPM, Planning and Finance) and develop programs.

National Broadcasting Commission – To have a revenue strategy plan. Provide quarterly updates on the revenue collection and to have a proper organizational structure.

Amalgamation – Public Sector Organisational Reform Team (PSORT)

Amalgamation of agencies is also another important expenditure efficiency measure which the Public Sector Organisational Reform Team (PSORT) is implementing to improve the productivity of public service in PNG. This policy will help in achieving the government's aim of rightsizing the public service and providing service delivery in a more coordinated manner, and at the most cost-efficient way. Table below shows an update of the proposed 2019 NFI.

Agency	Merged into	Status
Department of Implementation and Rural Development	Department of National Planning & Monitoring and DPLGA	In progress
Coastal Fisheries Development Agency	National fisheries Authority	In progress
National Economic Fiscal Commission	Department of Treasury	In progress
Integrated Financial Management system	Finance and ICT	In progress
National Narcotics Bureau	Department of Justice and Attorney General (DJAG)	In progress
PNG Research Science and Technology Secretariat	Department of Higher Education Science and Technology	In progress

In 2019, the following agencies were successfully merged into their respective mother agency: this includes:

- National Coordination of Bougainville Affairs into Department of Prime Ministers and National Executive Council,
- National Tripartite Consultative Council into Department of Labor and Industrial Relations,
- Office of Urbanization into Department of Lands,
- Successfully abolishing of Konebada Petroleum Park Authority and Border Development Authority.

Organisational Staffing Personnel Emoluments Audit Committee (OSPEAC)

OSPEAC has been directed by the government since its establishment in 2016 to implement the National Executive Council (NEC) Decision 71/2017. The National Executive Council (NEC) Decision 71/2017 outlines corrective measures to bring the escalating public service pay bill under control.

Given the immense responsibility placed on OSPEAC, recommendations were made for a Secretariat to be established. The Secretariat was to focus on OSPEAC work alone to achieve set targets within a given timeframe.

The OSPEAC has managed to carry out the following exercise in 2019.

- Conducted staffing and establishment reviews and personnel emoluments budget framework meetings for teachers.
- Carrying out retirement exercise in the whole of public services.
- Discussions are underway to link the payroll process to the release of warrant in 2020. Linking the Payroll processing to releasing of the warrants will not immediately curb the public services rising pay bill but will present individual agencies with real time data on their pay roll expenditure and allow them to be responsible for appraising and maintaining the management of their own pay roll.

It is very important for OSPEAC Secretariat to be established in February 2020. Further to this in progressing the committees work on controlling payroll expenditure, Treasury will introduce and coordinate a payroll quality assurance process with quarterly expenditure (by percentage) targets. This process will ensure the public service payroll is periodically vetted through a three-way vetting process between individual agencies and the custodians of the payroll.

6.4.3 Budget Reforms

The Government has undertaken substantial budget reforms since 2014. To ensure the budget is aligned to the policy priorities, the government continues to implement the following reforms.

- a. Government Finance Statistic 2014
- b. Integrated Budgeting
- c. Multi-year budgeting process
- d. Sector led-budgeting

Government Finance Statistic (GFS) 2014

The GFS Framework is used to analyse the operations of a specific level of Government, transactions between levels of Government, and the public sector.

The Government will fully roll out the GFS framework to the public sector including public corporations. It will also be rolled out to the Provincial Governments and Local Level Governments. When the GFS framework is fully rolled out, whole-of-government stocks and flows of its assets and liabilities will be reported showing the opening balance, transactions and closing balance. In this way, the GFS Framework features a balance sheet approach that is capable of determining the net worth of Papua New Guinea.

Integrated Budget

The integrated Budget is being implemented through the collaboration of Departments of Treasury and National Planning and Monitoring. Both Departments are now involved in the planning, execution and reporting of the Budget. All proposed new projects and programmes, saving initiatives, expenditure measures (whether capital or operational) are assessed at the same time, by the same people through the same process. Budget Outcome Reports such as the FBO and MYEFO are also reported as a unified budget. The operational budget supports the Capital Budget for effective implementation of project and programs. The budget is presented as one, with two components, capital and operational.

Multi-year budgeting process

This initiative provides confidence to development partners, investors and other stakeholders on the government commitment to fund the ongoing policy priorities. The Multi-year budgeting process will enable the Government to set baseline expenditure estimates for ongoing policies and programs. It will provide rolling forward estimates that form the baseline for the budget. Future budget ceilings will be set on new expenditures only, covering both capital and operational components.

Sector-led Budgeting

Sector-led Budgeting was implemented for the 2018 Budget and is a key mechanism for agencies to identify sector priorities. Sector-led Budgeting is a strategic approach in ensuring agencies within a sector align the delivery of their policies and mandated functions to their sector's plans and goals in achieving MTDP III KRAs and targets. Furthermore, Sector budgeting is viewed as a mechanism to mitigate duplication of cross cutting issues affecting agencies so funding can be allocated efficiently and utilized effectively.

Agencies and Government Departments within the following sectors have identified their lead agency and established their Coordinating Committee:

- i. Law and Order Sector,
- ii. Health Sector
- iii. Transport & Infrastructure Sector, and
- iv. Community and Culture Sector

With the continue roll out of sector budgeting in 2020, the remaining sectors should organize in a more-coordinated sectoral approach.

6.5 DONOR FUNDING FROM DEVELOPMENT PARTNERS

The Development Cooperation assistance to PNG is made up of Bilateral, Multilateral partners, international NGOs, Regional Organizations through South-South Cooperation, Private Sector Foundations and Climate Finances. PNG's main Development Partners (DPs) that their support usually hits the Capital Investment Budget (CIB) are the Government of Australia through their Department of Foreign Affairs and Trade (DFAT), European Union (EU), Asian Development Bank (ADB), People's Republic of China (PRC), Japan through Japanese International Cooperation Agency (JICA), New Zealand through New Zealand Agency for International Development (NZAID), the United Nations (UN) and the World Bank (WB). Other DPs which their support does not hit the CIB but also contributes towards development are US Agency for International Development (USAID), Japanese Government through their non-project grant aid assistance, international NGOs, Private Sector Foundations and climate financing.

The aim of the development cooperation to PNG over the years is to fund its development priorities. Issues of security and cordial friendship between PNG and the donor countries also plays a big role in PNG receiving development cooperation support. The Government has been receiving development cooperation assistance forged through diplomatic relationship and different development modalities since independence in 1975. This includes loans, grants, technical assistance, budget support, blending and through south-south and triangular cooperation. Over the years, loans and grants have been the significant source of revenue for the capital investment budget.

With the formulation of MTDPIII in 2018, development partners began aligning their country strategies to the priorities of the Government. However, targeted project implementation towards the eight KRAs of the MTDPIII is where more efforts are needed from DPs to support the Government. Moreover, relationship between the Government and the donors to ensure the principles of the PNG Development Cooperation Policy 2018-2022 are followed. Other challenges remain with the Government's commitments to loan counterpart obligations and loan draw down fees. Because the Government is struggling to meet its loan counterpart obligations it affects the implementation of these projects, increases loan fees, undisbursed loans and debt stock, which has overall negative impact to PNG's economy and budget.

The Development Cooperation from PNG's Development Partners are spread across the MTDPIII sectors¹⁸. Since the incoming of Marape-Steven Government, the policy priorities remain to ensure consistencies in implementation of policy directives to grow the economy and empower its citizens. This aligns with the MTDPIII's overall goal– "securing our future through inclusive sustainable economic growth". While focus will be on increased revenue and wealth creation, the Government also remains committed in funding the administration, community & culture, education, health, law & justice, transport, provinces, and utilities to stimulate economic growth in the spirit of "Take back PNG".

In 2020, Development Partner (DP) assistance (Grants and Loans) amounts to K2,297.1 million or 38.4 per cent of total 2020 capital expenditure of K5,980.5 million. While there are challenges, the loans and grants continue to provide key support to transport infrastructure, health, education, law and justice, technical support, capacity building, climate change and environmental support, and addressing cross-cutting issues.

The Capital Investment Budget remains critical to grow the economy. As such, the Government introduced the Economic Stimulus Package in the 2018 to resuscitate the Agriculture, Fisheries and Forestry Sectors to increase growth. Hence, the Government will be seeking DPs support in 2020 through effective dialogue and strategic bilateral arrangements (grants/loans) to finance existing and new large-scale projects in the renewable economic sectors.

The total grant aid from DPs for 2020 is estimated at K932.1 million representing 15.6 per cent of the total 2020 capital expenditure. This is K11.0 million or 1.2 per cent decrease from 2019 Grant Component of the Capital Investment Budget¹⁹. The Government of Australia through Department of Foreign Affairs and Trade (DFAT) provides the largest share of grant projects at K729.7 million. The Government of Australia has continued to maintain its commitment to support PNG through key interventions such as the Incentive Fund Phase IV 2015-2021 at K103.9 million and the PNG Partnership Fund at K104.6 million. The other DPs that are also providing grants in 2020 are the EU, UNS, JICA, PRC, NZAID and USAID. The DPs also work in partnership with the Government to fund development projects in the PNG Agriculture Commercialization and Diversification (PACD) Project where World Bank (WB), International Fund for Agriculture Development (IFAD), EU and GoPNG are the financiers of the project and

¹⁸ Economic; Social; Infrastructure; Law & Order; Governance & Administration; Cross-Cutting; and Provinces

¹⁹ 2019 Grants K943.1 million; 2019 Loans K816.90 million, source DNPM/2019 Budget Strategic Paper

implemented by the World Bank (WB). A similar case is also undertaken by WB, EU, UNICEF and the Government to implement the WaSH Programme. The support under United Nations Development Assistance Framework (UNDAF) 2018-2022, will be implementing its projects under the four P²⁰ in 2020 capital investment budget. Their key area of focus is to support the Sustainable Development (SDGs) including capacity building and policy support.

The total loans from DPs in 2020 amounts to K1,365.0 million or 22.8 per cent of total 2020 capital expenditure. This is an increase of K548.1 million or 40.1 per cent increase from 2019 Loan Component of the Capital Investment Budget²¹. The PRC in 2020 has overtaken ADB as the second largest DP providing grants and loans projects totaling up to K468.4 million making it as PNG's second largest bilateral development partner. The PRC's major investments in 2020 includes, the Kumul Submarine Cable (K115.0 million), New Enga Hospital (K105.4 million), and Mt. Hagen-Mendi-Tari-Hides High Voltage Transmission line (K95.0 million). Other Development Partners providing development support through loans include the ADB, WB, JICA, EIB, Ceska/Erste, and IFAD.

While the Government acknowledges the DPs support and the good working relationship that has been built over the years, there is more room for improvement in certain areas in coordinating, managing, delivering and reporting on aid projects. The issues faced by both the Government and DPs, include slow drawing down of loans, lack of Government counterpart, land acquiring issues, DPs going directly to Government agencies and provinces, most DPs not able to provide realistic financial projections for their projects, and the DPs yet to fully comply with Government Finance Statistics (GFS) 2014 reporting standard. Most of these issues will be discussed at the Government/DP High Level Forum as a key dialogue process identified in the PNG Development Cooperation Policy 2018-2022.

Despite these challenges, the Government is committed in providing the ownership and leadership required to effectively delivering development with the support of its DPs. The introduction of 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 Government system to provide confidence to our Development Partners.

An overview of funding from PNG's Development Partners and the related Government counterpart are shown below:

Table 23: 2020 Loans, Grants and Government Counterpart funding (Kina, million)

Development Partner	GoPNG Counterpart	Grants	Loans	TOTAL
DFAT	10.0	729.7	0.0	739.7
PRC	44.0	22.2	446.2	512.4
ADB	61.0	7.4	437.6	506.0
Japan	31.5	14.5	181.3	227.3
WB	14.5	0.0	185.5	200.0
EU	1.0	79.9	0.0	80.9
UN	0.0	41.7	0.0	41.7
EIB	5.0	0.0	40.0	45.0
Ceska/Erste	5.0	0.0	39.1	41.1
NZ	3.0	22.9	0.0	25.9
IFAD	1.0	0.0	25.8	26.8
Global Partnership for Education	0.0	8.8	0.0	8.8

²⁰ Four Ps is referred to the four UN programmes; Peace, People, Prosperity and Planet

²¹ 2019 Grants K943.1 million; 2019 Loans K816.9 million, source DNPM/2019 Budget Strategic Paper

India	20.0	0.0	7.7	27.7
USA	0.0	5.0	0.0	5.0
OFID	0.0	0.0	1.8	1.8
Grand Total	196.0	932.1	1,365.0	2,493.1

Source: Department of National Planning and Monitoring

6.6 INFRASTRUCTURE TAX CREDIT SCHEME

Background

The Infrastructure Tax Credit Scheme (ITCS) has been designed to allow developers of the major resource projects in the extractive and primary industries to retain certain percentage of the corporate tax in lieu of paying tax to the Government. These tax credits are then applied to fund key infrastructure projects within the immediate project impact localities, district, provinces and currently extended to other provinces in the country.

The current ITCS rates applied are:

Extractive Industry: 0.75 per cent
 Primary Industry: 1.5 per cent and
 Tourism Industry: 1.5 per cent

The NEC Decision No.13/2017, placed a moratorium on the approval and funding of new ITCS projects. The moratorium was imposed with the intention to allow for the review of the performance of the ITCS program and the ITCS Policy Guideline.

A number of critical issues and challenges were tabled during the review process with key recommendations for the improvement of the scheme. Amongst the key recommendations were the need to strengthen the procurement process, increasing the ITCS rates to 2 per cent and improve on the administrative process of managing the ITCS.

Due to the moratorium on the approval of projects in the fourth quarter 2017, no projects were approved since September 2017 to October 2019. ITCS Expenditure for 2017 and 2018 were against projects approved prior to the NEC Decision No. 13/2017. There are 54 ongoing projects currently implemented across Health, Education Law & Justice, Transport and Utilities Sectors. Projects include the Kupiano District Hospital, Erave to Samberigi Road and School Infrastructure Development Projects in Southern Highlands and Simbu Province and others.

	2017	2018	2019 (Provisional)	2020 (Projection)
Expenditure (K, million)	222.5	67.2	148.4	66.5

Source: Department of National Planning & Monitoring

Note that, the IRC figures may differ from the DNPM figures because DNPM figures are actual expenditures against projects implemented in a particular year as reported by developers. The IRC figures are what a developer claims against its assessable income in a particular year.

6.7 STATUS OF TRUST ACCOUNTS

Pursuant to *Section 15* of the *Public Finance Management Act (PFMA)*, (Amended 2016), the Department of Finance (DoF) gives authorisation to any government institution, whether it be Statutory Authority or National Department, to establish and operate trust accounts, either, National Budget, Donor Funded or Counter Funded. The purpose of holding funds in Trust

Accounts is to spread spending over time to help manage inflationary pressures in the economy and to give time to government agencies to properly plan and implement their priority projects.

A total of **K12,764.8 million** (K12,313.1 million from 2018 MYEFO+K451.7 million), up to and including the 2019 Budget appropriations, has been expended through the Budget Funded Trust Accounts since 2005 for the implementation of government's priority programs. These trust accounts have largely been funded from additional mineral revenue in Supplementary Budgets and Annual Budgets.

The following is the expenditure report for all the budget funded trust accounts from 1 January to 30 September 2019. As at the reporting date, the trust account appropriations for the 2019 Budget cannot be highlighted as all these funds were and could still be issued directly to the department and agencies concerned.

Including the 2019 appropriations for trust accounts in 2019 Budget, a total of **K451.7 million** have been expended between January and September 2019.

Table 24: Movement of Funds in Budget Funded Trust Accounts from 1 January to 30 September 2019 (Kina, million)

Description	Balance as at 1-Jan-19	Debit (Receipts)	Credit (Payments)	Balance as at 30-Sept-19
Flexible, Open and Distance Education (FODE) Rehabilitation - GoPNG	0.4	0.1	0.1	0.3
Tuition Fee Free Education Trust Account	123.8	334.5	350.8	107.6
Tuition Fee Free Education - Commodity Component Trust	0.0	0.0	0.0	0.0
PNG Rural Communications Project GOPNG	3.3	0.1	1.6	1.8
PNG Fire Service Infrastructure Rehabilitation Program - (PIP) T/A	0.0	0.1	0.1	0.1
National Road Maintenance Policy TA	0.0	0.0	0.0	0.0
Highlands Highway Rehabilitation T/A Subsidiary	0.0	0.0	0.0	0.0
Port Moresby Roads Trust Account	0.3	0.0	0.0	0.3
Lae City Roads Rehabilitation Trust Subsidiary 2	2.1	0.0	2.1	0.0
Small Medium Enterprise (SME) Risk Sharing Facility (GoPNG)	0.0	2.4	2.3	0.2
Central City Trust Account	26.8	0.0	0.0	
Restoration and Development Grant Trust	10.9	0.0	10.8	0.1
Restoration and Development Grant Subsidiary Account	0.0	0.0	0.0	0.0
Special Intervention Funds (Established on 28 Feb 2014)	0.1	0.0	0.1	0.0
LNG Pipeline Infrastructure Dev Grant (IDG) (Kikori Area)	0.0	0.0	0.0	0.0
Financial Management Improvement Programme (FMIP) - GoPNG	7.5	2.3	8.5	1.3
FMIP Provincial Capacity Building Imprest Trust Account	0.8	1.5	0.8	1.5
Infrastructure Development (UBSA) Grant (IDG) Account - Main	7.9	0.0	0.0	7.9
Infrastructure Development (UBSA) Grant Account (IDG) Sub	1.4	0.0	0.0	1.4
PNG High Impact Infrastructure Projects	0.0	0.0	0.0	0.0
PNG High Impact Infrastructure Projects Sub	0.7	0.0	0.0	0.7
Public Service Audit Program	0.5	0.0	0.0	0.5
2017 PNG National General Election - Finance, Procurement, Personnel and Logistic Trust	15.4	13.3	28.5	0.1
NAOSPIII GoPNG Counterpart Funds (European Union)	1.4	0.5	1.1	0.8
Department of Prime Minister & NEC APEC Operations (OP) Plan 2018 TA	0.3	2.5	0.0	2.8
APEC - Authority	1.4	15.9	16.9	0.4
APEC - Joint Securities Task Force (JSTF)	0.0	0.0	0.0	0.0
Highlands Region Road Improvement Investment Program (HRRIP) Project 2 - GoPNG Counterpart Funding TA	7.0	2.0	5.6	3.4

Productive Partnership in Agriculture Project (PPAP) GoPNG TA	0.1	1.0	0.6	0.5
Multiple LNG Development Trust Account	4.3	0.5	0.9	3.9
Resettlement of Volcano Victims TA	0.2	0.0	0.0	0.2
Regional, Provincial Treasury and District Admin. Offices	0.0	0.0	0.0	0.0
Coastal Vessels Account	0.1	0.0	0.0	0.1
Water Supply Sanitation Development Project - GoPNG	1.9	1.0	0.0	2.9
Rural Service Delivery and Local Governance Project	0.1	0.0	0.0	0.1
Bougainville Referendum Commission	1.0	20.0	21.0	0.0
Total	219.8	397.7	451.7	165.7

Source: Department of Finance.

Note:

- 1 The Tuition Fee Free (TFF) Education trust accounts receipts and expenses are inclusive of both the TFF Fee component and the Commodity component of Free Education Policy initiated by the previous O'Neil-Abel Government. The receipt and expenditure also reflect all its subsidiary accounts.
- 2 Trust Accounts that has balances below K20,000 are represented by K0.0 million and below K10,000 are reflected as zero balance.
- 3 The PPAP account have only the mid-year expense details, except, other months' details were not available when report was compiled.

The opening balance of the Budget Funded Trust Accounts as at 1st January 2019 was K219.82 million. Expenditure incurred in this period totalled K451.73 million with K397.71 million as receipts within the same period and the closing balance as at 30 September 2019 was K165.73 million.

Following is a summary of expenditures above **K5.0 million** from Budget Funded Trust Accounts for the period 1 January to 30 September 2019:

- K350.8 million was expended on the Tuition Free Fee (TFF) Education Policy rollout.
- K10.8 million was expended by the restoration and development account.
- K8.5 million was expended on the Financial Management Improvement Program (FMIP) project.
- K28.5 million was expended for the current 2019 LLG Election
- K16.9 million was expended for the Post-APEC costs. This is to honor various service providers of the 2018 APEC Summit hosted in PNG.
- K5.6 million was expended on the Highlands Region Road investment program.
- K21.0 million from Bougainville Referendum Commission (BRC) trust account was expended to assist the people of Bougainville in conducting their General Election.

A total of K0.9 million was expended in the Multiple LNG Development trust account between April and June 2019 and the receipt into the account was K0.5 million. The information for January to March 2019, including other months was not available when compiling the report.

CHAPTER 7: Tax Expenditure

7.1 OVERVIEW

Introduction

Papua New Guinea provides a number of tax incentives to tax payers, in pursuit of specific government policy objectives. Such incentives often imply 'revenue foregone' for the Government towards its National Budget. However, this revenue can be deemed 'tax expenditure', that is economic and social welfare expenditure underaken by the Government directly and specifically from the tax revenue. The following document presents estimates of of the tax expenditure through various incentives granted by PNG's tax laws.

What is tax expenditure?

Tax Expenditure may be defined as redirected government spending through the tax code, generally in pursuit of government policy towards special individuals or groups of tax payers, through exclusions, deductions, deferrals, credits and tax rates. This expenditure may also be considered as revenue foregone by the Government as by providing special incentives the Government foregoes the opportunity to collect this revenue and use it in the national budget.

Not all exemptions and deductions are considered by the Government as tax expenditure. For instance, minimum threshold and progressive tax rates in individual tax regime is not considered as an incentive. This is because the Government does not expect to raise any additional revenue by taxing all income levels at the same rate.

There are incentives provided in the tax code which do not result in any direct revenue foregone for the government. For instance, accelerated depreciation allows tax payers to write-off depreciation costs at a faster rate than is normally allowable. Thus, tax payers get to deduct higher amounts from their assessable income in the starting years of the investment. In this case, the Government incentivizes the tax payer by allowing her/him to delay the tax payment to the Government. Thus, the government can be said to have foregone revenue temporarily by foregoing the opportunity to collect revenue any earlier.

Structure of the Tax Expenditure Statement (TES)

The tax expenditure statement is divided into two sections – non-resource and resource sector. Each section contains sub-sections of specific tax incentives granted within the corresponding sectors. Each sub-section begins with (a) the section of the law in which the specific incentive can be found, (b) a description of the incentive with its policy intent and if available, a brief history, (c) table containing administrative data on the tax incentive, (d) source of data and description, and (e) any other relevant information regarding the incentive.

Data Authenticity

The data presented are statistics as reported by the tax payer. The self reported figures may suffer from inaccuracies as a result of human errors and omissions. The calculation of actual revenue foregone from these incentives is an exercise in micro-simulation. Each subsequent issue of the TES revisits the models previously made and tries to improve the accuracy.

In 2019, changes made to the Corporate Income Tax (CIT) form for submitting tax returns was changed to make it mandatory for companies to declare their use of tax incentives. This change

was done prospectively and applies to incomes earned in 2018. Prior to that, Item 7 – schedule of revenue foregone was an optional statistical schedule. Thus information from 2018 is more reliable as estimate of revenue foregone from each incentive.

7.2 COMPANY TAX INCENTIVES IN THE INCOME TAX ACT 1959

7.2.1 Interest

Revenue Foregone (Kina, million)			
	2016	2017	2018
Non-resources	4.9	3.1	5.2
Resources	0.0	1.0	2.1
<i>Legislative Reference</i>	<i>Section 35 of ITA 1959</i>		

This incentive allows certain interest earning entities and assets to be exempted from the income withholding tax of 15 per cent. This includes interest earned on long term bonds, central bank authorised foreign currency deposits and the participants and lender of the PNG LNG project.

7.2.1 Fishing Operations

Revenue Foregone (Kina, million)			
	2016	2017	2018
Non-resources	0.3	0.0	0.0
Resources	0.0	0.0	0.0
<i>Legislative Reference</i>	<i>Section 35 of ITA 1959</i>		

This incentive exempts income tax/salary & wages tax for employees of non-residential companies carrying out fishing operation on PNG waters. This applies only to non-residential fishing operators covered under an Agreement with the State.

7.2.2 Dividends

Revenue Foregone (Kina, million)			
	2016	2017	2018
Non-resources	1.3	0.6	4.0
Resources	0.0	0.0	0.0
<i>Legislative Reference</i>	<i>Section 42(3) of ITA 1959</i>		

Income from petroleum or gas operations earned by shareholders paid as dividends, is exempt from income tax. This income does not form part of the assessable income of the tax payer if the income was paid as dividends and it originated from a petroleum or gas operation.

7.2.3 Export sales

Revenue Foregone (Kina, million)			
	2016	2017	2018
Non-resources	46.3	41.9	0.0
Resources	0.0	0.0	0.0
<i>Legislative Reference</i>	<i>Section 45B of ITA 1959</i>		

This incentive promotes export of certain goods. This incentive offers exemption on income from sale of qualified export goods prescribed under the *Income Tax Regulation (Regulation 10A)*.

7.2.4 Rural development incentive

Revenue Forgone (Kina, million)			
	2016	2017	2018
Non-resources	0.0	0.0	0.1
Resources	0.0	0.0	0.0
<i>Legislative Reference</i>	<i>Section 45I of ITA 1959</i>		

This incentive encourage investment in under developed designated areas by exempting new business from income tax for 10 years.

An income tax exemption is provided on the net income of new businesses set up in specifically designated under-developed areas that are not dependent on the exploitation of natural resources. Income earned by “rural development industries” (as defined under the *Income Tax Act*) are exempt from income tax for ten years upon commencement of business operation. Losses arising from the exempted activities may be deducted against taxable income from other activities. The scheme is only available to new businesses in the specific rural districts listed in the Regulations.

7.2.5 Bougainville incentive

Revenue Forgone (Kina, million)			
	2016	2017	2018
Non-resources	0.0	0.0	0.0
Resources	0.0	0.0	0.0
<i>Legislative Reference</i>	<i>Section 45N of ITA 1959</i>		

This incentive allowed taxpayers that derived their primary income from the region of Bougainville between 21 April 1993 and 31 December 2003 were exempted from income tax. This was repealed in 2016.

7.2.6 Solar heating

Revenue Forgone (Kina, million)			
	2016	2017	2018
Non-resources	0.0	0.0	0.1
Resources	0.0	0.0	0.0
<i>Legislative Reference</i>	<i>Section 68A of ITA 1959</i>		

This incentive promotes the use of cleaner energy by allowing expenses on plant or equipment related to solar heating to be used as deductions irrespective of the scope of project.

7.2.7 Gifts

Revenue Forgone (Kina, million)			
	2016	2017	2018
Non-resources	0.1	0	0
Resources	0.0	0.0	0.0
<i>Legislative Reference</i>	<i>Section 69 of ITA 1959</i>		

The expenditures to charitable organizations and other humanitarian foundations, including political parties, by a tax payers are allowed either as a direct deduction or in some cases a double deduction from their assessable income. Some of the these organizations, include political parties, sporting bodies, South Pacific Games 1991 (repealed), foundations for law, order and justice, charitable bodies, national day celebrations, law and order, Pacific Games 2015, relief aid for natural disasters and national day celebrations.

