

2021 NATIONAL BUDGET

VOLUME 1 ECONOMIC AND DEVELOPMENT POLICIES

For the year ending 31st December 2021

PRESENTED BY

HON. IAN LING-STUCKEY, CMG, MP

MINISTER FOR TREASURY

ON THE OCCASION OF THE PRESENTATION OF THE 2021 NATIONAL BUDGET

FOREWORD

On behalf of the Marape Government, I am honoured to present the 2021 National Budget under the theme: **"Consolidation for Growth"**.

The 2021 Budget was designed to demonstrate the steady hand of the Marape Government in consolidating actions to get the PNG economy back on a growth track.

Extraordinarily, this budget document is released, perhaps for the first time in PNG's history, amidst such enormous political uncertainty that it may not even be presented to Parliament. For the future of our country, I do hope that this budget is enacted.

This is a sensible and responsible budget designed for our times. It continues the task of consolidation we commenced with a Due Diligence exercise in September 2019, just over a year ago.

As a new Treasurer, although experienced former Minister and Governor, my starting challenge was that the previous budget figures could not be trusted. PNG had moved away from its own laws and international best practice when it came to reporting on debt. So instead of 2018 debt being K28.1 billion as shown in that year's MYEFO, the reality is that debt level stood at least K37.8 billion including arrears. The 2018 deficit level was not the K2.4 billion stated in the MYEFO – it was going to be K4.9 billion without corrective action. These were the debt and deficit holes inherited by the new government.

As stated in my last Foreword "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." A responsible government cannot eliminate such an enormous budget deficit overnight. The deficit represents a gap of K550 for every person in PNG. We cannot suddenly raise taxes by K550 per person to close the gap, or cut expenditures by K550 per person to close the gap. The aim was to turn the deficit corner, controlling expenditure and growing the revenues. The broad aim was for cuts in the deficit of a billion Kina each year. But with such a large deficit legacy, the inevitable consequences of this steady, responsible approach, is an increase in debt levels of K15 billion. This is not the Marape Government's fault – it is the painful legacy of years of spending excess, especially on public service wages.

The COVID-19 pandemic has been a once in a century health and economic crisis that was totally unexpected. This has added enormous pressures. I am proud of PNG's flexible and nimble response to this crisis. In hindsight, we could have done things differently, arguably especially around the lockdown. We now know much more that we did then, and this is reflected in current policy. PNG has managed this crisis well looking at other countries. Our health outcomes have, to date, been so much better than many other countries, and much better than feared. Our economic outcomes also have been so much better than most countries around the world – although I do know the pain being felt by our PNG families and our businesses. COVID-19 has hurt our budget badly. Over the next four years, the loss of revenues, the increased COVID-19 expenditure and the interest costs will increase PNG's debt by nearly K10 billion.

Despite these political uncertainties, the economic debt and deficit legacies, and the COVID-19 crisis, there is hope ahead, and our government is willing to face the challenges.

We have set out a clear path for fiscal consolidation. Indeed, the rate of reduction in the budget deficit is rapid by international standards. This in part reflects the difficult economic legacy we were left with – there would have been more flexibility if our starting point was a much more modest deficit. Fiscal consolidation through reducing deficits also means that we can bring

debt under control. 2023 is expected to be the peak of our debt to GDP ratio, which will then start to decline. Steady, responsible, economic management. Endorsed as sensible by our international colleagues.

The message of hope in this budget stem from the clear signs that the PNG economy is starting to bounce back. We have gone past the bottom. Nominal growth rates for both 2021 and 2022 are expected to exceed 10 per cent per annum.

PNG's economy is expected to grow by nearly K18 billion over the next 2 years, from K81 billion to K99 billion. This is the largest nominal growth in PNG's economy at any stage in its history. It is larger than the K15 billion increase from 2013 to 2015 when the PNG LNG project commenced production.

And it is a much more balanced pattern of growth. The gains from the PNG LNG growth went mainly to people living overseas. The gains from forecast growth over the next two years will mainly benefit our non-resource economy, and therefore our people. On average, we expect the average person in PNG to be K1,000 better off, over the next two years, because of the economic policies we have put in place – an increase of K9,898 million spread across our 9 million people.

With growth will come better job opportunities and more income when selling goods at markets. And these incomes will add to revenue growth. And this will help with budget repair in a virtuous circle of growth.

These growth rates are conservative. They have been endorsed by the IMF which also is forecasting a K18 billion growth in our economy to K99 billion by 2022. These growth forecasts do not include any upsides from the expected announcements of progress with new resource activities such as Papua LNG, Wafi-Golpu, P'nyang or activities from other international investors such as Mayur Resources.

We started the hard work of fiscal consolidation. We had a nimble and responsible COVID-19 Economic Stimulus Package, with most of the support coming through monetary policy. We are working to pay off debts built up by the previous government, at lower interest rates. All sensible forecasts are, unless PNG succumbs to a major second wave of COVID-19, that living standards will once again start to increase, profits start to increase. And we would welcome new SMEs as well as international businesses to share in these expanding possibilities. In the collective interest of our people, we must not allow these positive developments to succumb to dictates of cheap politics. Instead we must persist and allow them to grow, mature, and bear fruit. Let history be our judge.

PNG, it has been hard, but we have started to turn the corner and we must not turn back. We are allowed to pause to reflect if we have to, but we must not stagnate where we must keep moving, and we must not slide into self pity when we must take responsibility. The hope and resilience of our people is our strength as we walk the recovery and consolidation journey together, and the satisfaction of that walk will ultimately be ours together.

I commend the 2021 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: ECONOMIC DEVELOPMENTS AND OUTLOOK

1.1 WORLD ECONOMIC GROWTH AND OUTLOOK – DRASTIC ECONOMIC DETERIORATION, SLOW AND UNCERTAIN RECOVERY PROSPECTS DURING THE GREAT LOCKDOWN

The drastic economic downfall in global economic activity as a result of the COVID-19 pandemic and the uncertainties surrounding the outlook for recovery continues to affect the world economy. PNG is no exception given its exposure to the global economy where most of its key primary export commodities, capital flows, trade relations and supply chains are interconnected and depends largely on developments in the global economy. The worldwide lockdowns in April has resulted in closure of businesses, disruptions to trade and restrictions on people's daily routines, which, distorted and reduced the global economic growth as global income, spending, consumption and investments fell to historical lows.

The IMF October 2020 World Economic Outlook (WEO) report projected a less severe but still deep recession in 2020, relative to the June forecast. Key global economic indicators including movements in commodity prices for PNG exports and foreign investor decisions for resource project developments, and global inflation through PNG imports borne by consumers and businesses alike have all been affected, thus squeezing the revenue base and inflows to the Government's consolidated revenue fund. The PNG Kina exchange rate and domestic interest rates have also been affected which, in turn affects valuations for PNG's outstanding loans as well as new borrowing from both the domestic and overseas markets. The updates on these variables, as presented in the WEO report, presents a delicate, rather than an optimistic, and slow recovery scenario for the 2021 Budget framework.

2.1.1 Economic Activity

Global growth is projected at -4.4 per cent in 2020, a less severe contraction that, is 0.8 percentage points above the June 2020 WEO forecast. The moderate revision reflects improved second quarter GDP outturns as most of the advanced economies showed signs of aggressive and swift recoveries where activities began to normalise sooner than expected. In addition, there were signs of positive indicators for a firm recovery in the third quarter of 2020. In 2021, global growth is projected to rebound to 5.2 per cent, although still weaker by 0.2 percentage points compared to the June WEO. This reflects downturns projected in 2020 and consistent with expectations of a "new normal" business environment and persistent social distancing in 2021.

Except for China, where output is expected to exceed 2019 levels this year, output in both advanced and emerging market and developing economies (EMDEs) are expected to remain below 2019 levels even next year. Countries that rely more on contact-intensive services and oil exporters face weaker recoveries compared to manufacturing-led economies.

The projected contraction in 2020 and moderate recovery in 2021 sums up to a modest 0.6 per cent improvement above the 2019 growth. Both growth projections factor wide negative output gaps and rising unemployment rates for 2020 and 2021 across both advanced and emerging market economies.

Advanced Economies

Growth in advanced economies is projected at -5.8 per cent in 2020, 2.3 percentage points stronger than in the June WEO Update. The aggressive growth is due to the better-than – foreseen US and Euro area GDP outturns in the second quarter. In 2021, the advanced economy growth rate is projected to strengthen to 3.9 per cent but below 2019 levels by 2.0 per cent.

Growth in the United States in 2020 is expected to contract by 4.3 per cent before rebounding to 3.1 per cent in 2021.

Growth in the Euro area is expected to experience a deeper contraction of 8.3 per cent in 2020 reflecting a sharper downturn than in the United States in the first half of the year.

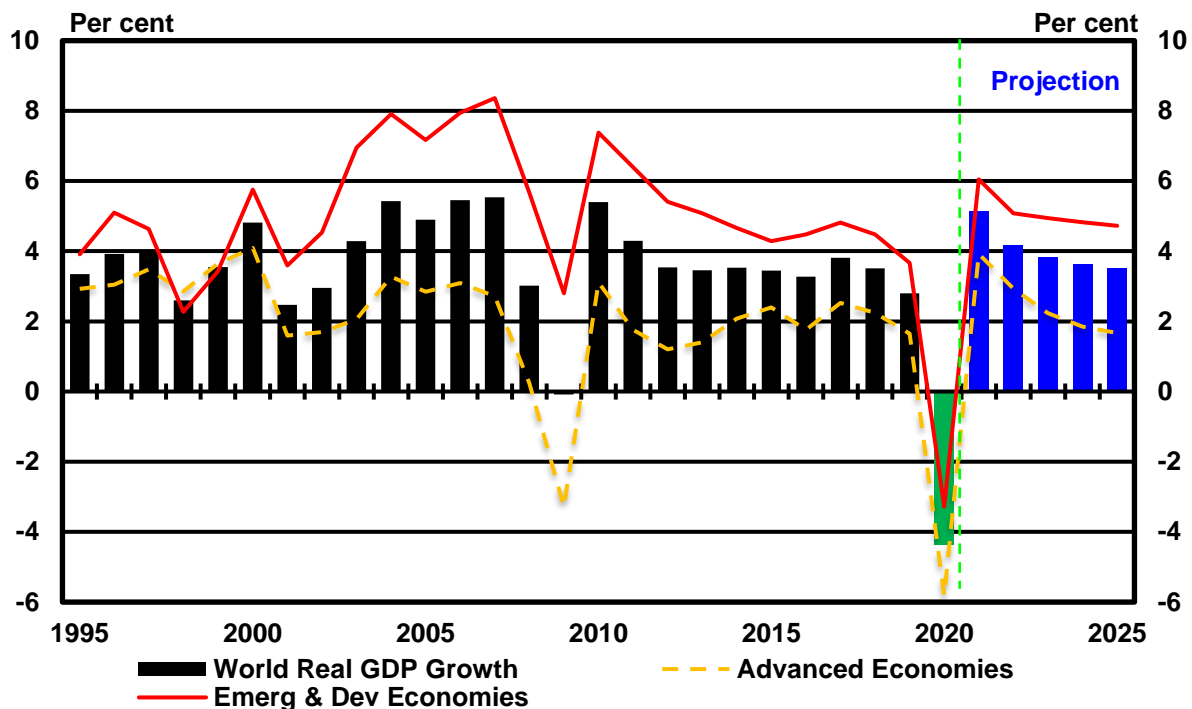
The uncertainty surrounding the growth rate of advanced economies is unusually large and the forecast remains on public health and economic factors, which paves a very uncertain scenario over the medium term. That uncertainty also rests on the fact that the US and countries across Europe are experiencing new waves of new COVID-19 cases being reported.

Emerging Markets & Developing Economies (EMDEs)

Growth in EMDEs is forecast at -3.3 per cent in 2020, 0.2 percentage points weaker than in the June WEO Update, and strengthening to 6.0 per cent in 2021. The growth prospects for this group of countries continue to remain precarious due to a number of factors like continuous spread of the pandemic against a very weak health care system, the lasting loss in business for some of the most severely affected sectors, such as tourism; and the greater dependence on external finance, including remittances.

China stands out as the growth prospects are much stronger compared to other countries in this group. China is expected to grow by about 1.9 per cent in 2020 and 8.2 per cent 2021. The resilient growth reflects swift recovery than expected compared to most countries as they reopened after the great lockdown and registered a positive second quarter GDP on the back of strong policy support and resilient exports.

Growth in India is projected to experience a huge downgrade in growth as GDP contracted severely than expected in the second quarter. The economy is expected to contract by 10.3 per cent in 2020 before rebounding to 8.8 per cent in 2021. The downgrade in 2020 growth is projected on the back of a longer lockdown and slower recovery outlook than anticipated. India also remains the third worst hit economy in the world by the pandemic as economic activities in most of its labour-intensive sectors recorded huge falls. Private spending, investment and consumption in general fell to lowest levels except Government spending as the Government implemented relief measures to help curb the spread of the virus.

Chart 1: World Economic Growth (1995-2025)

Source: International Monetary Fund (IMF), World Economic Outlook (WEO) October 2020

The medium-term outlook for global growth is expected to progress slowly to around 3.5 per cent into the medium-term. This outlook indicates limited part of the progress towards improving economic activity back to pre-COVID stages of 2020-2025 for both advanced and EMDEs. The pandemic will have drastic economic shocks to improvements in average living standards across all country groups and also, reverse the progress made since 1990s in reducing global poverty and will increase inequality. The subdued outlook for the medium-term forecast a significant increase in the stock of sovereign debt and smaller tax base than previously envisaged.

Policy Priorities

The COVID-19 pandemic and its Great Lockdown has cost the global economy a total fiscal support of USD12.0 trillion including extensive rate cuts, liquidity injections, and asset purchases by central banks to help combat the spread and prevented a financial catastrophe.

International organisations have strongly recommended that countries and governments around the world including PNG remain vigilant and optimistic to developments across countries and encourage economic cooperation in terms of policy design and implementation in overcoming these challenging economic times.

Some policy priorities to consider include:

- Greater cooperation and collaboration needed in the process of developing tests, treatments and vaccines to ensure enough production and widespread distribution to all impacted parts of the world;
- Policies must focus on aggressively limiting persistent economic damage from the crisis as governments are required to continue provide income support through well targeted cash transfers, wage subsidies, and unemployment insurance. In addition, to prevent large-scale bankruptcies and employment, firms in vital sectors of economies should

continue to receive support through tax deferrals, moratoria on debt service, and equity like injections; and

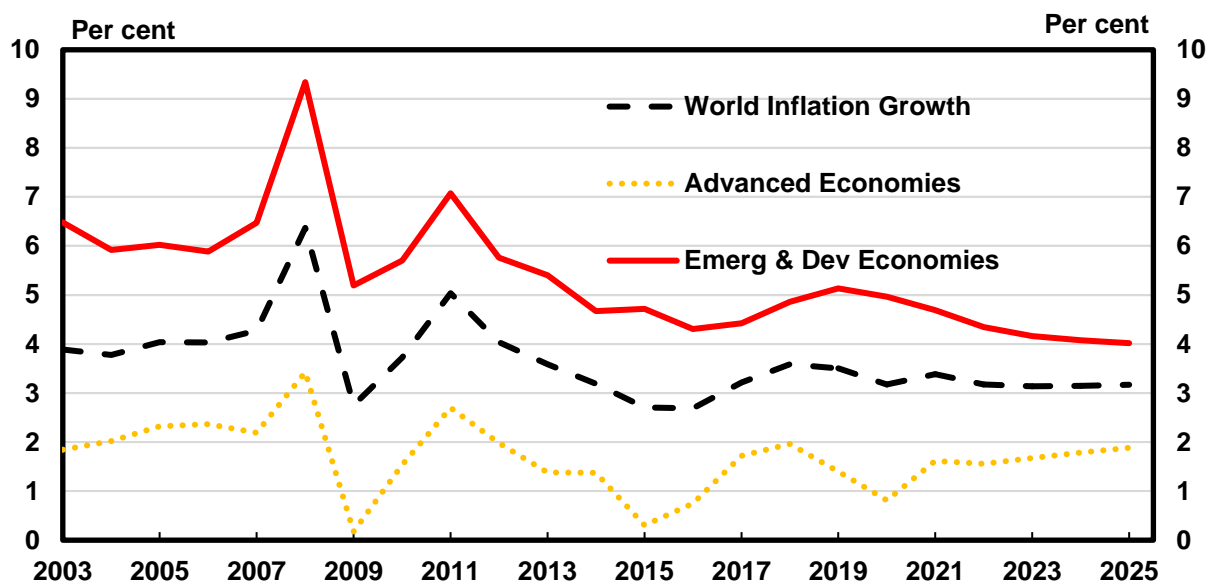
- Policies should be designed toward placing economies on paths of stronger, equitable and sustainable growth. This means global easing of monetary policy, while essential for recovery, should be complemented with measures to prevent build-up of financial risks over the medium-term, and central banks independence should be safeguarded at all costs.

2.1.3 World Inflation

Advanced Economies

Inflation in advanced economies remains below pre-pandemic level and it is expected to remain relatively low over the forecast horizon. Inflation in advanced economies is projected at 0.8 per cent in 2020, rising to 1.6 per cent in 2021 as the recovery gains hold, and broadly stabilizing thereafter at 1.9 per cent. In general, while prices of medical supplies increased and commodity prices improved from their April falls, the effects of weak aggregate demand outweighed the impact of supply interruptions.

Chart 2: World Inflation (Per cent Growth)



Source: International Monetary Fund (IMF), World Economic Outlook (WEO) October 2020

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

Inflation in EMDEs is expected to decline sharply in the initial stages of the pandemic, however peaked in some other countries in the group such as India, due to supply disruptions and a rise in food prices. Inflation is expected to trend at 5.0 per cent in 2020, declining to 4.7 per cent in 2021 and moderating thereafter, to 4.0 per cent over the medium-term, below the historical levels for the group.

2.1.4 Mineral and Petroleum Commodities

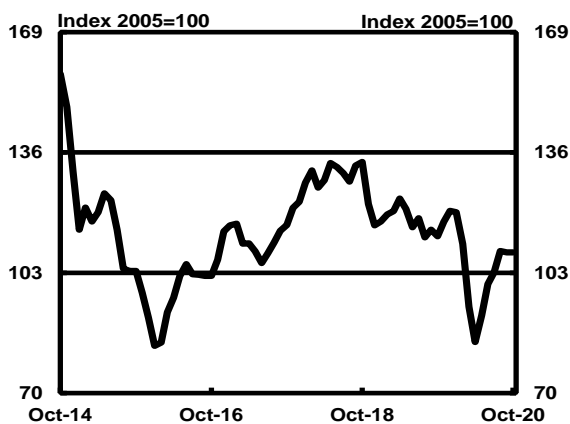
Developments in the global economy in 2020 continue to dictate price trends for PNG's petroleum and mineral export commodities with mixed performance, including oil and gas prices

downgraded at one extreme, and precious metals performing stronger at the other end while base metal prices remaining on target.

Following the release of the 2020 MYEFO report in July, prices for PNG's petroleum and mineral exports have regained earlier losses as global demand recovers on easing of the COVID-19 related lockdowns and restrictions globally. To end October, the oil price has partially regained some of the sharp losses of the first quarter of 2020 due to production cuts and a recovery in demand. Gold price rose above US\$2,000.0 per ounce in early August – an all-time high – driven by declining bond yields and increasing safe haven demand, and has held above the US\$1,900.0 per ounce level since then. Base metal prices including copper and nickel have fully regained earlier losses reflecting a rebound in the China's economic activity.

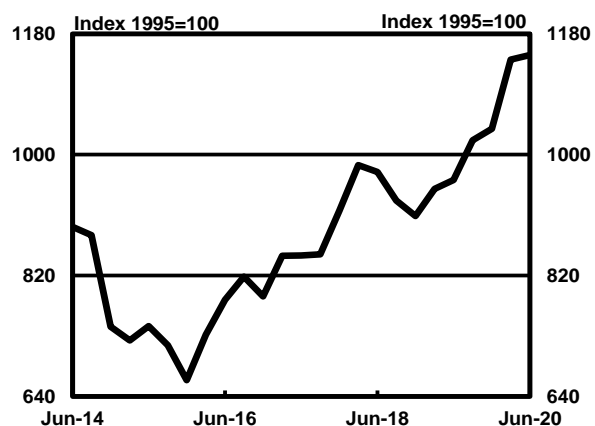
The Bank of Papua New Guinea's (BPNG) Export Price Index¹ increased by 19.8 per cent in the first half of 2020 following a 2.4 per cent decline recorded over the same period in 2019, reflecting largely gold prices movement given this index currently excludes LNG (the largest exported PNG commodity). Recent data shows the prices of crude oil is recovering somewhat, copper is now back to the pre-COVID-19 levels and gold continue to rise. On agricultural commodities, volatility in prices have eased and prices are steadily moving upward.

Chart 3: IMF All Commodity Price Index



Source: International Monetary Fund (IMF) October WEO

Chart 4: PNG Export Commodity Price Index



Source: Bank of PNG

Liquefied Natural Gas (LNG)

PNG LNG accounted for about 36.0 per cent of 2019 total exports and is expected to contribute 37.0 per cent in 2020 and back to 36.0 per cent in 2021.

The LNG price assumption is linked to Asian LNG market price benchmark given PNG LNG exports is 100.0 per cent destined to Asian countries. Almost three-quarters of the LNG traded in the Asian market are sold on long-term contracts which link the price of LNG to the price of crude oil (commonly the Japanese Customs-cleared Crude, JCC) with a lag of several months. This explains the use of oil price as a good indicator in tracking trends in the LNG price and

¹ PNG Export Price Index is calculated based on weighting of a basket of PNG commodity exports with weights determined on a four (4) quarter moving average. The basket up to June 2020 excludes LNG (PNG's largest exported commodity), condensate, nickel and cobalt. Therefore, the current index is driven largely by gold which is the reason why impact of COVID is not depicted by the index chart.

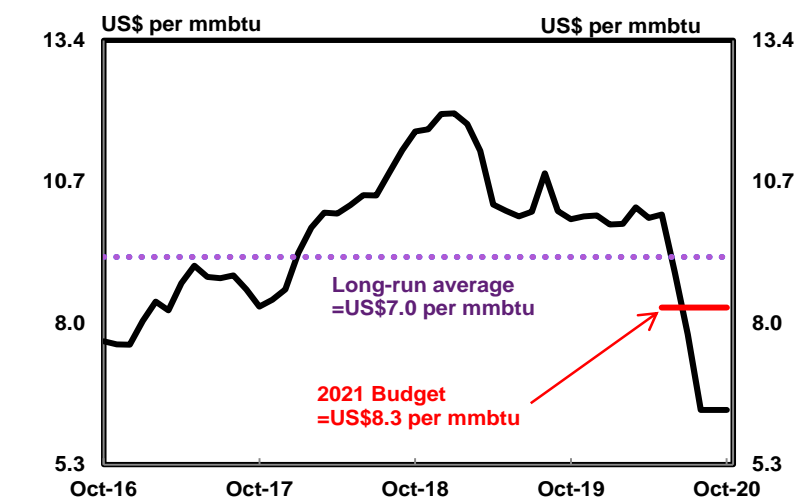
making informed estimates of projection. This is further complemented by publicly released LNG price estimates by the World Bank, Petroleum Associate of Japan and the Japanese Customs².

LNG prices declined sharply in the third quarter of 2020 reflecting the earlier trough in crude oil prices, however, not as much as oil price. The fall in LNG prices is due to the slowing of global demand caused by the COVID-19, prompting buyers to push back cargo deliveries. The primary use of LNG in electricity generation, industry and residential/commercial heating rather than transport is a differentiating factor between the degrees to which the COVID-19 impacts on global consumption of LNG against crude oil. The recent World Bank pink sheet update shows, Japan LNG prices averaged US\$6.68 per MMBtu in the third quarter of 2020, a 33.2 per cent decline compared to US\$10.0 per MMBtu recorded in the first quarter of 2020.

LNG prices are anticipated to recover in line with oil price over the fourth quarter of 2020 reflecting easing of the COVID-19 measures, supported by seasonal demand for gas-fired power for cooling as the northern hemisphere enters summer. This recovery is anticipated to continue in 2021 and 2022 reflecting strong demand as global economic activity strengthens, while production is expected to increase only gradually. A key risk to the outlook, as with oil, is the duration of the pandemic, although the main channel through which LNG price could be affected is a deeper or more prolonged recession as it is less affected by lockdown measures.

With these developments, LNG price is expected to decline to US\$8.0 per MMBtu in 2020 from US\$10.6 per MMBtu recorded in 2019. Looking ahead into 2021, LNG price is projected to recover partially to US\$8.7 per MMBtu and trade at an average of US\$9.1 per MMBtu over the medium-term, reflecting oil price growth profile.

Chart 5: Liquefied Natural Gas Price



Source: World Bank Pink Sheet

Crude Oil

After falling sharply in the first half of 2020, oil prices are steadily recovering. In April, crude oil price fell sharply to below US\$20.0 per barrel due to extreme demand and supply imbalance. In late April, prices began to recover driven by the 12 April Oil Producing Exporting Countries (OPEC) + announcement that member countries agreed to reduce production in May and June

² LNG price assumption is a composite index of various data sources including the Crude Oil and the World Bank LNG Japan import price from its pink sheet data and depends also on consensus economics.

by 9.7 million barrels per day (later extended until July). A further cut of 7.7 million barrels per day was announced and would run from August until December. These production cuts and the easing of the COVID-19 lockdown restrictions has boosted demand and supported the steady and upward movement in prices since then.

Over the year to October 2020, oil prices (World Texas Intermediate, WTI) averaged around US\$38.4 per barrel, 32.7 per cent lower than average 2019 prices. In line with global developments including the ongoing uncertainty over the COVID-19 pandemic, weaker global growth prospects, ongoing US-China trade tensions, OPEC+ oil cut and growth in the US shale production, prices are anticipated to be lower than 2020 Budget price projections. Taking into consideration these developments, oil prices are expected to average around US\$39.2 per barrel in 2020.

Chart 6: Crude Oil Price

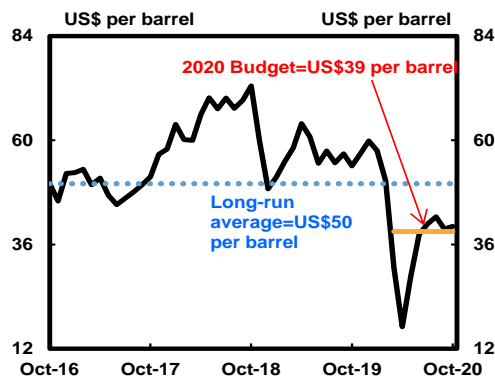
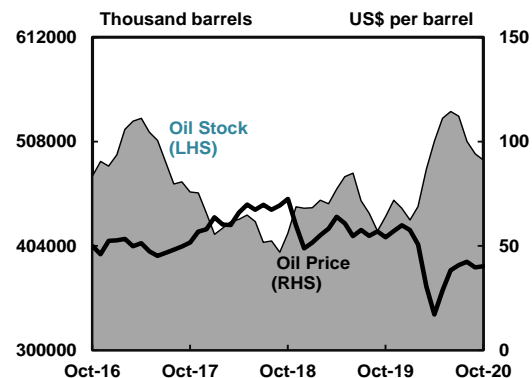


Chart 7: Crude Oil Price against Stock



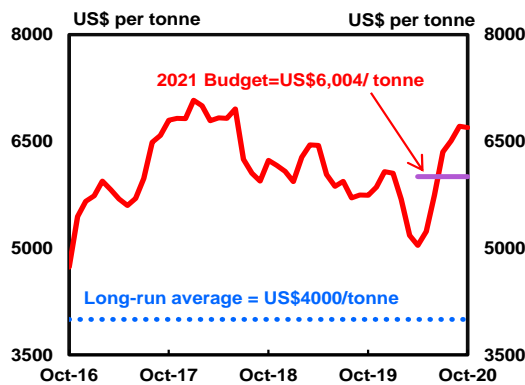
Source: International Monetary Fund (IMF) & US Energy Information Administration (EIA)

Looking ahead into 2021, OPEC and non-OPEC oil exporters' compliance to production cuts and rebound in global economic activity will be crucial in supporting prices amidst growing US shale production. Balancing these developments, the oil price assumption underpinning the 2021 Budget is projected to average around US\$43.9 per barrel.

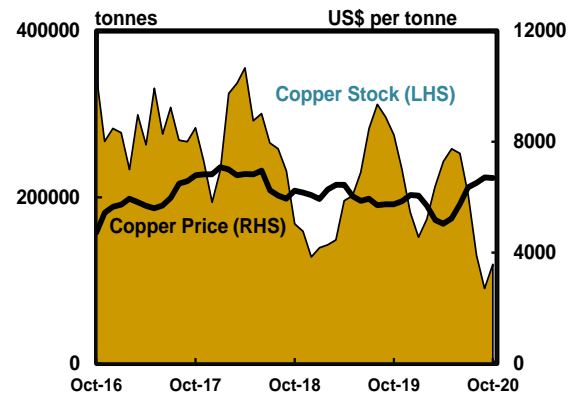
Copper

Copper prices fell sharply in the first quarter of 2020 but have recovered in recent months. The lower industrial demand as countries went into lockdowns weighed heavily on prices, first in China than globally. The concerns surrounding a prospect of weaker global economic growth trend also weighed down on prices. These factors caused prices to fall to a year low of US\$4,785.0 per tonne in April. Since then, prices have strengthened to the pre-COVID levels on the back of a rebound in the China's industrial activity, concerns about the COVID-19 related production constraint, the roll-out of economic stimulus package and the US Dollar depreciation.

In 2020, copper prices are expected to average around US\$6,004.2 per tonne, 11.8 per cent higher than the 2020 MYEFO projection of US\$5,368.6 per tonne.

Chart 8: Copper Price

Source: London Metal Exchange

Chart 9: Copper Price against Stock

Source: London Metal Exchange

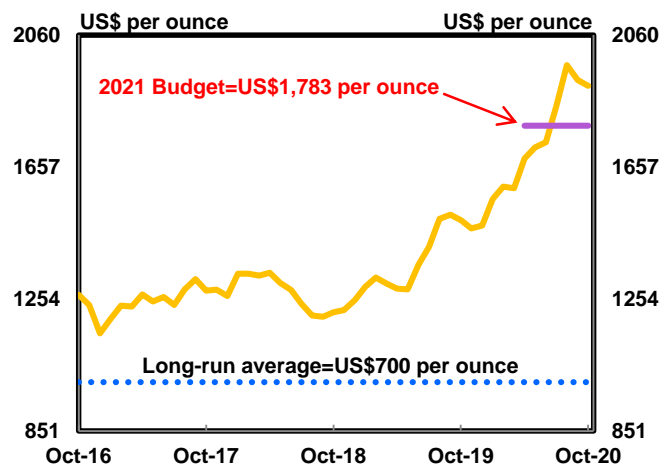
Looking ahead into 2021, global economic recovery and the rebound in global economic growth, anticipated stronger demand from the China's industrial activity would support prices while trade tensions and slower paced global growth are expected to continue to weigh on the prices.

On the supply side, risks relating to strikes and natural phenomena pose continuous threat to supply. Balancing these factors, the copper price assumption underpinning the 2021 Budget is projected to average around US\$6,584.4 per tonne in 2021.

Gold

Gold prices maintained a strong performance during the year reflecting increasing safe haven demand and the declining interest rate associated with the COVID-19 scare. Other factors also supporting price are rising geopolitical tensions, the U.S.-China trade dispute, accommodative monetary policy approach from central banks and supply disruptions. The impact of a strengthening US Dollar also weighed on price movements.

Over the year to October 2020, gold prices have averaged around US\$1,752.5 per ounce, 27.4 per cent higher than price levels over the corresponding period of last year. Gold prices are expected to remain high for the remainder of 2020, as uncertainty surrounding the COVID-19 pandemic lingers. Against this backdrop, the gold price is projected to average around US\$1,783.4 per ounce in 2020, a rise of 28.1 per cent on 2019.

Chart 10: Gold Price

Source: IMF and Bank of England

Looking ahead into 2021, factors including the COVID-19 uncertainty, continued accommodative monetary policy to stimulate economic activity and the uncertainty surrounding the US-China trade tensions will continue to boost gold's safe haven appeal should these factors continue in 2021. The gold price assumption underpinning the 2021 Budget is projected to average around US\$1,961.1 per ounce in 2021.

2.1.5 Agriculture Commodities

Prices for all PNG's key agricultural export commodities in the first half of the year have experienced moderate decline as a result of the COVID-19 pandemic, however, have steadily rose in the third quarter of 2020 as the COVID-19 related movement restrictions eased and supply shortfalls supporting prices.

Coffee

Global coffee prices have been volatile during the year, reflecting developments in demand and supply fundamentals. Prices climbed steeply in February and March as global consumption turned precautionary to stockpile at the dawn of the COVID-19 threat. Prices then plunged by more than a quarter in mid-June, when many of the world's coffee shop closed, and followed by resurgence as the COVID-19 lockdowns eased globally and coffee shops reopened.

On the supply side, supply in the 2019/20 season fell by 5.0 per cent compared to previous season. The fall is attributed to reduction in Brazil's production (off year for coffee season in Brazil) and the ongoing low prices. The COVID-19 related supply disruptions have supported prices.

With demand recovering and production expected to be lower in the current coffee season, coffee prices in 2020 are expected to trade higher than 2019 levels. In 2021, prices are projected higher taking into consideration the higher demand as economies continue to recovery. Also on limited supply due to COVID-19 expected supply chain challenges.

Cocoa

Cocoa prices have been broadly stable over the first six months, after falling in March as a result of the COVID-19 pandemic related lockdowns. The lockdowns including movement restrictions reduced global consumption of chocolate and other confectionary ingredients. Prices have since recovered to trade near their highest since March driven by rebound in demand somewhat and on fear that supply might be disrupted if unrest escalates in Ivory Coast ahead of the November presidential elections.

The stability in cocoa prices in recent months was driven by pickup in demand as the COVID-19 pandemic related movement restrictions are eased, depreciation of the US Dollar, limited supply from major producing regions and adverse weather conditions in Ivory Coast (top cocoa producer) curbed production levels.

In 2021, cocoa prices will be influenced by the global cocoa market developments. The COVID-19 plays a major role in determining price movements as global uncertainties continued to rise. With markets not well supplied in 2020, together with lower consumption, prices are expected to average around the 2020 levels.

Palm Oil

Palm oil price increased by 16.7 per cent buoyed by recovering demand as COVID-19 lockdowns were eased. In addition, restocking in China and India and higher prices from soybean oil prices supported the recovery in prices. Furthermore, adverse weather condition (La Nina) in Philippines and Indonesia has resulted in flooding of mature fields leading to some palm oil plantations experiencing reductions in production by about 5.0 per cent to 10.0 per cent.

It is expected that the La Nina weather phenomenon will bring heavier than the usual rainfall and may underpin the pace of current upward trend of Crude Palm Oil (CPO) prices. The prices will also be influenced by crude oil prices as biodiesel production consumes CPO and is expected to remain low for quite some time in the future.

Copra Oil

After trending lower in the first half of 2020, price of coconut oil has improved. The rise in prices is mainly attributed to improvement in demand as the COVID-19 related movement restrictions are uplifted. On the supply side, the top producer Philippines has been constrained due to lockdown in Metro Manila as key coconut plantation workers were required to undergo free testing, coupled with global shipping delays occurring at some major ports.

Copra oil prices are expected to recover in 2020 and 2021 at levels higher than 2019 prices as demand likely to pick up from expected recovery in global economic activity and limited supply conditions.

Chart 11: Price Index of Palm Oil & Coffee

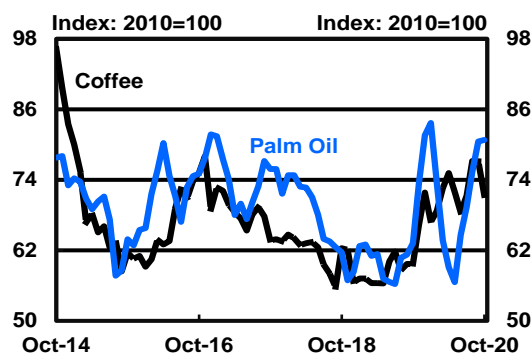
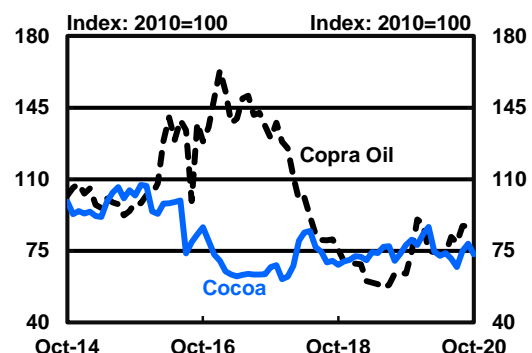


Chart 12: Price Index of Copra & Cocoa



Source: International Monetary Fund (IMF) and Reuters

Over the year to October, coffee prices averaged around US\$3,622.2 per tonne, cocoa prices averaged US\$2,369.5 per tonne, copra oil prices averaged US\$904.1 per tonne and palm oil prices averaged US\$599.1 per tonne.

The COVID-19 pandemic related supply disruption and recovering demand are expected to benefit most agricultural commodities in the remainder of 2020 and the year after. Reflecting these developments, all of PNG's key agricultural export prices are expected to remain high in 2021.

1.2 EXCHANGE RATE DEVELOPMENTS

The observed decline in the PNG's Trade Weighted Index (TWI) at mid-year has continued steadily into the September quarter in 2020. Between end 2019 and October 2020, the PNG TWI declined by 4.9 per cent, reflecting depreciation of Kina against its major trading partners particularly against the US Dollar and the Australian Dollar. The Kina depreciated by 2.6 per cent against the US Dollar and 6.2 per cent against the Australian Dollar over the same period.

Chart 13: Trade Weighted Index

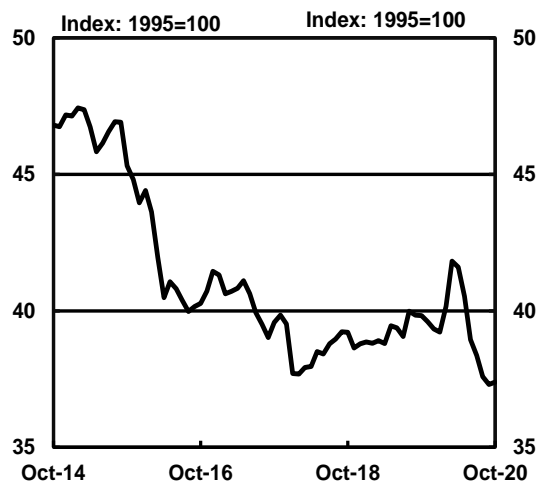
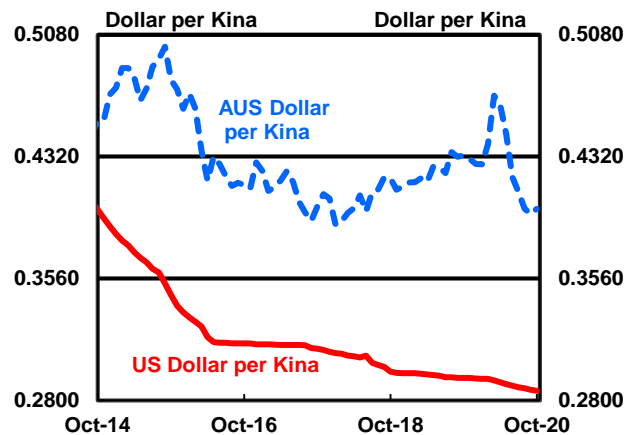


Chart 14: Exchange Rate Developments

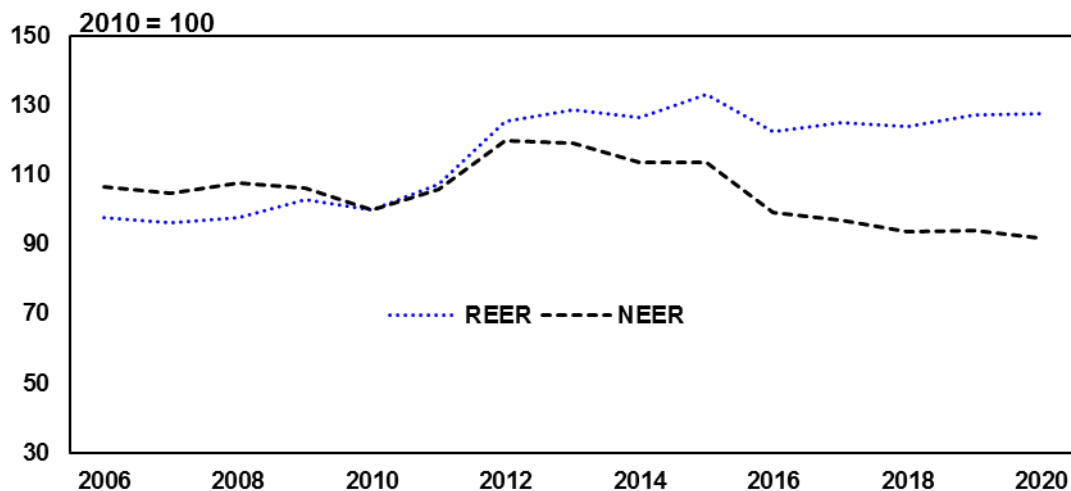


Source: Bank of Papua New Guinea

Between end 2019 and October 2020, the Kina also depreciated against the Singapore Dollar (-2.4 per cent), Chinese Yuan (-6.3 per cent), Malaysian Ringgit by (-2.5 per cent), New Zealand dollar (-3.1 per cent), Hong Kong dollar (-3.3 per cent) and the Japanese Yen (-5.9 per cent).

The depreciation of the Kina against Australian Dollar is due to the strengthening of the Australian Dollar against the US Dollar reflecting faster than expected reopening of China (large trade partner for Australia) and Australian economy, which supported economic activity and the Australian Dollar. The better than expected economic performance of Australia increased the investors' appetite to hold Australian Dollar hence pushing Australian Dollar value higher.

The depreciation of the Kina against the US Dollar is attributed to the persistent shortage in the domestic foreign exchange market for the US Dollars.

Chart 15: Real and Nominal Effect Exchange Rates (REER and NEER)

Source: Department of Treasury

The nominal exchange rates shows a continued steady estimated decline against partner (trade weighted) exchange rates. The real, adjusted for differential inflation rates across partners, shows a still strong position for the Kina which means a decline in international price competitiveness for PNG's products.

1.3 DOMESTIC ECONOMIC DEVELOPMENTS AND OUTLOOK

2.3.1 Summary of Developments in 2020 and Outlook

The down turn in the world economy as a result of COVID-19 has had a profound impact on PNG's economic growth for 2020 as labour mobility and global demand were constricted.

The Agriculture, Fisheries and Forestry (AFF) sector is projected to expand by 2.1 per cent, an improvement from the 1.9 per cent projected in the 2020 MYEFO. This is attributed to the pick-up in demand for agricultural commodities, the uplifting of SOE restrictions, travel bans and the inclusion of the new Markham Farming Company Limited (MFCL). MFCL has recently been producing palm oil which is an added factor to supporting the AFF growth for 2020.

The Non-Mining sector is projected to contract to -1.1 per cent, a decline in growth of 0.5 percentage points from the MYEFO projection of -0.6 per cent, subdued economic conditions in the BLS³ Sector.

Against this backdrop, the domestic economy is projected to contract substantially in real terms by 3.8 per cent in 2020, 0.8 percentage points down from the 2020 MYEFO projection of -3.0 per cent. This mainly reflects the downgrade in LNG output estimate and Ok Tedi Mine's copper and gold production due to COVID-19 related suspension of operations.

Over the medium-term (2021-2025) real growth is projected to rebound to 3.5 per cent in 2021 before gradually reverting to just below long-term average growth over 2022-25, as production levels in the mining and quarrying coupled with the oil and gas sector expected to plateau as resource projects operate on capacity.

³ Business Liaison Survey sectors, these are the non-mining, non-agriculture sectors.

Growth in the non-mining GDP over the medium-term is expected to grow at an annual average rate of 3.7 per cent driven by growth in the AFF sector. This is mainly due to development projects expected to drive commodity production along with government policy on supporting SME via credit assistance and increased market access for fishing products.

Also reflective of this growth, is the Government's commitment to reduce arrears over the medium term with effective Government policy reforms and capital expenditure aimed at addressing infrastructural and legacy issues to drive inclusive growth in the business liaison (BLS) sectors.

The Oil and Gas sector, as expected, is forecast to contract against the MYEFO projection growth to -3.1 per cent. The contraction is due to the normalizing of LNG and condensate production following the rebound in 2019, compounded by the impact of COVID-19 pandemic on crude oil production.

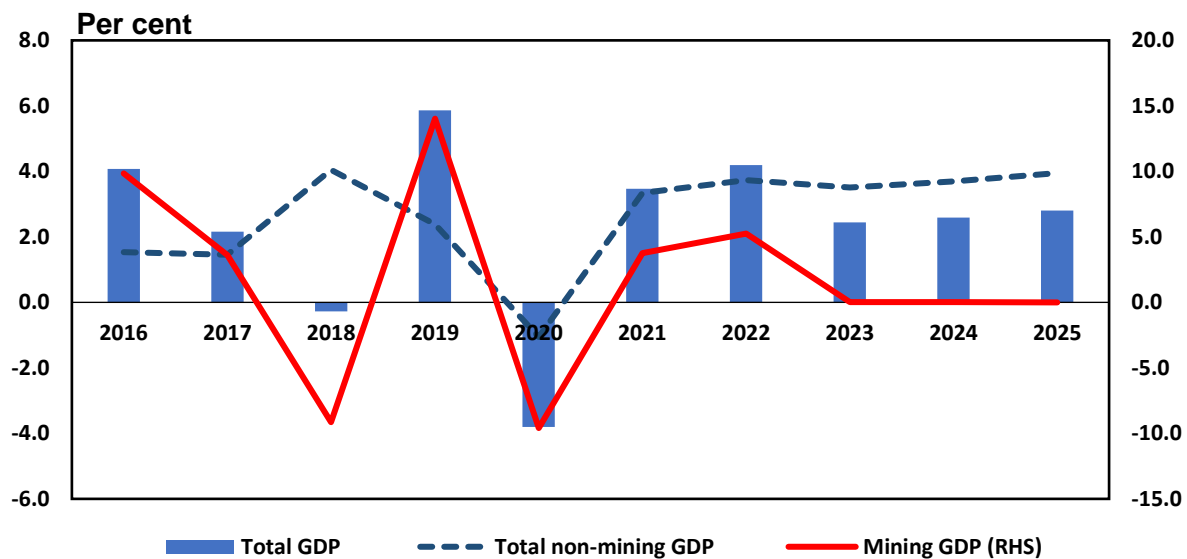
The Mining and Quarrying sector is projected to contract significantly by 21.0 per cent, a decline of 0.8 percentage points from the MYEFO growth projection of -20.2 per cent. This is mainly attributed to the downgrade in gold and copper production as a result of the closure of the Porgera mine as well as temporary suspension to Ok Tedi Mine operations for up to six (6) weeks.

The real and nominal Gross Domestic Product measures underpinning the 2021 Budget economic projections are based on the recently released 2018 National Accounts in particular actual GDP statistics published by the National Statistical Office (NSO) on the 11 November 2020.

1.3.2 Domestic Economic Activity

The domestic economy is projected to contract in real terms by -3.8 per cent in 2020, 0.8 percentage points lower than the MYEFO projection of -3.0 per cent. This is considerably worse than the 2020 Budget growth estimate of 2.0 per cent. This contraction is driven by the general downgrade in both the resource and non-resource sector activity as a result of the COVID-19 impact on the domestic and world economy, as well as, specific developments including the indefinite closure of the Porgera mine and lower gold output from Lihir mine.

The outbreak of the Coronavirus earlier in 2020 had a profound impact in the global market. Countermeasures put in place by many economies to mitigate the spread of the virus had severely subdued global demand and supply of commodities. Whilst the downturn in the world economy affected PNG's trade export receipts and foreign investment inflows, the domestic containment measures through the State of Emergency (SOE) adversely affected business and consumer sentiments.

Chart 16: Real Economic Growth (2016-2025)

Source: Department of Treasury

The Agriculture, Fisheries and Forestry Sector (AFF) is projected to grow by 2.1 per cent, an improvement from the 1.9 per cent projected in the MYEFO. Although, this is a decline of 1.3 percentage points from 2020 Budget projection of 3.4 per cent. Mobility issues in the earlier part of the year arising from the impact of the COVID-19 being the main factor contributing to the overall downgrade in the sector against 2020 Budget projections.

Contributing to the downgrade in growth as well are the SOE measures in the earlier half of the year, which had restricted farmers to attend to their plantations, thereby, affecting overall production for 2020. Improvements compared against the MYEFO is driven by the pick-up in demand for agricultural commodities and the uplifting of SOE restrictions and travel bans.

- Cocoa output has made an improvement from the first half of 2020 from the adverse impact of the SOE lockdown. However, the effects of the SOE lockdown still lingers on due to the output and quality losses of cocoa bags suffered during the lockdown. With the low rate of recovery from wet beans to dry beans, it has also contributed to the downgrade in the potential output of cocoa for 2020. However, this has not dampened Cocoa Board's development aspirations for this industry and is looking at addressing the concerns.
- Palm oil production has recovered moderately despite the earlier onset of the COVID-19 in 2020 as palm oil producers remain optimistic with the pick-up in demand. However, annual production forecast remains lower by around 7.9 per cent compared to the 2020 Budget expectations. The inclusion of a new New Britain Palm Oil Ltd (NBPOL) subsidiary company this year is anticipated to ramp up palm oil production in the subsequent years.
- Log export has been downgraded in 2020, due to the COVID-19 induced travel restrictions and the new higher tax on log export. Companies involved in the logging operations have scaled down their operation by 70.0 per cent reflective of lockdown measures hindering operations for some while easing of travel restrictions had seen a continual exit of logging personnel to their country of origin. Furthermore, a Papua New Guinea Forestry Authority (PNGFA) assessment showed that 50.0 per cent of

operations under timber permits have applied for force majeure situation under the *Forestry Act 1991* (amended) to cease operations citing poor log export markets and the log export tax.

- The Fisheries industry is projected to grow in real terms in 2020 despite the impact of the COVID-19 and is driven by the pick-up in the production of tuna and other fish products and beche-de-mer (Sea cucumbers) season. There is heightened optimism of change in temperature of PNG waters likely to attract highly migratory tuna species.