7.2.8 Deduction Educational expenses (individuals only)

Revenue Forgone (Kina, million)			
	2016	2017	2018
Non-resources	0.3	0.2	0.0
Resources	0.0	0.0	0.0
<i>Legislative Reference</i>	<i>Section 70A of ITA 1959</i>		

This incentive is provided to reduce taxpayer's burden on expense made on a dependent child's education (a child or student wholly maintained by the tax payer). Education expense is the amount of educational fees paid by the taxpayer to a non-governmental primary or high school, whether within or outside Papua New Guinea, less any subsidy, allowance or assistance received. The amount of net education expense by a resident tax payer in connection with the education of a dependent child is an allowable deduction.

7.2.9 Double Deduction – Staff Training

Revenue Forgone (Kina, million)			
	2016	2017	2018
Non-resources	1.4	1.2	0.0
Resources	4.8	3.8	0.0
<i>Legislative Reference</i>	<i>Section 72(A) of ITA 1959</i>		

This incentive is intended to encourage companies to upskill labour force in PNG. Any expenses made by a company on educational activities to upskill its staff which are not related to the business of the company (taxpayer) are allowed twice the expenditure amount as deduction. For instance, if a company spends K100.0 on educational activities to upskill its staff, the company is allowed to deduct K200.0. This deduction is only to the extent that the tax savings from such additional deduction is up to 75 per cent of the expenditure.

The double deduction on staff training was repealed in the 2018 National Budget. From 1 January 2018, cost of upskilling staff is deductible but not double for corporate tax purposes.

7.2.10 Double deduction – Export market development

Revenue Forgone (Kina, million)			
	2016	2017	2018
Non-resources	0.0	0.0	0.1
Resources	0.0	0.0	0.0
<i>Legislative Reference</i>	<i>Section 72(C) of ITA 1959</i>		

This incentive is to encourage and promote export of goods manufactured in PNG. Market development expenditure refers to cost incurred for the purpose of creating opportunities and promoting PNG manufactured goods abroad.

Subject to commissioner general's determination, an expenditure incurred by a tax payer on export market development (i.e. in general expenditure incurred in the production or manufacture of goods and services for export) is allowed twice the amount of expenditure as deduction but only to the extent that the tax savings from such additional deduction is up to 75 per cent of the expenditure.

7.2.11 Double deduction – Tourism

Revenue Forgone (Kina, million)			
	2016	2017	2018
Non-resources	0.2	0.3	0.2
Resources	0.0	0.0	0.0
<i>Legislative Reference</i>	<i>Section 72(C) of ITA 1959</i>		

The objective of this incentive is to encourage and promote development of tourism in PNG.

Subject to commissioner general's determination, an expenditure incurred by a tax payer for the development of tourism (i.e. in general expenditure incurred towards promoting tourism) is allowed twice the amount of expenditure as deduction but only to the extent the tax savings for such additional deduction is up to 75 per cent of the expenditure.

7.2.12 Additional Depreciation – Fuel Conservation

Revenue Forgone (Kina, million)			
	2016	2017	2018
Non-resources	0.0	0.0	0.0
Resources	0.0	0.0	0.0
<i>Legislative Reference</i>	<i>Section 73(4) of the Income Tax Act of 1959</i>		

This deduction allows for additional 20 per cent depreciation deduction in the initial year of the employment of the asset, when the asset improves or extends the existing plant specifically for the purpose of fuel conservation. The section incentivises businesses to continuously look for ways that conserve fuel by giving deductions early in the investment to recuperate costs.

7.2.13 Additional Depreciation – Non-oil fired plant (converted)

Revenue Forgone (Kina, million)			
	2016	2017	2018
Non-resources	0.0	0.0	0.0
Resources	0.0	0.0	0.0
<i>Legislative Reference</i>	<i>Section 73(5) of the Income Tax Act of 1959</i>		

This deduction allows for additional 30 per cent depreciation in the initial year when the cost of capital was incurred, when a oil-fired plant or equipment is replaced by a non-oil fired plant or equipment to incentivise fuel conservation and sustainable production.

7.2.14 Additional Depreciation – Non-oil fired plant (acquired)

Revenue Forgone (Kina, million)			
	2016	2017	2018
Non-resources	0.0	0.0	0.0
Resources	0.0	0.0	0.0
<i>Legislative Reference</i>	<i>Section 73(6) of the Income Tax Act of 1959</i>		

This deduction allows for additional 30 per cent depreciation in the initial year when the cost of capital was incurred when a non-oil fired plant or equipment is purchased for production.

7.2.15 Additional Depreciation – Industrial Development

Revenue Forgone (Kina, million)			
	2016	2017	2018
Non-resources	15.8	8.6	30.4
Resources	0.0	0.0	0.0
<i>Legislative Reference</i>	<i>Section 73(7) of the Income Tax Act of 1959</i>		

This incentive allows for a depreciation deduction. When a tax payer adds an industrial plant in PNG that has not been previously used in the country, the taxpayer may elect in any year to increase the amount of depreciation deductions by the lesser of the amount of the taxpayer's income remaining after all other deductions, or the remaining depreciable value of the plant.

7.2.16 Additional Depreciation – Primary Production

Revenue Forgone (Kina, million)			
	2016	2017	2018
Non-resources	2.1	2.1	6.5
Resources	0.0	0.0	0.0
<i>Legislative Reference</i>	<i>Section 73(9) of the Income Tax Act of 1959</i>		

Capital expenditure incurred by a tax payer on acquiring the following types of new plant or article is provided a 100 per cent deduction: (a) property used directly for agriculture production; (b) property used for fishing by residents engaged in commercial fishing; (c) boats or ships and ancillary equipment used as dive boats by an accredited scuba diving/snorkeling operator. Note that the additional depreciation does not extend to all primary production activities, namely logging and forestry for commercial purposes.

7.2.17 Research and development expenditure

Revenue Forgone (Kina, million)			
	2016	2017	2018
Non-resources	0.0	0.0	0.2
Resources	0.0	0.0	0.0
<i>Legislative Reference</i>	<i>Section 95(1) of Income Tax Act of 1959</i>		

A taxpayer is allowed 150 per cent deduction on expenditure incurred on scientific research and development.

7.2.18 Primary production development expenditure

Revenue Forgone (Kina, million)			
	2016	2017	2018
Non-resources	0.2	0.7	2.0
Resources	0.0	0.0	0.0
<i>Legislative Reference</i>	<i>Section 97A of Income Tax Act 1959</i>		

This incentive encourages primary production such as agriculture development in PNG. Any expenditure incurred in primary production is an allowable deduction for tax purposes. If a tax payer spends K100.0 on agriculture development, K100.0 is allowed to be deducted for tax purposes.

A 100 per cent deduction under *Section 97A of ITA* for expenditure by a PNG taxpayer engaged in primary production (definition of primary production provided in the regulations). Tax deductions available to agricultural companies for expenditure on agricultural development under this section and for depreciation of agricultural plant and equipment can be passed through directly to shareholders for deduction at shareholders' marginal tax rates.

7.2.19 Primary production 150% extension services

Revenue Forgone (Kina, million)			
	2016	2017	2018
Non-resources	0.0	0.0	0.2
Resources	0.0	0.0	0.0
<i>Legislative Reference</i>	<i>Section 97B(1) of the ITA</i>		

The objective of this incentive is to promote agriculture extension services.

A 150 per cent deduction is provided for expenditure on agricultural extension services undertaken under an approved plan. Extension services must be undertaken under a plan approved by a committee chaired by the Department of Agriculture and Livestock.

7.2.20 Double deduction – Unit of property

Revenue Forgone (Kina, million)			
	2016	2017	2018
Non-resources	0.0	0.0	0.0
Resources	0.0	0.0	0.0
<i>Legislative Reference</i>	<i>Section 155J of Income Tax Act of 1959.</i>		

7.2.21 Amortization – Exploration expenditure

Revenue Forgone (Kina, million)			
	2016	2017	2018
Non-resources	0.0	0.0	0.0
Resources	12.4	11.3	21.8
<i>Legislative Reference</i>	<i>Section 155N of the ITA.</i>		

Mining, petroleum and gas companies can elect at the end of each year of income to bring in exploration expenditure incurred outside of the project operation during that same year of income and claim this expenditure as a deduction against the project income. Amount allowed as a tax deduction should not exceed the lesser of 25 per cent of the un-deducted pool balance or such amount that would reduce income tax payable by 10 per cent.

7.2.22 Double deduction – Exploration expenditure (Mining)

Revenue Forgone (Kina, million)			
	2016	2017	2018
Non-resources	0.0	0.0	0.0
Resources	0.0	0.0	0.0
<i>Legislative Reference</i>	<i>Section 156E of Income Tax Act of 1959 (Repealed in 2016)</i>		

This incentive is intended to encourage more exploration in the mining sector. Exploration expenditure incurred is allowed twice the expenditure as deduction for corporate income tax purposes. This incentive was repealed in 2016.

7.2.23 Amortization – Allowable capital expenditure

Revenue Forgone (Kina, million)			
	2016	2017	2018
Non-resources	0.0	0.0	0.0
Resources	75.9	59.3	41.4
<i>Legislative Reference</i>	<i>Section 158J of Income Tax Act of 1959</i>		

7.2.24 Remote banking services

Revenue Forgone (Kina, million)			
	2016	2017	2018
Non-resources	3.1	0.0	0.0
Resources	0.0	0.0	0.0
<i>Legislative Reference</i>	<i>Section 219D of the ITA</i>		

The objective of this incentive is to extend banking services to rural areas.

Cost of expenditure on providing extended and new banking facilities or services in areas not adequately supplied with bank services is income tax paid which can be offset against income tax liability for the year the cost was incurred. Any excess can be carried forward to be offset against the succeeding years tax liability.

7.3 GOODS AND SERVICE TAX 2003

7.3.1 Zero Rating of GST

Revenue Forgone (Kina, million)			
	2016	2017	2018
GST exempt sales (output debit	38.0	49.8	36.9
GST zero rated sales	149.4	145.2	110.9
Deferred import liabilities	-	2.0	0.6
GST exempt sales (input Credit)	38.5	37.9	30.6
<i>Legislative Reference:</i>	<i>Division 6, section 19 of the Goods and Services Act 2003</i>		

Suppliers to be exempted from the GST or may be eligible to 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 charged GST at 0.0 per cent of the sale price but claim credits for GST paid on the inputs); and GST exempt sales.

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.

7.4 TAX INCENTIVES IN THE CUSTOMS TARIFF ACT 1990

7.4.1 Import Duty

Revenue Forgone (Kina, million)			
	2016	2017	2018
Estimate	27.8	25.2	33.3
<i>Legislative Reference</i>	<i>Part IV, section 9 of the Import Tariff Act 1990</i>		

The Head of State, acting on advice, may, by notice in the National Gazette – exempt from duty goods or substitute a reduced rate of duty in respect of any imported goods.

7.4.2 Import Excise

Revenue Forgone (Kina, million)			
	2016	2017	2018
Estimate	28.0	43.1	105.1
<i>Legislative Reference</i>	<i>Section 3 of the Excise Tariff Act 1956</i>		

The Head of State, acting on advice, may, by notice in the National Gazette – exempt from duty goods or substitute a reduced rate of duty in respect of any import of excisable goods.

7.4.3 Export Duty

Revenue Forgone (Kina, million)			
	2016	2017	2018
Estimate	0	0.1	0.1
<i>Legislative Reference</i>	<i>Customs Tariff Act 1990</i>		

The Head of State, acting on advice, may, by notice in the National Gazette – exempt from duty goods or substitute a reduced rate of duty in respect of any exported goods.

CHAPTER 8: FINANCING AND DEBT MANAGEMENT STRATEGY

8.1 FINANCING BACKGROUND TO THE 2019 BUDGET

The 2019 Budget deficit was estimated at K1,866.7 million. This was to be financed under the Medium-Term Debt Strategy (MTdS) of a domestic debt redemption program funded by external financing through commercial debt securities and extraordinary financing from international agencies.

However, by mid-year planned external sources of financing had not materialised leading to a net issuance in the domestic market. The 2019 Mid-Year Economic and Fiscal Outlook (MYEFO) report identified additional sources of funding that included cash reserves from Sovereign Bond Trust Account, potential budget support from China Development Bank (CDB) and commercial borrowings.

The due diligence exercise instituted in August-September 2019 took a broader view of financing and took the opportunity to revise debt stock valuation (previously excluded) and include contingent liabilities. The 2019 Supplementary Budget also revised the planned deficit increasing the overall requirement for debt. The 2019 estimated net lending is expected to be K3,503.9 million with a requirement to raise an additional K2,275.3 million with K1,228.6 million coming from funds raised from the issuance of the sovereign bond in 2018. Finally, the new administration also revised policy to focus more towards maximizing concessional sources of financing over any commercial borrowing.

In 2019, the estimated financing profile comprises of:

- I. an Export Finance Australian (EFA) Budget Support loan of US\$300.0 million (K967.7 million) which replaces the proposed China Development Bank loan;
- II. the late receipt of the second tranche of US\$100.0 million (K322.6 million) Health Services Sector Policy (HSSP) based loan for budget support expected in early December 2019;
- III. K816.7 million in concessional borrowing drawdowns linked to capital projects; and
- IV. net issuance of K707.3 million in domestic security based debt comprising of K1,007.3 million in net new issuance of Treasury Bills and a net amortization of K300 million in Treasury Bonds.

Of the total net financing requirement (K2,275.3 million) for the 2019 Supplementary Budget, the Government has successfully raised 73.4 per cent in concessional financing with sub 5.0 per cent interest rate while the remaining has come from the domestic market sources. The 2019 financing profile also includes repayment of K103.5 million of a domestic contingent liability, K352.1 million amortization of commercial financing, K36.0 million amortization of external concessional loans and K47.4 million amortization in external extraordinary loans.

The 2019 Supplementary Budget also adjusted the Government's debt stock from 2018 over and above the deficit. Specifically, the Government realised a valuation change to the debt stock and state guaranteed loans for which interest was being paid from the central budget. Together with the revision in the nominal GDP, the 2019 Debt Stock is now estimated to be

K32,554.6 million and the Debt to GDP ratio is 38.4 per cent. Since this breaches the previous upper limit of Debt to GDP ratio set out in the *Fiscal Responsibility Act 2006* (FRA), the 2019 Supplementary Budget also accompanied an amendment to the FRA to move the upper limit of Debt to GDP to 45.0 per cent.

The FRA amendments also revised the definition of “general government debt” to include state guarantees for which the government is liable for, as per international best practice. Furthermore, the FRA amendment also included definitions for “concessional debt” being debt raised at less than 5.0 per cent annual interest rate, and “reconstruction and growth debt” being multilateral and bilateral lending. The upper limit for the Debt to GDP ratio shall be reduced to 40.0 per cent in 5 years and to 35.0 per cent in 10 years. The FRA amendments allow flexibility for the government to allow budget repair by raising cheap and concessional lending, and builds commitment to begin fiscal consolidation over the medium term.

8.2 FINANCING REQUIREMENTS 2020 BUDGET

The total financing requirement for the 2020 Budget is K4,631.1 million. The 2020 Budget deficit also incorporates the drawdown of Government arrears worth an estimated K1.1 billion which were previously excluded from the Debt Stock even though they were the Government’s commitments to its creditors. As a result, the Government sees the 2020 deficit as an opportunity to correct its estimate of debt stock for the purposes of prudent debt sustainability. Variances in figures from the 2020 BSP reflect adjustments in exchange rates, and small changes in financing composition and need.

In 2020, the Government will continue to exploit all avenues of cheap and concessional financing. The Government is engaging constructively with the Australian Government authorities for additional budget support.

In 2020, the Government is also on track to raise the final tranche of the World Bank Development Policy Operation (DPO) budget support facility worth K225.8 million (US\$70 million) and the third and final tranche of the ADB HSSP worth K322.6 million (US\$100 million).

The Government is planning to access the commercial markets in loans through an ADB offered partial guarantee product of up to K967.7 million (US\$300 million). The ADB partial guarantee scheme allows the borrower to raise financing from a commercial source at a cheaper rate given the guarantee offered by a multilateral institution. Even though this would be commercial in nature, the Government will still be accessing a loan substantially cheaper than the benchmark rate offered on the open market either through conventional lending or a Sovereign Bond.

The government plans to increase its access to financing through concessional loan facilities already available on planned projects to K1,365.0 million. The concessional financing takes care of up to 25.0 per cent of the Government’s capital funding requirement for 2020.

Over and above, the Government’s main amortization commitments for 2020 include K100.5 million for a domestic commercial guarantee loan and K882.2 million in external commercial liabilities to reduce its interest obligations in the future and reduce exposure to expensive forms of debt. The Government is estimated to save 3-4 per cent of interest costs over the medium term on these expensive loans.

Together with the amortization, the Government’s exposure to the domestic securities market for 2020 is estimated to be a net addition of K1,257.7 million that includes K1,029.6 million in net issuance of Treasury Bonds and K328.1 million in Treasury Bills.

Table 25: Deficit Financing Projections by Instrument and Debt Outstanding 2018-2020
(Kina, million)

Debt Instruments	2018 Actuals	2019 Budget	2019 Sup Budget	2020 Budget
Domestic Debt	18,279.4	15,940.3	18,883.2	19,640.4
Treasury Bills	8,677.6	7,075.3	9,684.9	10,013.0
Treasury Bond	8,322.3	8,761.5	8,022.3	8,551.9
Loans	1,279.5	103.5	1,176.0	1,075.5
External Debt	12,018.5	11,584.0	13,671.4	17,545.2
Debt securities	1,683.7	1,630.8	1,700.7	1,700.7
Concessional	7,744.1	5,958.7	8,173.5	9,166.0
Commercial	1,934.1	1,617.3	1,898.1	1,983.6
Extraordinary	656.6	2,377.2	1,899.1	4,694.9
Gross Debt* (ex. Arrears)	30,297.9	27,524.3	32,554.6	37,185.6
Arrears	2,623.0	0.0	1,982.0	930.0
Gross Debt (incl. Arrears)	32,920.9	27,524.3	34,536.6	38,115.6

Source: Department of Treasury.

*Revised 2018 Debt Stock to include valuation effect. Revised 2019 Supplementary Budget estimate for Budget debt stock to include contingent and other previously unaccounted debt liabilities.

Table 26: Government arrears 2018-2021 (Kina, million)

Debt Instruments	2018 Actuals	2019 Sup Budget	2020 Budget	2021 Budget
Total Opening Stock of Arrears	3,074	2,623	1,982	930
Personnel Emoluments	1,488	1,102	982	430
Goods and Services	665	600	400	200
Capital	921	921	600	300
Accumulated during the year	-	-	-	-
Personnel Emoluments	-	-	-	-
Goods and Services	-	-	-	-
Capital	-	-	-	-
Paid during the year	451	641	1,052	930
Personnel Emoluments	386	120	552	430
Goods and Services	65	200	200	200
Capital	-	321	300	300
Closing Stock and End of Year	2,623	1,982	930	-

Source: Department of Treasury.

The financing requirement for 2020 will result in total Government debt reaching K38,115.6 million by end of 2020, equivalent to 41.3 per cent of GDP, well within the prescribed revised FRA target range of 40-45 per cent of GDP. Moreover, the planned debt portfolio reduces the domestic share of financing from 60.0 per cent to 54.2 per cent of total debt stock in favour of external financing. Even the external financing mix in 2020 is planned to improve with concessional sources of financing accounting for 37.0 per cent of total debt stock compared to only 28.0 per cent in 2018.

Table 27: Composition of financing by instrument for 2020-2021 (Kina, million)

Debt Instruments	2020 Budget	2021 Budget
Cash Deficits (including once-offs)	-4,631	-3,769
Commercial & Other Repayments (excluding net items below)	-899	-920
Total Financing Requirement	-5,530	-4,689
Net Domestic Financing	1,000	1,000
Net Concessional (Project)	992	1,209
ADB and WB Budget Support	544	-
Net Australian Support \$US200m	600	-
Confident financing	3,136	2,209
Funding gap (total financing less confident funding)	-2,394	-2,481
Potential Financing		
Additional Domestic financing (Nambawan etc)	1,000	1,000
ADB Partial Credit Commercial	900	600
Further WB ADB Budget Support		600
ADB SOE budget support		
Additional Australian \$US500m	1,650	1,500
Total Potential Financing	3,550	3,700
Funding gap (total financing less confident funding)	-2,394	-2,481
Finance Over-funding (Funding gap less total potential)	1,156	1,219
Additional Financing Requirements		
NCD Roads	-103	-50
Solwara (April 2021)		-375

Source: Department of Treasury

8.3 UPDATE ON DOMESTIC MARKET CONDITIONS FOR FINANCING DEFICIT

By the end of 2019, the Government secured two external Budget Support loans from the Export Finance Australia (EFA) of US\$300.0 million (K967.7 million) and US\$100.0 million (K322.6 million) from the Asian Development Bank as policy based loan for budget financing. The financing in the first three quarters of the year was through domestic borrowing and with transfers from the funds held in Trust Accounts from the 2018 Sovereign Bond issuance.

The Government experienced some difficulties through the first three quarters of 2019 in terms of warrant restrictions affecting efficient budget execution as the domestic market appetite was put under pressure. Even though the Government was in a net issuance position in both instruments in the first three quarters, periodic undersubscription was an on-going feature. The domestic market, which consists predominantly of the four commercial banks, two superfunds and the two main foreign banks, continue to have internal limits on lending to the Government. In addition, the PMMR transfers, in part, contribute to the illiquidity on the main local bank.

All banks are now signalling a move towards redeeming their holdings of Government securities to obtain the necessary liquidity to fund the excess demand for foreign currency. The Bank of PNG is also targeting redemptions of securities to remain in compliance with its statutory end-year '*no lending to Government*' requirements in the *BPNG Act*. These trends are expected to continue over the first half of 2020 until the foreign exchange imbalance is extinguished.

Furthermore, the subdued nature of the domestic economy in recent years is limiting domestic investment opportunities, encouraging the private sector and super funds to repatriate funds offshore. Firmer fiscal policies and the build-up in arrears are also reducing domestic liquidity in

the system. However, the re-entry of Kina Bank into the domestic market with its acquired ANZ commercial portfolio provided some relief towards the end of the year.

With a view to signal the domestic market to plan its liquidity, the Government will have most of its exposure to the Domestic market early in the year over the first two quarters. We will look to refinance some large domestic maturities along with adding issuance early in the year. Currently, planned external financing includes World Bank DPO in Q2, ADB HSSP in Q3 and Australian Budget Support in Q4. The remaining financing items will be signalled to the market immediately following conclusion of consultations.

8.4 MEDIUM TERM DEBT STRATEGY AND OPERATIONAL PLAN 2020-2024

The 2019 Supplementary Budget financing strategy embarked on a revised debt strategy for the medium term. The elements of the revised strategy is to utilise cheap and concessional financing from bilateral and multilateral sources over the medium-term with an objective to reduce the debt to GDP ratio to below 40.0 per cent; and reduce interest costs.

The medium-term strategy operationalises this objective 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 are:

- Maintaining debt at sustainable levels. The revised FRA target band of Debt to GDP of 40-45.0 per cent will limit debt to sustainable levels. The band applies to general Government debt at book value and includes valuation changes from exchange rate movements and incurring implicit and explicit state guarantees debt as and when they emerge;
- Maintaining financial risk at prudent levels. Lengthening of the average time to maturity is a trade-off between cost and refinancing risk;
- Developing and efficiently managing the domestic debt market. This involves broadening and deepening the market in domestic securities and improving the market infrastructure; and
- Developing and managing the offshore commercial market. This will diversify funding sources to provide an alternative market-based financing instrument. This eases domestic liquidity and foreign exchange constraints and provides PNG a sovereign reference price. This allows international investors to take a position in PNG, which also facilitates non-resident purchases of domestic bonds through a market-based assessment of interest differentials.

The 2020 Budget Debt strategy 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 *FRA 2006*. The legal framework puts the emphasis on greater accountability, outlines the desired reporting, and audit requirements.

Table 28: Deficit Financing Projections by Instrument 2019-2024 (Kina, million)

Debt Instruments	2019 Revised	2020 Budget	2021	2022	2023	2024
Domestic Net Financing	603.8	1,257.2	536.3	1,025.2	561.6	260.0
Treasury Bills	1,007.3	328.1	224.0	240.8	99.1	6.4
Treasury Bond	-300.0	1,029.6	737.3	784.4	462.5	253.6
Loans	-103.5	-100.5	-425.0	0.0	0.0	0.0
Borrowing	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-103.5	-100.5	-425.0	0.0	0.0	0.0
External Net Financing	1,671.5	3,373.8	3,140.4	1,304.3	1,581.1	2,032.7
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0
Sovereign Bond	0.0	0.0	0.0	0.0	0.0	0.0
Concessional	464.6	992.5	1,209.0	1,401.0	1,675.0	2,098.0
Borrowing	816.7	1,365.0	1,638.0	1,965.0	2,359.0	2,830.0
Amortization	-352.1	-372.5	-429.5	-564.2	-684.0	-732.0
Commercial	-36.0	85.5	-138.4	-56.2	-57.5	-20.7
Borrowing	0.0	967.7	750.0	0.0	0.0	0.0
Amortization	-36.0	-882.2	-888.4	-56.2	-57.5	-20.7
Extraordinary	1,242.9	2,295.8	2,069.8	-40.5	-36.4	-44.6
Borrowing	1,290.3	2,774.2	2,083.9	0.0	0.0	0.0
Amortization	-47.4	-978.4	-14.1	-40.5	-36.4	-44.6
Total Net Financing	3,503.9	4,631.1	3,676.7	2,329.5	2,142.7	2,292.7

Source: Department of Treasury

1. The 2020 debt flow provided above is the best approximation of the financing profile as expected at the time of drafting the volume 1.

Table 29: Debt stock as a share of GDP 2019-2024 (Kina, million)

	2019	2020	2021	2022	2023	2024
Gross Government Debt	32,554.6	37,185.6	40,862.3	43,191.8	45,334.5	47,627.2
Debt to GDP %	38.5%	40.3%	40.5%	39.0%	38.1%	37.6%
Domestic	18,883.2	19,640.4	20,176.7	21,201.9	21,763.5	22,023.5
% of gross	58.0%	52.8%	49.4%	49.1%	48.0%	46.2%
External	13,671.4	17,545.2	20,685.6	21,989.9	23,571.0	25,603.7
% of gross	42.0%	47.2%	50.6%	50.9%	52.0%	53.8%
Gross Government Debt - with arrears	34,536.6	38,115.6	40,862.3	43,191.8	45,334.5	47,627.2
Debt to GDP %	40.8%	41.3%	40.5%	39.0%	38.1%	37.6%
Arrears	1,982.0	930.0	0.0	0.0	0.0	0.0

Source: Department of Treasury

8.5 MANAGING PORTFOLIO RISK 2020-2024

In implementing the updated financing strategy in the 2020 Budget, the Government will be managing a number of risks including exchange rate, liquidity, interest rate, refinancing and others. These risks will be mitigated through:

- i. 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;
- ii. 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 *Treasury Bills Act 1974*

will need to be amended to clearly state the authority for the Department of Treasury to actively manage Government debt.

- iii. in line with the 2019 operational guidelines, the duration of the domestic portfolio will be lengthened in 2020 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.