The Business Liaison Survey (BLS) sectors, non-mining, non- agriculture sectors, as projected at MYEFO have been hit hard by the COVID-19. Sectors mainly affected were the Transport, Accommodation, Construction and Finance sectors. However, since the uplifting of the COVID-19 restrictions a few of the BLS sectors that were severely affected by COVID-19 are now being projected to improve slightly according to BPNG's BLS survey conducted in July. This is largely due to businesses' resilience to adopt to the new normal which included cost-cutting measures to maintain operations via staff rotations and cutting of employee care-packages rather than laying off their workers.

In addition to that, the Government's COVID-19 stimulus package targeted at meeting the health and security needs of businesses and the population also assisted in cushioning-out the overall impact of COVID-19 in the BLS sectors.

However, despite some BLS sector improvements and the targeted efforts of the government with the stimulus package it could raise, the subdued economic conditions precipitated by COVID-19 generally constricted growth in many BLS sectors in 2020 thereby magnified the effect of prior unrelieved issues such as poor infrastructure and foreign exchange imbalances, which acerbated dampening overall growth.

Non-Mining sector is projected to contract by 1.1 per cent, a decline in growth of -0.5 percentage points against the MYEFO and is primarily driven by the downgrade in a majority of the BLS sectors as discussed earlier.

The Oil and Gas sector growth for 2020 is projected to contract by -3.1 per cent down from the MYEFO forecast of 1.1 per cent and this is mainly due to the decline in LNG production by 0.8 per cent driven by falling demand in oil and the price shock in the earlier half.

The Mining & Quarrying sector is projected to contract substantially by 21.0 per cent, which is 0.8 per cent lower than the MYEFO growth projection of -20.2 per cent. Even without the closure of Porgera, this sector was expected to contract by 9.4 per cent due to the impacts of COVID-19 as well as difficult geological conditions at Lihir. Unanticipated closure of the Porgera mine for increased the anticipated level of negative growth in 2020 for the Mining & Quarrying sector to 21.0 per cent. Porgera, the second largest gold producer in PNG, ceased production in April and export in May. The closure represents a negative 68.5 per cent growth to Porgera's 2020 production projections. This contributed to the attenuation of GDP by -1.3 percentage points in 2020.

In the meantime, Ramu NiCo's production has improved driven by improved labour mobility. Though gold production from Lihir for 2020 has been affected due to presentation of difficult mining and geothermal conditions.

Box 1: Porgera Closure in April 2020

Porgera mine is a major contributor not only to the Mining and Quarrying Sector GDP but also the overall GDP. In 2019 alone, it contributed to 16.3 per cent of Mining and Quarrying real GDP, which translated to 2.0 per cent of real GDP for 2020.

2020			
Without Porgera		With Porgera	
Mining and Quarrying (K millions)	6,131.2	Mining and Quarrying (K millions)	7,029.6
rate of real growth	-21.0	rate of real growth	-9.4
Total real GDP	64,050.2	Total real GDP	64,948.6
rate of real growth (GDP)	-3.8	rate of real growth (GDP)	-2.5
Porgera overall contribution to real GDP by levels is K898.5 million			

In 2020, the closure of Porgera in April as the Government decided not to renew the previous lease over the mine, which was with Barrick Niugini and Zijin Mining, known as the Porgera Joint Venture, had a major impact on the overall economy.

At the time of closure, Porgera production output was only 30.3 per cent of total production projected for 2020, which contributed to 0.6 per cent to total real GDP growth.

Assuming production had not been suspended for 2020, or affected by any COVID-19 issues such as at Ok Tedi, estimated overall production output would have contributed to 11.6 per cent to real GDP in the mining & quarrying sector, which is equivalent to K898.5 million. Thus, contributing 1.3 per cent to overall GDP, which would bring real growth rate to a -2.5 per cent in growth.

Source: Department of Treasury

However, the further growth decline as projected at the time of the MYEFO is mainly attributed to the downgrade in Ok Tedi's production for gold and copper due to the six (6) weeks shutdown as the mine temporarily closed to contain the spread of the COVID-19.

1.4 2021 Economic Outlook

The 2021 economic outlook is perceived to recover strongly from the devastating impact of the COVID-19 in 2020. The Marape Government will continue its efforts to build a broader economy with strong institutions to drive inclusive growth focusing on supporting sustainable investments, broadening revenue base and proper economic management.

Greater attention will be placed on the non-resource sector in reference to PNG's economic outlook going forward as this area of the economy has the greatest impact on the livelihoods of majority Papua New Guineans.

Gross Domestic Product

The PNG economy in 2021 is expected to recoup and grow at a quite substantial nominal growth rate of 10.6 per cent from K81,627.0 million in 2020 to K90,265.5 million in 2021. The real growth rate of 3.5 per cent is driven by the rebound in most sectors from the back-drop of the overall impacts of the COVID-19 in 2020. The strong nominal GDP growth is reflective of an increase in commodity and general consumable prices driven by the rebound in world economic activity as demand is boosted through increase-back-to-normal global consumption as well as underlying real economic activity.

In 2021, real non-resource growth is projected to be partially recover to 3.3 per cent. This is reflective of the expected recovery of business conditions from the impact of the COVID-19 as business adjust to the new normal. However, legacy issues such as foreign exchange shortages will continue to be impediments towards the improved growth of the business environment in the non-mineral sector.

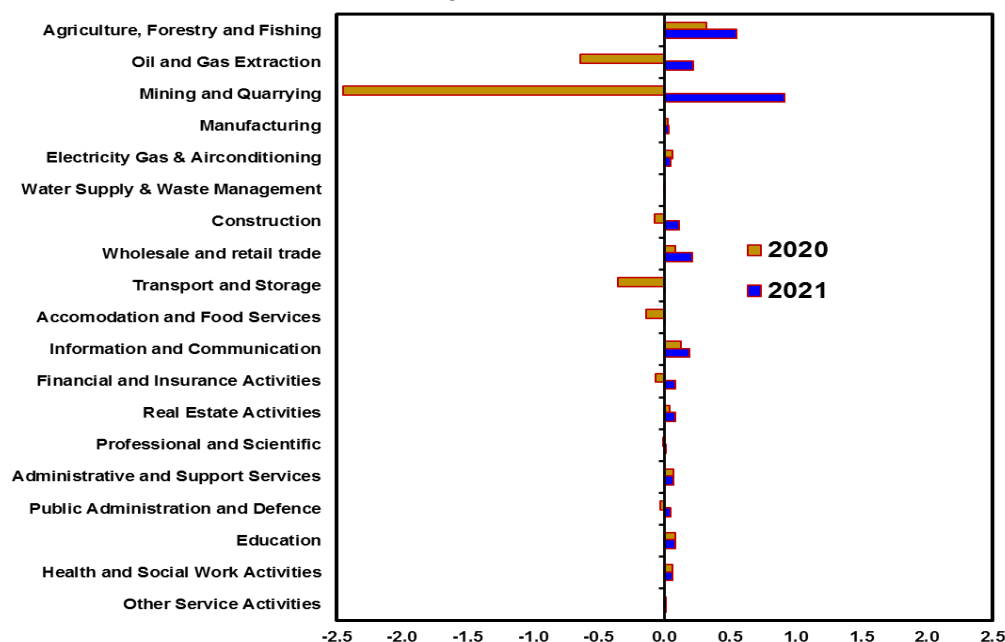
The Oil and Gas sector is projected to rebound in real terms growing by 1.1 per cent, from a decline of -3.1 per cent in 2020. This is driven by the LNG production increasing by 0.8 per cent from 426.4 Tbtu to 430.0 Tbtu in 2021.

In 2021, the Mining and Quarrying sector is projected to rebound strongly growing by 9.5 per cent, 30.5 percentage above 2020 growth contraction of -21.0 per cent. The positive growth is mainly driven by the assumed resumption of Porgera around July along with the increased production of copper and gold for Ok Tedi in 2021 as a result of increased access to high grade ore. The growth also encapsulates the recovery phase of most mines as they adjust to the new normal with eased access to labour mobility.

The AFF sector is projected to grow in real terms by 3.4 per cent in 2021, 1.3 percentage points above 2020 growth rate. This is driven by the recovery of production for oil palm, coffee, cocoa and copra. Higher yields from cocoa are attributed to the earlier programmed set-up of cocoa satellites and the remote freight subsidy project.

Increased palm oil production demand is also expected with the new inclusion of Markham Farming Company Limited, a new subsidiary of NBPOL that is expected to ramp-up production strongly in 2021. Despite the positive growth, infrastructural issues and challenges remain a big challenge confronting the AFF sector to achieving stronger growth in 2021 and the subsequent years.

Chart 17: Contribution to Growth by Sectors, 2020 and 2021



Source: Department of Treasury

Real growth in the non-mining sector is expected to expand by 3.3 per cent in 2021, 4.4 percentage points above 2020 growth rate. This is attributed to the strong growth and recovery in the AFF sector supported by the Government's targeted capital expenditure program

such as its policy support of SME's via credit assistance, operationalisation of the submarine cable, Dirio and Niu Power gas-fired power generation and planned reforms targeting greater efficiency within Government agencies and their operations. Whilst these growth factors are expected to be supportive of specific sectors, spill-over benefits will be extended to other non-mining sectors and is expected to generate a more positive growth trend in the non-mining sector.

The construction sector is expected to grow by 2.0 per cent in 2021 as the Government-led capital expenditure projects that were anticipated to continue in 2020 were put on hold due to the COVID-19 would be pushed forward to 2021 coupled with COVID-19 stimulus focus on infrastructure development under the connect PNG theme as well as accelerated drawdown of project loan for implementation in 2021.

The information and communication sector is expected to expand in real terms by 9.0 per cent in 2021. This is reflective of the completion and operation of the Coral Sea Submarine Cable (C2) project system which would boost international connectivity. The expected speed and capacity boost from the accessibility for internet and communication in the economy derived from the operations of the Kumul Submarine Cable Network (KSCN) and Coral Sea Submarine Cable (CS2) will have spill-over benefits to most businesses and agencies within the various sectors through greater, quicker and cheaper access to information thereby, cutting down on operational costs and improving growth and development.

The Electricity, Gas and Air-conditioning sector is expected to grow in real terms by 5.0 per cent in 2021 as the operations of Dirio and Niupower are expected to drive growth in the sector. Despite the decline in this sector by 1.4 percentage points from 2020, this is reflective of a return to normal levels.

Transport and Storage sector is projected to expand in real terms by 0.3 per cent in 2021 as international travel is still expected to recover sluggishly as fear of the COVID-19 transmission still weigh down on countries sentiments to free-up travel and mobility to and from their borders.

In general, the PNG economy is expected to rebound at a growth rate of 3.5 per cent in 2021 reflecting the resurgence of the overall economy after the aftermath of the COVID-19 in 2020 and the Government policies aimed at promoting infrastructure development and the agriculture sectors partly driven by improved production from palm oil and cocoa. This represents a real growth turnaround of 7.3 per cent – from the negative 3.8 per cent rate in 2020 to the positive 3.0 per cent in 2021.

Box 2: Major Factors Driving Growth in 2021

In 2020, COVID-19 impact and the closure of Porgera were the main contributors to the significant contraction in real growth. On the base of this backdrop, 2021 is expected to be a year of recovery for the economy. The table below entails the major factors that will drive growth for 2021.

	Major Driving Factors of 2021 Growth	Real Growth (%)	Real Absolute Values (Kina millions)	Nominal Growth (%)	Nominal Absolute Values (Kina millions)
2020		-3.8	64050.2	-3.0	81627.0
Non-Recovery Impact	1.1. Porgera assumed six months production	0.9	560.6	1.3	1054.7
	1.2. LNG increased production	0.1	68.0	0.1	89.6
Recovery Impact	1.3. Ok Tedi full 12 months production	0.5	349.6	0.6	497.7
	1.4. AFF production recovery	0.1	41.9	0.1	98.0
	1.5. Others (BLS)	5.7	1201.4	11.4	6898.6
Total Impact (%)		7.3	2221.5	13.5	8638.5
2021		3.5	66271.6	10.6	90265.5

The “1.5 Others (BLS)” impact covers the recovery of most sectors as pick-up in international demand and labour mobility has a broad-based positive impact across the sectors.

The agriculture, forestry and fisheries (AFF) sector is driven in part by improved palm oil production back in line with historic levels, and a small recovery in logging, which has been significantly reduced in 2020 due to COVID-19. *See below for more details on areas of improved Palm Oil etc activity.*

Source: Department of Treasury

Medium Term Outlook (2021-2025)

In 2022, the resumption of growth is expected to continue with a further increase in nominal GDP of 10.1 per cent to K99.383 billion. The PNG economy is expected to grow to K117.5 billion by 2025 – PNG’s 50th year of Independence.

Over the medium-term, the PNG economy’s real growth is expected to grow steadily at an annual average growth rate of 3.1 per cent, which is driven essentially by the growth in the non-mining sector. On average, the non-mining sector is expected to grow by 3.7 per cent over the medium term.

The AFF sector predominantly supports the non-mining sector. Over the medium-term, the AFF sector is projected to have an average annual real growth rate of 3.3 per cent. The growth reflects the continued roll -out of the Private Partnership Agreement Project (PPAP) between the PNG Government, International Fund for Agriculture development (IFAD) World and the World Bank entailed with major projects such as the freight subsidy program and quality control and improvement project by the PNG Cocoa Board to incentivise growth and development in the cocoa industry. Over 3.0 million trees have been planted over the past 3 years and planting is still continuing.

The set-up of Markham Farming Company Ltd, a subsidiary of NBPOL, will ramp-up production and increase palm oil production over the medium-term directly contributing to the AFF sector growth.

In regards to the Fisheries sector, there is significant potential within the sector to spur growth in the AFF over the medium-term especially with the increasing tuna exports and high demand

for Bech-de-mer (Sea-cucumbers). At present the sector accounts for 0.5 per cent of AFF sector growth and 3 per cent of 2019 total export value⁴.

The medium-term outlook for fisheries will be boosted by the Government's commitment, through National Fisheries Authority (NFA), centered around the launching of its 2020 Fisheries Sector Strategic Plan which focuses on addressing core infrastructure and policy and regulatory issues impeding the sector. In particular, the review of conducive policies to promote onshore processing while strengthening bilateral trade relations such as the China-PNG direct market access and tax –free agreement as well as addressing high cost of doing business that is affecting onshore processing, such as excessive berthing cost. As a majority of onshore processing plants are currently operating at 30 per cent of the capacity.

Major Government reforms designed to drive operational efficiency towards SOEs, mostly in the water supply, transport, telecommunication and electricity sector, is expected to have positive impacts in the non-mining sectors in terms of cost reduction. Such reforms include the merger of SOEs like that of Water PNG and Eda Ranu which will provide cost-efficient service delivery in terms water of supply & waste management over the medium-term. In addition, the Government's policy on SME support is also expected to drive inclusive growth within the sector.

Furthermore, with Government's commitment to reduce arrears over the medium term complimented by its emphasis on compliance and financial sector reforms to encourage international trade will provide an avenue for increasing revenue and reducing the foreign exchange imbalances. Thereby, enhancing economic activity through improved trade and will prove detrimental to the positive progress of the economy over the medium-term.

The mining and quarrying sector is expected to grow by 13.5 per cent in 2022 driven by the normalised production in Porgera supported by the expected increased gold and copper production from Ok Tedi. This is mainly driven by access to high-grade ore from its planned relocated crusher sight. For 2023-25, production is expected to remain at zero, as production by mines are expected to be flat as most mine produce on plant-capacity.

The biggest contributor to real GDP, the oil and gas sector, is expected to maintain growth of 1.1 per cent in 2022. From 2023 to 2025, the sector is expected to grow at a zero growth. This is on anticipation that gas, condensate and oil production is expected to plateau. PNG LNG project is expected to be flat as production reaches sustainable levels.

1.5 LABOUR MARKET

Total employment in the formal private sector fell in 2020. According to the BPNG's provisional employment statistics for the June quarter 2020, total employment contracted by 3.5 per cent (See Chart 19) through the year from June 2019 to June 2020 driven by a decline in the non-mining sector by 3.1 per cent

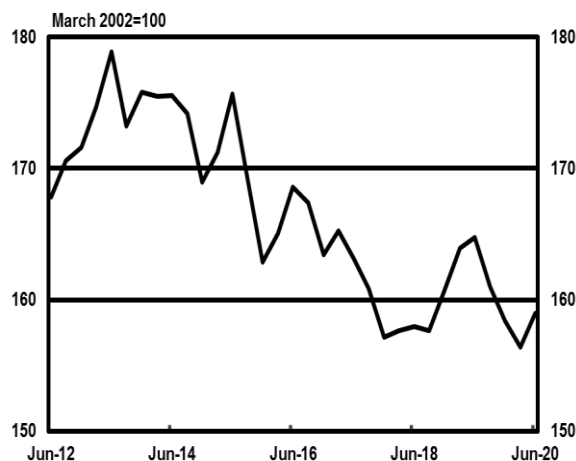
The decline in non-mining sector largely reflects falls in the Building & Construction, Financial, Business & other services and transportation sectors. Generally, the drop from these sectors reflect the COVID 19 restrictions and lockdowns of work place and laying offs of workers mainly because of their contact-intensive working environment. In addition, falls in the Building & Construction and Transportation sectors reflected continuous slow growth from 2019 due to the decline in aggregate demand and spending.

⁴ Fisheries current contribution to total GDP growth is 0.1 per cent

However, the manufacturing and agriculture sectors showed growth in employment as companies implemented and adapted an aggressive working schedules and safety measures in the manufacturing sector, while Government provided the COVID-19 stimulus to subsidize transportation costs for farmers to bring their produce to the markets thus boosting participation in the sector (See Chart 21).

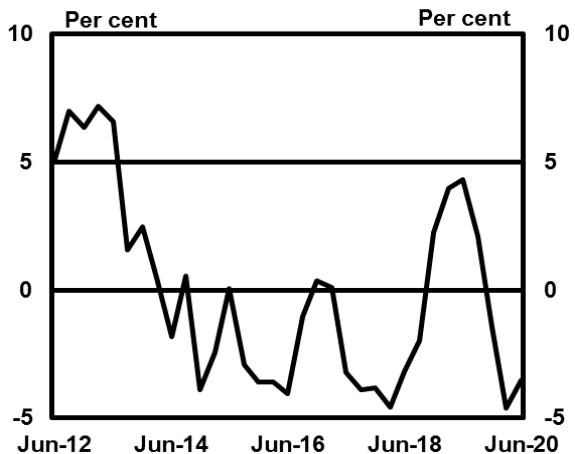
Through the year to the June quarter 2020, the non-mining sectors that have reported contraction in employment were, Building & Construction (down 22.6 per cent), Finance (down 16.2 per cent), transportation (down 8.5 per cent), Retail (down 4.7 per cent), and Wholesale (down 3.6 per cent) while, growths were seen in Manufacturing (up 5.4 per cent) and Agriculture (up 5.7 per cent) (See Chart 21).

Chart 18: Employment Index



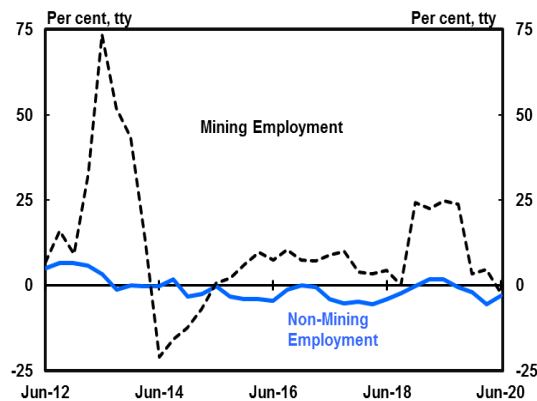
Source: Department of Treasury and Bank of PNG

Chart 19: Total Employment Growth



Source: Department of Treasury and Bank of PNG

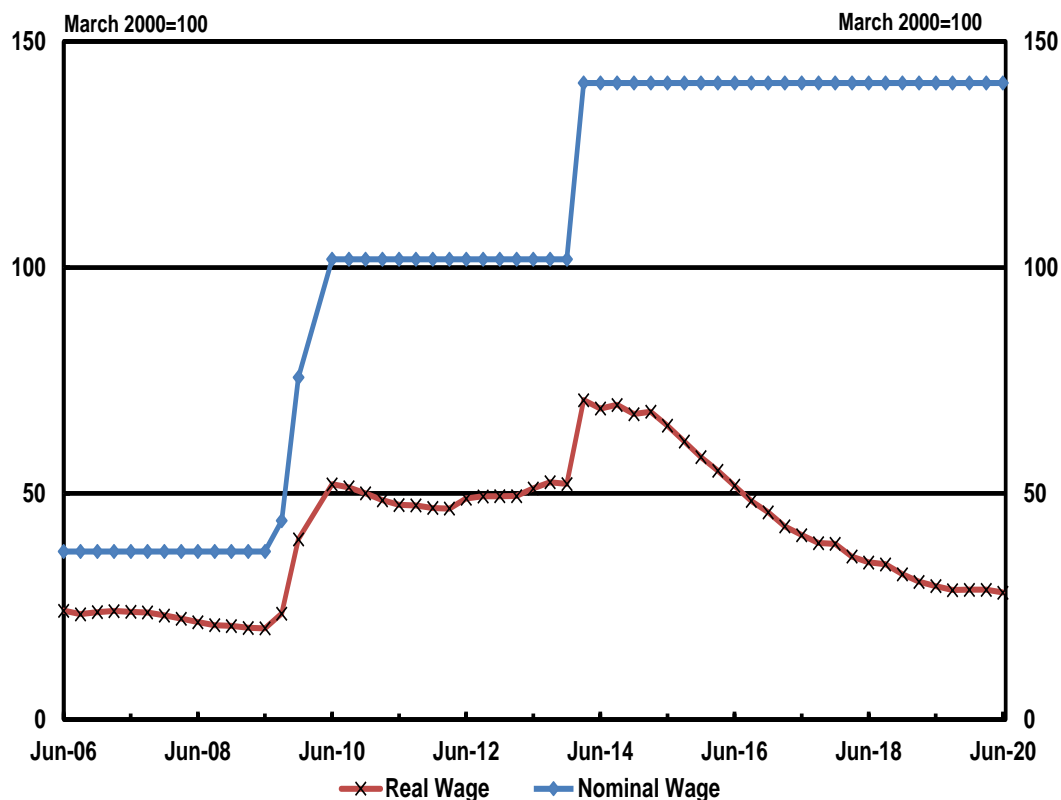
Employment in the Mining sector dropped by 2.1 per cent during the same period (See Chart 22). However, most of the fall occurred in 2020 due to the COVID-19 lockdown and suspension of the Ok Tedi mine operations and the shutdown of operations at the Pogera mine.

Chart 20: Mining & Non Mining Employment Growth


Source: Bank of PNG

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 (NSO)

The MWB Determination in July 2016 was the third and final phase of an increase to the minimum wage⁵ 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.

1.6 MONETARY DEVELOPMENTS

The Bank of PNG has maintained its accommodative monetary policy stance by keeping its Kina Facility Rate (KFR) at 3.0 per cent in its November KFR announcement. The KFR was reduced to 3.0 per cent in March 2020 from 5.0 per cent and has been maintained since then.

According to the September Monetary Policy Statement (MPS), the Bank's policy response to counter the effects of the COVID-19 pandemic, apart from reduction to the KFR, includes also reduction to the Cash Reserve Requirement (CRR) and Quantitative Easing (QE).

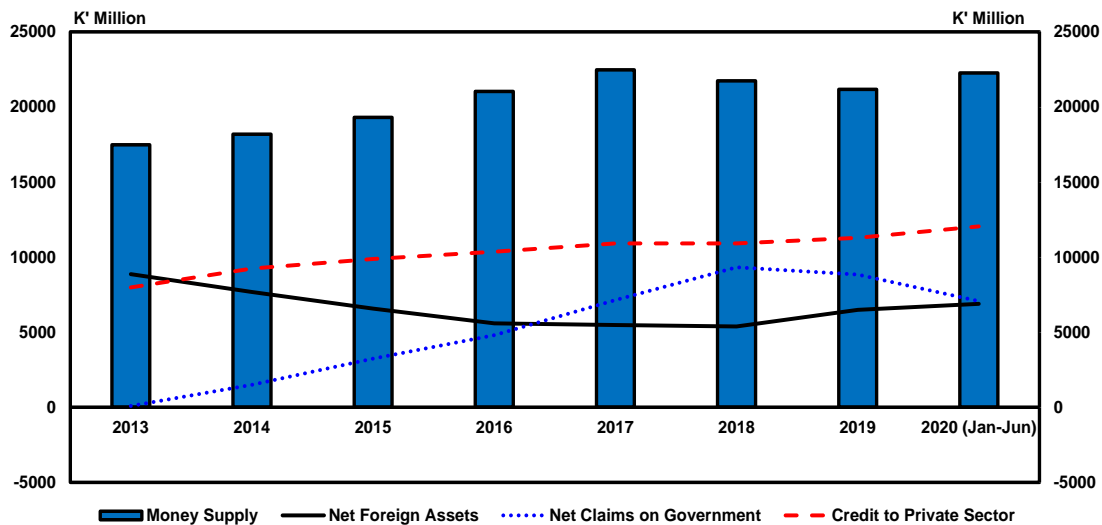
The Bank has implemented reduction to its CRR down to 7.0 per cent from 10.0 per cent and undertaken Quantitative Easing (QE) program as policy tools to inject additional liquidity of around K1.4 billion into the banking system. This is to ensure the banking system liquidity was adequate to support lending to and withdrawals by the customers (public) and business community during the pandemic period, particularly during lockdown. The Bank also introduced a short-term credit facility for second-tier financial institutions (Nasfund and Nambawan Super), allowing super members to access their funds through early withdrawals of their contribution to support them during the health crisis.