However, the domestic securities market will be stabilised first, with the implementation of the domestic debt raising plan and BPNG intervention in the foreign exchange market to extinguish the foreign exchange imbalance. This will be undertaken as a prerequisite to domestic security market reform.

- iv. addressing a number of preconditions for the development of the domestic bond market including: improving the efficiency of the primary market; 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 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.²²These will underpin the goals of expanding the existing highly concentrated investor base and promoting a more liquid and efficient secondary market;
- v. addressing the concerns by non-residents that seek to invest in domestic securities by 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;
- vi. 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 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; and
- vii. publishing a detailed and timely debt management and borrowing plan in 2020.

Overall, the amended debt management strategy for 2020 and over the medium term should result in interest cost savings, and the liquidity available in external markets should ensure future budgets can be executed as programmed from early in the fiscal year. The lengthening of the debt portfolio through these longer-term external issuances, also reduces the refinancing risk.

To implement these more complex debt management arrangements in 2020 and over the medium term, a feasibility report will be undertaken on expanding the role into a dedicated Debt Management Office within the Department of Treasury to better interact with investors by communicating up-to-date information and have greater discretion to manage the portfolio efficiently. The potential savings in debt service costs are significant, and with access to lower-cost liquid markets domestically and abroad, the impact on budget execution would be significantly enhanced.

²² Refer to World Bank, Review of the PNG Government Bond and Capital Market Development, August 2015.

CHAPTER 9: NATIONAL REFORM AGENDA

9.1 OVERVIEW

The Government recognises the importance and benefits of undertaking key reforms that are necessary to help achieve the key development goals and aspirations for PNG.

A number of new reforms will be introduced in the 2020 Budget to take back the budget and the economy. These align with the Prime Minister's vision to better Connect PNG through economic corridors and the establishment of special economic zones to attract greater investment, extended through to better harnessing the potential of our people to work overseas and moving to a more affordable education to program to better invest in the country's future workforce.

These build on key existing reform initiatives that will continue to be implemented in 2020 to strengthen and promote governance, in particular, the transparent and effective management of public monies in the delivery of public goods and services, as well as providing a conducive environment for the growth and expansion of the private sector, a key partner in nation building.

The work of the Public Sector Organisational Reform Team (PSORT) and the Organisational Staffing and Personnel Emoluments Audit Committee (OSPEAC) will be supported to oversee the implementation of a number of public sector reforms to improve productivity and efficiency in public service delivery.

The Government's medium-term strategies continue to support and guide the national reform agenda. In addition, strengthening and enhancing the working relationships with key stakeholders in removing barriers to doing business and investment in PNG in order to promote greater private sector participation is a critical part of the reform.

The financial sector is one of the key drivers of the economy. Given its importance, the Government is undertaking a number of reforms in the financial sector as identified under the Government's Financial Sector Development Strategy (FSDS) 2018-2030.

The superannuation and life insurance industries have grown significantly over the past years. A taskforce will be established in 2020 to take account of these developments and to examine specific areas of the superannuation and life insurance legal framework in order to improve the effectiveness and efficiency of these industries.

The Government has demonstrated its commitment in establishing the Sovereign Wealth Fund (SWF) of PNG by advancing work in this area. The work included finalising the SWF Board appointment process and other critical aspects such as the SWF Secretariat and the investment mandate. The Government will continue to progress this work with the timing of the full establishment of the SWF contingent on the prospects for revenue receipts from the natural resource sector in the medium term due to low commodity prices.

9.2 KEY REFORMS

Connect PNG – Building the Foundation for Our Future

Connect PNG recognises the importance of improving the infrastructure backbone of the country's economic corridors. This will be achieved through improved telecommunications and infrastructure that will open markets and economic opportunities for agriculture, fishing and tourism all around the country.

Connect PNG will have an initial investment of K300.0 million in 2020 and will expand to a projected total over K2.0 billion by 2024. The multiyear program highlights the importance attached to Connect PNG by the Marape-Steven Government. The Government will explore with donors the option to match the government funding, which could leverage an extra K2.0 billion to assist with these priority investments.

A critical component is establishing a single undivided road network on the mainland. This recognises the transport network in PNG has been incomplete and stops the country's major economic hubs from connecting and trading. This is most relevant for the agriculture sector that is unable to transport its quality produce. An undivided road network will allow farmers to better access local markets to support their incomes and livelihoods and provides an entry point for increasing overseas agricultural export opportunities across the Asia region.

A second part of Connect PNG is reinvesting in the quality of the road network. This recognises the importance of maintaining the quality of the road network. The costs of maintenance ultimately avoids the more expensive investment of having to rebuild the roads. Connect PNG will improve the quality of the whole 9,000 km national road network to 50 per cent 'Good quality' and 50 per cent 'Fair quality' in the next 20 years with a key focus on completing the planned and proposed missing link roads.

The Marape-Steven Government will also progress the establishment of Special Economic Zones across the country. These will drive economic development by attracting investors into specific areas and sectors, which will generate employment opportunities and incomes. The Government will further develop the details on how these will operate over coming months to ensure these zones are best calibrated to attract the most appropriate investment into PNG.

Increasing opportunity and revenue from labour mobility

One of PNG's richest assets is its people. The experience of other countries is a key pathway to development is to harness this asset in ways that builds opportunities for families as well as helping communities and our economy. PNG can learn from the experiences of South Korea in the 1950s through to the Philippines of today about how best to use its people.

PNG can build enormous wealth in human and economic capital by engaging more in the labour markets around the world. To date, PNG's performance in harnessing labour mobility has been poor. The Marape-Steven government will turn this around. This is a major economic reform which will take many years to fully develop but is a key part of taking back PNG.

Labour mobility offers an opportunity for our workers to travel internationally for well paid jobs and enhance their skills and experience. Exposure to working in agricultural exporting countries like Australia and New Zealand can significantly develop the skills of our farming community and provide income to establish and expend their own operations when returning to PNG. Labour mobility also provides an immediate source of remittances back to PNG to support families. Initial estimates suggest an individual province could receive up to K140.0 million a year in remittances, which will then be spent locally to contribute GST revenues that can be collected by the Provinces.

PNG's labour mobility performance compared to other Pacific island countries is poor. Some of this is due to a failure to properly resource government efforts to raise national attention on the opportunities available to workers, in addition to a lack of vetting or training of the workers sent for specific jobs coupled with delays with securing National Identification documents and passports in order for the workers to travel overseas.

PNG needs to build significantly on the efforts to date. This Budget will create an independent Labour Mobility Unit to report to the Treasurer and through him to a Ministerial Steering Committee led by the Deputy Prime Minister in his role as social sector lead, and comprising of the Treasurer, and Ministers of Labour and Police. The unit will be an independent agency staffed with officials from the Department of Labour, Immigration, and the Civil and Identity Registry Office. Donors will also be asked to assist the unit's functions and operations. The unit will coordinate requests for workers and liaise closely with overseas employers, help regions establish and manage labour mobilisation processes and expedite the transfer of workers, in particular, the organisation of identity documents and visas to better assist with increasing participation in the labour mobility programs.

Higher education – Investing in tomorrow's workforce through HELP

The Marape-Steven Government will establish the Higher Education Loan Program (HELP) to directly assist the costs of students attending higher education institutions in PNG. The Government will pay the fees of those students to attend the higher education institutions by providing them an interest free loan. The Government will establish a new collection system at the Internal Revenue Commission (IRC), which will organise for the repayment of fees through the income tax system. This will ensure all students can avoid financial hardship from attending these institutions and only start paying back their debts when earning a sufficient income. This helps address the growing inequality in access to higher education and the lower numbers of students attending higher education institutions. PNG now experiences some of the lowest higher education numbers in the world, which will make it difficult to equip a workforce of the future to drive the economy.

HELP was the preferred option of moving the Government to a more affordable education program for the entire country. The HELP will be funded by savings from revising the TFF by offering a 50 per cent subsidy for all school fees. This is not a decision taken lightly by the Government but recognises the significantly high costs incurred by students to attend higher education institutions are now in the thousands of Kina. These are substantially higher than the costs of attending elementary and primary schools. The National Government will prioritise support to remove any financial hardship for those attending higher education institutions and work closely with the Provincial and District Governments to ensure there is adequate support to families for addressing the costs for attending elementary and primary schools.

The administrative arrangements will take time to establish and implement but these efforts will be important given the critical role in helping the country's children attend higher education institutions to be the backbone of the country's future workforce.

9.3 PUBLIC SECTOR REFORM

The Government will build on the benefits of the past reforms by continuing to drive the existing reform initiatives and look for further reform opportunities to improve the efficiency and effectiveness of the public service and create an environment that is conducive for private sector investment and growth.

The Government's Vision 2050 strategy envisages further devolution of responsibilities from the National Government to the Provinces. In parallel, the MTDP III aims to secure the future through inclusive sustainable economic growth. This will ensure improved targeting of resources to priority areas of the Government to enhance and improve the lives of our people.

The 2020 Budget focuses on establishing a number of key reforms that are consistent with these high-level policy objectives and targets. In 2020, the Government will refocus its attention on accomplishing new service delivery standards by trimming excessive spending and resource wastage and redirecting funds to key priority impact projects at all levels of Government in the areas of Health, Education, Infrastructure and Law and Order.

9.2.1 Equitable Resource Allocations to Provincial Governments

The development of PNG's intergovernmental relations framework has paved way for addressing the different levels of payments between PNG's three-tier government. Having a highly centralized system, the national government raises approximately 95.0 per cent of total tax revenues. Provincial governments in their own capacity raise own-source revenues, though certain revenue sources have been prohibited by the IRC for provinces to collect mainly to avoid duplications. In order to finance service delivery in PNG, the National Government has to make necessary adjustments to maintain the principle of equity for all Papua New Guineans.

The intergovernmental financing system was introduced in 2008 and ensures the total revenue of the provinces and the costs of delivering a minimum set of basic services are taken into consideration when determining the grants for the Provincial and Local Level Governments. Under this system, the Intergovernmental Relations (Functions and Funding) Act 2009 sets out the revenue sharing formula among National, Provincial and Local-level Governments.

Provinces are expected to receive a minimum level of funding annually. The pool of funding available to provinces for the Function and Administration Grants is known as the "Equalization amount". This Amount is contingent on a set proportion of Tax Revenue, excluding variable mining and petroleum taxes, and which is referred to as Net National Revenue available to the National Government each year. This is to provide greater certainty for Provincial and Local-Level Governments, provided it is a revenue sharing arrangement and the calculation of the equalisation amount will be responsive to the revenues received by the National Government.

Since the inception of the Intergovernmental financing system, the equalization amount has been fixed at 6.57 per cent of Net National Revenues (NNR). The funding for Provincial and Local Level Governments increase or decrease as a proportion of the NNR. The NNR amount is the total tax revenue received by the National Government excluding mining and petroleum tax revenue. The NNR calculations for the 2019 and 2020 Grant distributions have further excluded GST and Bookmakers Tax transfers to provinces, since these were already assessed as part of provinces fiscal capacities. The 2020 Grant calculation process involved subtracting K508.9 million (*sum of both GST & Bookmakers Tax*) from K10,475.9 million²³.

The Equalization Amount for the 2020 Fiscal year has subsequently increased by K41.2 million, a slight increase from K562.7 million in 2019 to K603.9 million.

²³ Tax Revenue – 2018 FBO report.

Table 30: NNR amount for 2020 was calculated (Kina, million).

Act Definition	Final Budget Outcome Equivalents	2017	2018	Difference
General tax revenue*	Tax revenue	8,678.2	9,966.9	1,288.70
MINUS (-)				
Mining and petroleum tax revenue	Mining and petroleum taxes	113.6	775.0	661.4
EQUALS (=)				
		2019 Budget	2020 Budget	
Net National Revenue Amount		8,564.6	9,191.9	627.3
Multiplied by (*) 6.57%				
Equalization Amount		562.7	603.9	41.2

Source: National Economic and Fiscal Commission (NEFC)

*excludes GST and BTT transfers to Provinces.

The minimum funding level for the equalisation amount in 2020 is calculated according to the following formula (Kina million):

<i>Net National Revenue</i>	(X)	6.57%	=	<i>NEFC estimate of 2020 equalisation amount</i>
(K9,191.9)	(x)	6.57%	=	(K603.9)

9.2.2 Amalgamation – Public Sector Organisational Reform Team (PSORT)

Amalgamation of Agencies is also another important expenditure efficiency measure, which the PSORT is implementing to improve the productivity of public service in PNG. This policy will help in achieving the Government's aim of rightsizing the public service and providing service delivery in a more coordinated manner, and at the most cost efficient way. Table 30 below shows an update of the proposed 2019 NFI.

Table 31: Public Sector Organisational Reform

Agency	Merged into	Status
National Coordination of Bougainville Affairs	PM and NEC	Completed
National Tripartite Consultative Council	Department of Labor and Industrial Relations.	Completed
Office of Urbanization	Department of Lands	Completed
Border Development Authority	To be abolished	Completed
Department of Public Enterprise	Department of Treasury	Completed
Konebada Petroleum Park Authority	Abolish the agency, Policy to be under Treasury and management under Kummel Petroleum	Completed
Department of Implementation and Rural Development	Department of National Planning and Monitoring and DPLGA	In progress
Coastal Fisheries Development Agency	National Fisheries Authority	In progress
National Economic Fiscal Commission	Department of Treasury	In progress
Integrated Financial Management System	Finance and ICT	In progress
National Narcotics Bureau	Department of Justice and Attorney General (DJAG)	In progress
PNG Research Science and Technology Secretariat	Department of Higher Education Science and Technology	In progress

Source: Department of Treasury

9.2.3 Budget Reforms

The Government has undertaken substantial budget reforms since 2014. To ensure the budget is aligned to the policy priorities, the Government continues to implement the following reforms.

- Government Finance Statistic (GFS)
- Integrated Budgeting
- Multi-year budgeting process
- Sector led-budgeting
- Policy-driven budgeting
- Performance based budgeting
- Two-stage budgeting.

Government Finance Statistics 2014

The 2020 Budget marks the transition into adopting the updated version of GFS 2014 framework, thus making it GFS expenditure compliant. Both volume 1 and 2 of the 2020 Budget have been produced in accordance with the 2014 GFS framework to demonstrate the completion of the transition process. However, as a transitional measure, the Budget will also be presented in the previous format to aid the transition to the GFS 2014 Framework.

The GFS Framework is used to analyse the operations of a specific level of Government, transactions between levels of Government, and the public sector.

The Government will fully roll out the GFS framework to the public sector including public corporations. It will also be rolled out to the Provincial Governments and Local Level Governments. When the GFS framework is fully rolled out, whole-of-Government stocks and flows of its assets and liabilities will be reported showing the opening balance, transactions and closing balance, which features a balance sheet approach to determine the net worth of PNG.

Integrated Budgeting

The Integrated Budget is being implemented through the collaboration of Departments of Treasury (DoT), National Planning, and Monitoring (DNPM). Both Departments are now involved in the planning, execution and reporting of the Budget. All proposed new projects and programmes, saving initiative, expenditure measures (whether Capital or Operational) are assessed at the same time, by the same people through the same process. Budget Outcome Reports such as the FBO and MYEFO are also reported as a unified budget. The Operational budget supports the Capital Budget for effective implementation of project and programs.

Multi-year budgeting process

This initiative provides confidence to development partners, investors and other stakeholders on the Government's commitment to fund ongoing policy priorities. The Multi-year budgeting process enables the Government to set baseline expenditure estimates for ongoing policies and programs. It will provide rolling forward estimates that form the baseline for the following budget. As there is a base, future budget ceilings will be set on new expenditures only, covering both Capital and Operational components.

Sector-led Budgeting

The reform in Sector-led Budgeting was implemented for the 2018 Budget and is a key mechanism for agencies to identify sector priorities. It is a strategic approach in ensuring

agencies within a sector align the delivery of their policies and mandated functions to their sector's plans and goals in achieving MTDP 3 Key Result Areas (KRAs) and targets.

Furthermore, Sector Budgeting is a mechanism to mitigate duplication of cross cutting issues affecting agencies so funding can be allocated efficiently and utilised effectively.

Agencies and Government Departments within the following sectors have identified their lead agency and established their Coordinating Committee:

- I. Law and Order Sector,
- II. Health Sector;
- III. Transport and Infrastructure Sector, and
- IV. Community and Culture Sector.

With the continued roll out of Sector Budgeting in 2020, the remaining sectors should organize in a more-coordinated sectoral approach.

Policy-driven budgeting.

Policy-driven budgeting is crucial to ensure the budget is aligned to the policy priorities of the Government. The MTDP III provides targets and strategic investment areas to achieve the critical development goals in the medium term.

Performance-based budgeting

Performance-based budgeting is critical to ensure the budget is implemented and results oriented. Monitoring and Evaluation outcomes of the previous budget(s) will determine the allocation of the subsequent budget.

Two-stage Budget

Two-stage budgeting improves the submission and approval processes in accordance with the Annual Budget Cycle. In Stage one, sectors submit summary of three new projects from January to March. In Stage two, the sectors submit the detail of the approved project submissions to DNPM and DoT from May to June.

9.2.4 Organisational Staffing and Personnel Emolument Audit Committee (OSPEAC)

OSPEAC has been directed by the Government since its re-establishment in 2016 to implement the National Executive Council (NEC) Decision 71/2017 which outlines corrective measures to bring the escalating public service pay bill under control.

Given the immense responsibility placed on OSPEAC, recommendations were made for a Secretariat to be established. The Secretariat was to focus on OSPEAC work alone to achieve set targets within the given timeframe.

Despite the delay in establishing the Secretariat in 2019, the OSPEAC has managed to carry out the following exercise in 2019.

- Collection of accurate staffing data and cost for all agencies through the staffing and establishment reviews and personnel emoluments budget framework meetings for teachers.

- Carrying out retirement exercise in the whole of public services. OSPEAC is now formulating strategies to retire the public servants that have reached their compulsory and voluntary retirement age (65+). These are public servants with expertise and corporate knowledge so a five (5) year retirement plan will be developed.
- Putting in place system controls to monitor the Government's payroll system. Discussion are underway to link the payroll process to the release of warrant in 2020. Linking the payroll processing to releasing of the warrants will not immediately curb the public services' rising pay bill but will present individual agencies with real time data on their pay roll expenditure and allow them to be responsible for appraising and maintaining the management of their own payroll.

OSPEAC will continue to implement corrective measures to bring the public service pay bill under control. The way forward in 2020 is to establish the OSPEAC Secretariat immediately.

9.2.5 Industrial Pay Fixation Agreement

The State and the Public Service Employees Association signed an agreement for a 3.0 per cent annual pay increase for Public servants from 2017 to 2019. The increase was in light of the major events that unfolded over the recent past years with increased economic activities and the associated high cost of living.

The Government has successfully implemented the 2017 and 2018 increases in a phased manner and will be meeting the 2019 increases in 2020. The phased implementation has been due to the downturn in the economy and financial constraints faced by the Government.

The Government and the Public Employee Association (PEA) will begin negotiation for the next pay increase to cover for another three year from 2020-2022.

In 2020 and over the medium term, the Government will continue to ensure that public servant pay increases reflect affordability and the extent of rationalisation savings in this area.

9.2.6 Superannuation Reforms

As an employer of Public Servants, the State is required under Section 76 of the *Superannuation General Provision Act 2000* to make a mandatory employer's superannuation contribution of 8.4 per cent of the base salary of each employee to an Authorised Superannuation Fund (ASF). Employees of the State are also required under the Act to contribute 6.0 per cent of their base salary to an ASF as the employee's contribution.

The Nambawan Super Limited (NSL) and the Defence Force Retirement Benefit (DFRB) Fund are the two (2) ASFs that the Government pays its employer and employee contribution to the respective ASFs on a fortnightly basis.

The Government has settled its outstanding unfunded exit liability owed to the NSL and will continue with its commitment to settle the exit liability in a timely manner in 2020. The unfunded State's exit liability remains a priority of the Government.

The Government is also undertaking a review of the State's unfunded superannuation liability owed to NSL prior to 1990. This work is expected to be completed in mid-2020. The DFRB Fund currently has two separate Funds operating concurrently as a result of the legislative amendments made to the DFRB Fund Act in 2015. These are the existing Defined Benefit (Pension) Scheme and the recently established Accumulation Scheme, which has a similar

superannuation payment arrangement as NSL. The Comrade Trustee Services Limited (CTSL) is the trustee for the Fund.

The Government will continue to work closely with CTSL in 2020 to settle the State's exit and pension liabilities owed to members of the Force.

Review of the Superannuation and Life Insurance Industries

Following the enactment and subsequent implementation of the *Superannuation (General Provisions) Act 2000* (the 'Superannuation Act') and the *Life Insurance Act 2000* ('the Life Insurance Act'), the superannuation and life insurance Task Forces were established in 2001 and 2005, respectively. The objectives of the Task Forces were to evaluate the effectiveness and identify any shortcomings in both Acts and their associated regulations so appropriate recommendations can be made to improve the operational efficiency of the superannuation and life insurance industries.

In 2008, the recommendations of the superannuation Task Force were reviewed by a working group comprising the Department of Treasury and the Bank of PNG. Amendments were made to the *Superannuation Act in 2013* to give effect to the superannuation working group report.

Since the implementation of both Acts, the superannuation and life insurance industries have grown significantly over the years and their review is critical to take account of these developments and to ensure the industries remain vibrant and competitive.

In 2020, the Government will establish a Superannuation and Life Insurance Review Committee (SLRC) to examine and make recommendations on specific areas of superannuation and life insurance, where required. The objective of the review will be to examine specific areas of the superannuation and life insurance legal framework in order to improve the effectiveness and efficiency of these industries; and to ensure that the framework is consistent with the Government's Financial Sector Development Strategy (FSDS) 2018-2030.

The SLRC will be chaired by an independent expert on Superannuation and Life Insurance matters and will be comprised of independent people with relevant industry experience. The Committee will be supported by a Secretariat/Technical Working Group consisting of the Bank of PNG, Department of Treasury and the Internal Revenue Commission.

9.4 A COMPETITIVE AND DYNAMIC PRIVATE SECTOR

The Government acknowledges a competitive, vibrant and diverse private sector is an important driver of economic growth and remains a priority area in its development agenda. As such, a formalised policy framework needs to be established such that fair and effective competition is encouraged and adhered to by all markets across all relevant sectors. These reform initiatives will ensure a competitive, vibrant and diverse private sector exists to drive economic growth, productivity and consumer welfare.

To meet these goals, the Government remains committed to its earlier announcement of its reform objectives to be implemented from 2014-2020 and these include the following;

- To encourage efficiencies in the 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;
- To ensure a strong regulatory enforcement of the competition and consumer law so

that markets operate competitively with ethical trading, whilst safeguarding small businesses and consumers against unfair treatment and abuse;

- To improve the productivity of sectors particularly important to the rural and remote areas of PNG such as tourism and agriculture;
- To reduce the cost of doing business by removing regulatory impediments to private sector growth and facilitating the development of SMEs; and
- To encourage the operation and transition of participants in the informal to the formal economy.

In support of these objectives, the following priority reform activities will continue in 2020.

9.3.1 Consumer and Competition Framework Review – Reform Implementation

A competitive business environment encourages innovation, productivity, consumer welfare and inclusive growth. For the Government to keep pace with the changing business environment and global market developments, a comprehensive review of PNG's competition, regulation and consumer protection regime or framework was initiated in 2014. This review resulted in a report comprising 192 reform recommendations after undertaking thorough public stakeholder consultations across the regions of the country. The final report was endorsed and adopted by Government through NEC in August 2018 agreeing to implement all the recommendations.

These recommendations are grouped into five prioritised reform work-streams that will be driven by different technical working teams, who will implement the reform programs over the next few years. These prioritised reform work streams include:

- i. PNG's National Competition Policy Development;
- ii. Legislative and Legal Changes/Amendments;
- iii. Regulator Operational Changes/Improvements;
- iv. Regulator Capacity Development and Coordination; and
- v. Government Policy Coordination

The Technical working teams will consist of high-level nominees from relevant Government agencies and an oversight body will oversee the overall implementation of these reforms.

The implementation of the 192 recommendations, which is available to the public on this website: <https://www.ccfreview.info>, will improve the existing consumer and competition frameworks by ensuring consumer rights are protected while creating a level playing field for both the private and public sector to compete.

The implementation stage has started with the first being the formulation of the National Competition Policy Statement, which commenced in the third quarter of 2018, details of which are outlined in the next section. The implementation of the other work-streams will be progressed in the latter part of 2019 and into 2020 going forward.

The successful implementation of these recommendations will build the capacity of the Independent Consumer and Competition Commission (ICCC) as the administrator of the competition law as well as modernise the competition regime of PNG.

Competition Policy is needed by governments and sets the framework that will inform other policies to facilitate and uphold competitive outcomes in markets. The policy is a critical component of the overall economic policy framework intended to promote economic efficiencies as well as maximise consumer and social welfare.

PNG had in place a legislation for consumer protection, regulation of monopolies and protection of the competitive market process administered through the ICCC since January 2003. PNG has not, however, had an expressed statement of its policy on competition and consumer protection to guide decision making and reform.

The development of the National Competition Policy (NCP) is one of the recommendations and a part of the reform agenda that came out of the 2014 Government review of the Consumer and Competition Framework. The NCP is designed to respond to the current and foreseeable future needs of PNG's businesses and consumers. It has been formulated with a view to improve economic productivity and efficiency through facilitating competition, enhancing the operation of markets, improving the effectiveness of government services relied upon by the private sector, removing impediments to businesses and most importantly encourage consumer and social welfare. It states the broader pro-competitive policies and intentions of the Government.

The draft NCP has been submitted to the NEC for approval and will be implemented in 2020.

9.3.2 Competition Regulation and Consumer Protection Operations

The ICCC is responsible for the regulation of markets and the enforcement of competition and consumer law of PNG. It will continue to implement its strategies to promote and foster effective competition amongst businesses at all levels; undertake market studies and inquiries and propose remedies where there are failures in the market structures; and take steps to protect the safety and interest of consumers and businesses consistent with the *Independent Consumer and Competition Commission Act 2002* (ICCC Act) and other enabling legislation.

Where there is limited competition in certain industries and markets where basic goods and services vital to consumers and business are provided, the ICCC will continue to provide regulatory oversight with respect to price and service standards; and assess opportunities to introduce competition or apply some form of regulation, if required.

This includes continuation of current regulatory oversight on the supply of electricity, water and sewerage, compulsory third-party motor vehicle insurance, and port services; and for specific regulated products like rice, sugar, flour and refined petroleum products. Any form of additional regulation will be assessed carefully to weigh the benefits and effects of such regulation on business and consumers.

In 2018, Parliament passed an amendment to the *ICCC Act (ICCC (Amendment) Act 2018)* making prior notification of business mergers and acquisitions from being voluntary to compulsory, if the proposed transactions fall within certain thresholds. In 2019, the amendment was published in a National Gazette; and is effective since 29th May 2019. This development significantly strengthens the role of the ICCC and will influence high compliance culture of businesses going forward.

In the space of economic regulation, some existing regulatory contracts are due for review and work has commenced and will continue in 2020. These include the review of the current price path, minimum service standards, penalty mechanisms and reporting requirements of PNG Power under the current regulatory contract. This review has been pursued concurrently with two separate and independent assessments. The first involved an independent assessment of the entire technical operations of PPL's electricity network. This assessment comprised a study to establish the current state and reliability of the network to ensure efficient electricity service delivery. The second involved a competition assessment of the electricity industry to determine the potential for competition at different segments of the industry, from power generation to retail. Once the review of the regulatory contract and the reports of the two independent

assessments are completed, new regulatory arrangements will be established for PPL and the electricity industry for the next regulatory period commencing from 2019.

In addition, in 2019, a number of existing regulatory contracts and regulatory arrangements were subject to periodic reviews and will continue into 2020. These were:

- For specific declared goods and services that include petroleum products (diesel, petrol, kerosene/jet A1), PMV and taxi fares, and water and sewerage services. The pricing reviews for petroleum products, and PMV and taxi fares are already underway and are expected to be completed by the end of this year. However, the Commission has not undertaken the pricing review for water and sewerage services pending the completion of the formal merger of Eda Ranu and Water PNG. The proposed merger will be formally completed once the NCD Water and Sewerage Supply Act 1996 is repealed and the National Water and Sanitation Act is amended. It is a work in progress requiring monitoring and support; and
- A comprehensive review into the existing PNG Ports Regulatory Contract in 2019. In addition to this ports' industry work, the ICCC will undertake two separate reviews, one into the Harbours Act and the other into the pilotage industry. Once these are completed, the ICCC will put in place new regulatory arrangements for PNG Ports and the ports industry participants for the next regulatory period commencing 2020.

Transport Sector Efficiency

Transportation is critical for movement of people and for provision of goods and services. Transportation costs are an important input into the final price of goods and services. High prices for transportation services in PNG have been a concern for some time.

The ICCC is also enforcing the Public Motor Vehicle (PMV) bus fare in Port Moresby by ensuring PMV operators and owners comply with the gazetted 2019 fares. This is an important exercise ICCC has undertaken with the support of Road Traffic Authority and Traffic Police. The ICCC also conducted a Public Forum with PMV operators and owners to disseminate information about the gazetted bus fares and the enforcement arrangement between the government agencies. This is to ensure transport sector efficiency and so that consumers are charged the correct PMV fares going forward.

High transportation costs is an impediment to doing business in PNG. Transportation is critical for movement of people and goods and services, however PNG's rugged terrain and under-developed transport infrastructure has contributed to the higher cost of transportation.

The Government is intending to seek technical assistance from PNG's development partners to undertake a diagnostic assessment into the sector, especially for the aviation and shipping industries. These assessments will identify business impediments in the industries caused by uncoordinated regulation and barriers to competition and to understand the high airfares in the domestic routes. The outcome of the assessment will be used as the basis to formulate a strategy to address policy gaps and regulatory impediments to boost more competition in the industries and reduce prices in the sector.

9.3.3 Information and Communications Technology (ICT) Industry

The National Information and Communications Technology Authority (NICTA) is the Government agency responsible for the technical regulation of the information and communication technology (ICT) industry in PNG. This is specified under the National

Information and Communication Technology Act 2009. Its primary goal is to ensure that ICT services are affordable and are easily accessible by users in PNG.

To satisfy the regulatory requirements, NICTA has embarked on initiatives including instituting public inquiries to declare and regulate wholesale services, piloting rural communication projects (voice telephony and 3G networks) to unserved areas under the universal access and service scheme (UAS), developing cyber security legislations and dialoguing with other key stakeholders to ensure proper infrastructure and regulations are in place to encourage competitive outcomes in market conduct.

The following programs, with the inclusion of some, will continue into 2020:

- **Laying of New International Submarine Cables:** The new high-speed submarine cable has already been connected to Port Moresby from Sydney. Two thirds of the cost of submarine cable project is funded by the Australian Government. The cable system is expected to deliver a capacity of over 20 tbps of bandwidth and with that capacity is expected to increase supply of bandwidth and is expected to provide the country's high-speed Internet needs for the next 25 years and reduce internet costs. The project is jointly managed by the Australian Department of Foreign Affairs, Dataco PNG Ltd and Solomon Islands Cable Company;
- **National Transmission Network:** The National Transmission network is PNG's core internet backbone of fibre optic trunk lines currently being deployed by DataCo PNG Ltd. The network comprises of the Kumul Submarine cables along the coast lines into Indonesia and connecting the New Guinean Islands, the Madang – Lae OPGW, the Pom-Hides LNG Fibre, and Highlands Ariel Fibre connecting Yonki (EHP)-Hagen-Wabag/Mendi. Parts of the Kumul Submarine Cable is still being deployed. This domestic transmission network is expected to stimulate growth in the use of internet and will have a significant impact on the quality and price of internet in the country;
- **Price and Service Regulation;** NICTA continues to perform its mandatory function, through public consultations and inquires, to ensure prices and quality of services of declared services are in line with the general pricing principles and the internationally accepted quality of service standards. The current focus of regulation is the wholesale sector. However, NICTA continues to encourage the 'negotiate and arbitrate model' whereby the market players play a major role in the provision and pricing of ICT services;
- **Universal Access and Service Programs:** Consistent with the objectives of the National ICT Act 2009 relating to universal access and service, the UAS regime within NICTA through a consultative process has identified a number of programs to ensure accessibility by everyone.

In 2020, the Government will continue to monitor and improve the business environment to make the ICT space more effective and expand its coverage throughout the country.

9.3.4 The Informal Sector and Small-Medium Enterprises (SMEs)

SMEs play a vital role in a country's overall goods and services production and are key to economic growth, especially for developing countries and emerging economies. SMEs play a major role in job creation as well as the national income of households and the country.

This budget has included major activities to support SMEs. This includes the allocation of K200 million for the SME sector as well as a greatly simplified taxation system which will impose fewer taxes on small businesses.

The endorsement of the PNG SME Policy in 2016, the SME Master Plan 2016–2030 and the establishment of the SME Corporation replacing the Small Business Development Corporation (Institutional Reform) was a significant milestone. SMEC, as the lead agency, has planned to address the seven SME development constraints identified in the SME Policy.

A continued focus area of SMEC has been the establishment of SME Incubation Centers. The Government support programs and initiatives have been geared towards encouraging and creating an incubation space for new start-ups, assist the existing SMEs to build stronger sustainable businesses and facilitate transitional growth from one level to the next.

The key deliverable targets indicated in the SME Policy and the SME Master Plan are to be reviewed in 2020. This will further give clarity on the progress as well as identify potential gaps that will need to be addressed through the SME Policy and the SME Master Plan.

The Consultative Implementation and Monitoring Council's Informal Economy Sectoral Committee has been driving the national audit agenda since 2011. Through the Department for Community Development and Religion and UN Women, the Informal Economy National Audit Report survey and final report was launched in September 2019. The national audit is regarded as a world's first and gives prominence to the Government's commitment in enabling the informal sector to engage meaningfully to further contribute to the country's development.

The National Government, when endorsing the national audit report, has supported a review of the National Informal Economy Policy and Informal Sector Development and Control Act 2004 as well as developing the Informal Economy Voice Strategy, which will progress in 2020.

9.3.5 Financial Sector Development

The Financial Services Sector plays a fundamental role in the country's economy and development. The overall impact of the financial sector can determine either the sustainable expansion or a contraction of the economy, in addition to contributing to the mobilization of savings and directs funds into sectors that have a demand for additional liquidity.

The Government has the mandate to ensure it creates an environment for financial institutions' efficient allocation of resources, which will in turn increase overall productivity. The Government also has the responsibility to ensure an effective and efficient legislative framework that fosters fit-for-purpose products and services by financial institutions, manages risks from both external and internal factors, protects consumers, and grows the overall sector.

The Financial Sector Development Strategy 2018-2030 (FSDS) alongside the National Financial Inclusion Policy (NFIP) was launched in January 2019 with implementation beginning thereafter. The FSDS was an outcome from the Financial Services Sector Review that was commissioned in 2014 and completed in 2018. The FSDS has a prioritised list of reforms that includes:

- the architecture of PNG's financial sector regulatory and supervisory arrangements;
- development of PNG's Government bond and capital markets;
- development of the national payment system; and
- expanding financial inclusion in PNG.

In 2020, the implementation phase will continue on the above reform recommendations.

9.3.6 Financial Inclusion programs

Implementation of the financial Inclusion programs will continue into 2020 as per the second Financial Inclusion Strategy and the now endorsed NFIP, which was a reform recommendation of the above financial review. The Government sees financial inclusion as a priority development agenda that will be incorporated into the school curriculum, as per the review recommendation.

The NFIP is an overarching policy that will effectively coordinate financial inclusion policy reforms and ensure an organisational structure and strategic framework that progresses our financial inclusion ambitions. All financial inclusion activities will be coordinated by the Center for Excellence in Financial Inclusion (CEFI) with support from the Bank of PNG and the Department of Treasury.

9.3.7 Financial Consumer Protection framework

The Government, with assistance of the World Bank, is formulating a financial consumer protection framework. This is to ensure PNG has a strong framework with expanded access to financial services benefiting consumers, enabling them to make well-informed decisions on how best to use financial services, building trust in the formal financial sector, and contributing to healthy and competitive financial markets. After its endorsement by the NEC will be implemented in 2020

9.3.8 Microfinance programs

The Microfinance Expansion Project (MEP) is an important Government initiative started in 2012 and concluded its second phase activities in 2019. The Project is co-financed by the Asian Development Bank, the Government of Australia and the Government of PNG. BPNG is the executing agency of this project.

The project aims to promote financial inclusion through the extension of micro finance and financial literacy services to Papua New Guineans, largely targeting the rural population. The project has successfully delivered almost 90 per cent of all of its five targeted project outputs.

Activities in 2018 were restrained due to non-availability of budget funding (Government's share of contribution). However, funding was secured for 2019 which saw the completion of the remaining few activities of the project before its transition into the CEFI, which is established to administer the ongoing programs after the cessation of the MEP.

The ADB and Government technical officials have commenced initial discussion for the third phase of the MEP project. Detailed scoping studies will be facilitated through a technical assistance funding from ADB.

9.3.9 Housing

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 and Duran Farm Housing Project, which is progressing, and the Government will continue to make further progress in 2020 with the aim of making housing more affordable to ordinary Papua New Guineans.

In addition, the Government, through the National Housing Commission had commenced developing the National Housing Policy in 2018. The Government remains committed and will

support the work on this in 2020. The Policy will provide an overarching framework to allow for the provision of affordable housing.

Furthermore, the Government has directed the ICCC to re-assess the Real Estate and Housing Review done in 2009 and provide solutions for the accommodation problem faced by urban dwellers. The ICCC assessed that there are multiple suppliers of accommodation/housing but due to excessive demand, the price charged is not reflective of the services provided by the land-lords. Hence, the Government would set service standards in the real estate industry and housing to be regulated starting in 2020.

9.3.10 Land Reform Program

Access to secured land in PNG is one of the key drivers of private sector growth and remains a focus of the Government. Considerable work has been done under the National Land Reform Program (NLRP) to ensure better land administration, better land dispute settlement and establishment of processes to facilitate the registration of customary land and unlocking it for commercial use. One notable achievement was the enactment of amendments to legislation that enabled the registration of customary land to facilitate migration into the formal market.

Despite some notable achievements, there was a loss of implementation momentum of the program over the last five (5) years. In 2018, some corrective measures were taken to strengthen the program, the reallocation of funding for the program in 2019 and the staging of the second land summit in which a review of the current program was undertaken and a set of reform package was formulated and endorsed by the NEC for implementation accordingly in late 2019. This will be continued in 2020.

9.3.11 Export Crop Incomes and Stabilisation

The agricultural sector has been the backbone of PNG's economy since independence. However, the mining, oil and gas sectors have gained prominence over the last few decades.

Given the nature of natural depletion of these sectors, the Government is now re-focussing on the renewable resources sector, such as agriculture, in order to mitigate effects of decline in revenue and employment to sustain the economy in the long run. The sector requires a whole of Government approach to growing the sector to support the economy.

Most commodities exported by PNG are price dependent and driven by external market forces. In addition, majority of our population depend on these commodities for their income and low commodity prices and the Kina exchange rate discourages production. One approach that has been tried but was unsuccessful in the past was commodity price support initiatives commencing. A team of specialists will be mobilised to work on an initial conceptual note with a view to generate discussions with relevant partners to develop a comprehensive approach to improving the stability and level of Kina returns for farmers for the Government to consider.

9.3.12 Minimum Wages

The Minimum Wages plays a vital role in the economy by protecting low-skilled workers from exploitation and providing certainty to firms' business decisions, particularly mobilization of labour inputs as it constitute substantial costs to a firm. Minimum Wages targets private sector and is set through the Minimum Wages Board of PNG. It is set after consulting all players such as the workers unions, State and the employers' body representing the private sector.

The Government is committed to protecting the welfare of workers whilst at the time ensuring business operations are sustainable. The last minimum wages was set in 2016.

Commencing in 2020, the Department of Treasury will work very closely with the Department of Labor and Industrial Relations (DLIR) and other relevant parties to improve the minimum wages setting processes; develop a monitoring and reporting mechanism to promote compliance and support any initiatives that requires improvement of labor data record keeping and management.

9.5 ASIA-PACIFIC ECONOMIC COOPERATION (APEC)

The Asia-Pacific Economic Cooperation (APEC) is a regional economic forum consisting of the twenty-one (21) member economies that collaboratively aim to create greater prosperity for the people of the region by promoting balanced, inclusive, sustainable, innovative and secure growth, and by accelerating regional economic integration.

Being a member, the Government is keen and dedicated to continue maintaining its presence in the global community through its membership to APEC. This will allow PNG to tap into the available expertise, sharing of experiences and capacity building initiatives across the APEC region to undertake reform initiatives to grow its domestic economy and at the same time, learn from member economies to achieve economic growth.

In 2020, PNG will once again participate in APEC meetings that will be hosted in Malaysia. Through the APEC's 'Three Pillars': Trade and Investment Liberalisation; Business Facilitation; and Economic and Technical Cooperation, PNG was able to achieve a number of deliverables in the various APEC fora including the Committee on Trade and Investment (CTI), Steering Committee on Economic and Technical Cooperation (SCE), Economic Committee (EC) and the Finance Ministers' Process (FMP).

By achieving and aligning our key domestic deliverables identified in our development goals of the PNG Vision 2020, MTDP III 2018-2022, and the Domestic Strategic Plan 2010-2030, demonstrate PNG's commitment as a legitimate and meaningful contributor to APEC priorities, targets and initiatives.

9.6 IMPLEMENTATION OF THE SOVEREIGN WEALTH FUND OF PAPUA NEW GUINEA

The Government is committed to the establishment of the Sovereign Wealth Fund (SWF) of PNG. However, the timing of the full establishment of the SWF is dependent on the revenue prospects from the natural resource sector for it to be functional and sustainable.

PNG's SWF is a natural resource SWF. Natural Resource SWFs are normally established when there is a fiscal surplus in the economy. Setting up a SWF without a surplus budget is a huge challenge for the Government, especially when having a budget deficit year in year out. The issue relates to the lack of funds expected to be attributed to the SWF in the interim and balancing with cost associated with establishing and maintaining a functioning SWF organisation.

The outlook for revenue flows into the SWF has changed from the period of buoyant economic conditions including 2010, when plans for SWF establishment were being made to the period around 2015 which saw both the sharp decline in international commodity prices and the enactment of the OLSWF by the National Parliament. While there was some recovery in the oil price towards the end of 2018 with some corresponding increase in LNG tax revenue, this recovery was not sustained in 2019. Therefore, the projected LNG tax revenues have not been realised and projections for the year revised downwards.

The decision regarding when to establish the SWF Board is finely balanced. If the Board is established in the short-term, then there is a risk it will not have any funds to invest for a number of years. Also, having a Board in place for a number of years without funds to invest would have costs and delaying the establishment of the Board could, however, also have costs.

The most significant cost would be if resource revenues sharply increased to a level justifying the establishment of the Fund, which was then delayed by having to restart the comprehensive process for establishing the Board. This could potentially result in macroeconomic and fiscal costs of a much larger order of magnitude than the fees paid to Board members. There might also be a sovereign reputational risk to the Government if many years after the SWF Law was certified, the Board had not been established.

The subsequent receipt of full taxation proceeds from the PNG LNG Project by the Government and the emergence of new natural resources and the revenues they will generate, will give rise to macroeconomic pressures including the effects of Dutch Disease. By establishing the SWF is one of the very important policies of the Government to help manage the significant revenues arising from these projects to be used for PNG's development needs whilst promoting macroeconomic stability.

In view of the opportunities and economic challenges the emergence of the LNG sector presents, it is important to have in place a robust fiscal framework to support the management of windfall revenues to underpin social and economic development in PNG. Subsequently, the Government is fully committed to establish the SWF for the following reasons:

- Firstly, revenues from the current PNG LNG Project have been low to-date due to loan repayments and accelerated depreciation arrangements and that Government revenues from this project will substantially increase in the medium-term.
- Second, there are significant natural resource projects in the pipeline, including but not limited to the Papua LNG project, Wafi-Golpu Mine, Freda River Mine, P'nyang Area LNG project and Pasca Gas Project. These projects could provide a significant increase in resource revenues in the medium-term.
- Third, commodity prices could increase leading to higher resource revenues.

Given the current size of resource revenues, the significant deficit and rate of interest on some external loans, the merit of immediately establishing the SWF may not be appropriate. The Government will instead establish the SWF on a phased approach using a dedicated income stream to the SWF from asset sales, dividends and distributions due and made to the State from entities holding interests for and on behalf of the State, including their subsidiaries, in the exploitation (including sale, development, production or otherwise turning into accounts) of minerals, gas, and petroleum owned by the State, as and when declared to be such dividends by the holding entity and other amounts the Government contributes to the Fund.

A transitional arrangement will be organised by the Government and formalised through policy. The Government will establish an Oversight Committee for the transition period. As the major feeders into the SWF, both Kumul Petroleum Holdings Limited and Kumul Mining Holdings Limited will undergo a policy mandate restructure, to prudently have a Cabinet Oversight Committee and Technical SWF Establishment Working Committee to assist the State Departments and Agencies to appoint the Board and work towards operationalising the SWF.

The Organic Law on the SWF (OLSWF) clearly defines the process of implementation of the SWF, which provides for the establishment of the Board to precede the implementation of the other provisions of the legislation. It is therefore critical to have the interim arrangement that will oversee the establishment of the Board.

CHAPTER 10: ENHANCING STATE'S INVESTMENTS

10.1 OVERVIEW

The State, apart from providing basic goods and services to its people, undertakes various commercial investments in utilities and infrastructure projects. Some of these commercial investments are managed by its holding companies, while others are in listed and unlisted companies. The majority of these investments are held under Kumul Holding Entities (KHEs) and State Owned Enterprises (SOEs) covering telecommunications, electricity, water and sanitation, ports, airports, banking, agriculture, mining, oil/gas, etc.

The State has other investments managed by its Statutory Authorities, such as in fishing, forestry, agriculture, mining, etc. All of these investments are expected to operate as commercial ventures that generate returns to the State, as the shareholder, whilst delivering needed services in the economy.

The State's shareholding in these investments range from minority to 100 per cent shareholding. These investments are also critical in determining development outcomes for PNG by virtue of their central role in providing key utility services, infrastructure and other services. Performance of such investments is vital to encouraging sustainable development.

10.2 SOE OBJECTIVES AND STATE'S INVESTMENT PERFORMANCE

The State's investments were reorganised through the Kumul consolidation agenda in 2015. This led to the establishment of three Kumul holding entities - Kumul Consolidated Holdings Limited (KCH) manages the State's investment in utility and other infrastructure services, and incorporates all SOEs; Kumul Mineral Holdings Limited (KMH) manages the State assets in the mining industry; and Kumul Petroleum Holdings Limited (KPH) manages the State's assets in the petroleum industry.

The Kumul consolidation agenda aimed to allow a greater focus on industry expertise to drive commercial decision making to allow for better financial performance and service delivery to the wider PNG community. Performance of the Kumul entities over the last few years, however, has been mixed – some entities have performed well while others have performed well below expectations. After the Kumul consolidation agenda of 2015, the KHE's have been operating as commercial entities.

To encourage improved performance, the Government will review all of its investments in 2020. The Government anticipates reviewing all Investments in listed and unlisted businesses as well as those vested as KHE's. The review will provide recommendations that translate into new policy initiatives and legislative amendments to encourage improved future performance.

SOE's are mandated to play critical roles to support the Government achieve its development ambitions and contributing to development. They are expected to practice good corporate governance and adhere to strict and sound fiscal and commercial disciplines in all their operations. The ability of the Government to provide essential services to the population depends on the effectiveness of the governance and management frameworks of these SOEs.

Some SOE's are directly responsible for meeting the "2030 Sustainable Development Goals" approved by all UN member states in 2015 such as achieving '*clean water/sanitation, affordable and clean energy, industry innovation and infrastructure, partnership,*' etc.

In 2020, SOE reforms will be focused on supporting institutional capacity building, planning and resourcing, to ensure delivery of improved infrastructure services and returns to the State.

The Government has a number of ongoing reform initiatives aimed at building the capacity of the SOE's and other institutions (state agencies). These ongoing policies include the frameworks for Community Service Obligations (CSO), On-Lending, Dividend and State Guarantee Policies. These policies are aimed at addressing some of the service delivery challenges particularly in non-commercial segments and in lowering the cost of capital as well as improving the availability of finance for SOEs.

The development and implementation of these reforms will continue into the medium term.

10.2.1 General Business Trust Assets

Kumul Consolidated Holdings Limited (KCH) is the mandated trustee of the General Business Trust (GBT) Assets and maintains oversight of the financial performance and risk management associated with SOEs and other listed shareholdings vested through the *Kumul Consolidated Holdings Authorisation Act 2015*.

The valuation of GBT assets as at 31st December 2018 was K5.1 billion, a modest increase from 2017, although most asset valuations were not altered in 2018. Of these, the value of Quoted Equity Investments is K874.3 million, while the value of Unquoted Equity Investments (mostly its interests in SOEs) is K4.3 billion. Table 32 lists the assets under the GBT, valuations (on a fair value basis), gross revenues, and net profit before tax of major unquoted assets.

Table 31 shows dividends paid by KCH in 2017, 2018 and projections for 2019. KCH is yet to pay the budgeted K80 million dividend to the State for 2019. The ability of KCH to pay dividends depends on the financial performance of its GBT assets, its operational costs, servicing of its liabilities, new investments undertaken, and the desired amount of retained earnings.

In 2020, a projection of K120.0 million in dividends is expected from KCH. To produce such results, the State expects the assets under the GBT must improve their financial performance. The State will ensure that relevant intervention programs are initiated that should encourage improved performance of KCH in 2020 and beyond.

The Government approved a Dividend Policy in 2015 to guide the payment of dividends by SOEs and KHE's in 2020 and onwards. The Government will also revise this Dividend Policy in 2020 in light of new challenges and operational performance standards and risks of the SOE's.

Table 32: Dividends paid to the State (Kina, million)

Entity	2017 Actual	2018 Actual	2019 Revised Est.	2019 YTD	2020 Proj	2021 Proj
Kumul Petroleum Holdings	300.0	250.0	500.0	150.0	500.0	500.0
Kumul Consolidated Holdings	0.0	0.0	80.0	0.0	120.0	140.0
Ok Tedi Mining Limited.	262.3	201.5	200.0	200.9	200.0	200.0

Source: Department of Treasury (as at 31 October 2018).

KPHL paid K250.0 million in dividends to the State to date in 2019. This is below the projected amount of K500.0 million. Ok Tedi Mining Limited paid K66.9 million which is consistent with the K200.0 million projected in the revised 2019 Budget.

As per the *Dividend Policy 2015*, the payout ratio for SOEs is equal to or greater than the previous year's dividend and is not to be less than 50.0 per cent of net profit after tax. For mining and petroleum entities, the minimum amount is 70.0 per cent.

The Kumul entities are expected to comply with the *Dividend Policy 2015* and transfer the required amounts to the Consolidated Revenue Fund (CRF).

Table 33: General Business Trust (GBT Assets), as at 31st December 2018

PARTICULARS GBT (K' Millions) (Assets 100% owned unless indicated)	2016 Valuation	2017 Valuation	2016 Gross Revenue	2017 Gross Revenue	2016 Net Profit Before Tax	2017 Net Profit Before Tax	2016 Dividends Paid to KCH	2017 Dividends Paid to KCH
Air Niugini Ltd	326.0	326.0	995.0	1082.0	-115.0	-61.0	-	-
Eda Ranu	137.0	137.0	114.2	125.1	0.7	0.9	0.5	0.0
Motor Vehicle Insurance Limited	502.0	502.0	68.0	82.9	77.0	93.0	-	25.0
National Development Bank Ltd	495.0	495.0	43.5	44.6	-12.4	4.9	-	1.0
PNG Ports Corporation Ltd	585.0	585.0	261.0	287.0	56.0	65.0	5.0	0.0
PNG Power	652.0	652.0	873.0	909.0	-17.0	-198.0	-	-
PNG DataCo (20% share)	129.0	129.0	-	-	-	-	-	-
Water PNG	205.0	205.0	99.8	101.9	16.0	13.8	3.0	4.8
Post PNG	119.0	119.0	42.0	41.0	1.3	1.1	0.5	-
Telikom PNG	545.0	545.0	431.0	481.0	-45.0	-60.0	-	-
Bemobile	-	-	-	-	-	-	-	-
PNG Dams Ltd	288.5	288.5	0.0	0.0	-0.2	-0.2	-	-
Port Moresby Private Hospital Ltd	21.0	21.0	0.2	0.6	0.0	0.5	-	-
Other incl Work In Progress	317.4	358.5						
Allowance for Impairments	-87.9	-87.9						
TOTAL UNQUOTED EQUITIES	4,233.9	4,275.1	2,927.8	3,155.1	-38.5	-139.9	9.0	30.8
Bank of South Pacific (18% share)	805.7	865.3					94.2	107.7
Highlands Pacific Ltd	4.8	9.0					-	-
TOTAL QUOTED EQUITIES	810.5	874.3	-	-	-	-	94.2	107.7
TOTAL	5,044.5	5,149.5	2,927.6	3,155.1	-38.5	-139.9	103.2	138.5

Source: Kumul Consolidated Holdings Limited (KCH) 2018 Financial Statements as at 31st December 2018 (unaudited).

The Government expects all KCH and SOEs to operate just like any other commercial entity not owned by the State. To enforce this intent, the Government will continue to develop policies to encourage commercial decision making, promote greater transparency, good governance, and enhance competition in the delivery of basic services throughout PNG.

10.3 BROADER REFORMS

10.3.1 Sectoral Policy Reforms

The Government's sectoral reforms aim to enhance investments undertaken in all sectors of the economy. There is a need for Government policy intervention to not only review its current investment portfolio but to take stock and assess the value of these investments to fully understand their potential for growing the economy.

A Comprehensive review of all investments in all sectors is required to recommend policy reform initiatives to enhance sector development and sustain economic growth. This review will also assist in identifying and streamlining the reporting mechanisms set in place by the Government.

The Government envisions the review will also outline the framework for new sectoral policy initiatives such as developing an investment registry reporting framework and a contextual sectoral investment plan for most performing sectors of the economy.

The reporting framework will assist reporting and consolidating all the Government fiscal operations on investments at the state agency level to the national government reporting level.