For the remainder of 2020, the Bank is expected to maintain an accommodative monetary policy stance and continue the above mentioned policy tools, whilst closely monitoring developments on inflation and other macroeconomic factors.

According to the Bank's 2020 September MPS, the broad money supply is projected to grow by 3.1 per cent in 2020, down from 5.4 per cent in the March 2020 MPS. The decline was due to increase in Central Government Net Claims by 10.4 per cent and the Private Sector Credit (PSC) by 8.8 per cent, which more than offset a decline in Net Foreign Assets. The increase in net claims on Central Government reflects the purchase of the COVID Bonds and other domestic debt financing, while increase in PSC reflects the use of overdrafts facilities by firms to maintain their operations during the period of economic downturn in 2020.

Meanwhile, the Bank projects monetary base to decrease by 8.8 per cent, mainly reflecting diffusion through the purchase of the COVID Bonds and other Government securities, including foreign exchange from the Bank. The projected growth in broad money supply and PSC are expected to support economic activity.

In the first half of 2020, the money supply increased by 6.3 per cent to an average of K22,268.4 million from an average of K20,951.6 million over the same period last year as net domestic borrowing by the Government and net earnings from foreign assets likewise increased slightly by 9.6 per cent and by 7.1 per cent, respectively.

Chart 23: Money Supply (Kina Million)

Source: Bank of PNG

Considering the macroeconomic developments and projections for 2020, the Bank will continue to maintain its monetary policy stance in the next six months starting September 2020. It will closely monitor the developments on inflation and other monetary and financial indicators, and will take further measures if necessary to ensure macroeconomic stability.

1.7 CONSUMER PRICE INDEX

2020 Inflation Update

Large temporary price rise in the June quarter

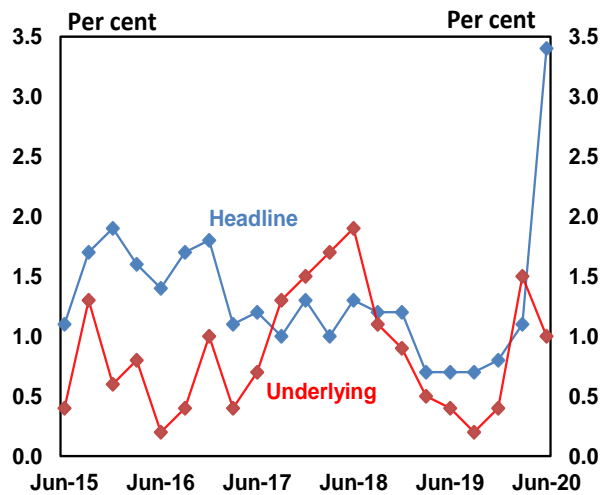
In the June quarter of 2020, headline inflation grew by 3.4 per cent, much higher than the 1.1 per cent recorded in the previous quarter (Chart 24). The increase was attributed to rise in the prices of a number of expenditure items namely Alcoholic Beverages, Tobacco and Betelnut (up 13.6 per cent), Health (up 6.1 per cent), Transport (up 4.1 per cent), Restaurants and Hotels (up 3.2 per cent) and Housing (up 1.5 per cent). These more than offset decrease in the prices of few other expenditure items namely, Household Equipment (down 1.2 per cent), communication (down 1.2 per cent) and Miscellaneous down by 1.2 per cent.

Headline inflation outcome since 2017 has shown moderation, however, has picked up remarkably over the first half of 2020. Through the year to June quarter 2020, headline inflation grew at 6.0 per cent, 1.6 percentage points higher than the 4.4 per cent inflation recorded in the June quarter 2019 (Chart 25). The increase in through-the-year inflation reflected increases in the prices of Alcoholic Beverages, Tobacco and Betel-Nut (up 19.4 per cent), Transport (up 8.4 per cent), Health (up 7.2 per cent), Restaurant and Hotels (up 6.2 per cent), Education (up 5.1 per cent), Food and Non-Alcoholic Beverages (up 2.9 per cent) and Clothing and Footwear (up 2.1 per cent), which more than offset the fall in the price of Communication (down 1.8 per cent), Household Equipment (down 5.5 per cent) and Miscellaneous (down 0.8 per cent) (Chart 25).

The underlying inflation rate increased by 1.0 per cent in the June quarter to be 2.9 per cent lower in through the year terms (see Chart 25). 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

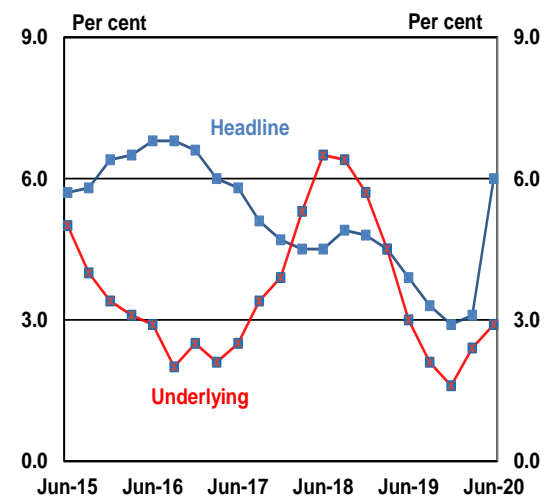
impacts of the appreciation of the Kina against importing countries and lower oil prices steadily filtering through into the domestic economy over the past 12 months.

Chart 24: Headline & Underlying CPI Quarterly



Source: National Statistics Office (NSO)

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



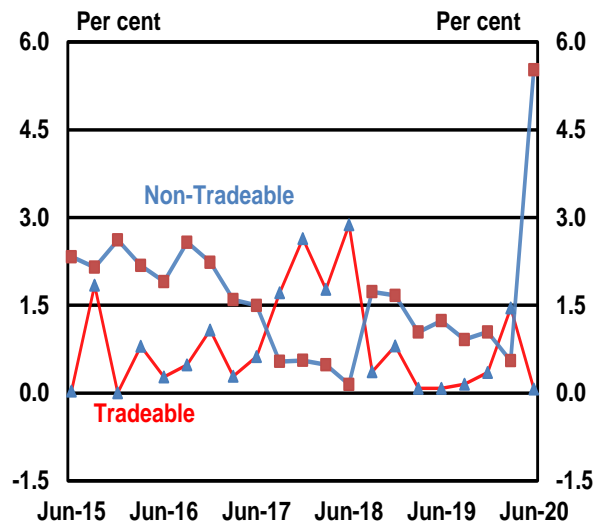
Source: National Statistical Office (NSO)

Tradable and Non-Tradable Goods

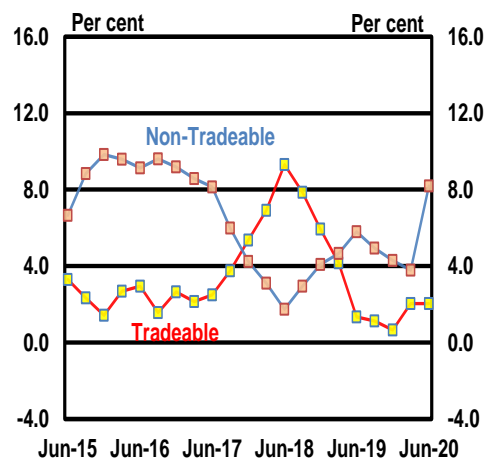
Prices of tradable goods increased by 2.0 per cent through the year to the June quarter 2020 compared to a 1.3 per cent increase in the corresponding quarter last year (see Chart 27). This is a slight increase and reflects increase in the prices of imported items namely, medical supplies and operations of transport.

While tradable inflation appears to pick up slightly, non-tradable (or domestic) inflation has risen sharply over the past year, rising by 5.5 per cent in the June quarter 2020 to be 8.2 per cent up through the year, compared to a quarterly growth rate of 1.2 per cent and a through the year growth rate of 5.8 per cent in the corresponding quarter last year. This is due largely to increases in the prices of major domestic items including Betelnut, medical services and hotel accommodation among others.

According to the NSO, Betelnut and medical services experienced spike in prices during COVID-19 lockdown period as health spending related to the COVID-19 rose while the lockdown resulted in shortage of Betelnut with prices peaking at K10.0 a Betelnut in Port Moresby. High cost of doing business and a lack of competition are likely to be responsible in part for the increases.

Chart 26: Tradeable vs Non-Tradeable inflation - Quarterly

Source: National Statistical Office (NSO)

Chart 27: Tradeable vs Non-Tradeable Inflation – Through-the-year

Source: National Statistical Office (NSO)

Inflation Outlook

Inflation in 2020 has been revised up to 4.0 per cent, higher than 3.7 per cent as projected in the 2020 MYEFO, however, lower than the 5.7 per cent projected in the 2020 Budget. The upward revision is due largely to much higher than anticipated quarterly outcomes of the consumer price index reported by the NSO, resulting from the higher Government spending and continued exchange rate depreciation. This more than offsets the downward pressure from lower oil prices, lower Australian inflation and strengthening of Kina against the Australian dollar.

Quarterly outcomes in the CPI reported in March and June in 2020 have been higher than Treasury's initial expectations. The higher index numbers for both quarters accounted for the bulk of the upward revision to the 2020 inflation forecast.

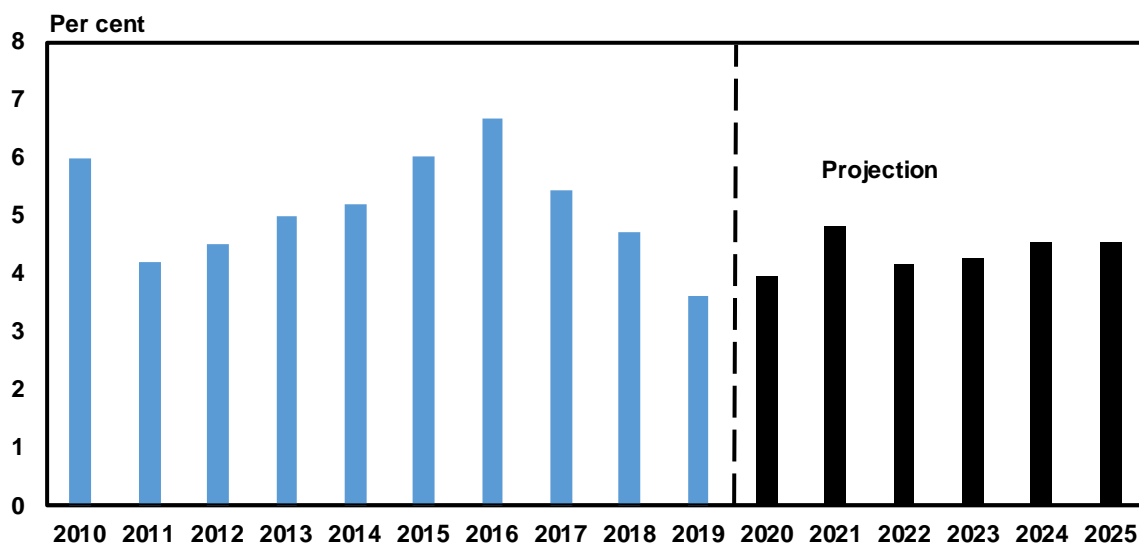
During the MYEFO, Treasury projected a headline inflation rate of 0.5 per cent in the June quarter on the assumption that Covid-19 containment measures imposed externally and domestically would have sharply reduced the demand and prices for goods and services. These would be more than enough to offset any upward pressures on prices including disruption to supply and the expansionary fiscal and accommodative monetary policy of the Government to address the economic fallout of the Covid-19 pandemic in the country.

However, the reported headline inflation outcome of 3.4 per cent for the June quarter by the NSO meant that Covid-19 related State of Emergency did induce inflationary pressure on domestic prices while imported inflation as expected showed moderation reflecting subdued trade activities over the same period. According to the NSO's June Quarter CPI report, the items that showed major increases included mostly domestically produced goods and services such as Betelnut, Medical Services, Fares, Restaurant and Hotels. This indicates that the cause of price increase in the June quarter was largely driven by domestic factors, and which more than offset relatively lower imported inflation. Domestic (non-tradeable) inflation in the June quarter was reported at 5.5 per cent, a sharp increase of 4.9 percentage points from 0.6 per cent recorded in the previous quarter.

The imported inflation outcome for the June quarter was 0.1 per cent, compared to 1.5 per cent recorded in the previous quarter. The lower outcome reflects the lower inflation in our major trading partners and lower commodity prices that translated into lower prices of most imported item.

Treasury see the sharp rise in the June headline inflation as temporary and reflects mostly the COVID-19 restrictions to normal business activity, people movements and domestic supply chains and expect that this price blip will subside as containment measures have gradually eased. However, there should be still some price domestic pressure as a result of the significant increase in the Government spending over the second half of the year that could potentially push prices higher to around 4.0 per cent in 2020, 0.3 percentage points higher than the 2020 MYEFO projection.

Chart 28: Inflation outcome and projection 2010-2025



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

2021 Inflation Outlook

In 2021, inflation is projected to rebound to around 4.8 per cent and is attributed to the anticipated rebound in economic growth, election related spending and improvement in global economic growth demand.

From 2022 onwards, inflation is projected to average around 4.4 per cent on the assumption of sound fiscal and monetary policy management.

The Government is mindful of the inflationary impact of its planned capital investment program (Connect PNG)-intended to drive economic growth and employment-and would ensure lower inflation through sound management of its fiscal and monetary policy.

The upside risk to inflation forecast includes faster exchange rate depreciation (end to managed pace depreciation currently undertaken by BPNG) and resource projects coming online.

1.8 BALANCE OF PAYMENTS AND INTERNATIONAL RESERVES

2020 Update

In the first half of 2020, the noticeable implications of the COVID-19 pandemic on mineral exports earnings and import payments, together with the closure of the Porgera mine were the main factors that caused movements in the PNG overall balance of payments.

The current account recorded a surplus of K8,846.0 million in the first half of 2020, driven by a positive trade balance of K9,061.0 million reflecting higher export values of gold and LNG commodities driven by higher gold price and higher LNG production. 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 COVID-19 pandemic has restricted trade activity resulting in lower import payments for general imports in the second quarter of the year.

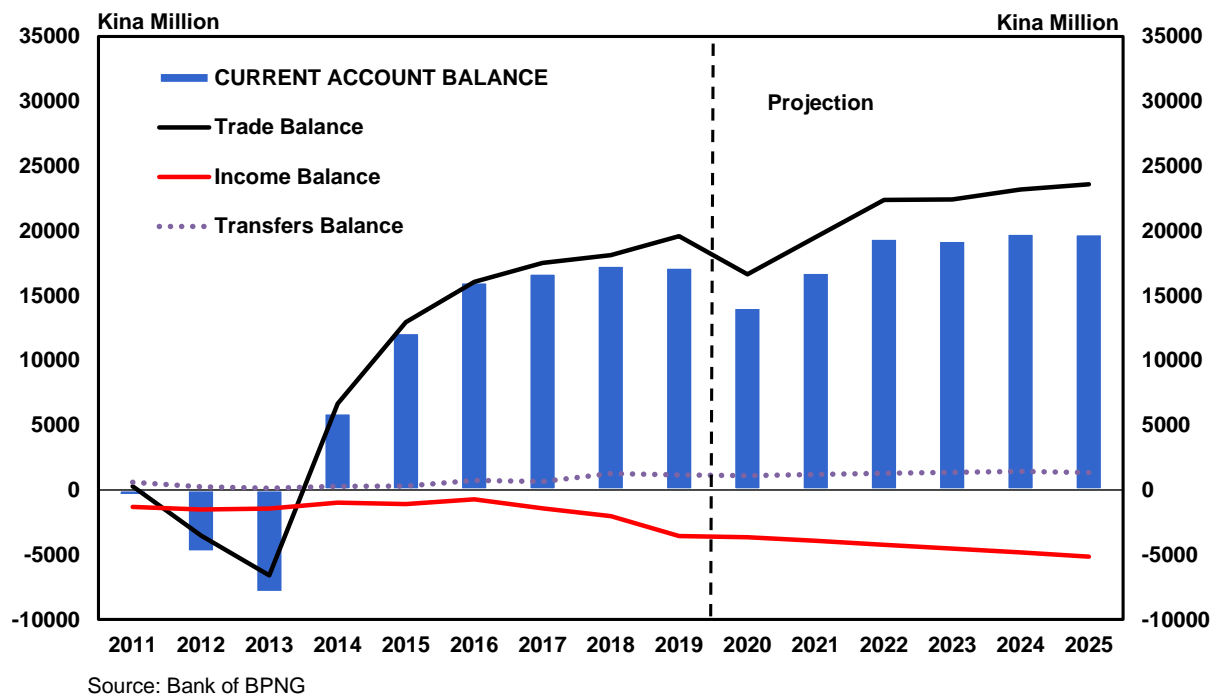
With expected higher export volumes of LNG, higher gold prices and slower import activity expected for the remainder of 2020, this will translate into an expected trade surplus of K16,648.0 million and a current account surplus of K14,081.6 million by end of 2020. The trade surplus and current account surplus, however, are lower than the 2019 levels reflecting closure of the Porgera gold mine and the negative impact of the COVID-19 on the production and prices of most commodities – prices for all commodities are projected to be much lower than the 2019 prices except gold and agricultural export commodities.

The income account recorded a deficit of K749.0 million in the first six (6) months of the year, down 55.5 per cent from the corresponding period of 2019. 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 K3,660.0 million by year end.

The transfer account recorded a lower surplus of K534.0 million in the first six (6) months of the year, slightly below the K525.0 million surplus recorded over the same period a year ago. The slight drop is due to lower inflows of gifts and grants, superannuation funds, family maintenance, tax payments and licencing fees.

With the expectation that gift and grant inflows will increase more than total outflows in the second half of the year, the transfer account is expected to record a surplus of K1,093.5 million by the end of 2020.

The capital and financial account recorded a deficit of K8,805.2 million in the first half of the year, 0.8 per cent lower than the corresponding period of 2019. The lower deficit reflects a weak increase in other financial capital outflows, which was enough to offset a sharp increase in portfolio investment during the period. Overall, this account is expected to record a deficit of K14,082.0 million in 2020.

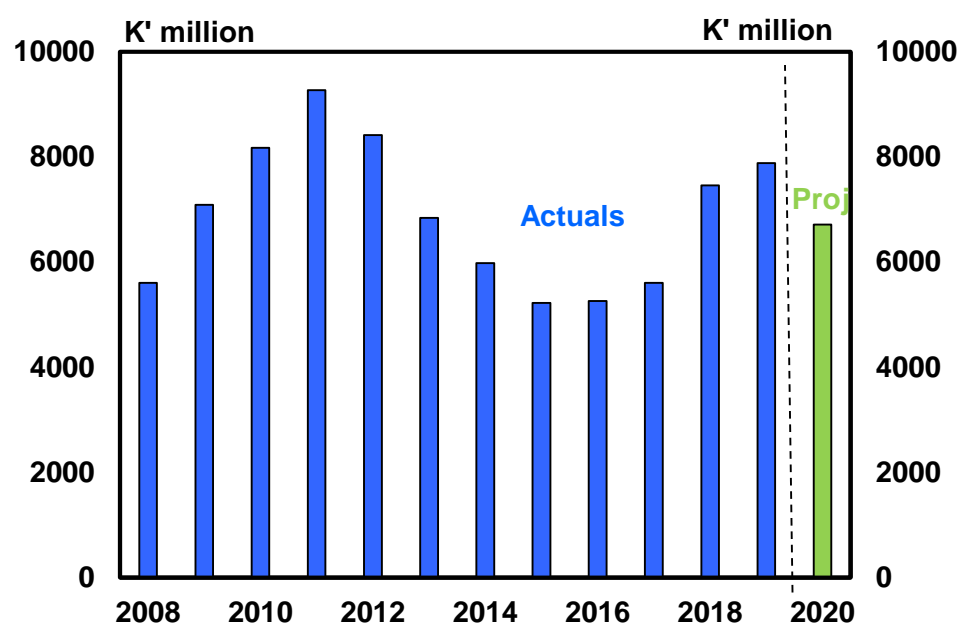
Chart 29: Balance of Payment (BOP)**2021 BOP Outlook**

In 2021, the current account surplus is expected to be K15,795.3 million (18.6 per cent of GDP), a 21.8 per cent increase from the 2020 estimate. The higher surplus in the current account reflects higher gold, copper, LNG, nickel and cobalt production and gold prices. The rebound in all commodity prices in 2021 from the impact of the COVID-19 will also contribute to the current account surplus.

Medium Term Outlook (2022-2025)

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 state after investment cost has been paid and this is likely to improve financial and capital account balances and thus, support the current account position.

Chart 30: International Reserves

Source: Bank of PNG

International reserves totalled US\$2,141.2 million (K7,333.0 million) at the end of August 2020, which is 5.5 months of total and 9.1 months of non-mineral import covers. This is expected to decrease to US\$1,932.7 million (K6,710.8 million) by the end of 2020. The decline is due to significantly lower than anticipated inflows in Mining and Petroleum Tax (MPT) over the second half of the year driven by the effect of COVID on petroleum and mineral output, higher outflows associated with LNG debt related payments and continued BPNG intervention in the foreign exchange market.

Overall, foreign exchange reserve levels are projected by the BPNG to decrease by 16.4 per cent by the end of 2020, compared to US\$2,312.8 million (K7,880.0 million) as at end December 2019.

1.9 RISKS TO MACROECONOMIC STABILITY

The 2021 Budget has been framed amidst unprecedented economic uncertainties brought about by the COVID-19 on the assumptions of a backdrop of a weak economic condition and with a moderate recovery outlook on mining and quarrying sector, oil and gas sector and agriculture sectors, improvements in the non-resource sectors, higher levels of Government capital spending and an increase in production of key mineral commodities. Overall, growth in the domestic economy is projected to rebound in 2021 reflecting those anticipated developments. This economic outlook is, however, prone to a number of risks that could materialise during the course of 2021.

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

Macroeconomic Risks:

- **Trade Tensions** – Uncertainty in global trade relations between the US and China continues to pose volatility risk that would have an adverse impact on commodity prices

and our exports in the agriculture, 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.

- **The transmission of COVID-19** – COVID-19 has crippled many economies around the world in 2020. Containing the spread of this pandemic takes precedence as to maintaining the stability of the economy. Failure in containing the spread of COVID-19 in PNG would only result in further low production output in the economy triggered by downscaled operations by businesses as they try to adjust to the pandemic's outbreak. Therefore, having drastic implications on the overall economic performance of PNG.
- **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 in 2021, there is a risk that economic growth projections will not be achieved, impacting business sentiment, income and employment levels and service delivery.
- **Commencement of large investment projects** – PNG's growth forecasting methodology excludes including any projects into growth projections until they have reached the Final Investment Decision (FID). If there is a major announcement, this would assist growth but significant revisions are unlikely until late in 2021 given major projects, especially in the LNG sector, are being postponed. Depending on decisions on the Porgera mine, there is a potential for either upside or downside growth depending if production is resumed by mid-year.
- **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 if another volcanic activity arises in the future.

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 2021 will have fiscal implications and the credibility of the Government's MTFS 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 2021 Budget, but failure to adhere to these restrictions will undermine the Budget forcing likely reductions in the capital budget.

Earlier implementation of the *Non-Tax Revenue Act* – The revenue forecast is assuming that only 25.0 per cent of these revenues will be collected in 2021. If the new Act is implemented earlier, then additional revenues would be collected.

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 has been successful in rebalancing its debt portfolio much more toward longer term external debt with large planned 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 2021 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 2021 Budget with mitigation strategies employed should any significant risks materialise.

CHAPTER 2: FISCAL STRATEGY AND OUTLOOK

2.1 FISCAL BACKGROUND – 2020 BUDGET UPDATE

The 2020 National Budget was the first annual budget framed by the Marape Coalition Government.

The implementation of the 2020 Budget was a challenge especially in the first half of the year due to the negative impact of the Coronavirus (COVID-19) Pandemic. Revenue was affected significantly. The 2020 MYEFO report projected total revenue and grants at K11,359.1 million, a reduction of K2,736.3 million from the 2020 Budget estimate of K14,095.4 million. This reduction is driven by the impacts of COVID-19 on domestic business activity and international trade volumes and values; the Supreme Court's ruling in 2020 on the illegality of the *Public Money Management Regularisation (PMMR) Act 2017*; and reduction in Mining and Petroleum Taxes (MPT) and Dividends due to the decline in petroleum commodity prices and production disruptions in Porgera and Ok Tedi mines. The compulsory 14-day lockdown followed by the two (2) months of SOE restrictions imposed by the Government affected business activities especially in the transport, service, hotel accommodation and trade businesses that fed into reduced collections in key revenue items such as Goods and Services Taxes (GST), Import Duty and Export Taxes.

The COVID-19 response measures have also disrupted implementation of the *Medium Term Revenue Strategy (2018 – 2022)* reforms and tax compliance activities. The administrative relief measures undertaken by the IRC to mitigate the impacts of the national lockdown on taxpayers have delayed the focus on compliance activities and lessened the resolve to pay taxes.

This adverse revenue impact heightened cash flow difficulties and eroded the ability of the Government to execute the 2020 expenditure budget. This was further affected by the need to deviate limited cash toward COVID-19 relief priorities. Raising the programmed financing early in the 2020 fiscal year was also challenged by the deterioration in international capital markets that halted the programmed ADB partial credit guarantee loan and other programmed budget support loans were delayed and repackaged as COVID-19 relief funding tied towards supporting COVID-19 related programs that were not in the initial 2020 Budget.