The policy directive for the review is a result of identifying the need to capture and maintain a robust consolidated reporting framework at the Central Government level of all state investments. This strategic approach will provide the Government with an oversight on all fiscal operations on investments and promote transparency, accountability and good governance on all state investments. Key deliverables of the strategy are:

- **The State Investment Review in 2020.**

This will involve reviewing the Kumul Legislation and providing recommendations for reforms and all state investments that are currently outside of the Kumul management and reporting structure.

- **Development of an Investment Registry Reporting Framework in 2020.**

The Government will develop a robust Investment Registry Reporting Framework that will streamline the reporting on all state investments. The system will be used by Central Government agencies to monitor and report on all state investments.

- **Development of a Sectoral Investment Plan in 2020.**

The Government will develop a Sectoral Investment Plan for the sectors. Through the sectoral review process, the capabilities; strengths and weaknesses of the different sectors will be identified and support will be provided to improve the performance of the sectors. This sectoral approach will target specific outcomes and provide support to enable the sectors to increase production outputs and their economic contribution.

10.3.2 Public Finance Management (PFM) Reforms

The recently amended *Public Finance Management Act (PFMA) 1995* strengthens the Government's public finance management system to streamline and better monitor the use of public funds by government agencies.

This reform was part of the Public Expenditure and Financial Accountability (PEFA) assessment and roadmap 2015 – 2018. The assessment allowed the government to identify and understand the challenges and weakness in the current public finance management (PFM) system and address the issues accordingly.

The rationale behind the assessment and subsequent reforms is to enable increased efficiency and effectiveness of service delivery and development outcomes.

The Government in 2020 will undertake the development of the next PEFA roadmap as a result of the National PEFA assessment conducted in mid-2019.

10.3.3 Public Money Management Regularization (PMMR) Act 2017

The *PMMR Act 2017* was part of the PFM reforms intended to address the declining non-tax revenue base and bring all Government agencies into the budget process. The Act requires 90.0 per cent of the revenue derived from fees and charges collected by state agencies (Public & Statutory bodies) remitted back to the Government's CRF.

In 2020, the Government will look to transition more state agencies to be covered by the PMMR to ensure there's greater oversight of the budget and revenues are returned to the CRF. This will also transition these agencies to be part of the central budget process to increase the oversight the budget allocated.

10.3.4 Disaster Risk Financing (DRF).

DRF focuses on managing fiscal shocks due to natural hazards with the aim of increasing financial resilience of governments and protecting the livelihood of vulnerable groups.

One of the sovereign risk indicators for PNG highlighted by rating agencies is the country's susceptibility to natural disasters. The score of the rating improves if PNG can demonstrate its fiscal resilience to natural disasters.

The Government requested technical assistance from the World Bank in 2018 to develop a DRF framework. The request was aimed at quantifying the country's disaster related contingent liabilities, enhancing immediate liquidity for rapid response to disasters and exploring financial arrangements to rebuild public assets in the aftermath of disasters, amongst others.

Initial collaborations with the World Bank have occurred and work is currently underway to develop a relevant and inclusive country DRF strategy to underpin the Government's policy priorities to strengthen financial resilience against natural disasters. This will continue in 2020.

10.3.5 Review of The Board (Fees & Allowances) Act 1955.

In 2020, the current board membership fees and allowances structure will be revised given the current fees and allowances applied to Boards of state agencies was set in 2006.

The Review of Board Fees and Allowances 2020 will focus on the existing Board (Fees & Allowances) Act 1955. The review should recommend revisions to the Act, including making subsequent amendments for a revised fee structure that is applicable for 2020 and beyond.

10.4 PUBLIC PRIVATE PARTNERSHIPS (PPP)

Provision of public infrastructure and Government services to its citizens is one of the prime mandates of governments all over the world. There are different ways in which the Government can provide public infrastructure and essential services. One of the commonly used procurement and delivery modalities used around the world is the PPP model.

PPP is not privatisation but a form of procurement of services and infrastructure where the ultimate ownership of the asset remains with the Government. PPP arrangements aim to maximise value and increase the quality and competitiveness of the public services/infrastructure. It can supplement limited public sector capacities and raise additional capital in an environment of budgetary constraints. The private sector operational efficiencies can increase the quality to the public and the ability to speed up infrastructure development.

Having realised the opportunities PPPs present, the Government adopted the PPP concept by formulation of its National PPP Policy and enactment of its PPP Law (*PPP Act 2014*).

The PPP legislation establishes the legal and operational framework for the Government and the PPP Policy applies to the provision of public infrastructure or services involving private participation in the form of investment or financing, subject to involvement of the private sector on the 3 PPP principles - Value for Money, Competitive Tension and Transparency.

The Government is now working on the PPP Regulations and related tasks in order to establish the PPP Centre. An interim centre would be set up to process and manage all PPP projects including the set-up of the pipeline of Government's PPP projects. The PPP Steering Group and Taskforce will manage and oversee the setup of its operational and institutional framework.

In 2020, the Government will continue the process of fully establishing the PPP Centre and also review the current PPP Act to ensure alignment to local context and international best practice.

10.5 THE NON-RENEWABLE RESOURCE SECTOR

10.5.1 Managing the Extractive Sector

The extractive sector (mining and petroleum) contribute significantly both directly and indirectly into the Government's revenues, whilst also delivering a range of socio-economic benefits to the people.

Encouraging the sector's development has seen increased economic activities, including large infrastructure developments, increases in employment, government revenue, human capital development and boosting SMEs in the country.

The Government's recognized the fast-changing technologies around the world to extract and monetize mineral and petroleum resources. It also notices the changes posed by the domestic and international business community to ensure the necessary policy and legislative changes are established, to better regulate the sectors and ensure revenue gains are optimized over the life of projects.

In 2020, the Government will continue to employ amicable policy directives and legislative guidelines to continuously ascertain optimal benefit generation from its resources. The Government will ensure its 'take' from every future project to be well above 50 per cent of total project 'take'. It will continue to embark on the following reforms;

- complete the amendments to the *Mining Act 1992* and amend the *Petroleum Act 1998* to better regulate the extractive industry;
- introduce new policy guiding State participation in resource projects and third-party access in the sector;
- introduce a sustainable benefits distribution policy guiding the distribution and management of benefits to landowners and sub-national governments;
- introduce policies on Domestic Market Obligations (DMO) for gas and petroleum products; and
- introduce policies and frameworks ensuring national content in resource projects.

Whilst the Government recognizes necessary policies and legislative changes to occur, it will also work on strengthening its concessional fiscal regime using the experience of existing project implementations. The Government will apply a fiscal regime that broadly considers and promotes the following:

- revenue maximization – minimum State share in total proceeds in a project must be more than 50 per cent;
- ensure early revenue stream – emphasis on production base taxes rather than profit base taxes;
- project segmentation – projects will be treated upstream and mid-stream to collect resource rents effectively;
- opportunity costs – equity financing risks must be reduced by well analyzed and managed revenue from projects;
- fiscal terms – current fiscal terms will be standardized to correct concessions and to make them comparable to similar economies globally; and

- investors – politically free and conducive business environment will be provided for investments in the sector.

The Government has realized the importance of reforming and standardizing the existing fiscal regime. Considerations going forward will focus on adapting global standard fiscal regimes that provide optimum returns from resource extraction, at minimal cost and acceptable risk levels.

10.6 EXTRACTIVE SECTOR PROJECT UPDATES

The Government will monitor and evaluate existing and upcoming extractive sector projects on an on-going basis through line agencies ensuring business operations are within PNG laws.

10.6.1 Mining Projects

The Porgera Gold Mine reached its leased mine life span in August 2019 and the developer has submitted an application for a 20 year Special Mining Lease (SML) extension. This provides an opportunity for the State to renegotiate the Mining Development Contract (MDC) with a view to increasing the Government take in the project. The Government will ensure the State receives no less than 50.0 per cent of the project benefits.

The OK Tedi mine has picked up well after the drought affected its operations in August 2015. The current resource projection indicates potential production for a further 10 years after its current extension. It also holds a large portfolio of exploration leases near its current operations and continues to undertake exploration activities.

The Lihir gold mine is the largest in the country and is currently producing over one million ounces of gold per annum. The mine is currently operating in the new pit licensed for operation and production for another 20 years. Due to additional capital expenditures on the new pit, the State's Corporate Income Tax (CIT) revenue has dropped. The Government will ensure additional revenue mechanisms are in place through introduction of measurable fiscal terms.

The Ramu Nickel project has been operating for 9 years. The project operator has submitted an extension for the project at a cost of US\$2.1 billion. The Government will continue to address any disagreements between the State and project developers to allow continuous future production.

The proposed Wafi-Golpu project will be producing copper and gold for an estimated mine life of 28 years with an annual production rate of 16 million tonnes per annum (mpta). The project developer submitted its application for a Special Mining Lease (SML) in 2016. Initial investment cost is estimated at US\$2.8 billion with an additional US\$1.9 billion project expansionary capital expenditure and US\$0.7 billion sustaining capital expenditure for the mine life. The Government is expected to generate US\$9.2 billion from the project and will ensure any disagreements between landowners and project proponents are settled on mutually beneficial terms.

The Frieda River Copper-Gold Mine (FRCGM) is part of the Sepik Development Project (SDP). The SDP comprised four major projects in the region including:

1. Frieda River Copper-Gold Project (FRCGM);
2. Frieda River Hydroelectric Project (FRHEP);
3. Sepik Infrastructure (SIP); and
4. Sepik Power Grid Project (SPGP), which are mutually dependent.

The project proponent has submitted an SML application in 2018, with its updated feasibility study report. Considering risks from project financing and Government's capacity to participate in the project, the total State take will be capped at no less than 50.0 per cent. The project is expected to engage Australian Aid and PNG Government support, under a PPP program for infrastructure development (roads) and other major infrastructure developments.

The Government also notices the importance of other small-scale mining projects which will/are making valuable contributions towards the economy. These include: the Hidden Valley mine, the Simberi gold mine and the Woodlark Mining project.

10.6.2 Petroleum Projects

The PNG LNG Project is into its fifth year of production. Its production has been above its nameplate capacity of 6.9 million tonnes per annum (mtpa), averaging above 8 mtpa since 2016. The project is expected to complete repayment of its debt financing by 2024 and this should ensure increased revenue to its Joint Venture Partners including the State.

The Government expects the proposed Papua LNG Project to produce 10.3 trillion cubic feet (tcf) of gas and 92.0 million barrels of condensate that will generate total revenue of US\$40.0 billion over 25 years. The project's infrastructure will include a Gas Conditioning Plant at the field site, pipelines to the PNG LNG liquefaction plant and construction of two LNG trains. Initial construction is expected to commence in 2021 and production in 2024. Its Gas Agreement (GA) was executed between the State, Total E & P, Exxon Mobil and Oil Search Limited in April 2019. The State will take-up 22.5 per cent at historical cost and will be carried by Total at 7.0 per cent interest. The State also secured 5.0 per cent annual gas production for Domestic Market Obligations (DMO). The Government will ensure a national content plan is developed, negotiated and executed during its Development Forum.

Pasca-A Gas Project is PNG's first offshore gas project and will be developed in two phases. The first phase will be production and sale of natural gas liquids (including propane, butane and condensate streams) and the second phase will require production and export of LNG and continuous sale of natural gas liquids. The project is expected to have a life of 26 years. The Government will continue to strengthen its fiscal regimes by working with the project proponent to realise more than 50.0 per cent of the project benefits.

The P'nyang Gas project has a reserve certification of 4.36 trillion cubic feet (tcf), as indicated in the updated appraisal and included in its Application for Petroleum Development Licence (APDL). The Government has ensured the P'nyang Gas project is a stand-alone project and will have a separate Gas Agreement (GA). The GA will ensure the State can introduce new production-based taxes and receive 50 per cent or more of the project benefits.

The Government has signed a GA for the development of the Stanley Gas project and issued a Petroleum Development Licence (PDL10) in 2014. However, due to unfavourable oil prices that deemed the economics of the project unviable, production has not started as yet.

In 2018, the State has served a *Show Cause Notice* to the developer and its partners for failing to develop the project. Furthermore, the State through the Minister for Petroleum revoked the PDL10 on same reasoning. The Developers have since taken the matter to International Arbitration. This is currently in progress.

10.7 PNG EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE (PNGEITI)

The implementation of EITI in PNG continues to gain momentum with the publication of the fifth consecutive PNGEITI Annual Country Report. The report's timely publication signifies PNGEITI's commitment in meeting its reporting obligation as a member of the EITI Global Standard.

In 2019, the PNGEITI Multi Stakeholder Group (MSG) continued to work on the development of the PNGEITI National Policy and subsequent legislation to provide for the PNGEITI's transition into an independent entity. The National Executive Council (NEC) in March 2019 approved and endorsed the **'National Policy on Transparency and Accountability in the Extractives Sector in PNG'** (PNGEITI Policy). This Policy conforms to a set of objectives that entail the establishment of an independent administrative body to sustain EITI implementation as well as a reporting framework that outlines various disclosure and compliance requirements as subscribed under the EITI Global Standard.

The PNGEITI MSG has now progressed with the development of legislation for the PNGEITI's transformation into an independent entity. After the completion of a comprehensive consultation process in 2018 and 2019, a draft EITI Commission Bill was formulated. This draft Bill underwent further review and finalization from the Policy and Legislation Technical Working Group (TWG) and has now proceeded through the statutory process for approval and endorsement and enactment by Parliament. This process was envisaged to be completed by November 2019.

Aside from the Policy and Legislation work, PNGEITI is also engaged in addressing particular action items as directed via the outcome of its first Validation process that concluded in October 2018. After having attained 'Meaningful Progress', the country was tasked with addressing certain corrective measures before its next subsequent Validation in April 2020.

In 2020, the PNGEITI MSG will continue its work on various projects such as Beneficial Ownership disclosure, reporting of Sub-national Payments and other projects proposed including a Scoping Study into the operations of SOEs involved in the extractive sector, an EITI Reporting Law, and a Scoping Study into the possibility of establishing a platform for online reporting for PNGEITI annual report publications. These projects are intended to be undertaken with support from development partners such as JICA, World Bank and others.

The 2018 Financial Year PNGEITI Report is expected to be published by December 2019 and will ensure PNGEITI is up to date with its reporting requirements as per the EITI Global Standard.

10.8 MANAGING THE RENEWABLE RESOURCE SECTOR

10.8. 1 AGRICULTURE SECTOR

Reforming the Agriculture Sector

Reviews and successive policy papers have emphasized that agriculture is the most important economic sector in PNG. The sector provides for the livelihood for more than 80 per cent of the country's population. It covers the activities of the private and public sector in cropping, animal husbandry, management of land and water resources, and post-harvest areas within the continuum of agriculture systems, from small-scale subsistence to intensive, commercial agri-business activities.

The Government has emphasized prioritizing development of the agriculture sector via restructuring to ensure its policies promote better Government intervention and regulation that attracts private sector investment.

The Government will look at strategies to remove inefficiencies, reduce costs, and create access to markets and finance to drive economic activity in the sector and drive growth. The Government will also look at strategies to reintroduce agriculture extension services, especially to small-scale subsistence agriculture and small-medium scale commercial agriculture.

Changes in weather patterns and other climatic conditions affect production quality and output for commercial and subsistence farming. The main threat is to food security in the long term. The Government will look at addressing these issues through establishing strategies that promote climate resilient agriculture and food systems in PNG.

The Government will review functions and responsibilities of the various institutions in the sector to avoid duplication of roles and close existing gaps in regulating the sector while promoting investments in the sector, especially at the small-medium scale commercial agriculture and the large-scale commercial agriculture.

To ensure implementation of the reform program, the Government will establish a National Advisory Committee (NACA) on Agriculture comprising representatives from relevant State Agencies to advise the Government through the National Executive Council.

The reforms aim to ensure the Government's long-term vision for PNG is for it to be self-sufficient and economically sound through increased economic activity and production.

Coffee Rehabilitation and Expansion

Coffee is a major cash crop industry in the agriculture sector, generating cash incomes to around two million people, especially a large proportion of the population in the Highlands region and some coastal provinces such as Morobe, Madang and Sepik. However, it has experienced slower growth since the late 1990s. Currently the village-based smallholder producers now account for over 80 per cent of output. Plantation coffee production has been in decline over recent decades due to high costs and low productivity, deteriorating infrastructure, landownership issues, and the declining security situation.

The Government has a long-term plan to increase coffee production and ensure better quality control as the global coffee market has become very competitive over the years.

The Government, through the Coffee Industry Corporation, will focus on a Coffee Rehabilitation and Expansion program to rehabilitate existing plantations and consider establishing new smallholder plantations. This project will coincide with the National Land reform Program. The Government will use the Incorporated Land Group (ILG) and the Voluntary Customary Land registration process to ensure ownership of plantations and new plantations are transferred to landowners, facilitating private investments in coffee plantations.

Pilot projects will be implemented in the Eastern Highlands Province and extended to the rest of the country.

Coconut Industry

Coconut is an important commodity in PNG for private and commercial purposes and supports a majority of people in the coastal provinces as a source of food and income. The Coconut industry is the fourth most significant cash crop in terms of its economic importance to PNG.

The Government will continue to support the coconut industry by funding and supporting the main projects by Kokonas Industri Koporesen (KIK) to rehabilitate and expand the industry.

The Government, through KIK, has made interventions to address the aging of coconut palms by introducing the Coconut Nurseries Establishment and Seed Distribution (CNESD) program. This has resulted in more than 113,000 seedlings being planted including establishment of 37 nurseries. An annual target of 1.0 million seedlings is envisaged to be planted going forward.

The Bogia Coconut Syndrome (BCS) is a plant disease found in Madang that's caused severe losses to coconut palms and infected other food crops. Several interventions have been introduced to contain and eradicate the spread of disease.

The Government through KIK is now diversifying its market from just the commercial activity of copra into downstream processing of high valued coconut products with the support of Micro Small-Medium Enterprises (MSMEs), in line with the Government's downstream processing agenda. A Hazard Analysis Critical Control Point (HACCP) framework was established for food safety and quality standards to guide all MSMEs to comply with international standards.

The Coconut Research Program is a biosecurity plan that will encompass Integrated Coconut Pest and Disease Management for existing invasive coconut rhinoceros beetle, BCS and other coconut pest and diseases. KIK is developing a Biosecurity Framework and Emergency Response Plan to respond to future incursion of pests and diseases and establishing 3 research laboratories to conduct biological and chemical analytical work in the regions.

The Coconut Industry Capacity Building Project (CICBP) will focus on reviving the coconut industry through establishment of Regional Coconut Resource Centers in the coastal regions. This will cater for stakeholders' needs as well as strengthen institutional capacity through legislative amendments of the Coconut Act and develop policies that align with the MTDP III.

10.9 STATE PARTICIPATION AND INVESTMENTS IN AGRICULTURE SECTOR

The Government aims to invest in the agriculture sector while also creating a conducive environment for private sector investments in medium-large scale commercial projects to achieve the outcomes of the MTDP III.

The Government aims to invest commercially through its different entities, especially through Kumul Agriculture Limited (KAL) in different areas of the agriculture sector.

The Government decided to establish KAL under Kumul Consolidated Holdings Limited (KAHL) in 2018. The role of KAL will be reviewed and properly defined to avoid duplication of roles with other State Institutions in the agriculture sector. The Government envisages KAL only manages State's investments in the medium-large scale commercial agriculture projects.

10.9.1 Forestry

The Government, through the PNG Forest Authority (PNGFA), will start the process of phasing out round log exports and increasing downstream processing of timber within country. By 2025,

there will be a complete ban on round log exports and all logs have to be processed in country and exported to ensure PNG maximises its return from the harvested timber, while in the long-run promoting sustainable forestry.

To ensure landowner companies benefit, the Government will develop a framework to allow landowner companies to export round logs going into the future. The Government will also introduce systems to effectively monitor the timber harvest, processing and export of all timber products, especially round logs.

Going forward, Government plans to reduce the timber harvest from forests and introduce forest plantations to support current global initiatives of sustainable forest management and address climate change initiatives through forestry.

To ensure the above reform program is implemented, the Government will establish a National Advisory Committee on Forestry (NACF) comprising representatives from relevant State Agencies to implement the Government directives and vision in the Forestry sector.

The Government, through PNGFA, will continue to work with Development Partners to improve management of the forest resources through various programs they fund and implement.

10.9.2 Fishery

PNG comprises the eastern half of the world's largest tropical island, plus an archipelago of a further 600 islands in the western Pacific Ocean. The coastline and offshore archipelagos present a great diversity of coastal types and marine environments. PNG also has fast and slow flowing rivers, over 5,000 lakes, and an extensive system of marshes. These provide a conducive environment for the thriving fisheries' industry.

The Government will review the fisheries sector to ensure the Government through the National Fisheries Authority (NFA) effectively regulates the sector while maximising benefits from the fisheries and marine resources.

This review will include reviewing the investment and regulatory functions of NFA to enhance investments in the fisheries sector, especially in the inland fishing and small-medium scale fishing industry. The Government will consider the role of Provincial Governments for regulation and investments, including revenue generation at the provincial and local levels and review on the monitoring of harvests by fishing vessels to ensure compliance to fishing targets and increased revenue to Government.

The review will also examine the fiscal regime of the fisheries sector and the current incentives and recommend new and improved fiscal parameters to the Government to make the industry competitive and ensure increased revenue flows to the State.

The Government has also entered into Project Development Agreements with current operating fishing and cannery companies in the country. The review of the agreements has been outstanding for over ten years. The Government will ensure the review of these agreements is completed in 2020 and ensure these operating companies are better regulated which will allow the Government to receive its fair share of benefits.

10.9.3 Environment and Climate Change

PNG will continue to follow a path of climate-compatible growth. The Government will ensure that PNG develops, while simultaneously mitigating greenhouse gas emissions and reducing its vulnerability to climate change related risks.

The Government is currently reviewing the Climate Change Management Act, with the support of Development Partners, to provide a regulatory framework for promoting and managing climate-compatible development through climate change mitigation and adaptation activities.

The Government will establish the PNG Climate Resilient Trust Fund to fund disaster and emergency preparedness activities, climate resilient programs, and climate change awareness.

The Government will move to ensure that PNG's biodiversity is conserved and protected by considering legislation to regulate biodiversity and protected areas. Through this process, the Government will consider appropriate funding mechanisms through taxes and levies to sustain the management and regulation of biodiversity and protected areas.

APPENDIX 1: GRANTS AND TRANSFERS TO PROVINCES

Table 1.1: National Governments Grants to Provincial and Local Level Governments (Kina Thousand)

Table 1.2: Grants, Transfers and other resources of the Provinces (Kina Thousand)

Table 1.1: 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	-	-	-	-	-	-	-	6,485,705	4,801,666	7,185,915	1,966,208	238,774	62,835	1,025,054	384,638	22,150,795	771,374	2,947,355	3,718,729	25,869,524	25,869,524	
Gulf	-	-	-	-	-	-	-	5,439,799	4,538,141	6,480,091	2,331,408	496,610	73,797	1,653,290	2,303,210	23,316,345	148,754	1,377,030	1,525,784	24,842,130	24,842,130	
Central NCD*	-	-	-	-	-	-	-	6,473,319	6,729,255	11,123,046	2,587,510	490,698	77,234	2,667,641	1,970,620	32,119,323	-	2,066,885	2,066,885	34,186,208	34,186,208	
Milne Bay	-	-	-	-	-	-	-	7,230,089	7,577,666	7,513,167	3,192,772	443,840	97,165	3,332,860	2,273,008	31,660,567	299,708	2,442,028	2,741,736	34,402,302	34,402,302	
Oro	-	-	-	-	-	-	-	4,313,696	3,765,520	3,875,217	1,824,923	320,943	52,392	1,954,479	800,608	16,907,779	744,504	1,740,176	2,484,681	19,392,460	19,392,460	
Southern Highlands	-	-	-	-	-	-	-	7,112,540	9,388,698	9,053,955	3,336,191	873,782	197,447	4,529,453	2,129,248	36,621,313	708,990	2,520,597	3,229,587	39,850,901	39,850,901	
Hela	-	-	-	-	-	-	-	7,496,323	5,686,731	5,622,223	2,187,715	595,360	93,563	2,113,267	2,950,415	26,745,597	992,850	1,534,146	2,526,995	29,272,592	29,272,592	
Enga	-	-	-	-	-	-	-	4,379,670	6,809,009	9,131,567	2,707,962	713,462	127,276	1,795,474	1,902,778	27,567,188	247,157	2,681,756	2,928,913	30,496,102	30,496,102	
Western Highlands	-	-	-	-	-	-	-	3,193,007	2,825,898	4,002,416	1,015,080	352,320	49,724	820,081	822,304	13,080,829	829,839	1,974,686	2,804,525	15,885,354	15,885,354	
Ijwaka	-	-	-	-	-	-	-	5,393,000	7,793,931	11,834,409	1,305,485	401,524	83,218	2,211,803	2,267,847	31,291,218	-	1,336,950	1,336,950	32,628,168	32,628,168	
Simbu	-	-	-	-	-	-	-	6,966,355	10,838,397	11,515,643	2,001,395	771,162	88,627	3,178,197	4,071,912	39,431,687	392,979	1,516,038	1,909,018	41,340,705	41,340,705	
Eastern Highlands	-	-	-	-	-	-	-	7,389,851	12,815,467	19,224,029	2,745,564	683,140	82,048	3,716,249	3,239,487	49,895,835	772,562	2,778,144	3,550,705	53,446,541	53,446,541	
Morobe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Madang	-	-	-	-	-	-	-	9,043,291	8,209,326	11,789,992	3,478,061	582,132	52,766	3,706,205	3,258,603	40,119,377	909,234	3,894,137	4,803,371	44,922,748	44,922,748	
East Sepik	-	-	-	-	-	-	-	9,664,817	11,599,949	18,933,252	3,297,716	664,121	58,992	2,870,868	3,364,720	50,454,436	680,301	4,326,672	5,006,973	55,461,408	55,461,408	
Sandaun	-	-	-	-	-	-	-	10,717,236	10,213,521	9,124,204	4,002,952	534,594	89,595	2,534,330	3,958,710	41,175,141	510,567	3,904,044	4,414,611	45,589,752	45,589,752	
Manus	-	-	-	-	-	-	-	1,965,379	2,966,056	4,727,582	1,509,313	416,454	54,027	1,518,400	1,908,857	15,066,068	224,509	514,067	738,576	15,804,645	15,804,645	
New Ireland	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	422,755	1,133,302	1,556,057	1,556,057	
East New Britain	-	-	-	-	-	-	-	2,729,635	2,761,072	2,959,256	1,727,436	176,137	42,591	660,734	503,905	11,560,767	928,924	2,701,536	3,630,460	15,191,227	15,191,227	
West New Britain	-	-	-	-	-	-	-	6,001,890	9,184,547	9,520,214	3,552,791	623,024	189,696	2,692,587	2,286,078	34,050,827	579,421	1,696,687	2,276,108	36,326,935	36,326,935	
Bougainville*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
TOTAL	-	-	-	-	-	-	-	111,995,604	128,504,848	163,616,178	44,770,480	9,378,070	1,572,993	42,979,973	40,396,948	543,215,093	12,745,475	47,947,262	60,692,737	603,907,830	603,907,830	

Notes:

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 budgeted under the Village Court & Land Mediation Secretariat

Table 1.2: 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	25,869,524	7,955,000	0	37,400,000	1,101,486	72,326,010
Gulf	24,842,130	2,684,000	0	1,750,000	362,804	29,638,934
Central	34,186,208	2,830,000	0	0	11,996,660	49,012,868
NCD*	0	241,252,000	4,990,000	0	0	241,252,000
Milne Bay	34,402,302	6,241,000	0	0	1,772,366	42,415,669
Oro	19,392,460	6,888,000	0	0	737,429	27,017,888
Southern Highlands	39,850,901	7,007,000	0	1,502,319	1,156,940	49,517,160
Hela	29,272,592	829,000	0	0	0	30,101,592
Enga	30,496,102	3,782,000	0	20,440,011	7,791,435	62,592,548
Western Highlands	15,885,354	36,192,000	83,000	0	347,296	52,424,650
Jiwaka	32,628,168	1,239,000	0	0	0	33,867,168
Simbu	41,340,705	5,075,000	0	0	1,395,189	48,243,894
Eastern Highlands	53,446,541	15,186,000	433,000	358	1,419,837	71,576,735
Morobe	7,442,071	133,419,000	1,524,000	2,877,500	11,028,694	156,163,266
Madang	44,922,748	20,292,000	1,396,000	0	2,695,243	67,909,991
East Sepik	55,461,408	16,960,000	0	0	2,837,085	75,258,493
Sandaun	45,589,752	2,753,000	0	0	2,298,729	50,641,482
Manus	15,804,645	6,140,000	0	0	1,611,273	23,555,917
New Ireland	1,556,057	11,247,000	0	38,621,167	831,652	52,403,876
East New Britain	15,191,227	37,974,000	148,000	0	3,183,476	56,491,703
West New Britain	36,326,935	12,437,000	143,000	0	2,747,622	51,511,557
Bougainville*	0	0	0	0	0	0
TOTAL	603,907,830	578,382,000	8,717,000	102,591,355	55,315,215	1,343,923,400

Notes

1) GST is based on 60% of the 2018 net inland GST collections, to be distributed to each province in 2020

2) Bookmakers is 40% of 2018 net collections

3) NEFC estimate based on 2018 actual collections which includes dividends from equity shares of mining and petroleum resource projects

4) NEFC estimate based on 2018 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 2: TABLES ON ECONOMIC AND FISCAL DATA

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

Kina Million	2016 Actual	2017 Actual	2018 Proj	2019 Proj	2020 Proj	2021 Proj	2022 Proj	2023 Proj	2024 Proj
Agriculture, Forestry and Fishing									
nominal	11619.9	12799.8	13883.7	14466.4	16059.2	17776.1	20325.9	21785.6	23943.0
deflator	122.4	131.7	136.9	141.1	151.5	159.8	174.0	175.1	180.7
real	9466.8	9702.4	9997.7	10249.6	10599.3	11252.7	11694.2	12442.1	13252.3
rate of real growth	2.7	2.4	2.9	2.5	3.4	5.0	5.0	6.5	6.5
Oil and Gas Extraction									
nominal	9657.8	11953.9	13317.0	14978.8	15529.7	16762.6	17721.7	18871.7	19285.9
deflator	70.6	83.9	111.1	111.8	119.1	128.5	135.9	144.7	147.9
real	13663.0	14244.1	11991.4	13716.9	13041.7	13041.7	13041.7	13041.7	13041.7
rate of real growth	6.7	4.1	-15.8	14.4	-4.9	0.0	0.0	0.0	0.0
Mining and Quarrying									
nominal	5862.3	7428.5	8425.9	8717.8	10666.3	12030.4	13367.3	14033.5	14439.3
deflator	93.6	102.1	111.8	113.2	144.3	130.4	159.6	167.6	172.4
real	6264.0	7277.4	7533.7	7703.4	8162.1	8392.2	8374.2	8373.8	8373.7
rate of real growth	17.4	16.2	3.5	2.3	6.2	1.9	0.4	0.0	0.0
Manufacturing									
nominal	1256.1	1410.8	1521.3	1613.1	1740.7	1905.5	2094.4	2307.7	2522.7
deflator	120.4	130.4	136.5	140.6	146.5	154.2	162.4	169.6	174.9
rate of deflator growth	13.3	8.3	4.7	2.9	4.3	5.3	5.3	4.4	3.1
real	10433.3	1081.8	1114.3	1147.7	1187.9	1235.4	1288.8	1360.7	1442.3
rate of real growth	3.8	3.7	3.0	3.0	3.5	4.0	4.4	5.5	6.0
Electricity Gas & Airconditioning									
nominal	541.2	588.2	643.2	693.6	759.3	847.1	945.4	1056.5	1165.8
deflator	105.7	109.8	115.0	118.3	123.4	129.9	136.7	142.8	147.3
rate of deflator growth	0.2	3.9	4.7	2.9	4.3	5.3	4.4	4.4	3.1
real	511.9	535.7	559.5	586.1	615.4	652.3	691.5	739.9	791.7
rate of real growth	5.1	4.6	4.5	4.8	5.0	6.0	6.0	7.0	7.0
Water Supply & Waste Management									
nominal	124.9	137.9	154.9	169.1	186.8	210.4	237.0	267.4	297.8
deflator	137.6	144.5	151.2	155.7	162.3	170.9	179.9	187.9	193.8
rate of deflator growth	6.3	5.0	4.7	2.9	4.3	5.3	5.3	4.4	3.1
real	90.7	95.5	102.4	108.6	115.1	123.1	131.8	142.3	153.7
rate of real growth	4.2	5.2	7.3	6.0	6.0	7.0	7.0	8.0	8.0
Construction									
nominal	5145.4	4849.6	5138.1	5427.0	5856.3	6349.0	6884.8	7478.3	8020.5
deflator	123.0	129.7	135.8	139.8	145.7	153.4	161.5	168.7	173.9
rate of deflator growth	7.0	5.4	4.7	2.9	4.3	5.3	5.3	4.4	3.1
real	4181.8	3739.2	3784.1	3882.5	4018.3	4139.9	4263.1	4433.6	4610.9
rate of real growth	1.9	-10.6	1.2	2.6	3.5	3.0	3.0	4.0	4.0
Wholesale and retail trade									
nominal	6345.9	6844.9	7417.0	7879.8	8519.9	9371.1	10309.9	11306.4	12359.4
deflator	118.3	126.1	132.0	135.9	141.7	149.2	157.0	164.0	169.1
rate of deflator growth	7.3	6.6	4.7	2.9	4.3	5.3	5.3	4.4	3.1
real	5363.2	5427.4	5617.4	5797.2	6017.4	6283.2	6565.0	6863.3	7306.9
rate of real growth	1.7	1.2	3.5	3.2	3.7	4.5	4.5	5.0	6.0
Transport and Storage									
nominal	1462.3	1614.7	1744.6	1831.9	1986.4	2209.9	2475.5	2766.5	3052.6
deflator	108.8	118.8	124.3	128.0	133.5	140.5	147.9	154.5	159.3
rate of deflator growth	3.4	9.1	4.7	2.9	4.3	5.3	5.3	4.4	3.1
real	1343.8	1395.9	1420.0	1431.1	1488.3	1573.2	1673.9	1791.0	1916.4
rate of real growth	2.4	1.2	3.2	2.0	4.0	5.7	6.4	7.0	7.0
Accommodation and Food Services									
nominal	1131.0	1211.5	1363.5	1441.8	1547.9	1694.0	1854.3	2033.5	2201.9
deflator	116.3	119.5	125.1	128.8	134.3	141.4	148.8	155.4	160.3
rate of deflator growth	5.3	2.7	4.7	2.9	4.3	5.3	5.3	4.4	3.1
real	972.1	1013.6	1089.7	1119.2	1152.5	1198.3	1245.8	1308.1	1373.5
rate of real growth	0.3	4.3	7.5	2.7	3.0	4.0	4.0	5.0	5.0
Information and Communication									
nominal	1048.3	1074.2	1203.4	1283.4	1445.2	1673.3	1937.8	2195.9	2423.1
deflator	91.0	91.0	95.3	98.1	102.6	113.3	113.3	118.4	122.1
rate of deflator growth	0.2	0.0	4.7	2.9	4.3	5.3	5.3	4.4	3.1
real	1151.8	1180.3	1263.0	1308.4	1413.1	1554.4	1708.8	1855.2	1985.0
rate of real growth	4.4	2.5	7.0	3.6	8.0	10.0	10.0	8.5	7.0
Financial and Insurance Activities									
nominal	1881.4	1951.4	2110.4	2235.6	2400.8	2615.4	2849.8	3080.6	3288.1
deflator	119.0	125.4	131.3	135.2	140.9	148.4	156.2	163.1	168.2
rate of deflator growth	6.7	5.4	4.7	2.9	4.3	5.3	5.3	4.4	3.1
real	1581.4	1555.8	1607.1	1653.7	1703.3	1763.0	1824.7	1888.5	1954.6
rate of real growth	-5.0	-1.6	3.3	2.9	3.0	3.5	3.5	3.5	3.5
Real Estate Activities									
nominal	4080.3	4453.6	4667.3	4924.9	5263.1	5678.2	6127.5	6591.7	7001.7
deflator	120.3	126.8	132.8	136.7	142.5	150.0	157.9	164.9	170.1
rate of deflator growth	7.1	5.4	4.7	2.9	4.3	5.3	5.3	4.4	3.1
real	3392.4	3511.6	3515.1	3602.9	3693.0	3785.3	3880.0	3996.4	4116.3
rate of real growth	4.9	3.5	0.1	2.5	2.5	2.5	2.5	3.0	3.0
Professional and Scientific									
nominal	695.6	682.4	724.5	753.3	801.1	860.1	923.6	993.5	1055.3
deflator	108.7	112.3	117.6	121.1	126.2	132.8	139.9	146.1	150.6
rate of deflator growth	5.0	3.3	4.7	2.9	4.3	5.3	5.3	4.4	3.1
real	639.9	607.6	616.1	622.3	634.7	647.4	660.4	680.2	700.6
rate of real growth	-2.0	-5.0	1.4	1.0	2.0	2.0	2.0	3.0	3.0
Administrative and Support Services									
nominal	4704.8	5030.9	5635.7	5859.7	6231.7	6690.3	7184.5	7728.8	8209.5
deflator	119.1	126.7	132.7	136.6	142.7	149.8	157.8	164.8	170.0
rate of deflator growth	8.4	6.4	4.7	2.9	4.3	5.3	5.3	4.4	3.1
real	3948.9	3989.3	4247.2	4289.6	4375.4	4462.9	4552.2	4688.8	4829.4
rate of real growth	0.6	0.5	7.0	1.0	2.0	2.0	2.0	3.0	3.0
Public Administration and Defence									
nominal	3193.0	3358.0	3656.2	3914.5	4203.7	4557.4	4942.0	5316.4	5647.1
deflator	116.2	119.9	125.5	129.2	134.8	141.8	148.8	156.0	160.8
rate of deflator growth	5.1	3.2	4.7	2.9	4.3	5.3	5.3	4.4	3.1
real	2748.6	2800.2	2912.2	3028.7	3119.5	3213.1	3308.5	3408.8	3511.1
rate of real growth	1.7	1.9	4.0	4.0	3.0	3.0	3.0	3.0	3.0
Education									
nominal	1875.2	1968.7	2143.6	2295.0	2464.6	2671.9	2897.4	3116.9	3310.7
deflator	114.3	117.6	123.1	126.7	132.1	139.1	146.4	152.9	157.7
rate of deflator growth	4.6	2.8	4.7	2.9	4.3	5.3	5.3	4.4	3.1
real	1640.0	1674.8	1741.8	1811.2	1865.6	1921.5	1979.2	2038.6	2099.7
rate of real growth	5.7	2.1	4.0	4.0	3.0	3.0	3.0	3.0	3.0
Health and Social Work Activities									
nominal	1374.8	1436.0	1563.6	1674.0	1797.7	1948.9	2113.4	2273.5	2414.9
deflator	123.1	124.8	130.7	134.5	140.3	147.7	155.5	162.4	167.4
rate of deflator growth	4.9	1.4	4.7	2.9	4.3	5.3	5.3	4.4	3.1
real	1116.8	1150.3	1196.3	1244.2	1281.5	1319.9	1359.5	1400.3	1442.3
rate of real growth	15.8	3.0	4.0	4.0	3.0	3.0	3.0	3.0	3.0
Other Service Activities									
nominal	453.9	471.7	508.7	534.1	568.0	609.8	654.9	704.5	748.3
deflator	113.5	121.9	127.8	131.4	137.6	144.2	151.8	158.5	163.5
rate of deflator growth	0.3	7.4	4.7	2.9	4.3	5.3	5.3	4.4	3.1
real	399.8	387.0	398.6	406.6	414.7	423.0	431.5	444.4	457.8
rate of real growth	-2.1	-3.2	3.0	2.0	2.0	2.0	2.0	3.0	3.0
Total GDP									
nominal	65038.2	72521.6	79159.4	84554.1	92206.2	100898.6	110728.1	119113.2	126776.0
rate of nominal growth	8.1	11.5	8.2	6.4	8.7	9.4	9.9	7.6	6.4
deflator	105.3	113.4	113.4	127.0	135.8	144.6	154.2	160.7	165.8
real	61742.2	63926.6	63383.7	66565.7	67877.5	69791.8	71793.0	74118.1	76563.0
rate of real growth	4.1	3.5	-0.8	5.0	2.0	2.8	2.9	3.2	3.3
Total non-mining GDP									
nominal	49518.1	53139.3	57416.5	60857.5	66010.2	72105.6	79639.0	86208.0	93050.9
rate of nominal growth	8.5	7.3	8.0	6.0	8.5	9.2	10.4	8.2	7.9
deflator	118.5	125.3	130.9	134.8	141.5	148.9	158.1	163.8	168.7
real	41795.3	42405.1	43658.7	45145.3	48653.7	48410.9	50377.1	52702.6	55147.6
rate of real growth	1.5	1.5	3.4	2.9	3.3	3.8	4.1	4.6	4.6

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

Source: Actual data for 2008-2017: National Statistical Office. Estimates and projections: Department of Treasury

**Table 2: Contributions to Growth in Real Gross Domestic Product
(Percentage points)**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
	Actual	Actual	Est	Actual	Actual	Actual	Actual	Actual	Actual	Est	Proj	Proj	Proj	Proj	Proj	Proj
Agriculture, Forestry and Fishing	1.2	0.6	0.2	1.1	0.9	0.7	-0.5	0.4	0.4	0.4	0.4	0.5	0.8	0.8	1.1	1.1
Oil and Gas Extraction	-0.9	0.2	-0.5	-0.1	0.1	9.5	12.5	1.4	0.9	-3.5	2.7	-1.0	0.0	0.0	0.0	0.0
Mining and Quarrying	4.2	-0.3	-2.3	-1.6	0.6	0.5	0.2	1.6	1.6	0.4	0.3	0.7	0.2	0.1	0.0	0.0
Manufacturing	-0.1	0.2	0.1	0.0	0.0	0.0	-0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Electricity Gas & Airconditioning	0.1	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
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	1.1	3.7	-0.1	0.9	-0.3	0.4	-1.0	0.1	-0.7	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Wholesale and retail trade	0.3	0.4	0.6	0.4	0.4	0.1	-0.6	0.2	0.1	0.3	0.3	0.3	0.4	0.4	0.5	0.6
Transport and Storage	0.0	0.6	0.2	0.0	0.2	-0.4	0.1	0.1	0.0	0.1	0.0	0.1	0.1	0.1	0.2	0.2
Accommodation and Food Services	-0.1	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1
Information and Communication	0.5	0.2	0.0	0.0	0.0	0.6	0.1	0.1	0.0	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Financial and Insurance Activities	-0.1	1.1	0.4	0.7	0.5	-0.8	-0.6	-0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Real Estate Activities	0.1	0.4	0.2	0.2	0.4	0.2	0.2	0.3	0.2	0.0	0.1	0.1	0.1	0.1	0.2	0.2
Professional and Scientific	0.0	0.3	0.9	0.1	-0.1	-0.1	-0.3	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Administrative and Support Services	-0.1	1.4	1.1	0.9	-0.3	0.2	-0.2	0.0	0.0	0.4	0.1	0.1	0.1	0.1	0.2	0.2
Public Administration and Defence	0.4	0.6	0.3	-0.1	0.4	0.6	0.2	0.1	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Education	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	0.1	0.1
Health and Social Work Activities	0.1	0.2	0.1	0.2	0.1	0.0	0.0	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other Service Activities	0.0	0.3	0.2	0.2	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL GDP*	6.8	10.1	1.1	4.7	3.8	13.5	9.5	4.1	3.5	-0.8	5.0	2.0	2.8	2.9	3.2	3.3
Total Non-mining GDP	4.3	12.9	4.8	7.5	3.6	4.1	-4.1	1.5	1.5	3.4	2.9	3.3	3.8	4.1	4.6	4.6

*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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Est	Proj	Proj	Proj	Proj	Proj	Proj
AGRICULTURE																
Copra	823	1122	1619	1006	835	1322	1339	1848	2999	2309	2386	2608	2839	3086	3201	3266
Cocoa	6977	8362	6751	4759	4591	7156	8260	9358	6470	7552	7793	8600	9348	10161	10540	10755
Coffee	7407	9320	12622	8622	6947	9327	9220	9358	10714	10128	9934	12120	14657	15932	16527	16864
Palm Oil	1667	2081	2583	2091	1866	2111	1720	1877	2155	1884	1746	2150	2337	2540	2635	2689
Rubber	4718	7043	9720	6633	5621	4287	3534	3333	4655	3911	4752	5119	4706	4706	4706	4706
Tea	3259	4000	3478	3161	3577	4021	3939	4222	4727	4107	4233	4255	4260	4260	4260	4260
Copra Oil	1958	2830	3847	2604	1815	2586	2690	3358	4519	3430	2371	2578	2802	3045	3159	3223
Logs (K/m³)	212	231	208	188	220	250	269	294	302	304	322	356	316	343	356	364
MINERALS																
Gold (US\$/oz)	973	1225	1569	1668	1411	1266	1160	1248	1258	1270	1380	1510	1536	1558	1576.5	1595.5
Copper (US\$/ton)	5100	7538	8823	7959	7331	6864	5502	4865	6166	6517	5989	5849	5900	5946	5982.8	5993.8
Oil (Kutubu Crude: US\$/barrel)	62	79	104	105	104	93	49.0	44	51	65	58	54	52	51	51.0	51.6
LNG (US\$ per thousand cubic feet)						12.3	7.9	7.6	8.8	11.0	10.5	10.5	10.5	10.2	10.5	10.5
Nickel (US\$/tonne)				17542	15030	16847	11831	9595	10415	13109	10782	11034	11566	11973	12395.4	12395.4
Cobalt (US\$/tonne)				28761	24600	30724	29255	25639	55988	72820	22258	23180	24050	24500	25000.0	25000.0

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

Table 4: Volume of Main Export Commodities

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Est	Proj	Proj	Proj	Proj	Proj	Proj
AGRICULTURE																
Copra	15.2	18.6	43.7	32.9	15.8	48.2	33.6	43.5	50.6	72.4	69.8	45.7	44.7	48.4	48.4	48.4
Cocoa	48.2	41.3	47.4	38.1	38.7	33.6	30.9	40.1	31.9	40.1	43.2	48.1	52.9	58.2	64.0	70.4
Coffee	62.2	55.9	73.5	55.5	48.5	48.4	42.8	68.0	47.8	52.4	52.3	53.3	47.4	51.5	45.7	45.7
Palm Oil	428.4	485.6	571.9	483.0	487.2	514.8	486.9	540.7	621.8	588.8	687.0	777.4	773.8	768.8	773.2	772.8
Rubber	5.4	4.6	4.2	5.1	3.4	3.2	2.2	2.4	2.9	2.9	2.9	2.9	2.8	2.8	3.0	3.1
Tea	5.6	4.6	4.0	3.8	2.9	2.1	1.3	0.9	1.1	0.5	0.9	0.9	0.9	0.9	0.9	0.9
Copra Oil	44.8	46.0	45.2	22.0	13.5	11.1	14.6	17.9	16.2	12.6	15.6	13.9	12.9	12.6	12.6	12.6
Logs	2067.0	2999.0	3526.0	3148.0	3297.4	3800.2	3869.3	3605.9	2756.9	3296.0	3394.9	3327.0	3360.3	3360.3	3360.3	3360.3
Marine products	55.4	34.1	67.5	71.1	73.2	75.4	77.7	80.0	82.4	84.9	87.4	90.1	92.8	95.6	98.4	101.4
MINERAL																
Gold (tonnes)	64.0	61.5	51.9	46.8	55.0	58.1	53.5	59.1	62.9	67.1	72.1	71.9	69.8	69.7	65.0	65.9
Silver (tonnes)								19.08	36.14	33.68	39.08	4.23	36.05	40.08	36.96	13.84
Copper (tonnes)	153.7	154.7	143.6	125.3	92.9	89.6	46.4	71.0	100.4	83.7	101.2	113.7	124.3	117.2	117.2	117.2
Oil (million barrels)	10.1	10.4	8.8	8.9	8.3	8.2	6.6	9.5	7.3	6.7	6.9	6.7	6.7	6.7	6.7	6.7
LNG (Tbtu)						187.0	377.8	389.1	447.0	382.0	445.0	437.0	437.0	437.0	437.0	437.0
Condensate (MB)						6.4	10.4	11.0	11.9	9.0	11.0	9.0	9.0	9.0	9.0	9.0
Nickle (tonnes)				200.0	15,884.0	20,744.8	21,568.3	24,215.4	35,592.0	25,524.7	42,580.0	33,999.6	33,999.6	33,999.6	33,999.6	33,999.6
Cobalt (tonnes)				19	1405	2113.33	2090.2	2377.7	3426.6	2387.7	3910.0	3100.0	3100.0	3100.0	3100.0	3100.0

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

Table 5: Value of Main Export Commodities

Kina Million	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Est	Proj	Proj	Proj	Proj	Proj	Proj
AGRICULTURE, FORESTRY, FISHERIES																
Copra	12.4	21.9	70.8	33.1	13.2	63.7	45.0	80.4	120.1	167.2	166.6	119.1	127.0	149.5	155.1	158.2
Copra Oil	87.9	130.2	173.9	56.1	24.5	28.7	39.2	60.1	73.2	43.1	37.1	35.9	36.2	38.4	39.9	40.7
Cocoa	337.3	347.6	320.3	182.6	206.0	243.1	255.7	359.9	202.0	303.2	336.6	413.6	494.5	591.3	674.7	757.3
Coffee	460.3	521.0	927.4	478.5	336.7	450.3	393.5	646.9	450.1	530.4	519.1	646.1	694.5	819.9	756.0	771.5
Palm Oil	714.3	1024.7	1477.4	1009.9	903.5	1086.4	837.6	1014.7	1339.7	1109.2	1199.3	1671.3	1808.3	1952.8	2037.1	2077.8
Rubber	26.0	32.4	40.9	33.1	19.4	13.8	7.9	8.0	13.5	11.2	13.8	14.7	13.4	13.4	14.0	14.7
Tea	18.4	18.4	14.2	11.7	10.4	8.4	4.9	3.8	5.2	2.1	3.8	3.8	3.8	3.8	3.8	3.8
Other Agriculture (a)	190.6	248.1	291.3	209.3	252.6	325.4	243.2	303.7	609.8	253.2	241.2	307.7	344.3	386.7	420.6	450.1
Forest Products	439.4	705.9	732.0	627.1	724.1	950.3	1040.1	1083.7	999.8	1002.0	1094.7	1183.2	1061.9	1154.2	1197.3	1221.7
Marine Products	232.9	114.0	259.8	329.5	234.4	354.9	497.1	1046.6	1316.6	469.8	505.0	549.6	604.0	664.3	728.9	793.5
Total Agricultural, Forestry, Fishing Exports	2519.5	3164.2	4307.9	2970.9	2724.8	3525.0	3364.2	4607.8	5130.0	3891.2	4117.1	4944.9	5188.0	5774.3	6027.5	6289.5
MINERAL																
Gold	5487.1	6380.3	5974.2	5202.8	5414.6	5462.5	5376.5	6976.4	7612.2	9013.1	10826.5	12853.9	13798.8	15187.8	14857.6	15573.3
Copper	2025.9	3089.3	3047.1	2071.5	1524.8	1510.7	746.5	1114.9	1962.2	1744.4	1994.4	2377.8	2850.8	2942.6	3071.3	3139.8
Silver	54.0	88.4	102.0	114.9	102.4	83.3	61.2	32.8	63.1	62.5	77.5	9.4	89.4	108.9	104.2	39.8
Oil	1645.3	2224.8	2434.0	2134.3	2030.9	2086.0	1003.4	1253.8	1255.9	1505.9	1419.9	1510.4	1539.7	1597.2	1635.9	1488.7
LNG						5695.1	9841.1	8188.9	10467.5	13835.1	15806.2	16871.8	18338.9	19337.7	20678.0	21100.0
Condensate						1383.4	1502.6	1592.3	1935.1	580.7	633.9	486.4	464.2	458.3	459.3	464.1
Nickel					426.9	883.2	695.1	668.2	1179.0	1101.7	1555.0	1381.1	1573.6	1770.7	1901.6	1940.4
Cobalt					129.1	112.1	164.6	195.2	614.1	572.5	294.8	264.6	298.3	330.4	349.7	356.8
Refined Petroleum Products	378.5	617.0	473.6	680.2	978.2	871.5	541.3	862.5	1196.5	1394.5	1306.9	1358.9	1437.9	1574.1	16.7	17.6
Total Mineral Exports	9590.8	12399.8	12030.9	10203.7	10606.9	18087.8	19932.3	20885.0	26285.6	29810.3	33915.1	37114.2	40391.5	43307.7	43074.3	44120.4
TOTAL EXPORT VALUE	12110.3	15564.0	16338.8	13174.6	13331.7	21612.8	23296.5	25492.8	31415.6	33701.6	38032.1	42059.1	45579.5	49082.0	49101.8	50409.9

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

	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Est	2019 Proj	2020 Proj	2021 Proj	2022 Proj	2023 Proj	2024 Proj
CURRENT ACCOUNT BALANCE	-1601.7	-1759.0	-443.2	-4793.1	-7908.1	5950.9	12145.7	15462.3	15519.3	17999.7	20365.0	22308.8	24244.8	25923.2	25689.0	26519.3
Trade Balance	-357.7	-664.4	281.9	-3521.5	-6598.5	6656.8	12946.4	15449.9	16300.0	19000.5	21466.5	23558.4	25685.8	27604.9	27579.2	28670.1
Goods Balance	4201.3	5987.8	6305.3	3262.8	1189.9	11768.0	16232.9	18403.8	20444.8	23175.9	26203.1	28912.7	31600.3	33980.5	33933.7	35175.7
Credit (Exports)	12110	15564	16339	13175	13332	21613	23296	24890	30202	33702	37970	42092	46115	49669	49711	51033
Debit (Imports)	-7909	-9576	-10034	-9912	-12142	-9845	-7063	-6487	-9757	-10526	-11767	-13180	-14515	-15688	-15777	-15857
Services Balance	-4559.0	-6652.2	-6023.4	-6784.3	-7788.4	-5111.2	-3286.5	-2953.9	-4144.7	-4175.4	-4736.6	-5354.3	-5914.5	-6375.6	-6354.6	-6505.7
Services Credit	511	844	1006	994	937	516	404	403	950	1265	1345	1456	1595	1764	1908	2060
Services Debit	-5070	-7496	-7030	-7778	-8726	-5627	-3691	-3357	-5095	-5440	-6081	-6810	-7509	-8139	-8262	-8565
Income Balance	-1721.0	-1611.0	-1305.4	-1519.7	-1448.4	-988.8	-1095.3	-720.2	-1429.8	-2032.7	-2161.2	-2340.3	-2563.2	-2834.5	-3077.9	-3334.3
Income Credit	128	113	95	94	87	40	27	16	74	103	109	119	130	144	144	144
Income Debit	-1849	-1724	-1400	-1613	-1535	-1029	-1122	-736	-1504	-2136	-2271	-2459	-2693	-2978	-3221	-3478
Transfers Balance	477.0	516.4	580.3	248.1	138.8	282.9	294.6	732.6	649.1	1031.9	1059.7	1090.6	1122.2	1152.7	1187.8	1183.5
Transfers Credit	1046	1192	1369	1153	1076	1131	1047	1240	1394	1352	1387	1428	1472	1518	1566	1567
Transfers Debit	-569	-676	-789	-905	-937	-848	-752	-508	-745	-320	-328	-338	-350	-365	-378	-383
CAPITAL AND FINANCIAL ACCOUNT^(a)	3293	3034	1602	3999	6189	-8000	-12831	-16203	-16697	-18000	-20365	-22309	-24245	-25923	-25689	-26519
NET ERRORS AND OMISSIONS	42.0	0.0	0.0	0.0	1718.7	2049.0	685.3	740.4	1177.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current account balance as percentage of Gross Domestic Product (GDP)	-5.0	-4.5	-1.0	-10.8	-16.6	10.4	20.2	23.8	21.4	22.7	24.1	24.2	24.0	23.4	21.6	20.9

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	Annual	Annual	Annual	Annual	Annual	Annual	Annual	Annual	Annual	Annual	Jun Qtr*
Retail	125.7	129.4	135.2	153.8	167.9	162.4	159.6	148.6	141.7	132.7	137.7
Wholesale	167.2	172.6	192.2	197.6	217.1	215.4	207.5	204.0	193.0	198.4	195.6
Manufacturing	166.0	163.7	176.6	185.2	198.7	188.3	180.2	178.4	169.4	167.7	177.2
Building and Construction	173.7	187.5	172.0	188.0	213.7	266.6	262.5	242.3	184.7	164.4	150.1
Transportation	126.5	122.0	150.8	165.2	177.0	174.4	172.7	172.4	163.3	150.2	134.8
Agriculture, Forestry, Fisheries	153.4	156.5	168.9	173.7	168.3	170.4	168.1	165.2	165.9	157.7	164.3
Financial and Business	132.9	132.5	136.3	139.9	133.6	124.4	123.7	119.6	121.7	126.2	133.9
TOTAL NON-MINERAL	148.6	149.6	159.4	168.625	173.9	173.6	169.7	166.1	156.5	151.5	155.1
MINERAL	141.8	150.7	163.6	177.7	266.1	240.1	241.2	262.2	281.8	304.4	351.6

Source: BPNG.