Because of cash flow constraints, the Government was forced to initiate expenditure cuts of K2,295.5 million to respond to the revenue and financing shock. However, the Government also had to appropriate additional funds toward the COVID-19 Emergency Response and Economic Stimulus Programs to contain the spread of the COVID-19 in PNG and to assist small and medium enterprise businesses affected by the COVID-19 containment measures. The 2020 MYEFO report projected an expenditure envelope of K17,989.3 million, a decline of K737.2 million from the 2020 Budget estimate of K18,726.5 million. The decline mainly came from the approved reductions in departmental Goods and Services of K830.6 million, interest cost savings of K92.5 million from the international debt relief program, and other operational expenditures of K43.1 million.

Despite the expenditure cuts, the more substantial decline in revenue meant that the Government's fiscal deficit projection programmed in the 2020 Budget has increased substantially from K4,631.1 million (5.0 per cent of GDP) to K6,630.2 million (8.1 per cent of GDP) at MYEFO, an increase of K1,999.1 million (2.5 per cent of GDP). Consequently, total public debt at MYEFO was expected to increase to K39,851.5 million, 48.8 per cent of GDP, by the end of 2020.

The increase in the fiscal parameters as a ratio of GDP also reflect the downward revisions to the projection for nominal GDP for 2020 due predominately to the COVID-19 pandemic shock.

COVID-19 Emergency Response:

In response to the COVID-19 pandemic, the Marape Government announced a broad Economic Stimulus Package of K5.7 billion to safeguard the citizens and the economy from the possible adverse impacts of the global pandemic. Out of that, K600.0 million was the quantum of fiscal response carved out from the 2020 operational and capital budgets and directed towards the Government's COVID-19 Emergency Response.

The COVID-19 Emergency Response funding was divided into two (2) main programs – *Health & Security containment* (K280.0 million) and *Economy Support programs* (K320.0 million).

As at 31st October 2020, total warrants released for the COVID-19 emergency response expenditures amounted to K443.7 million or 74.0 per cent of the identified amount (K600.0 million). From the warrants released, total year-to-date expenditure under the COVID-19 emergency response program amounted to K409.3 million or 92.2 per cent of the warranted amount.

Table 1: YTD COVID-19 Expenditure by Sector and Programs (Kina, million)

Sector and Programs	YTD Expenditure
Administration	13.1
Food distribution and Garden Promotion program under PM&NEC	1.5
COVID-19 - PNG Citizens Repatriation under Department of FA & Trade	9.4
Customs COVID-19 Interventions	2.0
COVID-19 Expenditure - Department of Treasury	0.2
Economic & Infrastructure	2.0
NAQIA COVID-19 Containment fund	2.0
Law and order	60.1
Defence Boarder Post	3.6
Security Services additional Costs	56.1
NOC Centre COVID-19 Fund	0.4
Provinces	217.8
Wash, MSME& Agriculture Development	14.1
Provincial Govt's. COVID-19 Containment Fund	29.8
DDAs' COVID-19 Containment Fund	173.9
Social/Health	116.3
Additional Allocation to PHA's & HSIP for Dept. of Health	112.3
POMGH COVID-19 Containment fund	2.0
IMR COVID-19 Containment fund	2.0
Grand Total	409.3

Source: Department of Treasury

2.2 2020 SUPPLEMENTARY BUDGET

Given the impact of COVID-19 expenditure requirements and the revenue and financing constraints, an enormous challenge was placed on the Government to execute its 2020 Budget. As a consequence, the Marape Government introduced the 2020 Supplementary Budget which approved an expenditure envelope of K17,989.3 million, against a revenue envelope of K11,359.1 million, resulting in a budget deficit of K6,630.2 million.

The Supplementary Budget approved a total reduction in appropriations of K2,295.5 million: K1,557.5 million under operational appropriations and K738.0 million under capital

appropriations, of which K1,558.5 million was re-appropriated back - operational budget (K711.0 million) and capital budget (K847.0 million). Hence, the net supplementary budget cut in the 2020 Supplementary Budget was K737.2 million which was mostly from the operational component.

The Government introduced a number of key legislative amendments as part of the Supplementary Budget to enable the Government to execute its recovery strategy. These included amendments to the *Fiscal Responsibility Act 2006*, *Central Banking Act 2000* and the *Superannuation (General Provision) Act 2000*.

The *Fiscal Responsibility (Amendment) Act 2020*, moved the upper limit of the Debt to GDP ratio to 60.0 per cent, with targets set to return debt ratios to below 40.0 per cent in 10 years. The adjustment was necessary to accommodate the rising public debt relative to GDP, taking into account lower nominal GDP levels caused by the pandemic.

The *Central Banking (Amendment) Act 2020* lifted the Temporary Advance Facility (TAF) limit to a level based on a 12.0 per cent moving average of total revenue and grants of the immediate prior 3 years. The amendments also increased the repayment period to 12 months from the previous length of 6 months or end year which ever came sooner. The newly amended TAF was effected by the Governor of the Bank of PNG on 4th November 2020 with an available advance of up to K1.5 billion and repayment term of one year from drawdowns. This was necessary to address the ongoing cash-flow miss-match issues given the significant demand for expenditure and the likely delays in financing.

There is a transitional period with the intent of the changes to ensure that the TAF is focused on within year cash management. At this stage, the intent is to have the facility available from the start of the fiscal year. It would be repaid in full by the end of the fiscal year (and earlier depending on the timing of revenue and other forms of budget financing). There would be no budget deficit financing.

The *Superannuation General Provision (Amendment) Act 2020* provides for one-off voluntary early withdrawal of a member's own superannuation contributions as part of the Economic Stimulus Package. This amendment enables members whose employment was terminated as a result of the impact of COVID-19 to access their retirement contributions to sustain themselves and their families during this crisis.

Table 2: 2020 Supplementary Budget (Kina, million)

Details	2020 Budget	2020 Pre-cuts	2020 Supp. Budget
Total Revenue and Grants	14,095.4	11,359.1	11,359.1
Total Expenditure and Net Lending	18,726.5	18,726.5	17,989.3
Net Lending (+)/Net Borrowing (-)	-4,631.1	-7,367.4	-6,630.2
<i>% of GDP</i>	-5.0	-9.0	-8.1

Source: Department of Treasury

The re-appropriation of K1,558.5 million in expenditure was mainly to support the Government's containment efforts in fighting the COVID-19 pandemic. Funds were also made available to fight COVID-19 at district and provincial levels.

Further the 2020 Supplementary Budget reallocated and maintained the following key Government priorities:

- K200.0 million for SME programs;

- K888.0 million for SIPs⁶;
- K140.0 million for Special Intervention Program;
- K486.4 million for Education subsidies (GTF subsidy & HELP);
- K300.0 million for programs under the 'Connect PNG' agenda;
- K110.0 million for Rural Infrastructure Program; and
- K604.0 million for Provincial functional grants.

An allowance of K90.0 million was made for likely overrun in Compensation of Employees. Also, an additional K30.0 million was re-appropriated towards the Department of Justice & Attorney General for Judiciary Infrastructure (Waigani Court House complex).

Table 3: Expenditure Summary (Kina, million)

Details	2020 Budget	2020 Supp. Budget
TOTAL EXPENDITURE	18,726.5	17,989.3
Operating/Recurrent Budget	12,746.0	11,599.8
Compensation of Employees	5,672.8	5,762.8
Debt Service (Interest payment & fees and charges)	2,156.9	2,064.4
Other Operating (Goods & Services)	4,916.3	3,772.6
Capital Budget/PIP	5,980.5	6,389.5
GoPNG Funded	3,683.4	4,092.4
Donor Funded	932.1	932.1
Loan Funded	1,365.0	1,365.0

Source: Department of Treasury

Financing and Debt

The 2020 Supplementary Budget deficit of K6,630.2 million is based on execution of the original 2020 Budget financing plan combined with increased international support. In particular the execution of the Rapid Credit Facility with the IMF raising K1,258.3 million on concessional terms. Additional support is expected to come from the World Bank and ADB through their COVID-19 emergency response facilities and from the Australian Treasury. The Australian Treasury Loan of USD400.0 million is expected in late November to early December, of which USD100.0 million will support the 2020 budget implementation in the context of COVID 19 pandemic, while USD300.0 million will be used to re-finance the Export Finance Australia (EFA) Loan acquired in 2019.

The initially planned financing from ADB's Partial Credit Guarantee scheme was delayed due to increases in costs for developing country debt due to COVID-19, and the World Bank's second Economic and Fiscal Resilience DPO were suspended due to the impacts of COVID-19 on fiscal targets.

2.3 THE 2021 BUDGET STRATEGY

The 2021 Budget is the second annual Budget for the Marape Coalition Government. This Budget is the second in the Government's rolling five-year strategy of budget consolidation and economic recovery under the theme, '*Take Back PNG*', with most of its development aspirations aligned to the '*Marape Manifesto*' and '*Loloata Commitment*'.

⁶ K712.0m for DSIP and K176.0m for PSIP. Of the initial appropriation of K1.1bn, K216.5m was cut and re-appropriated towards COVID-19 support at districts and provincial levels.

While the 2021 Budget has been framed amidst unprecedented economic uncertainties brought about by COVID-19, the Budget is guided by the principles of development and prosperity championed by the Five National Goals and Directive Principles, the National Strategy of Responsible Sustainable Development (StaRS), and Papua New Guinea's commitment to the 17 United Nations Sustainable Development Goals (SDGs) that have been captured in the development principles defined by Vision 2050, and the Development Strategic Plan 2030, and woven into the prescriptions of Medium Term Development Plans (MTDPs) II and III.

Importantly, the 2021 Budget is consistent with the revised Medium Term Fiscal Strategy, which considered the severe effects of COVID-19 and which is based on the following key 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 sector and the informal sector;
- distribute resource benefits more equitably;
- stimulate non-resource growth back to 5.0 per cent annually;
- comprehensive Government SOE reform program;
- free up foreign exchange; and
- create at least 10,000 jobs annually.

The 2021 Budget is comprised of elements of the 2020 Supplementary Budget released in response to the COVID-19 impact and sets the stage for fiscal consolidation over the medium term.

The broad objectives of the fiscal recovery and repair programme is to provide the platform for economic recovery and fiscal consolidation, while continuing with strategic capital formation necessary to sustain growth. In particular, the aim is to diversify the non-resource sector, expand the tax base and strengthen the efficiency of the delivery of public services.

This Budget strives to strike an appropriate balance between the challenges faced by the Government in stimulating the economy while aiming to achieve fiscal sustainability and discipline. Hence, the overall fiscal deficits and anchors associated with the Government's 2021 Budget balance are all reduced from levels expected in 2020 except the debt to GDP ratio.

- i. Budget deficit at 7.3 per cent of GDP;
- ii. FRA deficit (excluding concessional loans) at 5.2 per cent;
- iii. Non-resource primary balance at 7.7 per cent of GDP; and
- iv. Debt target of 51.5 per cent of GDP.

The major risks to the fiscal strategy comes from a potential revenue and financing shortfall. Although the Government has been conservative in estimating revenue, a larger than expected reduction in corporate income taxes will represent a significant risk to the execution of the 2021 Budget. Another significant challenge is the realisation of financing options early in the budget execution cycle.

In 2021, the fiscal strategy is also expected to be supported by further monetary policy actions being coordinated with the Bank of PNG.

The Total Revenue and Grants for 2021 has been projected at K12,995.0 million (14.4 per cent of GDP). This is K1,635.9 million higher or an increase of 14.4 per cent, than the 2020 Supplementary Budget estimate of K11,359.1 million which is expected to come in on

target by end 2020.

Table 4: 2021 and Medium Term Revenue Projections (Kina, million)

	2020 Supp. Budget	2021 Budget	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.
Tax Revenue	9,647.2	11,109.7	12,579.7	14,455.1	16,313.9	18,091.4
Taxes on Income, Profits and Capital Gains	5,470.6	5,945.3	6,471.9	7,371.2	8,259.4	9,058.7
Taxes on Payroll and Workforce	1.4	0.0	0.0	0.0	0.0	0.0
Taxes on Goods and Services	3,437.9	4,351.1	5,147.7	6,004.4	6,858.2	7,706.3
Taxes on International Trade and Transactions	737.3	813.3	960.1	1,079.5	1,196.3	1,326.3
Donor Grants	932.1	1,008.3	1,092.7	1,076.6	1,145.8	1,215.0
Other Revenue (Non-Tax)	779.8	877.0	1,422.7	1,510.0	1,374.2	1,319.8
TOTAL REVENUE AND GRANTS	11,359.1	12,995.0	15,095.1	17,041.7	18,833.9	20,626.1
% of GDP	13.9%	14.4%	15.2%	16.2%	17.0%	17.6%

Source: Department of Treasury

On Expenditure, the Marape Government will continue to increase investments in agriculture, tourism and SMEs that support 85.0 per cent of the country's population. These sectors have been hit hard by the impact of the COVID-19 pandemic. Hence, this Budget will provide stimulus to support these sectors.

Firstly, the Government will continue to support key capital programs introduced as part of the 2020 Supplementary Budget such as the Connect PNG, micro PIP for rural infrastructure and Special Intervention Programs that aims to reduce the cost of doing business and to connect and expand the economic corridors to stimulate economic growth while generating employment opportunities in rural communities.

The Government has ensured that the 2021 Budget continues to fully fund Government service priorities in the health, education, law & order and infrastructure sectors. The 2021 Budget also focuses on investing in MSMEs e-Commerce training and support platforms to expand and formalize the current 50,000 or so companies in this sector. This will be achieved by providing business start-up programs nationwide with the support of the World Economic Forum (WEF). Further, this Budget supports downstream processing and value-addition in agriculture, fisheries, forestry and tourism.

The 2021 Budget expenditure is projected at K19,607.8 million which will mainly support the key reforms consistent with the principles of the 'Marape Manifesto' and 'Loloata Commitment', which focused on connecting PNG, supporting rural communities, supporting SMEs, providing responsible government tuition fees (GTF), and strengthening SOEs through smarter and targeted policy reforms.

Table 5: 2021 and Medium Term Expenditure Estimates (Kina, million)

	2020 Supp. Budget	2021 Budget	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.
TOTAL EXPENDITURE	17,989.2	19,607.8	20,390.2	20,367.1	21,126.6	22,386.1
Operating Budget	9,535.5	9,865.9	9,970.6	9,983.9	10,160.3	10,426.2
<i>Compensation of Employees</i>	5,762.8	5,763.8	5,684.3	5,438.0	5,470.8	5,487.5

<i>Other Operation</i>	3,772.7	4,102.1	4,286.3	4,545.9	4,689.5	4,938.7
<i>Share of CoE and G&S to total expenditure</i>	53.0%	50.3%	48.9%	49.0%	48.1%	46.6%
Capital Budget/PIP	6,389.3	7,471.1	8,197.4	7,855.8	8,167.2	8,965.8
<i>GoPNG Funded</i>	4,092.3	4,824.4	5,536.5	5,167.5	5,348.3	5,977.3
<i>Donor Funded</i>	932.0	1,008.3	1,092.7	1,076.6	1,145.8	1,215.0
<i>Loan Funded</i>	1,365.0	1,638.4	1,568.2	1,611.7	1,673.1	1,773.5
<i>Share of Capital (PIP) to total expenditure</i>	35.5%	38.1%	40.2%	38.6%	38.7%	40.1%
Debt Service	2,064.4	2,270.8	2,222.2	2,527.4	2,799.1	2,994.1
<i>Share of debt servicing to total expenditure</i>	11.5%	11.6%	10.9%	12.4%	13.2%	13.4%

Source: Department of Treasury

The Government will continue to focus on achieving efficiency in its spending and value for money by addressing legacy and structural issues that result in wastages.

The CoE allocation is maintained at 2020 Supplementary Budget levels to control the wage bill. This will be achieved by auditing the payroll, setting a clear recruitment policy framework, instituting a freeze on recruitment in non-essential areas in the public service and pursuing the retirement program initiated in the 2020 Budget. While progress in these areas in 2020 was significantly affected by COVID-19 containment efforts, it is expected to accelerate in 2021.

Interest payments, as a proportion of revenue, have increased in recent years. This reflects the increase in the use of longer term domestic sources of debt (COVID-19 bonds), but also the inclusion of interest payments on Government guarantees (explicit contingent liabilities). It also reflects a decline in the revenue denominator. However, this is expected to stabilise as MTRS implementation lifts revenues, debt management reforms continue to lower international interest costs significantly and also lower domestic interest rates through capital market reforms. The predominant cause of the rise in interest costs is due to increased debt levels.

To ensure allocated resources are used effectively, a strong and effective Monitoring and Evaluation (M&E) framework is essential to monitor the delivery of essential capital investment projects. This will also ensure the intended outcomes are realised resulting in a good economic return on investment.

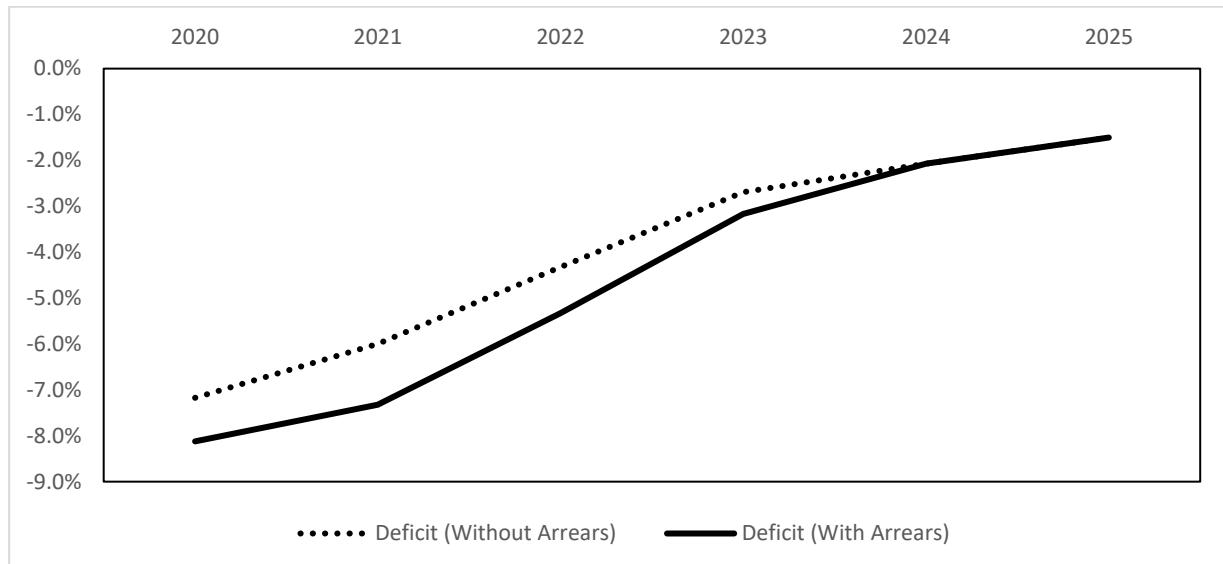
The medium-term projections incorporate a significant amount of arrears' repayment, amounting to an estimated K1,200.0 million in 2021. This will include arrears under CoE of K430.0 million for exit payments⁷; and K340.0 million set aside to reduce the Goods and Services arrears (other operational costs) in a sensible and cautious manner.

The Government in 2020 introduced a verification process to validate and clear these outstanding Government arrears. As part of the process, the Arrears Verification Committee (AVC) was established comprising senior officials from the Departments of Treasury, Finance and National Planning & Monitoring. This interdepartmental committee (AVC) meets on a weekly basis and makes recommendations to the Minister for Treasury and the Budget

⁷ The retirement program for the public service initiated in 2020 has been slow due to COVID-19 preventive measures, with less than K30.0 million paid as actual retirement cost in 2020 to date. Hence, the program has been shifted into 2021 to allow the Government to fully implement.

Management Committee (BMC) for payment of these arrears. From the K1,052.0 million committed in the 2020 Budget, the Government, as at end of October 2020, through the inter-department committee (AVC), has verified over K657.4 million in arrears, of which K143.0 million has been paid. The Government is committed to continue drawing down in the level of arrears in 2021, which will reduce the Government stock of debt.

Chart 31: Deficit With and Without Arrears



Source: Department of Treasury

Finally, for capital arrears, K430.0 million has been set aside in the 2021 Budget under the arrears payments program initiated in 2020. The arrears payment program will likely continue through to 2024 (see Chart 31) allocating fiscal space to clear up to K2.7 billion in arrears. However, the estimated figure is likely to change depending on the results of the verification process.

With total revenue of K12,995.0 million and total expenditure of K19,607.8 million, the resulting fiscal deficit is K6,612.8 million (7.3 per cent of GDP). This will increase the level of public debt, excluding valuation changes, to K46,464.4 million (51.5 per cent of GDP) - excluding outstanding arrears.

Table 6: Budget Balance 2019-2021 (Kina, million)

Fiscal Indicator	2019 Actual	2020 Budget	2020 Supp. Budget	2021 Budget
Total Revenue and Grants	13,680.5	14,095.4	11,359.1	12,995.0
Total Expenditure and Net Lending	17,852.4	18,726.5	17,989.3	19,607.8
Net Lending (+)/Net Borrowing (-)	-4,171.9	-4,631.1	-6,630.2	-6,612.8
<i>as % of GDP</i>	<i>-5.0%</i>	<i>-5.0%</i>	<i>-8.1%</i>	<i>-7.3%</i>
Debt as % of GDP	39.8%	40.3%	48.9%	51.5%
Non-resource Primary Balance	-3,166.6	-3,796.7	-5,077.0	-5,155.6
<i>as % of GDP</i>	<i>-5.2%</i>	<i>-5.8%</i>	<i>-8.1%</i>	<i>-7.7%</i>

Source: Department of Treasury

The Government expects to finance K4,612.8 million of the K6,612.8 million through external borrowing. Of which K2,403.6 million has been identified as on very concessional terms while the other K2,209.2 million is yet to be identified. The remainder of the net K2,000.0 million will be financed by domestic borrowing through issuing of Government Securities (Treasury Bills &

Bonds).

Possible sources of external financing available to the Government in 2021 include: A new World Bank Emergency DPO (USD100.0 million) and the ADB SOE Loan (USD100.0 million), plus concessional project loan disbursements of K1,934.3 million. Apart from financing the budget, these external funds will help restructure the Government's debt profile. Sourcing of this external financing will provide the much-needed injection into FX reserves that will facilitate the easing of the foreign exchange imbalance. In contrast, however, it is recognised that fiscal deficit financing under a QE program will have the opposite impact on FX reserves and this will require careful management by Treasury and the Central Bank.

2.4 THE MEDIUM-TERM FISCAL OUTLOOK

As highlighted, the Government's main focus over the medium term will be to maintain fiscal support for economic recovery efforts from the COVID-19 global pandemic, continue the focus on strengthening the revenue base, improving the quality of spending and obtaining cheap responsible financing within prudent risk levels thereby ensuring macroeconomic stability over the medium term. The process of fiscal consolidation is expected to form the basis for a renewal of growth performance in the economy.

Table 7: Budget Balance 2021–2025 (% of GDP)

	2020 Supp. Budget	2021 Budget	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.
Revenues and Grants	11,359.0	12,995.0	15,095.1	17,041.7	18,833.9	20,626.2
Expenditure (excluding arrears provision)	17,214.2	18,407.8	19,390.2	19,867.1	21,126.6	22,386.1
<i>Net Lending/Borrowing (Cash Deficit)</i>	-5,855.2	-5,412.8	-4,295.1	-2,825.5	-2,292.7	-1,760.0
<i>%GDP</i>	-7.2%	-6.0%	-4.3%	-2.7%	-2.1%	-1.5%
Expenditure (including arrears provision)*	17,989.0	19,607.8	20,390.2	20,367.1	21,126.6	22,386.1
<i>Net Lending/Borrowing (Cash Deficit)</i>	-6,630.0	-6,612.8	-5,295.1	-3,325.5	-2,292.7	-1,760.0
<i>%GDP</i>	-10.6%	-9.9%	-7.3%	-4.3%	-2.8%	-2.0%
Debt/GDP	48.8%	51.5%	52.1%	52.5%	52.6%	52.2%

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.

Arrears: K1,052.0m for 2020 (Operation – K752.0m & Capital – K300.0m), K1,200.0m for 2021 (Operation – K770.0m & Capital – K430.0m), K1,000.0m for 2022 (Operation – K680.0m & Capital – K320.0m), K500.0m for 2022 (Operation – K250.0m & Capital – K250.0m).

Under the revised medium-term framework, revenue is expected to increase by 34.0 per cent by 2025 from the 2021 Budget estimate. Expenditure in contrast will increase by a much lower rate of 13.0 per cent over the same period out to 2025.