* June Quarter Preliminaries

1. Treasury is currently engaging with BPNG to examine figures for mineral employment index

Table 8: Monetary Aggregates

Kina Million											
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Jun Qtr*
Domestic Credit	6665.30	7169.4	7703.8	8833.6	10103.8	11724.1	13054.7	13920.3	13819.8	14569.1	14959.1
% Change	42.4	7.6	7.5	14.7	14.4	16.0	11.3	6.6	-0.7	5.4	2.7
Net Credit to Central Government	574.1	-202.8	-1076.8	297.0	2755.5	4163.8	5345.3	9008.7	9155.4	6810.62	7265.34
% Change	-206.6	-135.3	431.0	-127.6	827.8	51.1	28.4	68.5	1.6	-25.6	6.7
Credit to Private Sector	5901.8	6945.4	7519.0	8434.3	9910.6	10263.9	10611.9	11379.1	10991.3	11757	11889.1
% Change	16.4	17.7	8.3	12.2	17.5	3.6	3.4	7.2	-3.4	7.0	1.1
Money Supply	11822.6	13175.7	15292.2	16966.8	18105.6	18716.3	20218.6	22417.1	22275	21377.6	21172.1
% Change	22.7	11.4	16.1	11.0	6.7	3.4	8.0	10.9	-0.6	-4.0	-1.0
Money Velocity (M3*) (average)	2.7	2.9	2.8	2.6	2.6	3.1	3.0	2.9	3.3	3.7	4.0

Source: BPNG

*June Quarter Preliminaries

Table 9: Major Assumptions Underlying the Budget

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
	Actual	Actual	Actual	Actual	Est	Proj	Proj	Proj	Proj	Proj	Proj
Economic Growth											
Total Real GDP (%)	13.5	9.5	4.1	3.5	-0.8	5.0	2.0	2.8	2.9	3.2	3.3
Non-mining Real GDP (%)	4.1	-4.1	1.5	1.5	3.4	2.9	3.3	3.8	4.1	4.6	4.6
Inflation											
Average on Average (%)	5.2	6.0	6.7	5.4	4.7	4.4	5.7	6.7	6.8	6.5	5.7
Dec on Dec (%)	6.6	6.4	6.6	4.7	4.8	4.4	6.2	6.9	5.3	7.6	5.5
Exchange rate											
Real Exchange Rate Index (2007 = 100)	153.2	141.0	131.0	132.9	131.6	130.7	133.1	136.1	139.9	143.6	143.6
Interest rate											
Kina Rate Facility (KFR)	6.25	6.25	6.25	6.25	6.25	5.50	5.50	5.50	5.50	5.50	5.50
Inscribed Stock (3 year yield)	8.0	9.7	9.7	9.7	9.7	8.3	8.3	8.3	8.3	8.3	8.3
Mineral Prices											
Gold (US\$/oz)	1266	1160	1248	1258	1270	1380	1510	1536	1558	1577	1596
Copper (US\$/ton)	6864	5502	4865	6166	6517	5989	5849	5900	5946	5983	5994
Oil (Kutubu Crude: US\$/barrel)	93	49	44	51	65	58	54	52	51	51	52
LNG (US\$ per thousand cubic feet)	12	8	8	9	11	10	10	10	10	10	10
Condensate (US\$/barrel)	93	49	44	51	65	58	54	52	51	51	52
Nickel (US\$/tonne)	16847	11831	9595	10415	13109	10782	11034	11566	11973	12395	12395
Cobalt (US\$/tonne)	30724	29255	25639	55988	72820	22258	23180	24050	24500	25000	25000

Source: Department of Treasury.

Table 10: Statement of Operations for General Government

Kina Million	Actual		Budget Estimates			Projections			
	2017	2018	2019 Budget	2019 Suppl. Budget	2020 Budget	2021	2022	2023	2024
TRANSACTIONS AFFECTING NET WORTH:									
Revenue	11,525.1	14,085.0	14,266.8	13,022.4	14,095.4	15,060.8	16,460.6	17,724.4	18,833.9
Taxes	9,141.4	10,475.8	11,212.6	10,447.7	11,161.5	12,102.8	13,393.3	14,623.2	15,605.0
<i>Taxes on Income, profits, and capital gains</i>	5,317.4	6,119.2	6,675.2	5,983.4	6,243.7	7,078.4	7,761.8	8,433.3	9,039.6
<i>Taxes on payroll and workforce</i>	11.2	8.6	0.0	1.6	0.0	0.0	0.0	0.0	0.0
<i>Taxes on goods and services</i>	3,255.1	3,537.3	3,773.9	3,693.1	4,065.5	4,091.5	4,657.2	5,294.7	5,635.1
<i>Taxes on international trade and transactions</i>	557.7	810.7	763.4	769.6	852.3	932.9	974.3	895.2	930.3
Grants	1,439.9	1,835.7	943.1	943.1	932.1	1,008.3	1,092.7	1,076.5	1,145.8
Other Revenue	943.8	1,773.5	2,111.1	1,631.7	2,001.9	1,949.7	1,974.7	2,024.7	2,083.2
Of which: Resource Revenue	675.9	1,428.5	1,856.2	1,679.0	1,322.5	1,053.5	1,083.5	1,099.2	1,109.2
<i>Mining and Petroleum Taxes</i>	113.6	775.0	856.2	759.0	522.5	553.5	583.5	599.2	609.2
<i>Mining, Petroleum and Gas Dividends</i>	562.3	653.5	1,000.0	920.0	800.0	500.0	500.0	500.0	500.0
Of which: transfer from the Stabilization Fund (SWF)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Revenue as percentage of GDP	15.5%	17.6%	17.3%	15.4%	15.3%	14.9%	14.9%	14.9%	14.9%
Total Expenditure and lending	13,319.7	16,134.2	16,133.8	16,525.9	18,726.4	18,737.5	18,790.2	19,867.1	21,126.6
Expense as percentage of GDP	17.9%	20.1%	19.6%	19.5%	20.3%	18.6%	17.0%	16.7%	16.7%
Expense²	11,515.9	14,021.4	13,312.0	14,047.1	15,358.9	15,273.6	14,960.9	15,612.2	16,305.4
Compensation of employees	4,376.4	5,198.4	4,448.5	5,323.5	5,416.4	5,608.8	5,275.6	5,476.4	5,678.1
Use of goods and services	4,138.1	4,879.2	4,597.8	4,660.2	4,772.4	4,455.8	4,395.6	4,489.9	4,682.3
Interest	1,524.9	1,853.3	1,950.1	2,083.9	2,140.5	2,188.2	2,271.9	2,480.5	2,602.4
Grants	1,383.3	1,999.8	2,150.8	1,814.7	2,655.3	2,637.6	2,651.3	2,789.2	2,955.9
Social benefits	0.0	0.9	74.3	74.3	256.4	265.2	248.4	257.5	266.6
Other expense	93.3	89.9	90.5	90.5	118.0	118.0	118.3	118.7	120.2
Net Acquisition of Non-Financial Assets*	1,803.8	2,112.8	2,821.7	2,478.8	3,367.4	3,463.8	3,829.3	4,254.8	4,821.2
Fixed Assets	1,803.8	2,112.8	2,821.7	2,478.8	3,367.4	3,463.8	3,829.3	4,254.8	4,821.2
Gross Operating Balance³	9.2	63.6	954.8	-1,024.6	-1,263.5	-212.9	1,499.6	2,112.2	2,528.5
Net Lending (+) / Net Borrowing (-)	-1,794.6	-2,049.2	-1,867.0	-3,503.4	-4,631.0	-3,676.7	-2,329.7	-2,142.7	-2,292.7
Net lending/borrowing as percentage of GDP	-2.4%	-2.6%	-2.3%	-4.1%	-5.0%	-3.6%	-2.1%	-1.8%	-1.8%
Primary Balance ⁴	-269.7	-195.9	83.1	-1,419.5	-2,490.5	-1,488.4	-57.8	337.9	309.7
Non-resource net lending (+)/borrowing (-)	-2,470.5	-3,477.7	-3,723.1	-5,182.4	-5,953.5	-4,730.2	-3,413.2	-3,241.9	-3,401.9
Non-resource primary balance	-945.6	-1,624.4	-1,773.1	-3,098.5	-3,813.0	-2,541.9	-1,141.3	-761.3	-799.5
Fiscal Responsibility Act Deficit	-143.2	-832.7	-956.2	-2,281.6	-2,448.0	-903.5	823.9	1,597.7	2,030.5
Transactions in financial assets and liabilities	1,794.6	2,049.2	1,867.0	3,503.4	4,631.4	3,676.7	2,329.7	2,142.7	2,292.7
Net Acquisition of Financial Assets	-180.4	1,228.6	0.0	-1,228.6	0.0	0.0	0.0	0.0	0.0
Domestic	-180.4	1,228.6	0.0	-1,228.6	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	0.0
Net Incurrence of Liabilities	1,614.2	3,277.8	1,867.0	2,274.8	4,631.4	3,676.7	2,329.7	2,142.7	2,292.7
Domestic	736.2	-319.3	-629.4	603.8	757.2	536.3	1,025.2	561.2	260.0
<i>Debt securities: Treasury bills</i>	530.9	-516.9	-329.4	1,007.3	328.1	224.0	240.8	99.1	6.4
<i>Debt securities: Treasury bonds</i>	205.3	343.7	-300.0	-300.0	529.6	737.3	784.4	462.1	253.6
<i>Loans</i>	0.0	-146.0	0.0	-103.5	-100.5	-425.0	0.0	0.0	0.0
External	878.0	3,596.2	2,496.1	1,671.4	3,873.8	3,140.4	1,304.3	1,581.1	2,032.7
<i>Debt securities: Sovereign bonds</i>	0.0	1,672.2	640.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Loans</i>	878.0	1,924.0	1,856.1	1,671.4	3,873.8	3,140.4	1,304.3	1,581.1	2,032.7
Memorandum items	0.0	0.8	0.3	-0.4	0.3	0.0	0.2	0.3	0.0
Gross Domestic Product⁵	74,225.0	80,113.4	82,341.1	84,554.1	92,206.2	100,898.6	110,728.1	119,113.2	126,776.0

Source: Department of Treasury

1. General government represents national and provincial governments, the Autonomous Bougainville government and commercial and statutory authorities. District and local level governments are reflected as grants from provincial governments. The statement is produced to reflect transactions on

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. Represents, revenue minus expense, excluding consumption of fixed capital (CFC). CFC are not yet calculated and reported for the government

4. Represent net lending/net borrowing excluding interest expense or net interest expense.

5. Total nominal GDP by economic activity, Actual: *National Statistics Office* and Projections: *Treasury Department*.

*Net Acquisition of Non-Financial Assets, excludes operational costs like maintenance and repair of fixed assets which are included in the use of goods

6. K1,228.6 million booked as cash assets for 2018 from the Sovereign bond Trust Account

7. FRA deficit definition excludes concessional multilateral financing from NRPB. Current figure excludes all concessional financing. It will be adjusted for bilateral financing in the next iteration of the statement.

Economic Items Descriptions

1. **For use of Goods and Services** – Mostly comprises of operational funding and big ticket items like TFF, Utilities and Rentals, Medical supplies and 25% of capital (PIP) fund
2. **Grants** – comprises of SIPs, provincial functional grants, and all other constitutional grants (SPA, DSG, SSG etc.).
3. **Social Benefits** – includes comrade trustees, Defense and other social schemes
4. **Other Expense** – comprises mainly of TESAS and other education and health schemes and
5. **Net Acquisition of Non-Financial Assets** – comprises mostly of Donor grants, project support loans and 50% of GoPNG PIP funding.

Table 11: Statement of Sources and Uses of Cash

Kina Million	Actual		Budget Estimates		Projection			
	2017	2018	2019 Suppl.	2020 Budget	2021	2022	2023	2024
CASH FLOWS FROM OPERATING ACTIVITIES								
Revenue Cash Flows	10,085.2	12,248.8	12,079.3	13,163.4	14,052.5	15,367.9	16,647.8	17,688.1
Taxes	9,141.4	10,475.8	10,447.7	11,161.5	12,102.8	13,393.3	14,623.2	15,605.0
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Revenue	943.8	1,773.5	1,631.7	2,001.9	1,949.7	1,974.7	2,024.7	2,083.2
<i>Revenue as percentage of GDP</i>	<i>13.6%</i>	<i>15.3%</i>	<i>0.1</i>	<i>14.3%</i>	<i>13.9%</i>	<i>13.9%</i>	<i>14.0%</i>	<i>14.0%</i>
Expense cash flows²	9,968.6	12,061.2	12,930.8	13,915.2	13,810.0	13,441.7	14,093.5	14,701.8
Compensation of employees	4,268.9	5,074.6	5,224.7	5,232.5	5,418.6	5,097.4	5,291.7	5,486.8
Uses of goods and services	4,138.1	4,879.2	4,660.2	4,772.4	4,455.8	4,395.6	4,489.9	4,682.3
Interest	1,524.9	1,853.3	2,083.9	2,140.5	2,188.2	2,271.9	2,480.5	2,602.4
Grants	-56.6	164.2	871.6	1,651.8	1,629.3	1,558.6	1,712.7	1,810.1
Other payments	93.3	89.9	90.5	118.1	118.0	118.3	118.7	120.2
<i>Expense as percentage of GDP</i>	<i>13.4%</i>	<i>15.1%</i>	<i>15.7%</i>	<i>15.1%</i>	<i>13.7%</i>	<i>12.1%</i>	<i>11.8%</i>	<i>11.6%</i>
Net cash inflow from operating activities	116.6	187.6	-851.5	-751.9	242.5	1,926.2	2,554.3	2,986.4
CASH FLOWS FROM TRANSACTIONS IN NONFINANCIAL ASSETS:								
Net cash outflow from investment in nonfinancial assets	1,803.8	2,112.8	2,478.8	3,367.4	3,463.8	3,829.3	4,254.8	4,821.2
Expenditure cash flows	11,772.4	14,173.9	15,409.6	17,282.7	17,273.8	17,271.0	18,348.4	19,523.0
Cash surplus (+) / Cash deficit (-)	-1,687.2	-1,925.2	-3,330.3	-4,119.3	-3,221.3	-1,903.1	-1,700.5	-1,834.9
<i>Surplus/Deficit as percentage of GDP</i>	<i>-2.3%</i>	<i>-2.4%</i>	<i>-4.0%</i>	<i>-4.5%</i>	<i>-3.2%</i>	<i>-1.7%</i>	<i>-1.4%</i>	<i>-1.4%</i>
CASH FLOWS FROM TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES (FINANCING):	-1,794.7							
Transactions in financial assets and liabilities	1,433.9	4,505.6	1,046.6	4,631.1	3,676.6	2,329.4	2,142.3	2,292.7
Net acquisition of financial assets other than cash	-180.38	1,228.60	-1,228.60	-	-	-	-	-
Domestic	-180.38	1,228.60	-1,228.60	-	-	-	-	-
External	-	-	-	-	-	-	-	-
Net incurrence of liabilities	1,614.3	3,277.0	2,275.2	4,631.1	3,676.6	2,329.4	2,142.3	2,292.7
Domestic	736.2	-319.3	603.8	757.2	536.3	1,025.2	561.2	260.0
External	878.0	3,596.2	1,671.4	3,873.8	3,140.4	1,304.3	1,581.1	2,032.7
Net cash inflow from financing activities	1,794.7	2,048.4	3,503.8	4,631.1	3,676.6	2,329.4	2,142.3	2,292.7
<i>Net cash inflow as percentage of GDP</i>	<i>2.4%</i>	<i>2.6%</i>	<i>4.3%</i>	<i>5.0%</i>	<i>3.6%</i>	<i>2.1%</i>	<i>1.8%</i>	<i>1.8%</i>
Net change in the stock of cash	107.5	123.2	173.5	511.7	455.4	426.3	441.8	457.8
Gross Domestic Product³	74,225.0	80,113.4	82,341.1	92,206.2	100,898.6	110,728.1	119,113.2	126,776.0

Source: Department of Treasury

1. General government represents national and provincial governments, the Autonomous Bougainville government and commercial and statutory authorities. District and local level governments are reflected as grants from provincial governments. The statement is produced to reflect transactions on a modified cash basis of accounting but excludes 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

**Table 12: General Government Revenue 2014 GFS Economic Classification
(Kina Million)**

Year	2018	2019	2020	2021	2022	2023	2024
REVENUE	14085.1	13022.4	14095.4	15060.8	16460.6	17724.4	18833.8
TAXES	10475.9	10667.7	11307.8	12198.9	13455.4	14664.2	15631.8
Taxes on Income, Profits and Capital Gains	6119.2	6115.5	6229.5	6976.6	7641.2	8296.9	8900.1
Payable by individuals	3101.9	2999.6	3215.0	3678.7	4082.9	4492.9	4877.6
Personal Income Tax	3101.9	2999.6	3215.0	3678.7	4082.9	4492.9	4877.6
Payable by corporations and other enterprises	2751.9	2773.3	2696.0	2949.7	3180.4	3396.2	3586.0
Company Tax	1933.0	1923.6	2085.4	2339.2	2534.8	2729.6	2904.9
Mining and Petroleum Taxes	775.0	805.0	561.2	553.5	583.5	599.2	609.2
Royalties Tax	26.3	26.83	29.6	33.20	36.3	39.4	42.0
Management Tax	17.6	17.89	19.8	23.72	25.8	28.0	29.9
Other taxes on income, profits and capital gains	265.4	342.6	318.4	348.2	377.8	407.9	436.5
Dividend Withholding Tax Non Mining	154.6	219.8	171.0	188.8	206.1	224.5	242.5
Interest Withholding Tax	110.8	86.9	107.3	117.8	128.2	138.7	148.7
Non-Resident Insurers Withholding Tax	0.0	35.8	40.0	41.4	43.3	44.4	45.1
Sundry IRC Taxes & Income	0.0	0.0	0.1	0.2	0.2	0.2	0.2
Taxes on Payroll and Workforce	8.6	1.6	0.0	0.0	0.0	0.0	0.0
Training Levy	8.6	1.6	0.0	0.0	0.0	0.0	0.0
Taxes on Goods and Services	3537.3	3753.1	4195.1	4279.6	4778.2	5273.8	5591.4
General taxes on goods and services	2167.4	2110.6	2397.4	2521.0	2863.3	3190.9	3374.6
Value Added Tax	2067.1	2062.0	2341.9	2407.0	2740.0	3056.9	3232.3
GST ²	2067.1	2062.0	2341.9	2407.0	2740.0	3056.9	3232.3
GST Collection at Provinces	1120.3	1296.3	1419.7	1454.5	1636.8	1807.9	1906.0
GST Collection at Ports	1089.0	1074.5	1176.7	1219.9	1390.9	1540.4	1618.9
GST Refunds	288.3	308.8	254.4	267.4	287.6	291.3	292.6
Sales taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Turnover & other general taxes on goods and services	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on financial and capital transactions	100.3	48.6	55.5	114.0	123.3	134.0	142.3
Bank Account Debit Fees	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stamp Duties	100.3	48.6	55.5	114.0	123.3	134.0	142.3
Excise	1074.8	1363.7	1507.0	1470.1	1600.5	1740.8	1852.8
Excise Duty	774.0	1049.8	1215.0	1133.6	1233.5	1340.7	1426.7
Import Excise	300.8	313.9	292.0	336.5	367.0	400.1	426.1
Profits of fiscal monopolies	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on specific services	248.1	275.7	288.8	281.8	307.1	334.6	356.1
Bookmakers' Turnover Tax	20.4	16.4	18.2	37.0	40.4	44.0	46.8
Gaming Machine Turnover Tax	205.1	237.3	246.7	234.3	255.4	278.4	296.3
Departure Tax	22.6	22.0	23.9	10.5	11.3	12.2	13.0
Taxes on use of goods and services on permission to use go	2.8	0.0	0.9	1.5	1.5	1.5	1.5
Motor vehicles taxes	2.2	0.0	0.3	0.3	0.3	0.3	0.3
Motor Vehicle Registration	1.8	0.0	0.3	0.3	0.3	0.3	0.3
Other taxes on use of goods and on permission to use good	0.6	0.0	0.6	1.2	1.2	1.2	1.2
Coastal Trading Licenses	0.3	0.0	0.3	0.5	0.5	0.5	0.5
Inflammable Liquid	0.2	0.0	0.2	0.4	0.4	0.4	0.4
Other taxes on goods and services	44.3	3.0	1.0	5.3	5.8	6.0	6.4
Sundry Taxes (Customs)	44.3	3.0	1.0	5.3	5.8	6.0	6.4
Taxes on International Trade and Transactions	810.7	797.6	883.2	942.6	1035.9	1093.4	1140.3
Customs and other import duties	418.3	399.4	427.8	462.5	503.9	550.8	585.7
Import Duty	325.3	399.4	427.8	462.5	503.9	550.8	585.7
Other Import Taxes	93.0	0.0	0.0	0.0	0.0	0.0	0.0
Sundry Tax Receipts (Import Duties)	93.02	0.00	0.00	0.00	0.00	0.0	0.0
Taxes on exports	392.4	398.2	455.4	480.1	532.0	542.7	554.7
Export Tax	392.4	398.2	455.4	480.1	532.0	542.7	554.7
GRANTS	1835.7	943.1	932.1	1008.3	1092.7	1076.5	1145.8
From Foreign Governments	1562.4	775.5	766.2	766.2	766.2	766.2	766.2
Current	1249.9	620.4	612.9	612.9	612.9	612.9	612.9
Cash	0.0	0.0	0.0	0.0	0.0	0.0	0.0
In-Kind	1249.9	620.4	612.9	612.9	612.9	612.9	612.9
Capital	312.5	155.1	153.2	153.2	153.2	153.2	153.2
Cash	0.0	0.0	0.0	0.0	0.0	0.0	0.0
In-Kind	312.5	155.1	153.2	153.2	153.2	153.2	153.2
From International Organizations	273.3	167.6	165.9	242.1	326.5	310.4	379.6
Current	218.6	134.1	132.7	208.9	293.3	277.2	346.4
Cash	0.0	0.0	0.0	0.0	0.0	0.0	0.0
In-Kind	218.6	134.1	132.7	208.9	293.3	277.2	346.4
Capital	54.7	33.5	33.2	33.2	33.2	33.2	33.2
Cash	0.0	0.0	0.0	0.0	0.0	0.0	0.0
In-Kind	54.7	33.5	33.2	33.2	33.2	33.2	33.2
OTHER REVENUE	1773.6	1411.6	1855.5	1853.6	1912.6	1983.7	2056.2
Property Income	1063.6	934.2	1153.7	928.7	953.7	1003.7	1050.1
Interest	0.0	0.0	0.7	0.7	0.7	0.7	4.0
Dividends	1033.5	905.0	1050.0	880.0	880.0	880.0	898.0
Mining and Petroleum Dividends	653.5	700.0	800.0	500.0	500.0	500.0	500.0
Dividends from Statutory Authorities	380.0	100.0	150.0	100.0	100.0	100.0	100.0
Dividends from State Owned Enterprises	0.0	105.0	100.0	280.0	280.0	280.0	298.0
Rent	30.1	29.2	103.1	48.1	73.1	123.1	148.1
Land Lease Rental	23.4	25.6	100.0	45.0	70.0	120.0	145.0
License Fees and Royalty Payments	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Petroleum Prospecting Licenses	6.6	3.6	3.0	3.0	3.0	3.0	3.0
Sales of goods and services	32.2	54.5	46.7	239.5	239.5	239.5	251.7
Administrative fees	8.2	30.3	4.0	119.8	119.8	119.8	127.6
Incidental sales by nonmarket establishments	24.0	24.2	42.7	119.7	119.7	119.7	124.1
Imputed sales of goods and services	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fines, penalties, and forfeits	1.9	0.8	0.8	0.8	0.8	0.8	0.8
Sheriffs Fees and Poundage	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Judicial Fines	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fines - Criminal	0.0	0.0	0.0	0.0	0.0	0.0	0.0
District Courts Fines	0.8	0.3	0.3	0.3	0.3	0.3	0.3
Forfeitures & Court Bails	1.0	0.4	0.4	0.4	0.4	0.4	0.4
Transfers not elsewhere classified	675.9	451.9	654.3	684.6	718.6	739.7	753.6
Current transfers not elsewhere classified	675.9	451.9	654.3	684.6	718.6	739.7	753.6
Other current transfers	675.9	451.9	654.3	684.6	718.6	739.7	753.6
Payroll Commission	21.3	12.1	12.1	12.1	12.1	12.1	12.1
State Services and Statutory Authority	655.0	439.6	641.9	672.2	706.2	727.3	741.3
SWF	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Premiums, fees and claims related to nonlife insurance and st	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