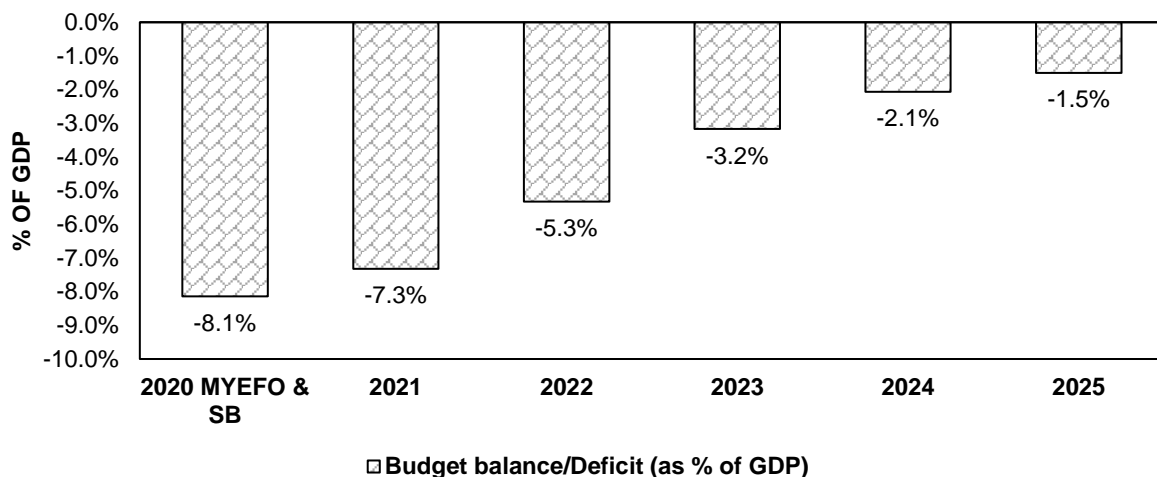
The deficit level is targeted to be reduced over the medium term to K1,760.0 million by 2025, an on-year average decline of about 28.0 per cent per annum over the 5 year horizon.

Table 8: Key Anchors of the MTFS 2021-2025 (% of GDP)

	2020 Supp. Budget	2021 Budget	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.
Budget Balance (% of GDP)	-8.1%	-7.3%	-5.3%	-3.2%	-2.1%	-1.5%
Expenditure Rule (Operating Budget as % of Non-resource GDP)	18.5%	18.1%	16.8%	16.2%	15.7%	15.2%
Non-resource primary balance (% of Non-resource GDP)	-8.1%	-7.7%	-5.5%	-2.4%	-0.4%	0.2%
FRA deficit (ex. Concessional loan exp.)	-5.9%	-5.2%	-3.4%	-0.3%	1.6%	2.2%
Debt ex. arrears (% of GDP)	48.8%	51.5%	52.1%	52.5%	51.7%	50.5%
Debt incl. arrears (% of GDP)	50.3%	53.1%	52.6%	52.5%	51.7%	50.5%

Source: Department of Treasury

The impact of the COVID-19 pandemic has reduced the level of GDP previously estimated over the medium term, thereby affecting the Government's fiscal ratio anchors. The strong recovery in nominal GDP expected in 2021 and 2022 will help restore these ratios.

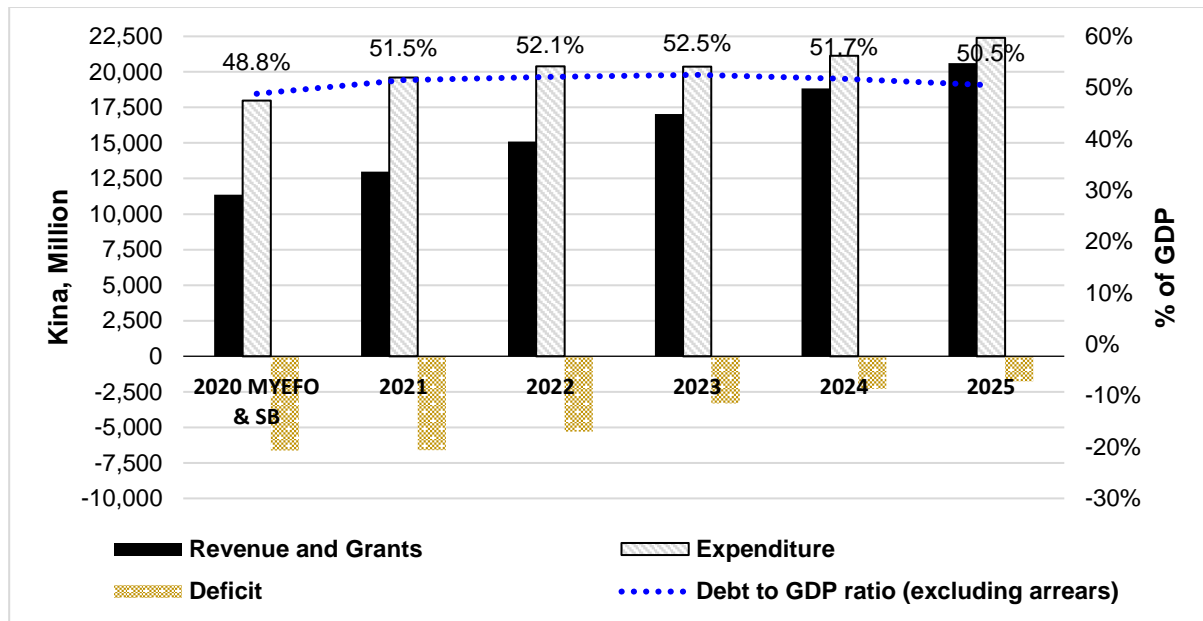
Chart 32: Net Borrowing as a percentage of GDP over the Medium Term

Source: Department of Treasury

The total Debt to GDP ratio including arrears is expected to fall from 53.3 per cent immediately prior to the 2020 Supplementary Budget, down to 53.1 per cent in 2021, and down to 52.6 per cent in 2022. Excluding arrears, it is expected to increase from the supplementary budget estimate of 48.8 per cent of GDP to 51.5 per cent in 2021 and increase further in 2022. This highlights the importance of tracking the repayment of arrears in PNG's current debt calculations. The debt to GDP ratio is expected to track slightly above the 50.0 per cent mark over the medium term, and below 50.0 per cent mark thereafter in line with the amended *FRA (2020)*. Upsides in growth performance could rapidly move the debt to GDP ratio back to 40 per cent within 10 years (more details were provided in the 2021 Budget Strategy Paper).

The non-resource primary balance will be on a declining path such that the balance will reach 0.2 per cent at the end of medium-term (ending in 2025) which will ensure that if resource revenues pick up over the medium-term, funds will start to accumulate in the Sovereign Wealth Fund (SWF).

Chart 33: Medium Term Fiscal Outlook



Source: Department of Treasury

Box. Link to IMF Program

The Government maintains a program of engagement with the International Monetary Fund (IMF). This staff monitored program (SMP) allows the Government to get external validation of our fiscal and macro-economic policy and position. This builds confidence in the international community, and assists with increased access to good, cheap funding. In line with 2020, the Government will commit to a ceiling on non-concessional loans as part of IMF and World Bank support, in order to limit our exposure to more expensive loans and focus on concessional, cheaper financing. As part of this program we are demonstrating to the IMF that, despite COVID-19, we are working to get Government finances back on track.

The Government has agreed on a consolidation plan with the IMF that allows us to expand our capital and make payments on arrears without this being counted against us. The table below shows the alignment between this budget and the program, omitting from the deficit some extra capital spending and arrears spending.

	2020 Budget	2020 SB	2021 Projection	2022 Projection	2023 Projection	2024 Projection	2025 Projection
Revenues and Grants	14,095	11,359	12,995	15,095	17,042	18,834	20,626
Expenditure	17,674	17,214	18,407	19,390	19,867	21,127	22,386
Deficit	-3,579	-5,855	-5,412	-4,295	-2,825	-2,293	-1,760
GDP	92,206	81,627	90,265	99,383	104,917	110,880	117,151
Deficit to GDP	-3.9%	-7.2%	-6.0%	-4.3%	-2.7%	-2.1%	-1.5%
Adjusters							
Arrears Payments	1,052	1,052	1,200	1,000	500		
Non-Core Capital	500	500	600				
Deficit After Adjusters	-2,027	-4,303	-3,612	-3,295	-2,325	-2,293	-1,760
Deficit to GDP	-2.2%	-5.3%	-4.0%	-3.3%	-2.2%	-2.1%	-1.5%

1/ Figures for the capital adjuster for 2021 are estimated at the moment.

CHAPTER 3: REVENUE

3.1 REVENUE DEVELOPMENTS AND OUTLOOK 2020 AND 2021

In the 2020 Supplementary Budget, Total Revenue and Grants for 2020 were revised down considerably by K2,736.3 million to K11,359.1 million compared to the 2020 Budget projection of K14,095.4 million reflecting expected shortfalls in a number of major tax heads and non-tax revenue heads.

The Supplementary Budget revenue estimates reflected expected shortfalls in a number of major tax heads, particularly Company Income Tax (CIT), Inland and Import Excise, Mining & Petroleum Tax (MPT), import duty, export tax and statutory PMMR collections. The lower CIT collection was due to loss of business and sales due to protracted COVID-19 related effects on economic activities in 2020. MPT collections has been poor this year as a result of Oil and Gas sector companies not paying anything at all due to the fall in oil price. The lower-than-expected PMMR collections reflects the Supreme Court ruling to nullify the constitutionality of the *Public Monies Management Regulation (PMMR) Act 2017*, thereby ceasing the collection from statutory transfers for the remainder of 2020.

Total collections of Dividends and Fees & Charges are likely to meet their 2020 Supplementary Budget targets by year-end, except PMMR. The outstanding Dividend amount is K50.0 million from KPHL remains a risk to date as there is no clear indication of payment timing.

For the 2021 Budget year, Total Revenue and Grants is projected to increase by K1,635.9 million to K12,995.0 million, or 14.4 per cent higher than the 2020 Supplementary Budget projection. This mainly comprises of K11,109.7 million in Tax Revenue, K877.0 million in Other Revenue and K1,008.3 million in Donor Grants.

Revenues in 2021 are expected to be supported by a recovery in economic growth (in both the non-mining and mining sector). Specifically, higher government spending, public injections to private sector credit growth, an expected broad-based recovery in export commodity prices, higher anticipated growth in the Agriculture, Forestry and Fishing sector and progress on the revised Medium Term Revenue Strategy (MTRS) initiatives.

Table 9: Total Revenue and Grants 2020-2021 (Kina, million)

	2019 Actuals	2020 Budget	2020 Supp.	2021 Budget	Variation
Tax Revenue	10,918.1	11,307.8	9,647.2	11,109.7	1,462.5
<i>Per cent of GDP</i>	13.0%	13.9%	10.7%	11.2%	1.6%
Grants	1,775.6	932.1	932.1	1,008.3	76.2
<i>Per cent of GDP</i>	2.1%	1.1%	1.0%	1.0%	0.1%
Other Revenue	986.8	1,855.5	779.8	877.0	97.3
<i>Per cent of GDP</i>	1.2%	2.3%	0.9%	0.9%	0.1%
Total Revenue & Grants	13,680.5	14,095.4	11,359.1	12,995.0	1,636.0
<i>Per cent of GDP</i>	16.3%	17.3%	12.6%	13.1%	1.8%

Source: Department of Treasury

3.2 TAX REVENUE

3.2.1 Taxes on Income, Profits and Capital Gains

Taxes on Income, Profits and Capital Gains are projected at K5, 945.3 million in 2021, comprising mainly of K3, 455.7 million in PIT, K1, 724.0 million in CIT, K313.6 million in MPT, K218.4 million in DWT, K131.9 million in IWT, K62.8 million in Royalties and Management Taxes and K38.8 million in Non-Resident Insurers Withholding Tax (see Table 10).

The PIT collection has been tracking well against target collection for 2020 with 77.1 per cent of the 2020 Supplementary Budget projection collected up to end September. This is attributed to large companies maintaining their workforce in the taxable income brackets despite COVID-19. The negative impact of COVID-19 on formal employment is therefore implied to be concentrated on employees earning below the tax-free threshold.

In 2021, PIT is estimated to increase to K3,455.7 million from K3,308.0 million, or higher by 4.5 per cent in 2021, as businesses reinstate hiring (or recommence furloughed employees) as a result of easing the COVID-19 restrictions. This will also be supported by the compliance activities undertaken by IRC and the anticipated restart of the Porgera mine. Further, GST credit offsets against PIT liabilities will continue to be disallowed.

Table 10: Taxes on Income, Profits and Capital Gains 2020-2021 (Kina, million)

	2019 Actuals	2020 Budget	2020 Supp.	2021 Budget	Variation
Taxes on Income, Profits and Capital Gains	6,070.4	6,229.4	5,470.5	5,945.4	474.8
Personal Income Tax	3,211.6	3,215.0	3,308.0	3,455.7	147.7
Company Tax	1,696.9	2,085.4	1,648.6	1,724.0	75.4
Mining and Petroleum Taxes	760.7	561.2	161.1	313.6	152.5
Royalties & Management Tax	43.0	49.4	55.2	62.8	7.6
Dividend Withholding Tax	215.0	171.0	171.0	218.4	47.4
Interest Withholding Tax	128.0	107.3	121.4	131.9	10.5
Non-Resident Insurers Withholding Tax	14.6	40.0	5.0	38.8	33.8
Tax Related Court Fines	0.0	0.0	0.0	0.0	0.0
Sundry IRC Taxes & Income	0.6	0.1	0.2	0.2	0.0

Source: Department of Treasury

CIT collections up to end September 2020 amounted to only 65.0 per cent of the Supplementary Budget estimate, while 12.4 per cent lower than collection in the same period of 2019. This downward trend is a strong indication that CIT outcome for 2020 will likely be lower than 2020 Supplementary Budget estimate reflecting the adverse implications of the pandemic on business profitability, CIT filling monitoring and CIT administration efforts to improve CIT revenue collection, exacerbated by the projected 3.8 per cent contraction in the economy.

Generally, a quarter's loss in revenue from CIT collections has been estimated from the loss in business activity due to the three months state of emergency nationwide in response to the COVID-19 pandemic. Further, ongoing specific restrictions to business operations in the services industry remains a hindrance to regular operations, which are being eased only gradually. Profitability as a result, has been squeezed, as businesses have kept afloat by undertaking major cost cutting in line with lost sales and supported by government response policies to mitigate the economic implications of the pandemic.

Government policies in 2020 included tax administration measures aimed at providing temporary cash flow relief to affected businesses through delayed CIT filling – which implies delayed payment of CIT. This was eventually deemed to be the appropriate measure under tax relief advocated internationally, to be applied in developing countries such as Papua New Guinea, to businesses suffering as a result of COVID-19.

Due to the COVID-19 restriction, there have been no inspections and compliance activities undertaken by the IRC other than desk audits, and therefore, additional revenues from compliance measures have not materialized. However, IRC has indicated that it can generate additional revenues from CIT through compliance activities in 2021.

In 2021, CIT is projected at K1,724.0 million. The minor increase over the supplementary budget estimate will be supported by compliance activities. In addition, the ongoing gradual easing of restrictions and reopening of businesses in line with the new normal business practices will have moderate positive impact on companies' cash flow, thus providing breathing space for businesses to recover from losses experienced due to the COVID-19. This should have a mild improvement in CIT collections going forward.

Mining and Petroleum Tax (MPT) receipts have performed below the 2020 Supplementary Budget projection so far, reflecting the decline in realised oil and gas prices. This also reflects reduction in resource companies' production due to impact of Porgera mine closure due to licensing issues and the Ok Tedi mine closure due to the pandemic. More importantly, MPT collections are mostly contributed by resource companies in the oil and gas industry rather than mining industry.

In 2021, MPT collections are estimated at K313.6 million, which is 94.7 per cent above the 2020 Supplementary Budget projection. This reflects gradual improvement in the international price expectations for oil and gas in 2021.

Dividend Withholding Tax (DWT) collection has been performing well with 84.5 per cent of the 2020 Supplementary Budget estimate collected up to end September. If this trend continues, DWT is estimated to meet the Supplementary Budget Projection by end 2020.

In 2021, it is estimated that DWT will increase to K218.4 million largely because of strong recovery in nominal GDP growth. However, persistence of the foreign exchange imbalance remains a high risk for collections including the uncertainties surrounding investment opportunities in 2021.

Interest Withholding Tax (IWT) has been tracking below its supplementary budget expectations on a pro-rata basis with 69.0 per cent of the supplementary budget target collected to end September. Administrative measures planned for 2020 to tighten scrutiny over IWT exemptions for foreign lenders were slow to be implemented due to the COVID-19. The IWT estimate for 2021 is K131.9 million.

Royalties and Management Tax (RMT) collections performed below the 2020 Supplementary Budget projection with K36.8 million, 66.7 per cent collected up to end September. RMT collections are expected to increase to K62.8 million in 2021, 13.8 per cent increase from the 2020 Supplementary Budget projection.

3.2.2 Taxes on Payroll and Workforce

Collections on Payroll and Workforce are from the Training Levy, which amounted to only K0.7 million by end September due to the incoming streams of delayed filings from 2019 after the tax was repealed in the 2018 Budget. The 2020 Budget projected zero estimate, however was revised in the 2020 Supplementary Budget at K1.4 million based on evidence of some delayed collections being realised against to date collections. There is expectation of a K1.0 million to flow in as part of delayed payment collection from previous years. In 2021, this tax category will cease to be applicable as expected in the 2020 Budget.

Table 11: Taxes on Payroll and Workforce 2020-2021 (Kina, million)

	2019 Actuals	2020 Budget	2020 Supp.	2021 Budget	Variation
Training Levy	1.9	0.0	1.4	0.0	-1.4
Total	1.9	0.0	1.4	0.0	-1.4

Source: Department of Treasury

3.2.3 Taxes on Goods and Services

Taxes on Goods and Services is projected to be K3,438.0 million in 2020, comprising mainly of K2,002.9 million in GST, K964.2 million Excise Duty, K273.7 million in Import Excise, K140.2 million in Gaming Machine Tax, K37.9 million in Stamp Duties, K10.2 million in Bookmakers Turnover Tax (BTT) and K2.0 million in Other taxes on goods and services (see Table 12).

Table 12: Taxes on Goods and Services 2020-2021 (Kina, million)

	2019 Actuals	2020 Budget	2020 Supp.	2021 Budget	Variation
Taxes on Goods and Services	3,936.5	4,195.1	3,438.0	4,351.1	913.2
GST ¹	2,252.5	2,341.9	2,002.9	2,494.8	491.9
Sales taxes	0.0	0.0	0.0	0.0	0.0
Bank Account Debit Fees	0.0	0.0	0.0	0.0	0.0
Stamp Duties	46.6	55.5	35.3	96.2	60.9
Excise Duty	1,061.0	1,215.0	964.2	1,175.1	210.9
Import Excise	299.7	292.0	273.7	294.5	20.8
Bookmakers' Turnover Tax	17.2	18.2	10.2	21.2	11.0
Gaming Machine Turnover Tax	227.2	246.7	140.2	255.1	114.9
Departure Tax	28.6	23.9	6.6	8.2	1.7
Motor Vehicle Tax	2.0	0.3	2.3	2.3	0.0
Other taxes on use of goods and on permission to use goods or perform activities	0.5	0.6	0.6	1.2	0.6
Other taxes on goods and services	1.2	1.0	2.0	2.6	0.6

Source: Department of Treasury

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

Generally, GST collections have been tracking the estimated consumption and spending patterns in the economy subjected by the lockdowns and travel restrictions. Given the resumption of businesses and gradual easing of the COVID-19 related restrictions, GST is expected to improve in the last quarter of 2020.

In 2021, net GST transferred to CRF is projected to increase to K2,494.8 million. The increase is attributed to the expected partial recovery in business activity. This will be supported by Inland GST compliance efforts by the IRC to increase (by 10.0 per cent) the number of companies registered with IRC. While refunds are projected to rise marginally by 61.1 per cent from 2020.

Inland Excise (Duty) has underperformed against the 2020 Supplementary Budget projection with collections amounting only to 60.5 per cent of the supplementary budget estimate by end September. This is due to the fall in consumption of excisable items such as alcohol, fuel and cigarettes induced by the imposition of national lockdown, travel restrictions and trading hour's restriction due to the COVID-19. However, collections have picked up after the lockdown period as restrictions eased and are likely to continue in the last quarter of 2020 thereby hitting the supplementary budget target.

In 2021, Inland Excise (Duty) is projected to increase to K1,175.1 million. Consumption of excisable items is expected to continue to pick-up on easing COVID-19 measures and also

driven by the recovery in the economy, and supported by administrative efforts to improve compliance. As such, there are no new tax measures for 2021 as companies are given breathing space to recover given the impact of the COVID-19 on businesses in 2020.

Tax revenue from Import Excise have been trending below the 2020 Supplementary Budget estimates of K273.7 million with collections only up to 69.2 per cent up to end September 2020. The lower-than-expected collections reflects the decline in the demand of imported volumes for excisable products and reduced trade activity due to the COVID-19. Generally, all of the above are summed up in the subdued domestic non-mining economic environment because of the effects of COVID-19 pandemic. In addition, the reduction of excise rate on imported vehicles from 80.0 per cent to 20.0 per cent has also contributed to the decline in collections.

The 2021 Budget projection of Import Excise is K294.5 million, or higher by K20.8 million from the 2020 Supplementary Budget estimate. The increase reflects mainly the assumptions on a recovery in the business activity and consumption in 2021 as restrictions are uplifted and external trade activities improves.

Gaming Machine Tax revenue is on track with the Supplementary Budget estimate with 76.1 per cent of collections up to end September 2020. Revenue from this tax reflects reopening of gaming machines venues. In 2021, Gaming Machine Tax collection is projected to increase to K255.1 million reflecting relaxed restrictions to gaming venues trading days and supported by increased gaming participants as new gaming and betting methods attract more participants to gamble.

In 2020, Departure Tax collections have performed below the Supplementary Budget estimate amounting to only 55.7 per cent by end September. This is primarily due to the strict restrictions to travels, particularly cancellation and scaled down overseas flights due to COVID-19. For 2021, gradual easing of travel restrictions domestically and reopening of overseas flights are expected to increase Departure Tax collection up to K8.2 million, a 25.2 per cent above 2020 Supplementary Budget estimate.

Other Tax revenues such as Bookmakers Tax and Stamp Duty Tax have performed well against the 2020 Supplementary Budget estimates driven by the uplifting of the SOE's measures and restrictions put in place due to the COVID-19. In 2021, BTT is expected to collect K21.2 million and Stamp Duties are expected to collect K96.2 million.

3.2.4 Taxes on International Trade and Transactions

Total tax collections from International Trade and Transactions in 2021 is projected at K813.3 million, comprising K395.6 million in Export Duty and K417.7 million in Import Duty.

Revenues from Import Duties is on track against the 2020 Supplementary Budget estimate of K347.3 million with 74.8 per cent of the Supplementary Budget estimate collected by end September. The positive collection trend reflects a pick-up in the third quarter as COVID-19 lockdown and restrictions eased.

In 2021, Import Duty is projected increase by 20.2 per cent from the 2020 estimate to K417.7 million at back of projected recovery in the economy. In addition, as restrictions and lockdown measures are eased and domestic businesses returns to normalcy, imports levels are expected to increase thus, improving Import Duty collections. In addition, the easing of trading restrictions in other trading partner countries and domestic trade destinations will also lead to improvement in Import Duty collections going forward.

Table 13: Taxes on International Trade and Transactions 2020-2021 (Kina, million)

	2019 Actuals	2020 Budget	2020 Supp.	2021 Budget	Variation
Taxes on International Trade & Transactions	909.3	883.2	737.3	813.3	75.9
Import Duty	409.4	427.8	347.3	417.7	70.4
Other Import Taxes	101.8	0.0	0.0	0.0	0.0
Export Tax	398.1	455.4	390.0	395.6	5.6

Source: Department of Treasury

Revenues from Export Duty have performed below the 2020 Supplementary Budget target of K390.0 million, with only 70.5 per cent revenue being collected up to end September. Recent collection trend indicates a pick-up driven by easing of trade restrictions as well as the implementation of compliance enforcement of the new duty rates on log exporters from 32.0 per cent to 50.0 per cent. The trade restrictions and economic shocks in major trading countries have somewhat slowed exports in terms of volumes.

In 2021, export tax is projected to increase marginally to K395.6 million, above the 2020 estimated outcome by K5.6 million. This increase reflects expectations on rebound of economic activity and log exports supported by improve economic growth in other major consumer countries of PNG log exports. The uplifting on trade restrictions and strict border surveillance will help spur improvement in Export Tax collections.

3.3 OTHER REVENUE

Expected receipts from the Other Revenue category were revised to K779.8 million in the 2020 Supplementary Budget. The estimate for the end of 2020 has been further revised down from the Supplementary Budget estimate by K122.7 million to K657.1 million, with K75.0 million expected from Non-Tax Revenue Bill (formerly PMMR), K500.0 million expected in dividends and the remaining K85.0 million from Departmental Fees & Charges.

In 2021, the Other Revenue category is projected to increase to K877.1 million comprising mainly of K650.0 million in Dividends, K121.1 million in Non-Tax Revenue Bill and K105.2 million in Departmental Fees & Charges.