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

Table 13A: General Government Expense by Economic Classification

Kina Million	Actual		Budget estimates		Projection			
	2017	2018	2019 Suppl. Budget	2020 Budget	2021	2022	2023	2024
Compensation of Employees	4,376.4	5,198.4	5,323.5	5,416.4	5,608.8	5,275.6	5,476.4	5,678.1
Wages and salaries	4,201.2	4,486.4	4,860.5	4,542.4	4,706.0	4,427.7	4,596.9	4,766.5
Wages and salaries in cash	4,093.7	4,362.7	4,761.7	4,358.5	4,515.8	4,249.5	4,412.2	4,575.3
Wages and salaries in kind	107.4	123.7	98.9	183.9	190.2	178.2	184.7	191.2
Employers' social contributions	175.2	711.9	463.0	874.0	902.8	847.9	879.5	911.6
Actual social contributions	175.2	711.9	463.0	874.0	902.8	847.9	879.5	911.6
Use of goods and services*	4,138.1	4,879.2	4,660.2	4,772.4	4,455.8	4,395.6	4,489.9	4,682.3
Use of goods and services	4,138.1	4,879.2	4,660.2	4,772.4	4,455.8	4,395.6	4,489.9	4,682.3
Use of goods and services	4,138.1	4,879.2	4,660.2	4,772.4	4,455.8	4,395.6	4,489.9	4,682.3
Interest**	1,524.9	1,853.3	2,083.9	2,140.5	2,188.2	2,271.9	2,480.5	2,602.4
To nonresidents	168.9	210.5	435.8	573.3	586.0	608.4	664.3	697.0
Interest to Non residents	168.9	210.5	435.8	573.3	586.0	608.4	664.3	697.0
To residents other than general government	1,356.0	1,642.8	1,648.1	1,567.2	1,602.2	1,663.4	1,816.2	1,905.4
Interest to residents other than general governments	1,356.0	1,642.8	1,648.1	1,567.2	1,602.2	1,663.4	1,816.2	1,905.4
Grants***	1,383.3	1,999.8	1,814.7	2,583.9	2,637.6	2,651.3	2,789.2	2,955.9
Grants to other general government units	1,383.3	1,999.8	1,814.7	2,583.9	2,637.6	2,651.3	2,789.2	2,955.9
Grants to other general governments current	1,206.8	1,550.4	985.3	1,975.4	2,028.8	2,040.8	2,145.6	2,273.9
Grants to other general governments capital	176.4	449.4	829.4	608.4	608.8	610.5	643.6	682.0
Social Benefits	0.0	0.9	74.3	256.4	265.2	248.4	257.5	266.6
Social assistance benefits	0.0	0.9	74.3	256.4	265.2	248.4	257.5	266.6
Social assistance benefits in cash	0.0	0.9	74.3	256.4	265.2	248.4	257.5	266.6
Other expenses	93.3	89.9	90.5	113.0	113.0	113.1	113.4	114.4
Transfers not elsewhere classified	93.3	89.9	90.5	113.0	113.0	113.1	113.4	114.4
Other expense - Current transfers not elsewhere classified	93.3	89.9	90.5	113.0	113.0	113.1	113.4	114.4
Net Aquisition Nonfinancial assets****	1,803.8	2,112.8	2,478.8	3,443.7	3,468.8	3,834.3	4,260.1	4,822.3
Nonproduced assets	0.0	0.0	9.3	0.2	0.2	0.2	0.2	0.2
NFA: Intangible nonproduced assets	0.0	0.0	1.6	0.0	0.0	0.0	0.0	0.0
NFA: Land	0.0	0.0	7.7	0.2	0.2	0.2	0.2	0.2
Acquisition of Fixed assets	1,803.8	2,112.8	2,469.6	3,443.5	3,468.6	3,834.1	4,259.9	4,822.1
NFA: Buildings and structures	395.5	575.8	230.5	1,186.3	1,354.0	1,596.6	1,863.0	2,199.5
NFA: Dwellings	0.0	0.0	54.5	49.5	49.5	49.7	52.4	55.5
NFA: Fixed assets	1,275.2	1,405.8	2,040.5	2,086.3	1,944.4	2,056.0	2,196.0	2,398.5
NFA: Information, computer, & telecommunications equipment	22.3	19.7	22.2	53.6	62.7	73.7	87.4	103.7
NFA: Machinery & equipment other than transport equipment	12.6	15.2	13.5	15.3	15.3	15.4	16.2	17.2
NFA: Other structures	3.6	1.6	23.6	46.0	36.1	36.2	38.1	40.4
NFA: Transport equipment	1.4	4.8	84.8	6.5	6.5	6.5	6.9	7.3
Total expenditure	13,319.7	16,134.2	16,525.9	18,726.2	18,737.4	18,790.0	19,867.0	21,121.9
as % of GDP	18.0%	19.6%	19.5%	20.3%	18.6%	17.0%	16.7%	16.7%

* Use of goods and services includes operational cost like maintenance and repair of fixed assets.

** Excluding K16.4 million for fees, other than interest, captured under use of goods and services.

*** Grants are inclusive of payments made to other general government units for the purposes of capital projects.

**** Net Acquisition of Non-Financial Assets, excludes operational costs like maintenance and repair of fixed assets which are included in the use of goods and services.

Table 13B: General Government Expense by Agency Type

Kina Million	Actuals		Budget Estimates		Projection			
	2017	2018	2019 Suppl. Budget	2020 Budget	2021	2022	2023	2024
National Departments	5,728.2	6,746.2	8,231.6	7,943.6	7,744.5	7,490.9	7,852.7	8,163.7
Compensation of Employees	2,266.2	2,817.2	2,652.3	2,414.5	2,505.3	2,366.5	2,450.2	2,554.0
Wages and salaries	2,128.8	2,129.5	2,227.7	1,574.8	1,636.8	1,553.0	1,616.9	1,680.9
Wages and salaries in cash	2,067.7	2,057.9	2,188.0	1,477.8	1,536.5	1,459.0	1,519.5	1,580.0
Wages and salaries in kind	61.0	71.6	39.7	97.0	100.4	94.0	97.4	100.9
Employers' social contributions	157.5	687.5	434.6	839.7	868.5	813.5	843.2	873.2
Actual social contributions	157.5	687.5	434.6	839.7	868.5	813.5	843.2	873.2
Use of goods and services	2,306.6	2,594.3	3,635.3	3,251.2	3,103.1	2,996.8	3,159.2	3,250.3
Use of goods and services	2,306.6	2,594.3	3,635.3	3,251.2	3,103.1	2,996.8	3,159.2	3,250.3
Use of goods and services	2,306.6	2,594.3	3,635.3	3,251.2	3,103.1	2,996.8	3,159.2	3,250.3
Grants	613.2	779.2	849.9	776.9	777.4	779.6	821.8	870.8
Grants to other general government units	613.2	779.2	849.9	776.9	777.4	779.6	821.8	870.8
Grants to other general governments current	613.2	779.2	548.4	776.9	777.4	779.6	821.8	870.8
Grants to other general governments capital	0.0	0.0	301.5	0.0	0.0	0.0	0.0	0.0
Other expenses	79.7	72.7	88.5	111.2	111.2	111.2	111.2	111.2
Transfers not elsewhere classified	79.7	72.7	88.5	111.2	111.2	111.2	111.2	111.2
Other expense - Current transfers not elsewhere classified	79.7	72.7	88.5	111.2	111.2	111.2	111.2	111.2
Net Acquisition Nonfinancial assets	442.5	482.1	945.0	1,180.7	1,031.3	1,034.2	1,090.3	1,155.3
Nonproduced assets	0.0	0.0	9.3	0.2	0.2	0.2	0.2	0.2
NFAIntangible nonproduced assets	0.0	0.0	1.6	0.0	0.0	0.0	0.0	0.0
NFALand	0.0	0.0	7.7	0.2	0.2	0.2	0.2	0.2
Acquisition of Fixed assets	442.5	482.1	935.8	1,180.4	1,031.1	1,034.0	1,090.1	1,155.1
NFABuildings and structures	0.0	0.0	0.5	10.0	10.0	10.0	10.5	11.2
NFA dwellings	0.0	0.0	18.0	15.1	15.1	15.1	15.9	16.9
NFAFixed assets	418.4	446.7	856.4	1,099.2	949.8	952.5	1,004.1	1,064.7
NFAInformation, computer, & telecommunications equipment	8.9	17.7	22.2	7.4	7.4	7.4	7.9	8.3
NFA Machinery & equipment other than transport equipment	10.4	11.4	13.5	15.3	15.3	15.4	16.2	17.2
NFAOther structures	3.4	1.6	23.6	27.1	27.1	27.2	28.6	30.3
NFATransport equipment	1.4	4.7	1.6	6.4	6.4	6.5	6.8	7.2
Social Benefits	0.0	0.9	50.6	208.5	215.6	201.9	209.3	216.8
Social assistance benefits	0.0	0.9	50.6	208.5	215.6	201.9	209.3	216.8
Social assistance benefits in cash	0.0	0.9	50.6	208.5	215.6	201.9	209.3	216.8
Out of scope for GFS coding purposes	0.0	0.0	0.0	0.6	0.6	0.7	0.7	5.3
Out of scope for GFS coding purposes	0.0	0.0	0.0	0.6	0.6	0.7	0.7	5.3
Provincial Governments	3,178.5	3,560.9	2,919.3	3,940.3	3,899.4	3,794.9	3,971.9	4,167.8
Compensation of Employees	1,686.4	1,823.0	1,974.1	1,686.3	1,744.1	1,633.6	1,693.4	1,753.4
Wages and salaries	1,686.5	1,823.0	1,974.1	1,686.3	1,744.1	1,633.6	1,693.4	1,753.4
Wages and salaries in cash	1,645.1	1,782.7	1,935.0	1,640.8	1,697.0	1,589.5	1,647.6	1,706.1
Wages and salaries in kind	40.4	40.3	39.1	45.5	47.1	44.1	45.7	47.35
Employers' social contributions	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Actual social contributions	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Use of goods and services	631.7	713.6	17.0	522.7	423.0	424.2	447.2	473.8
Use of goods and services	631.7	713.6	17.0	522.7	423.0	424.2	447.2	473.8
Use of goods and services	631.7	713.6	17.0	522.7	423.0	424.2	447.2	473.8
Grants	659.3	1,002.8	910.2	1,686.3	1,687.3	1,692.0	1,783.8	1,890.1
Grants to other general government units	659.3	1,002.8	910.2	1,686.3	1,687.3	1,692.0	1,783.8	1,890.1
Grants to other general governments current*	504.9	626.9	384.1	1,077.9	1,078.5	1,081.6	1,140.2	1,208.2
Grants to other general governments capital	154.4	375.9	526.1	608.4	608.8	610.5	643.6	682.0
Net Acquisition Nonfinancial assets	201.0	21.5	18.0	45.0	45.0	45.2	47.6	50.4
Acquisition of Fixed assets	201.0	21.5	18.0	45.0	45.0	45.2	47.6	50.4
NFAFixed assets*	201.0	21.5	18.0	45.0	45.0	45.2	47.6	50.4
Autonomous Bougainville Government	165.2	225.9	193.8	241.0	237.6	230.2	240.6	252.1
Compensation of Employees	111.3	119.8	64.6	118.5	122.6	114.8	119.0	123.2
Wages and salaries	111.2	119.8	64.6	118.5	122.6	114.8	119.0	123.2
Wages and salaries in cash	108.8	116.9	61.8	109.5	113.2	106.1	110.0	113.9
Wages and salaries in kind	2.4	2.9	2.8	9.0	9.3	8.7	9.0	9.4
Employers' social contributions	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Actual social contributions	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Use of goods and services	22.4	28.1	34.6	97.5	90.1	90.3	95.2	100.9
Use of goods and services	22.4	28.1	34.6	97.5	90.1	90.3	95.2	100.9
Use of goods and services	22.4	28.1	34.6	97.5	90.1	90.3	95.2	100.9
Grants	31.5	78.0	35.9	25.0	25.1	25.1	26.4	28.0
Grants to other general government units	31.5	78.0	35.9	25.0	25.1	25.1	26.4	28.0
Grants to other general governments current	9.5	4.5	34.1	25.0	25.0	25.1	26.4	28.0
Grants to other general governments capital	22.0	73.5	1.8	0.0	0.0	0.0	0.0	0.0
Net Acquisition Nonfinancial assets	0.0	0.0	58.7	0.0	0.0	0.0	0.0	0.0
Fixed Assets	0.0	0.0	58.7	0.0	0.0	0.0	0.0	0.0
Commercial & Statutory Authorities	597.9	1,039.2	1,319.6	2,147.6	2,004.6	1,926.6	1,867.0	1,944.4
Compensation of Employees	292.4	438.6	622.5	1,197.0	1,236.8	1,160.7	1,203.8	1,247.4
Wages and salaries	275.7	414.1	594.1	1,162.7	1,202.5	1,126.3	1,167.6	1,209.0
Wages and salaries in cash	272.1	405.2	576.8	1,130.4	1,169.1	1,095.0	1,135.1	1,175.3
Wages and salaries in kind	3.6	8.9	17.3	32.3	33.5	31.3	32.5	33.6
Employers' social contributions	16.6	24.4	28.4	34.3	34.3	34.4	36.3	38.4
Actual social contributions	16.6	24.4	28.4	34.3	34.3	34.4	36.3	38.4
Use of goods and services	137.3	324.1	508.7	551.0	451.4	451.7	332.6	351.5
Use of goods and services	137.3	324.1	508.7	551.0	451.4	451.7	332.6	351.5
Use of goods and services	137.3	324.1	508.7	551.0	451.4	451.7	332.6	351.5
Grants	38.9	46.6	3.1	95.6	70.7	70.9	74.7	79.1
Grants to other general government units	38.9	46.6	3.1	95.6	70.7	70.9	74.7	79.1
Grants to other general governments current	38.9	46.6	3.1	95.6	70.7	70.9	74.7	79.1
Other expenses	13.6	17.2	2.0	1.9	1.8	2.0	2.2	3.2
Transfers not elsewhere classified	13.6	17.2	2.0	1.9	1.8	2.0	2.2	3.2
Other expense - Current transfers not elsewhere classified	13.6	17.2	2.0	1.9	1.8	2.0	2.2	3.2
Net Acquisition Nonfinancial assets	115.8	212.7	159.5	249.9	189.9	190.5	200.8	212.8
Acquisition of Fixed assets	115.8	212.7	159.5	249.9	189.9	190.5	200.8	212.8
NFABuildings and structures	0.0	0.0	2.7	2.3	2.3	2.3	2.4	2.6
NFA dwellings	0.0	0.0	36.5	34.5	34.5	34.6	36.4	38.6
NFAFixed assets	113.4	206.8	120.2	193.7	143.8	144.2	152.0	161.1
NFA Machinery & equipment other than transport equipment	2.2	3.8	0.0	0.0	0.0	0.0	0.0	0.0
NFAOther structures	0.2	0.0	0.0	19.0	9.0	9.0	9.5	10.1
NFATransport equipment	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
NFAInformation, computer, and telecommunications (ICT) equipment	0.0	2.0	0.0	0.3	0.3	0.3	0.4	0.4
Social Benefits	0.0	0.0	23.7	48.0	49.6	46.5	48.2	49.9
Social assistance benefits	0.0	0.0	23.7	48.0	49.6	46.5	48.2	49.9
Social assistance benefits in cash	0.0	0.0	23.7	48.0	49.6	46.5	48.2	49.9
Out of scope for GFS coding purposes	0.0	0.0	0.0	4.4	4.4	4.5	4.7	0.5
Out of scope for GFS coding purposes	0.0	0.0	0.0	4.4	4.4	4.5	4.7	0.5
Debt Service (Interest Payment)	1,633.9	1,934.7	2,101.6	2,156.9	2,205.0	2,289.3	2,499.6	2,622.4
Use of goods and services	109.0	81.4	17.7	16.4	16.8	17.4	19.0	20.0
Use of goods and services	109.0	81.4	17.7	16.4	16.8	17.4	19.0	20.0
Use of goods and services	109.0	81.4	17.7	16.4	16.8	17.4	19.0	20.0
Interest	1,524.9	1,853.3	2,083.9	2,140.5	2,188.2	2,271.9	2,480.5	2,602.4
To nonresidents	168.9	210.5	435.8	573.3	586.0	608.4	664.3	697.0
Interest to Non residents	168.9	210.5	435.8	573.3	586.0	608.4	664.3	697.0
To residents other than general government	1,356.0	1,642.8	1,648.1	1,567.2	1,602.2	1,663.4	1,816.2	1,905.4
Interest to residents other than general governments	1,356.0	1,642.8	1,648.1	1,567.2	1,602.2	1,663.4	1,816.2	1,905.4
Expenditure supported by donor grants	1,439.9	1,835.7	943.1	932.1	1,008.3	1,092.7	1,076.6	1,145.8
Use of goods and services	882.6	1,030.0	370.2	244.2	264.2	286.3	282.0	300.2
Use of goods and services	882.6	1,030.0	370.2	244.2	264.2	286.3	282.0	300.2
Use of goods and services	882.6	1,030.0	370.2	244.2	264.2	286.3	282.0	300.2
Grants	40.3	93.2	15.6	71.4	77.2	83.7	82.5	87.8
Grants to other general government units	40.3	93.2	15.6	71.4	77.2	83.7	82.5	87.8
Grants to other general governments current	40.3	93.2	15.6	71.4	77.2	83.7	82.5	87.8
Net Acquisition Nonfinancial assets	517.0	712.5	557.4	616.5	666.9	722.7	712.1	757.8
Acquisition of Fixed assets (Buildings and Structures)	517.0	712.5</						

Table 14: Transactions in Assets and Liabilities for General Government

Kina Million	Actuals		Estimates		Projections				
	2017	2018	2019 Budget	2019 Suppl. Budget	2020	2021	2022	2023	2024
Net Acquisition of Financial Assets	-180.4	1,228.6	0.0	-1,228.6	0.0	0.0	0.0	0.0	0.0
Domestic	-180.4	1,228.6	0.0	-1,228.6	0.0	0.0	0.0	0.0	0.0
Currency and deposits	-180.4	1,228.6	0.0	-1,228.6	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.0	0.0	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	0.0
Net Incurrence of Liabilities	1,614.2	3,277.8	1,867.0	2,274.8	4,630.0	3,676.7	2,329.7	2,142.7	2,292.7
Domestic	736.2	-319.3	-629.4	603.8	1,257.2	536.3	1,025.2	561.2	260.0
Debt securities	736.2	-173.3	-629.4	707.3	1,357.7	961.3	1,025.2	561.2	260.0
New instruments	12,535.8	12,178.8	9,286.2	10,622.9	12,167.8	10,790.6	11,911.1	11,801.6	10,411.7
Amortisation	11,799.6	12,352.1	9,915.6	9,915.6	10,810.1	9,829.3	10,885.9	11,240.4	10,151.7
Treasury Bills	530.9	-516.9	-329.4	1,007.3	328.1	224.0	240.8	99.1	6.4
New instruments	11,648.1	11,178.8	8,725.5	10,062.2	9,600.3	8,982.2	10,342.9	10,473.1	9,768.2
Amortisation	11,117.2	11,695.7	9,054.9	9,054.9	9,272.2	8,758.2	10,102.1	10,374.0	9,761.8
Treasury Bonds	205.3	343.7	-300.0	-300.0	1,029.6	737.3	784.4	462.1	253.6
New instruments	887.7	1,000.0	560.7	560.7	2,567.5	1,808.4	1,568.2	1,328.5	643.5
Amortisation	682.3	656.4	860.7	860.7	1,537.9	1,071.1	783.8	866.4	389.9
Loans	0.0	-146.0	0.0	-103.5	-100.5	-425.0	0.0	0.0	0.0
New borrowing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	146.0	0.0	103.5	100.5	425.0	0.0	0.0	0.0
Insurance, pension, and standardized guarantee schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	0.0	0.0	-103.4	0.0	0.0	0.0	0.0	0.0	0.0
External	878.0	3,596.2	2,496.1	1,671.4	3,373.8	3,140.4	1,304.3	1,581.1	2,032.7
Monetary gold and special drawing rights (SDRs)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities	0.0	1,672.2	640.0	0.0	0.0	0.0	0.0	0.0	0.0
New instruments	0.0	1,672.2	640.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Concessional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial financing	0.0	1,672.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New instruments	0.0	1,672.2	0.0	0.0	0.0	0.0	0.0	0.0	2,092.7
Amortisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Extraordinary financing	0.0	0.0	640.0	0.0	0.0	0.0	0.0	0.0	0.0
New instruments	0.0	0.0	640.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	878.0	1,924.0	1,856.1	1,671.4	3,373.8	3,140.4	1,304.3	1,581.1	2,032.7
New borrowing	1,149.3	2,233.9	2,291.9	2,107.2	5,606.9	4,472.3	1,965.2	2,359.0	2,830.0
Amortisation	271.3	309.9	435.8	435.8	2,233.1	1,332.0	660.9	777.9	797.3
Concessional financing	576.1	527.6	464.8	464.8	992.5	1,209.0	1,401.0	1,675.0	2,098.0
New borrowing	802.4	791.7	816.9	816.9	1,365.0	1,638.4	1,965.2	2,359.0	2,830.0
Amortisation	226.3	264.1	352.1	352.1	372.5	429.5	564.2	684.0	732.0
Commercial financing	346.9	601.9	-36.3	-36.3	85.5	-138.4	-56.2	-57.5	-20.7
New borrowing	346.9	619.9	0.0	0.0	967.7	750.0	0.0	0.0	0.0
Amortisation	0.0	18.0	36.3	36.3	882.2	888.4	56.2	57.5	20.7
Extraordinary financing	-45.0	794.5	1,427.6	1,242.9	2,295.8	2,069.8	-40.5	-36.4	-44.6
New borrowing	0.0	822.3	1,475.0	1,290.3	3,274.2	2,083.9	0.0	0.0	0.0
Amortisation	45.0	27.8	47.4	47.4	978.4	14.1	40.5	36.4	44.6
Insurance, pension, and standardized guarantee schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items	0.0	0.8	0.3	-0.4	-1.1	0.0	0.2	0.3	0.0

1. General government represents national and provincial governments, the Autonomous Bougainville government and commercial and statutory

	2017	2018	2019 Budget	2019 Suppl. Budget	2020	2021	2022	2023	2024
OTHER ECONOMIC FLOWS	0.0	3,315.9	0.0	-18.3	0.0	0.0	0.0	0.0	0.0
Holding Gains and Losses	0.0	1,497.5	0.0	-18.3	0.0	0.0	0.0	0.0	0.0
Domestic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External	0.0	1,497.5	0.0	-18.3	0.0	0.0	0.0	0.0	0.0
Debt securities - Holding gains and losses*	0.0	11.5	0.0	17.0	0.0	0.0	0.0	0.0	0.0
Concessional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial financing	0.0	11.5	0.0	17.0	0.0	0.0	0.0	0.0	0.0
Extraordinary financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans - Holding gains and losses*	0.0	1,486.0	0.0	-35.3	0.0	0.0	0.0	0.0	0.0
Concessional financing	0.0	1,409.0	0.0	-35.3	0.0	0.0	0.0	0.0	0.0
Commercial financing	0.0	170.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Extraordinary financing	0.0	-93.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Changes in the Volume of Assets	0.0	1,818.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	0.0	1,279.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Treasury Bills	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Treasury Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	1,279.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External	0.0	539.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities - Holding gains and losses*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Concessional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Extraordinary financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans - Holding gains and losses*	0.0	539.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Concessional financing	0.0	411.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial financing	0.0	128.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Extraordinary financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Explanations of other flows

2018: K1,322m is the Government acquisition of 3 BSP guaranteed loans for Motu-Kea, Solw ara and NCD Roads (the first principle payment was made in 2018)

2018: K228m movement between external project loans and commercial represents the reclassification of a loan

2018: Inclusion of the previously disbursed loans from Ceska and EBChina (correction on prior years): K411m under project loans, and K128m under commercial loans

Explanation of Holding Gains and Losses

2018: figures represent a correction of debt to market rates which were previously recorded at issuance value

Table 15: Stocks of General Government Debt

Kina Million	Actuals		Estimates		Projection				
	2017	2018	2019 Budget	2019 Suppl. Budget	2020 Budget	2021	2022	2023	2024
Domestic	17,319.1	18,279.3	16,473.9	18,883.1	20,140.3	20,676.6	21,701.7	22,262.9	22,522.9
Debt securities	17,173.1	16,999.9	16,370.5	17,707.2	19,064.9	20,026.2	21,051.3	21,612.5	21,872.5
Treasury Bills	9,194.4	8,677.5	8,348.1	9,684.8	10,012.9	10,236.9	10,477.7	10,576.8	10,583.2
Treasury Bonds	7,978.7	8,322.4	8,022.4	8,022.4	9,052.0	9,789.3	10,573.7	11,035.8	11,289.4
Loans	146.0	1,279.4	103.4	1,175.9	1,075.4	650.4	650.4	650.4	650.4
External	6,385.1	12,017.8	14,513.9	13,670.9	17,044.7	20,185.1	21,489.4	23,070.5	25,103.2
Debt securities	0.0	1,683.7	2,323.7	1,700.7	1,700.7	1,700.7	1,700.7	1,700.7	1,700.7
Concessional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial financing	0.0	1,683.7	1,683.7	1,700.7	1,700.7	1,700.7	1,700.7	1,700.7	1,700.7
Extraordinary financing	0.0	0.0	640.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	6,385.1	10,334.1	12,190.2	11,970.2	15,344.0	18,484.4	19,788.7	21,369.8	23,402.5
Concessional financing	5,396.4	7,744.0	8,208.8	8,173.5	9,166.0	10,375.0	11,776.0	13,451.0	15,549.0
Commercial financing	1,033.7	1,933.6	1,897.3	1,897.3	1,982.8	1,844.4	1,788.2	1,730.7	1,710.0
Extraordinary financing	(45.0)	656.5	2,084.1	1,899.4	4,195.2	6,265.0	6,224.5	6,188.1	6,143.5
Total Central Government Debt	23,704.2	30,297.1	30,987.7	32,553.9	37,185.0	40,861.6	43,191.1	45,333.4	47,626.1
Total debt as percentage of GDP	32%	38%	38%	39%	40.3%	40%	39%	38%	38%
Gross Domestic Product²	74,225.0	80,113.4	82,341.1	84,554.1	92,206.2	100,898.6	110,728.1	119,113.2	126,776.0

1. General government represents national and provincial governments, the Autonomous Bougainville government and commercial and statutory authorities.

2. Total nominal GDP by economic activity, Actual: *National Statistics Office* and Projections: *Treasury Department*.

3. Total government debt stock in the above table excludes arrears worth K2,623m in 2018, K1,982m in 2019 and K930m in 2020. Classification of arrears will be included in the next iteration of the statement