Table 14: Other Revenue 2020-2021 (Kina, million)

	2019 Actuals	2020 Budget	2020 Supp.	2021 Budget	Variation
OTHER REVENUE	986.7	1955.5	779.7	877.1	97.2
Property Income	529.5	1153.7	525.4	703.7	178.3
Interest	0.0	0.7	0.7	0.7	0.0
Dividends	501.2	1050.0	500.0	650.0	150.0
<i>Mining Petroleum and Gas Dividends</i>	<i>381.2</i>	<i>800.0</i>	<i>350.0</i>	<i>500.0</i>	<i>150.0</i>
<i>Dividends from Statutory Authorities</i>	<i>120.0</i>	<i>150.0</i>	<i>150.0</i>	<i>150.0</i>	<i>0.0</i>
<i>Dividends from State Owned Enterprises</i>	<i>0.0</i>	<i>100.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
Withdrawals from income of quasi-corporations	0.0	0.0	0.0	0.0	0.0
Property income from investment income disbursements	0.0	0.0	0.0	0.0	0.0
Rent (Land Rents)	28.2	103.1	24.7	53.0	28.3
Sales of goods and services	37.2	146.7	34.2	35.0	0.7
<i>Sales by market establishments</i>	<i>0.0</i>	<i>100.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
<i>Administrative fees</i>	<i>14.2</i>	<i>4.0</i>	<i>4.6</i>	<i>4.6</i>	<i>0.0</i>
<i>Incidental sales by nonmarket establishments</i>	<i>23.0</i>	<i>42.7</i>	<i>29.6</i>	<i>30.4</i>	<i>0.8</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>	<i>0.0</i>
Fines, penalties, and forfeits	1.8	0.8	1.8	1.8	0.0
Transfers not elsewhere classified	418.2	654.3	218.3	136.6	-81.8
<i>Current transfers not elsewhere classified (Statutory Transfers)</i>	<i>418.2</i>	<i>654.3</i>	<i>218.3</i>	<i>136.6</i>	<i>-81.8</i>

Source: Department of Treasury

Of the total Dividends, K300.0 million is expected from KPHL, K200.0 million from Ok Tedi and K150.0 million from BPNG. The Government expects its current SOE dividend policy to be enforced and the funds repatriated to the Consolidated Revenue Fund (CRF) on a timely basis.

The Non-Tax Revenue Administration Bill projected conservatively at K121.1 million. This comprises of K67.7 million from the National Fisheries Authorities, K8.2 million from the National Maritime & Safety Authority (NMSA), K5.5 million from the Mineral Resource Authority (MRA), K2.5 million from the National Agriculture Quarantine and Inspection Authority (NAQIA), K18.1 million from the Department of Labour and Industrial Relations, K9.1 million from the Immigration & Citizenship Service Authority and K10.0 million from National Gaming Board.

Revenues from departmental fees and charges have picked up in 2020. In the 2020 Supplementary Budget, a total of K77.7 million was projected; with key contributors such as revenue from land rental collections picking up in collections due to the new go-lands and e-Lands online payment system for land rentals being implemented.

In 2021, a total of K53.0 million is expected compliance collections for land lease rentals by the Department of Lands. The remaining balance is expected from the other departments once revenue collection review are finalised. However, total arrears on land lease rentals from past years amounted to K300.0 million has yet to be collected.

3.4 GRANTS

Total Donor Grants are unchanged against the 2020 Supplementary Budget projection of K932.1 million. The initial projection of K932.1 million was maintained as per the 2020 Budget and supplementary estimates as no new information was made available by development partners on the size of grant funding in 2020.

In 2021, there is an expectation of additional development partners' contributions, which will be in support to the 2021 Budget and other major infrastructure and project developments. Development partners, such as the Asian Development Bank (ADB), European Union (EU), Australian Aid and other partners are expected to get on board and provide support in relation to higher Grant allocations going forward. The donor contributions are more likely to be follow-up payments for this year's (2020) commitments plus next year's (2021) contributions thus increasing donor contributions to a total of K1,008.3 million. (See Table 15). If the 2020 Final Budget Outcome confirms an on-going pickup in international support, revisions will be made in the MYEFO to lift the expected levels of grants. Based on the 2019 FBO, this could be a significant revision.

Table 15: Donor Grants 2020-2021 (Kina, million)

	2019 Actuals	2020 Budget	2020 Supp.	2021 Budget	Variation
GRANTS	1,775.5	932.1	932.1	1,008.3	76.2
From Foreign Governments	1,408.4	766.1	766.1	766.1	0.0
Current	1,126.7	612.9	612.9	612.9	0.0
Cash	0.0	0.0	0.0	0.0	0.0
In-Kind	1,126.7	612.9	612.9	612.9	0.0
Capital	281.7	153.2	153.2	153.2	0.0
Cash	0.0	0.0	0.0	0.0	0.0
In-Kind	281.7	153.2	153.2	153.2	0.0
From International Organizations	367.1	165.9	165.9	242.1	76.2
Current	293.7	132.7	132.7	208.9	76.2
Cash	0.0	0.0	0.0	0.0	0.0
In-Kind	293.7	132.7	132.7	208.9	76.2
Capital	73.4	33.2	33.2	33.2	0.0
Cash	0.0	0.0	0.0	0.0	0.0
In-Kind	73.4	33.2	33.2	33.2	0.0

Source: Department of Treasury

3.5 MEDIUM TERM REVENUE OUTLOOK

REVENUE AND GRANTS

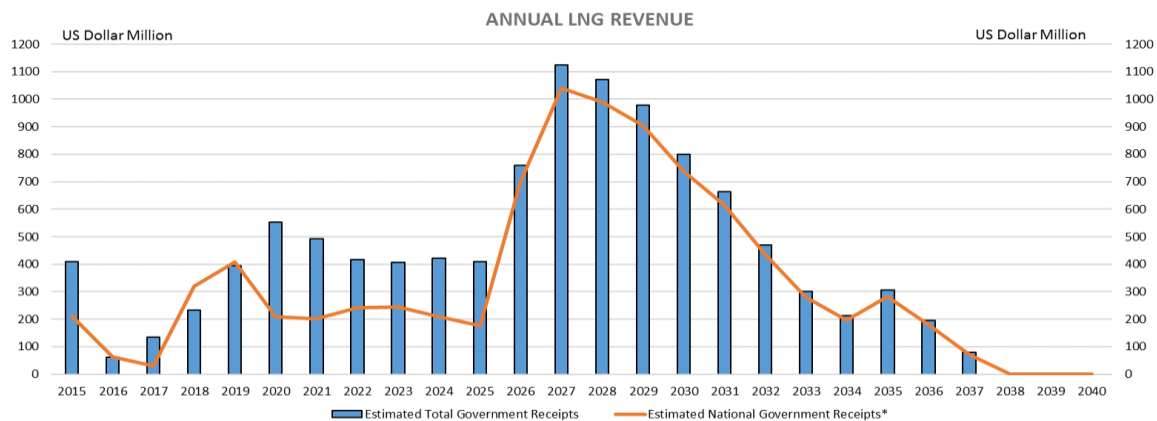
The Medium-Term Revenue Outlook is based on deliberations surrounding the implementation of the revised Medium Term Revenue Strategy with the new administration. Due to the COVID-19 global pandemic, the MTRS is undergoing a review such that a revised strategy can incorporate both changes in the Government's 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 K11,082.4 million in 2020 to a level around K20,626.1 million by 2025.

The GoPNG revenue target, excluding grants, is to reach 14.1 per cent of nominal GDP by 2022 on track with 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 and consumption taxes.

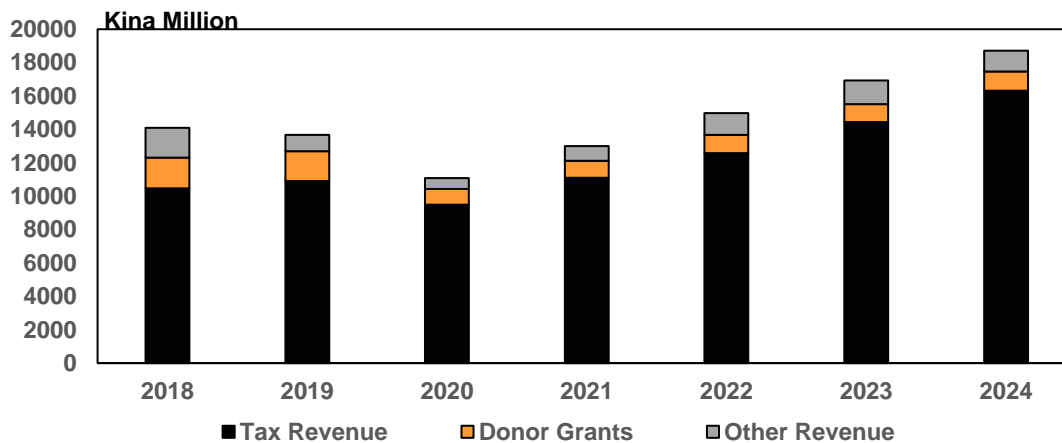
Tax Revenue is targeted to increase from K9,493.2 million in 2020 to reach K18,091.4 million by 2025 with a higher expected growth rate from the Large Taxpayer Office (LTO), second CEF by PNG Customs, the new tax regime for SMEs, and improved compliance especially in the GST regime. The second CEF in 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.

This will further be supported by the improved revenue collection mechanisms and strategies from respective departments, which are currently undergoing review. The newly introduced electronic payment system for the Department of Lands and Physical Planning is the start and will see improved revenue collections going forward from other departments also. The establishment of a Revenue Division in Treasury in 2021 is expected to facilitate an improvement in policies and collections. The Supreme Court nullified the *PMMR Act 2017* on 27th May 2020, which infers no guarantee that the budget projections of statutory transfers be remitted to the Consolidated Revenue Account. Other Revenue is targeted to increase slightly to above K1.2 billion and will be supported by the implementation of the revised version of the known PMMR ACT as the Non-Tax Revenue Administration Bill (NTRAB).

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 50.0 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 50.0 per cent flows directly to the CRF to finance Government expenditure. In the interim, all mineral and petroleum dividends are directed to the National Budget until the SWF arrangements are in place that cover the dividends and other proceeds stipulated in the SWF Organic Law.

Chart 34: Annual Revenue Inflows PNG LNG Project – Projections 2015-2040⁸

Source: Department of Treasury

Chart 35: Medium Term Revenue (2018-2025), 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

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 but this is dependent on certain provisions related to rates of return and may be extended under the agreement for additional years. 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.

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.

CHAPTER 4: TAX AND NON-TAX MEASURES AND DEVELOPMENTS

4.1 OVERVIEW

The COVID-19 pandemic reduced revenue in 2020 by an estimated K2,371.0 million. The 2020 Mid-Year Economic and Fiscal Outlook (MYEFO) has reported the estimated 3.0 per cent decline in economic growth and significant decline in tax revenue.

The short-term tax administrative measures such as delayed payment timetables helped many businesses with their cash flow situation, especially around the economic lockdown. We expect a modest economic recovery in 2021, but businesses and families will be hurting for years. We also need to support aggregate demand to enable a growth recovery, and in this context it would be inappropriate to raise new taxes to close our increased deficit except for the banking and telecommunication sectors. This is a major economic crisis, and we need to phase our response in a measured way, and know the process will take several years.

The tax measures for the 2021 Budget focus on:

- supporting our SMEs,
- targeting the banking and telecommunications sectors which appear to have the capacity to pay;
- lowering administrative costs;
- enforcing greater compliance;
- supporting revenue financing; and
- making for a more modern and efficient tax system.

2. The major and minor tax measures include:

- i. Modification to Small Business taxation regime to reflect the policy intent of lowering tax rates, simplification and preventing tax avoidance;
- ii. Enhance administration and assist SMEs by increasing the Customs Clearance threshold from K1,000.0 to K5,000.0;
- iii. General increase in the Customs penalties to deter reoccurrence of breach of Customs law with a particular focus on tobacco and anti-social drinks;
- iv. Aligning Losses Carried Forward Period and Transitional Arrangement;
- v. Speeding timing of remittance of Prescribed Royalties Withholding Tax (PRWT);
- vi. Ease tax administration and compliance by aligning Provisional Tax Due Dates with Substituted Accounting Period;
- vii. Revert import duty rate for Ultra High Temperature (UHT) milk to free duty rate;
- viii. Ensuring PNG Customs Harmonised System caters for imports of Hybrid Vehicles;
- ix. Amendments to the *Securities Commission Act 2015*;
- x. Develop and implement a tax on the banking sector;
- xi. Further develop and implement a tax on the telecommunication sector; and
- xii. Clearly Differentiating Fish Species and Margarine to Simplify administration.

Non-Tax measures include improving collection of land lease rental collection for 2021 and also ensuring collection of land lease rental arrears, although these measures were anticipated in the last budget (+K60.0 million).

Finally, the measures include technical amendments to clarify tax laws and referencing errors.

4.2 REVENUE POLICY MEASURES

4.2.1 Modifications to Small Business Taxation Regime

In the 2020 Budget, the Government introduced a special taxation regime with simpler accounting and tax rules with lower corporate tax rates which are easily complied by the small businesses. This special taxation regime attracts small businesses currently operating in the black economy into the tax net as it is simple to comply with and the tax rate is set very low (an effective rate of 2.0 per cent or less of turnover). This is a step towards growing as a business, with subsequent nurturing to assist with their growth and migration to the standard tax regime. Currently, there is no level playing field as small businesses that try and comply with the law face major administration costs and a tax rate of 30.0 per cent on profits.

However, the provision that determines the total turnover of a business or a person in a year of income for the purposes of small business tax is not consistent with the policy intention. Therefore, this amendment is to correct this discrepancy and ensure the regime is simple and attractive.

The correct thresholds and tax payable under micro-businesses and small business tax are as follows:

- i. a business with turnover of less than K60,000.0 is categorised as micro-businesses as a way to separate it from small businesses for purposes of taxation. These micro-businesses are liable to pay fixed tax amount of K250.0 per year; and
- ii. a business with an annual turnover of more than K60,000.0 and less than K250,000.0 is defined as small business and is liable to pay business tax of K62.5 plus 2.0 per cent of turnover above K15,000.0 per quarter. Turnover of K15,000.0 per quarter is derived from the K60,000.0 per year divided by 4 quarters and K62.5 from K250.0 divided by 4 quarters.

In addition, an anti-avoidance measure is introduced to discourage employees and employers from converting employment relationships into independent contractor arrangements to pay Small Business Tax (SBT) rather than Salary and Wages Tax (SWT). This is a very important measure to prevent abuse of the SBT and potentially result in significant revenue loss from SWT.

The amendment will ensure small businesses tax regime reflects policy intent and prevents tax avoidance.

The small businesses taxation regime is expected to have a minor positive revenue impact and will come into effect in 2021 through a Gazettal Notice.

4.2.2 Increase Counter Clearance Threshold From K1,000.0 To K5,000.0

This measure is intended to enhance administration and assist SME by boosting clearance process.

Import of cargoes into PNG is done through Air, Postal, Land and Sea Borders. Those imported cargoes are categorised as unaccompanied and accompanied. Unaccompanied cargoes normally enter PNG border through air charters, postal, express or air cargo service. Importers

are mainly individuals, travelling passengers, micro to small businesses, organisation and companies. Cargoes are also imported through online booking and payment by local importers and delivered to them by agents via Customs clearance process.

PNG Customs clear the imported cargoes through Customs Counter Clearance (CCC) and Import entry process. Cargoes that has a value of K1,000.0 and less are cleared at the counter while cargoes over K1,000.0 goes through the import entry for clearance. The border crossers frequently cleared goods under CCC are individuals and SMEs.

Currently, individuals and SMEs import goods into PNG border for business purposes. Most of the goods are valued more than K1,000.0. For an SME to declare a good through import entry is very costly. They will require to hire a Custom Agent, pay the Customs entry fee and other related service fees if required. The process itself acts as a disincentive for the local SMEs that crosses the borders.

Therefore, this amendment will increase the current CCC threshold from K1,000.0 to K5,000.0. The changes will encourage SME and individuals to declare at the counter goods that have value below K5,000.0 at low costs. This is consistent with the Government plan to support growth of local SMEs into the future.

In addition, the current minimum level or threshold which duties or taxes need not be paid for imports cargoes is K250.0. Amendment will be made to reduce the K250.0 to K50.0 for excisable goods only excluding personal effects. This is to improve administration and address health concern.

Revenue impact is minimal and is expected to come into effect on 1st January 2021.

4.2.3 General Increase In Customs Penalties Under *Custom Act 1951*

This measure is to enhance compliance by imposing higher penalties and imprisonment term on offenses relating to smuggling and breach of Customs processes.

Importers, exporters, brokers, and travelling passengers across borders who are in breach of PNG Customs law are penalised with fines stipulated in the *Custom Act 1951*. However, the current general penalties are not high enough to deter the reoccurrence of smuggling offences caused by the importers and exporters, brokers, and travelling passengers. The current penalties are best described as payable and avoidable which means, the offences can be intentionally committed repeatedly without hesitation, as the perpetrators can afford to pay the penalty fees.

Therefore, this amendment seek to amend the *Customs Act 1951* to increase the Customs penalty fees. This is to deter the reoccurring offences and boost voluntary compliance of Customs process and procedures. In addition, a new penalty provision is introduced to specifically deter the smuggling of tobacco product into PNG border.

The measure is expected to come into effect on 1st January, 2021.

4.2.4 Aligning Losses Carried Forward Period and Transitional Arrangement

The purpose of this reform is to address transitional issues relating to treatment of losses as at 31st December 2018 and also align losses carry forward period for companies in resource and non-resource sector.

In the 2020 Budget, the issues relating to the period in which taxpayers can carry forward losses was corrected. However, the changes did not adequately cater for the transitional arrangements on how existing losses as at 31st December 2018, would be treated.

This measure intends to provide transitional arrangements where losses incurred by all taxpayers are deductible from income derived in 2019 or a later year up to a maximum of 7 years and 20 years for tax payers in the resource sector.

This measure is expected to broaden revenue base and will be effective 1st January 2021.

4.2.5 Speeding Timing Of Remittance Of Prescribed Royalties Withholding Tax (PRWT)

This measure is intended to speed up timing of PRWT remittance to IRC:

Currently, the developers make the royalty payments directly to relevant regulator responsible. For instance, the Mineral Resource Authority, who then pays to the landowners and bears the final obligation of withholding and remitting the 5.0 per cent PRWT to the IRC.

This process can take time and has delayed the collection of PRWT and remittance to WPA over the years. In addition, such delay means that the IRC cannot reconcile the payment with the relevant returns lodged by the developers.

This measure will seek to make it clear in the law that the resource developer must deduct and remit the PRWT directly to the IRC in the first instance.

This measure will be effective 1st January 2021.

4.2.6 Align Provisional Tax Due Dates With Substituted Accounting Period

The purpose of this reform is to ensure provisional Tax Due Dates are aligned with substituted accounting period for resource companies.

In the 2020 Budget, the instalment due dates were changed to time periods of 90 days, 180 days and 270 days. However, this affects the accounting period for resource companies.

Therefore, an adjustment is made to due dates to 120 days, 210 days and 300 days respectively to better align the due dates for Advance Payment Tax so that it does not clash with the due dates for resource companies to provide their estimates.

This measure is expected to be effective on 1st January 2021.

4.2.7 Revert Import Duty Rate For Ultra High Temperature (UHT) Milk To Free

This change is to formalise the administrative arrangement made earlier by reverting the duty rate for UHT milk to free.

In 2019, the tariff duty for Ultra High Temperature (UHT) milk products was increased to 25 per cent. The rationale was to assist the infant local manufacturer (Ilimo Dairy Milk) to compete effectively with the UHT import products such as Paul's milk and Anchor milk and provide local employment opportunities. However, this rate was not implemented due to Ilimo Milk not having the capacity to produce enough to meet the nations demand. The tariff rate for UHT milk product was administratively applied free duty rate.

Therefore, this proposal is to formalise this administrative arrangement by reverting the duty rate for UHT Milk to its initial free duty rate.

This measure will be revenue neutral and will come into operation retrospectively from 1st January 2019.

4.2.8 Impose Import Excise On Hybrid Vehicles

This measure is to ensure import excise duty is applied on the importation of the Hybrid vehicles.

Hybrid vehicle is the vehicle that uses more than one distinct type of power. Hybrid vehicles can be classified as a combination of petrol and diesel engine with an electric motor and vehicles operating entirely on electrical powering which is charged by plugging to external sources of electric power. The main advantage of a hybrid cars is that it should consume less fuel and emit less Carbon dioxide than a comparable conventional petrol or diesel-engine vehicle.

PNG Importers have shown interest to import powered engine vehicles but have been disallowed due to unavailability of import excise description and rates to administer the import of those hybrid vehicles into PNG for use.

Therefore, this measure ensures that the PNG Customs Harmonised System caters for Hybrid Vehicles with tariff Code, Description and duty rate. The import excise rate for hybrid vehicle will be aligned with current excise rate at 20 per cent.

This reform will improve administration and generate revenue. This measure is expected to come into effect by 1st January 2021.

4.2.9 Amend Securities Commission

Capital Markets reform will be a key focus of work for Treasury and the Department of Commerce and Industry in 2021 in order to expand revenue financing options for the Government. To commence this work, an international recruitment is underway for a new Securities Commissioner to lead reform and create the environment for PNG's SMEs to raise funds through domestic and international investment. After review by Ministers, small changes are suggested to the Securities Act to strengthen compliance and governance around the role, changing the length of the term and the conditions for termination.

4.2.10 Bank Levy

The Government will look into the imposition of a new tax on the banking sector, with the intention of introducing it during 2021. 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. This will help determine the entities to cover with the increase. The COVID-19 pandemic meant the discussions did not occur in 2020 due to other priorities, including encouraging bank participation in the monetary policy support measures for businesses including the options of delaying loan repayments to banks.

4.2.11 Telecom Taxation Levy

The Government will work with NICTA as a regulator and relevant stakeholders in order to introduce a new universal access levy on telecommunications. 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. We will work to determine the revenues this will apply to, in order 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 currently existing Universal Access Fund as part of this reform, through the development of rules and requirements for the appointment of an external fund manager to manage the fund. The fund will be established with an external fund manager this year and will begin disbursement this year.

As part of this reform, a mutualization policy will 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 in close consultation 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 that the license fees are set at too low a level.

4.2.12 Clearly Differentiating Fish Species And Margarine To Simplify Administration

This measure will enhance administration by clearly differentiating various fish species, packaging and the duty rates applicable. The current subheading is too general for classification for various type of fish with duties. Further, create a new national subheading for the margarine use for baking purposes only by local manufacturers.

This amendment will simplify classification, administration and compliance. Amendment to expend the classification of fish based on species, packing and duty rates will come into effect retrospectively to 1st January 2015 while margarine use for backing purposes is 1st January 2021.

4.3 NON-TAX REVENUE MEASURES

Improving collection of Outstanding Land Lease Rental the Department of Lands administration system needed significant uplift to automate the process by a way of digitizing land and valuation files and eventually digitizing payment system including invoicing and receipting.

Introduction of electronic land records system and payment system will curtail corruption and fraud in dealing with land title transfers and payment of land lease rentals. In addition, it is expected that land lease rental collections will increase significantly through the use of electronic payment system. The LAGIS system is currently being replaced by TechnologyOne Property and Rating System (P&R) and Enterprise Content Management System (ECM). Supported by these systems, the Department of Lands and Physical Planning has launched the payments system called the e-Lands and Go-Lands on the 17th of August 2020.

The electronic filing and payment system will replace traditional paper filing system over time. This will increasing efficiency and effectiveness of the Department and so have significant positive impact on revenue.

This measure is expected to raise K60.0 million in the 2021 Budget.

4.4 DEVELOPMENT MEASURES

4.4.1 Review of the Fuel Industry including the Napa-Napa Oil Refinery Agreement

Government will conduct a review of the taxation arrangements around the fuel industry, including, but not limited to ensuring existing agreements are meeting policy intent, examining options for waste oil and looking at excise taxes on fuels. This will also look at any anti-competitive arrangements concerning the existing Napa Napa agreement.

CHAPTER 5: EXPENDITURE

5.1 OVERVIEW

The 2021 Budget is set amidst unprecedented uncertainties brought about by COVID-19. The COVID-19 has had adverse effects in slowing down economic activities both domestically and internationally, resulting in low revenue collections. This has reduced the government's capacity to finance the 2021 Budgets solely from its internal revenue and so debt financing becomes critical in fully executing the 2021 Budget.

While the economy is faced with these challenges, the government is cautious in managing the available financial resources through the budgetary process and by taking a whole of government approach in the allocation of financial resources. This is done to prevent wastage of financial resources and maximise the return on government investments.

The strategy of taking a whole of government approach is done through the budgetary process by:

- Identifying duplications of projects and programs for efficient allocation of resources;
- A more coordinated approach to fund programs or projects that serve the same policy objectives;
- Cease funding for projects/programs that are not performing well over the years;
- Sufficiently fund the remaining and incomplete 2020 capital projects for completion in 2021;
- Ensuring that GoPNG provides their counterpart funding to secure loan funding in a timely manner to avoid cost associated with delays in loan drawdowns; and
- Critically analyse capacity issues within implementing agencies to avoid delays to project implementation.

The Government will support short-term priorities such as the National Census 2021 in preparation for the 2022 National Elections, SME loans to assist individuals and small to medium size business from the effects of COVID 19 as well as funding expenditures related to the COVID-19 pandemic, which cuts across all the sectors.

Ongoing priorities such as Higher Education Loan Program (HELP), Government Tuition Fees Subsidies (GTFS) and Free Primary Health Care will be maintained in 2021 Budget. The Government is also taking on board new projects, which are seen as critical for PNG's development such as the Connect PNG program.

Capital funding for social and development priorities in the health, education, law and order and infrastructure sectors will be maintained in 2021 with adequate operational funding to effectively support the implementation of capital budget.

The Government will continue to promote expenditure efficiency measures through the:

- Issuance and implementation of Non-Financial Instructions (NFI);

- Activities that will be under taken by Organisational Staffing Personnel Emoluments Audit Committee (OSPEAC) in 2021 to manage and control the public services personnel and wage bill issues; and
- Identification and payment of arrears and liabilities by the AVC.

5.2 2021 AGGREGATE EXPENDITURE

In 2021, Total Expenditure and Grants is set at K19,607.8 million against a revenue projection of K12,995.0 million, resulting in a Budget deficit of K6,612.8 million. This short fall will be financed through external (K4,612.8 million) and domestic (K2,000.0 million) borrowings to meet the total funding requirement for 2021 Budget appropriation of K19,607.8 million.

The Total Expenditure and Grants of K19,607.8 million is comprised of K16,961.1 million GoPNG component, K1,638.4 million concessional loans and K1,008.3 million donor grants. The 2021 expenditure estimate has been increased by K1,618.6 million (8.1 per cent) from the 2021 Supplementary Budget.

The 2021 total expenditure estimate of K19,607.8 million is comprised of K12,136.7 million for operational expenditure, including debt service, and K7,471.1 million for capital investment expenditure (including the capital share of arrears and COVID-19 spending – totalling K757.0 million⁹). The total operational budget takes up 65.8 per cent of the total budget while the capital budget takes up the remaining 34.2 per cent of the total budget.

The operational budget has been increased by 11.1 per cent from the 2020 Supplementary Budget to effectively support the implementation of the capital budget and to settle arrears. The increase in the operational budget is driven by increases in all its components which includes Goods and Services (GS), Functional Grants and Debt interest repayment except for the Compensation of Employees (CoE), which has been maintained from its 2020 supplementary budget.

Though CoE is maintained at 2020 Supplementary Budget, it takes up the largest portion of the budget with K5,763.8 million or 44.7 per cent of the operational budget making up 29.4 per cent of the total 2021 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 the funds.

The G&S budget was increased by K1,003.1 million or 37.9 per cent from the 2020 Supplementary Budget. The G&S Budget caters for government arrears such as utility bills, rentals, superannuation payments and retirement costs. Funding for all arrears (including capital arrears) have been centralised and parked under Treasury, Finance and Miscellaneous Vote (207).

⁹ In appropriation this will be reflected under code 207 Operating

Functional Grants budget was increased by 7.9 per cent to support service delivery in the provinces while Debt interest repayment has been increased by 10.0 per cent to support the government's debt repayment commitments.

The 2021 Capital budget has been increased by 5.0 per cent from its 2020 Supplementary Budget. This increase is to ensure ongoing projects are sufficiently funded and completed in 2021, to maintain funding for government's fixed commitments and policy priorities and to take on board new projects, which are seen as critical for PNG's development.

The 2021 capital investment budget comprises of K2,957.5 million for Public Investment Program (Go-PNG-PIP), K1,110.0 million for Service Improvement Program and K2,646.4 million from PNG's Development Partners (K1,638.4 million from concession loans and K1,008.3 million in donor grant funding).

The 2021 capital budget will also focus on funding ongoing projects and programs that have performed well in 2021, projects 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. Table 16 below shows 2021 aggregate expenditure.

Table 16: 2021 Aggregate Expenditure (Kina, million)

Budget Component	2020 Budget	2020 Supp. Budget	2021 Budget
Operational	12,746.4	12,599.8	12,136.7
Compensation of Employees*	5,672.8	5,762.8	5,763.8
Goods & Services	3,821.6	2,646.0	2,892.1
Provincial Function Grants	508.7	541.0	584.0
Debt (Interest Repayment)	2,156.9	2,064.0	2,270.8
GST & Book Makers	586.4	586.0	626.0
Capital	5,980.5	6,389.5	7,471.1
PIP	2,573.4	2,982.0	3,714.4
SIP	1,110.0	1,110.0	1,110.0
Concessional Loans	1,365.0	1,365.0	1,638.4
Donor Support Grants	932.1	932.1	1,008.3
Total Expenditure	18,726.5	17,989.3	19,607.8

*Source: Department of Treasury

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

5.3 SECTOR EXPENDITURE

Allocation of the 2021 Budget by sectors is guided by sector priorities outlined in the MTDP III (2018-2022) with further direction from the Eight (8) Key Result Areas. Agencies in each sector strive to achieve the KRAs through the implementation of the relevant policies.

Government Agencies are categorised 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 17 below.

Table 17: 2021 Expenditure by Sector (Kina, million)

Sector	Operational (K 'Million)			Capital (K 'Million)				2021 Total (K 'Million)	As % of Total Budget
	Compensation of Employees	Goods and Services	Total Operational Budget	GoPNG	Grants	Loans	Total Capital		
Administration	569.2	161.9	731.0	883.0	524.4	76.8	1,484.1	2,215.1	11.3%
Community & Culture	36.5	15.1	51.6	35.0	15.6	0.0	50.6	102.2	0.5%
Debt Services	0.0	2,270.8	2,270.80	0.0	0.0	0.0	0.0	2,270.8	12.0%
Economic	180.4	43.2	223.6	366.5	34.9	41.5	442.9	666.5	3.4%
Education	401.1	436.0	837.1	111.0	146.7	0.0	257.7	1,094.8	5.6%
Health	725.2	379.8	1105	143.0	177.4	319.7	640.1	1,745.0	8.9%
Law and Justice	891.7	236.8	1128.5	112.0	22.3	8.0	142.3	1,270.8	6.5%
Miscellaneous	838.8	2,296.9	3,135.70	0.0	0.0	0.0	0.0	3,135.8	16.0%
Provinces	1,957.6	584.0	2,541.6	1,354.0	25.6	16.8	1,396.4	3,939.0	20.1%
Transport	125.9	74.5	200.4	1,024.0	59.6	865.4	1,948.9	2,149.4	11.0%
Utilities	31.7	4.9	36.6	39.0	1.6	310.2	350.8	387.4	2.0%
Total	5,763.8	6,503.9	12,267.70	4,067.5	1,008.0	1,638.4	6,713.9	18,981.8	100.0%
GST & Book Makers Transfers	0.0	626.0	626.0	0.0	0.0	0.0	0.0	626.0	0.0%
Grand Total	5,763.8	7,129.9	12,893.7	4,067.5	1,008.0	1,638.4	6,713.9	19,607.8	100.0%

Source: Department of Treasury and National Planning and Monitoring

*Includes GST and BTT transfers to provinces.

**Includes PSIP and DSIP funding.

5.3.1 Administration Sector

The Administration Sector focuses on governance, administrative system reforms, wealth creation public sector management, national statistical, population data systems, foreign policy, immigration, and development cooperation in the public sector (MTDP III 2018-2020).

The sector aims to coordinate and create mechanisms to promote public service ethics, enforce legislations, and promote transparency through best financial management and accountability practices.

The Sector has made significant progress in coordinating and managing service delivery mechanisms and process across the country. It has managed and coordinated the implementation of national policies, strategies and programs to ensure that the MTDP priorities are achieved. However, the sector continues to face recurring challenges on reporting and compliance, corruption, lack of capacity to monitor programs/projects and issues surrounding tax-collection and compliance, which requires Government intervention to resolve them.

In 2021, the Government will continue to fund the ongoing key programs and projects such as the Financial Management Information Program (K2.0 million), District and Provincial Finance Roll out Program (K2.0 million), Rural Electrification Program (K5.0 million), WaSH Program (K59.8 million), 2021 National Population Census (K70.0 million), National Identification (NID) Project (K30.0 million), Integrated Tax Administration System (K2.0 million). PILAG infrastructure rehabilitation (K1.0 million)¹⁰ Government Haus rehabilitation (K10.0 million), PNG Boarder Post Infrastructure Program and District Town Development Program (K10.0 million) amongst others will also be funded as part of the government institutional infrastructural development program.

A total of K2,215.1 million has been allocated for the Administration Sector in the 2021 Budget comprising of K731.0 million in operational expenditure and K1,484.1 million in capital

¹⁰ Pacific Institute of Leadership and Governance

investment expenditure. The total operational budget for the Administration Sector consists of K569.2 million for CoE and K161.9 million for G&S. Total capital budget for Administration sector consists of GoPNG direct financing worth K883.0 million whilst K524.4 million grants and K76.8 million loans from development partners.

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 2021 is worth K3,135.7 million. This includes Government office allocations (K200.0 million), Nambawan Supa Exit Payments (K144.2 million), State Share Contribution to Nambawan Supa – Automation (K165.0 million), COVID 19 Funds (K600.0 million), retirement of public servants of age 65 plus (K430.0 million), Higher Education Loan Program (K150.0 million), Multi-Departmental Utilities (K200.0 million) and Arrears (K770.0 million).

5.3.2 Community and Culture Sector

The primary role of the Community and Culture sector is to safeguard and protect our cultural heritage and rights of our people, empower and support social activities that alleviate poverty and maximise social returns. The United Nation Sustainability Development Goals (UNSDG) 2030 theme of “leave no one behind” and the principle of inclusive growth is featured at the forefront of service delivery. The sector also upholds the Universal Declaration of Human Rights that recognizes the fundamental human rights, dignity and worth of every human being towards collectively achieving social progress and a high quality of life.

The Sector is comprised of the Department for Community Development and Religion as a lead agency, the Office of Censorship, PNG Sports Foundation, National Youth Development Authority, National Cultural Commission, National Museum and Art Gallery, National Office of Child and Family Services and National Volunteer Services. These agencies have made significant progress in developing legislations and enabling policies to strengthen their establishment to enhance delivery of Government priorities.

Major policies and legislations that will drive the Sector towards achieving MTDP III targets include, the Policy for Integrated Community Development, National Policy on Professional Volunteerism, National Censorship Policy, National Youth Policy, National Disability Policy, Gender and Equality Policy, National Strategy for Gender Based Violence, National Disability Policy, National Informal Economy Policy, *Family Protection Act 2013*, *Lukautim Pikinini (Child Protection) Act 2015*, and other policies¹¹ and legislations that are under review and development.

The government has made some progress in investing in a number of development programs to improve social indicators. Notable examples include Empowerment and Protection Programs under the District Community Development Centres, Sports and Recreational activities under the PNG Sports Foundation and National School Awareness Program and promoting the responsible use of the internet, mass media and sexual contents. The sector continues to be challenged by issues such as sexual harassment and gender-based and sorcery related violence. As such there is a need for effective coordination within the sector as well as with other sectors, stronger leadership and administrative capacities and improved monitoring and reporting systems.

In 2021, the Government will continue to fund the following flagship programs and projects, which are; District Community Development Centers (K5.0 million), Child Protection (K1.0 million), National Youth Development (K1.0 million), National Volunteers Intervention

¹¹ National Women and Gender Equality Policy, Informal Economy Policy, National Censorship Policy, National Culture Policy, National Sports Policy and GoPNG-CSO Partnership Policy.

(K1.0 million), Censorship Information (K1.0 million) and Intervention and National Museum and Art Gallery Rehabilitation.

A total of K102.2 million has been allocated for the Community and Culture sector in the 2021 Budget of which K51.6 million is for operational and K50.6 million is for capital investment expenditure. The total operational budget for this sector consists of K36.5 million for COE and K15.1 million for GS. For the capital component, GoPNG direct financing is K35.0 million whilst K15.6 million grants from development partners.

5.3.3 Economic Sector

Growing a broad-based economy that is vibrant, inclusive and sustainable to withstand global economic and financial shocks is the top priority of the Government. Hence, the basis for an efficient and robust economic sector.

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

The Economic Sector is categorised into three (3) sub-sectors, which are the renewable, non-renewable and trade and investment sectors.

PNG has been dependent on its export commodities to generate revenue for the country. Fluctuating global commodity market prices have contributed to the declining export revenues including mining and petroleum taxes. Unfavourable enabling infrastructures, lack of market accessibility, financial services and law and order issues are some major impediments to the growth of the sector.

The measures taken to prevent the spread of COVID-19 in the first half of 2020 has had an adverse impact on the economy. The impacts have been felt widely by MSME operators and households. The economy experienced job loss of 35 per cent¹² in both private and public sectors with the agriculture sector declining by 12 per cent¹³. The continuous disruption, coupled with low global oil and commodity prices contracted the economic activities.

These issues have prompted the Government to devise its monetary, fiscal and economic policies to cushion the global economic shocks. As such, investments will be focused on strategic areas to stimulate economic growth, create employment opportunities, broaden the tax-base and generate revenue.

5.3.4 Renewable sector

The primary aim of the Renewable Resource Sector is to increase exports of major commodities, substitute imports, and promote downstream processing.

The sector comprises of lead agencies such as the Department of Agriculture & Livestock, PNG National Forest Authority and National Fisheries Authority who provide the overarching policy and legal frameworks and coordinate investments. The commodity boards and agencies in the fisheries and forestry sectors implement these investments to realize the targets set against the indicators in the MTDP III. Climate change and environment issues are also embedded in the

¹² SEIA Report 2020, UNDP

¹³ SEIA Report 2020, UNDP

implementation of activities in the renewable resource sector and are addressed through the Climate Change Development Authority (CCDA) and Conservation and Environment Protection Authority (CEPA).

In the last ten years, the average export revenues for all agriculture commodities was K2.0 billion. Although there were slight increments in 2014 and 2016, the receipts from the Agriculture exports have generally been on a declining trend since 2011. This is attributed to the lack of coordination between sector agencies, high prevalence of pests and disease, lack of capacity and coordination in research activities, poor management skills and land tenure issues.

The export receipts from fisheries products have been on a steady increase since 2017-2018 with an average of K2,520.9 million.¹⁴.

In light of the constraints faced by the renewable resource sector, the Government has invested in key areas to drive the sector forward. These investments include; the containment of Coconut Disease and Relocation of Coconut Gene bank (K1.0 million), Coffee Berry Borer Program (K1.0 million), Rubber Nursery Development (K1.0 million), Coffee Access Roads (K2.0 million), Smallholder Oil Palm Roads (K2.0 million), Coffee and Cocoa Freight Assurance Programs (K1.0 million), Review of Agriculture Policies and Legislation, Equity in Large Scale Commercial Projects, Downstream Processing Policies, Reforestation Program (K2.0 million) and Land Development Program (K1.0 million).

5.3.5 Non-Renewable Sector

The aim of the non-renewable sector is to maximize socio-economic and environment benefits from the mining and petroleum industry and promote downstream processing.

The sector comprises of the Department of Petroleum and Energy, Department of Mineral Policy & Geo-hazards Management and Mineral Resource Authority.

Although gold prices have improved in 2019/2020, the temporary closure of the Porgera Gold Mine and COVID-19 restrictions have adversely affected Government revenues from minerals. This is compounded by the declining trend of the oil prices due to the slow-down of economic activities world-wide resulting from COVID-19 restrictions.

In light of these challenges, the Government intends to provide the enabling environment for the development of the new mining projects namely, Wafi Golpu and Frieda River with the intention to reopen the Porgera Gold Mine, and new petroleum projects namely Papua, Pasca and P'nyang.

5.3.6 Trade and Investment

The goal of this subsector is to increase exports, reduce imports and increase Foreign Direct Investment (FDI) that can generate wealth and stimulate economic growth.

The Trade and Investment subsector includes Commerce, Tourism and SME with lead agencies being the Department of Commerce and Industry, Tourism Promotion Authority and Small Medium Enterprise Corporation. The development of the subsector is guided by the SME Policy & Master Plan 2016-2030, National Trade Policy 2017-2030, Tourism Master Plan 2010-2030 and other relevant policies.

¹⁴ 2020 MTDP III Review report

The Government has made significant progress in the implementation of these policies in promoting international trade, SMEs and tourism with investments to increase export revenue and wealth creation. However, the preventive measures in response to COVID-19, such as the restrictions imposed on public mobility and business operations during the SOE period has adversely affected the tourism industry and revenue generation in the SME sector.

In 2021, investments in the subsector will focus on SME risk sharing facilities (K1.0 million), revitalizing of cooperative societies, industrial centres, online registration, development of incubation centres, and construction of tourism hubs, economic zones, SME Agriculture Financing (K200.0 million), MSME and the Credit Guarantee Corporation.

In 2021, a total of K666.5 million is allocated for the Economic sector of which K223.6 million is for operational and K442.9 million is for capital. The total operational budget for this sector consists of K180.4 million for COE and K43.2 million for GS. The total capital budget consist of direct financing from GoPNG worth K366.5 million whilst K34.9 million is grants and K41.5 million is loan from the development partners.

5.3.7 Education Sector

Sustainable educational services and outcomes is critical for PNG social welfare and economic development. The education sector plays the important role in ensuring that PNG's population is knowledgeable and skilled through the delivery of early childhood, primary, secondary, Technical Vocational Educational Training (TVET) and tertiary education.

The Education Sector's main function is to deliver primary, secondary, TVET and tertiary education through the National Department of Education (NDoE), Department of Higher Education Research Science and Technology (DHERST), national universities and colleges. The education sector is guided by the country's national development plans¹⁵, the National Education Plan 2020-2029¹⁶ and other relevant sector policies, strategies and plans.

The sector has made significant progress in achieving the goal of increased enrollment of students and improving access to education over the last decade. However, quality of education is the main issue that needs to be addressed at all levels from basic elementary, primary and secondary education, TVET institutions, colleges and the universities.

The Government will continue to focus on improving access, quality and affordability of education¹⁷ at all levels from primary and secondary education to TVET institutions, colleges, universities and other higher education institutions. The Government aims to increase accessibility and retention rates in primary and secondary schools through subsidy and giving more emphasis to school infrastructure development at all levels of education to cater for the increase in student population. Alternate pathways such as FODE and TVET will be supported to provide better opportunities for students leaving school. Investments¹⁸ in infrastructures for colleges and universities will continue to be funded to address the capacity needs for graduating competent and skilled labours to meet the industrial demands. Moreover, the introduction of structural reforms and new policy interventions through the implementation of relevant programs/projects will assist to address the legacy issues within the Sector and propel the agencies to achieve the policy objectives.

15 PNG Vision 2050, PNG Development Strategic Plan 2010-2030, National Strategy for Responsible Sustainable Development, Medium Term Development Plan III (2018-2022)

16 National Education Plan currently under review by National Department of Education

17 This will be achieved through providing of adequate infrastructure, improving quality of teaching and learning materials in mathematics and science, up-skill teachers through trainings

18 Within the Sector prescribes some of the traditional financing of projects/programs, which calls for infrastructure development of both the State and Privately-run learning institutions due to a higher intake rate because of a rapid population growth and emigration within the country from one province to another.

The sector's major investments include the Australian Awards (K33.1 million), Australia Pacific Training Coalition (APTC) in Technical, Vocational Education and the Western Pacific University (K20.0 million). The sector's on-going investments include community education initiatives, nursing education and training, teachers and teacher training institutions, technical and business colleges, the transition from Outcome-Based Education to Standard-Based Education curriculum, School Fee Subsidy and the PNG Higher Education Loan Program (HELP). There are also significant contributions to this sector through other Development Partners, churches and privately-run schools.

A total of K1,094.8 million has been allocated to the Education sector in the 2021 Budget comprising of K837.1 million for operational and K257.7 million for capital expenditures. The total operational budget consists of K401.1 million for CoE and K436.0 million for G&S. The total capital budget consist of GoPNG direct financing is K111.0 million whilst K146.7 million grants from development partners.

5.3.8 Health Sector

Health is a key determinant of economic growth and social sustainable development. Having a healthy population contributes meaningfully to the socio-economic development of PNG.

The Health Sector consists of Provincial Health Authorities, Hospital Management Services (HMS), National AIDs Council Secretariat and the PNG Institute of Medical Research with the National Department of Health as the lead agency. The sector aims to provide an efficient and effective health system that delivers an internationally acceptable standard of health services that is accessible throughout the country. The Sector pursues its objectives guided by the overarching government policies, the National Health Plan 2021-2030 and other relevant sector policies, strategies and plans.

The sector has made significant progress over the recent years in achieving targets and improving indicators. It has made gains in health outcomes on primary and preventative health care as well as bringing specialized health services close to the people. However, there is slow and gradual improvement in all health indicators. This is due to deteriorating health infrastructure, shortage of human resources, lack of medical supplies and a weak health system.

The recent global pandemic (COVID-19) posed a potential risk in the Sector and tested the foundation of the Health system in the country. COVID-19 isolation and treatment facilities and hygiene measures were part of the intervention programs carried out by the sector to curb the spread of COVID-19. The hospitals and health clinics have adjusted their outpatient approach arrangement in attending to patients due to COVID-19.

The Government is undertaking a 'back to basics' approach in improving access to health, investing in human resources and infrastructure at all levels of health services. The Government will continue to fund Provincial Health Authorities to maintain Free Primary Health Care and Subsidised Specialist Services and improve health systems¹⁹. The Government will also continue to support the public health including environmental health, good Water, Sanitation and Hygiene practises and the promotion of Nutrition Initiatives and Healthy Island Concept. The key indicators of reducing child and maternal mortality, improving measures against preventable diseases, increasing rate of immunisation coverage; improving nutritional diets for

¹⁹ Strengthening of Health systems through rehabilitation of district hospitals and Establishment of Community Health Posts to enhance frontline health service delivery, thus bringing specialized health services close to the people to support the rural health facilities

children and strengthening the national fight against TB²⁰, malaria, measles and HIV/AIDS²¹ will continue to be the focus of the government. The government will also support the implementation of the priorities in the National Emergency Preparedness and Response Plans 2020 -2022²² to address COVID-19 in the country.

The Health sectors total budget for 2021 is K1,745.0 million comprising of K1,105.0 million for the operational and K640.1 million for the capital expenditures. Operational Budget consists of K725.2 million for CoE and K379.8 million for G&S. Capital budget consist of GoPNG direct financing worth K143.0 million whilst K177.4 million grants and K319.7 million loans from development partners.

5.3.9 Law and Justice Sector

Improved Law and Justice are critical enablers for social, economic and political developments. The primary role of the 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 sector comprises of twelve (12) agencies with the lead agency being the Department of Justice and Attorney General. The sector agencies include the Royal PNG Constabulary, National Judiciary Services, Correctional Services, Public Solicitors Office, Magisterial Services, Legal Training Institute, Public Prosecutors Office, Constitutional & Law Reform Commission and the Ombudsmen Commission. The sector strives to reduce and prevent crime, corrupt practices and promote good governance across all other sectors.

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 years, the Sector has been given prominence and has seen some improvements. Ongoing developments include the increase in recruitment of disciplinary forces, upgrading of training infrastructure, legislative reviews and provision of justice services through the Village Court Officials (VCO) and Land Mediators (LM) at the village level. Furthermore, improvement in the court facilities compound with the increase in the number of judges and magistrates has reduced the backlog of cases.

Law and Order issues continue to be an obstacle towards growing the economy in terms of securing investor confidence for more foreign investments and tourism promotion. The sector is also faced with deteriorating infrastructure, inadequate work force, and insufficient resources to effectively enforce its mandated roles and responsibilities. Thus, a multi-sectoral approach is required to address the law and order issues to effectively achieve the priorities of the government.

In the 2021 Budget, investments will focus on infrastructure development, ICT, legislation reviews, court orders and crime prevention programs. These include, the construction of new State of the Art Complex Waigani National Court (K70.0 million) and Police and CS Infrastructure Programs (K14.0 million). The sector will continue to benefit from the Justice Services and Stability for Development (JSS4D) grant support from DFAT-AU. 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).

²⁰ Implementation of the TB Strategy, which aims to address cross-infection and air borne diseases.

²¹ HIV prevalence rate has increased from 0.65% in 2013 to 0.9% in 2017, which is now an epidemic.

²² The Strategic Service Delivery Model of this National Emergency Preparedness and Response Plan comprises of seven (5) essential scopes of activities that includes, (1) Surveillance, (2) Triaging / Testing, (3) Quarantine, (4) Isolation, (5) Treatment ICU/CCU.

5.3.10 National Security and Defence

The primary goal of the National Security and Defence Sector is to develop a vibrant Defence Force that can defend PNG and its territory as well as assist in international obligations, humanitarian assistance and contribute to nation building in line with Section 202 of the Constitution. The objective of the Sector in line with KRA4²³ of the MTDP III is to enhance national security and strengthen PNG Defence Force air, land and naval capabilities. The key indicators to achieve this are; military manpower, PNG's international borders fully manned and guarded, surveillance system capability established; and standard response time for civil humanitarian assistance.

The National Security and Defence Agencies include the PNG Defence Force (PNGDF), Department of Defence, PNG National Intelligence Organisation, PM&NEC (OSCA), Royal PNG Constabulary and the PNG Correctional Services, assisted by the PNG Customs Service, Immigration and Citizenship Authority (ICA), NAQIA, Department of Foreign Affairs and International Trade (DFAIT) and PNG Royal Constabulary.

The Sector is guided by number of strategic policies and legislations such as Defence White Paper (2013), National Security Policy (2013), National Oceans Policy (2020-2030), *Defence Act (1974)*, *National Disaster Management Act (1984)*, *National Intelligence Organization Act (1984)*, *PM & NEC Act (2002)*, *Public Service Management Act (2014)*, *Public Finance Management Act (amendment, 2017)* and *the Fisheries Management Act (1998 and as amended in 2015)*.

Although the sector has been under-resourced over the years, the PNG Defence Force continues to deliver on its core roles and functions including international obligations. The PNG Defence Force contributes to the nation building in-terms of infrastructure such as construction of Madang-Baiyer road and response to natural disasters and government callouts such as recent SOE on COVID-19. Internationally, PNG contributed PNGDF manpower to the recent bushfire fights in Australia, UN Peace Keeping Missions in South Sudan (North Eastern Africa) and RAMSI in Solomon Islands to name a few.

The threats to the national sovereignty include the transnational crimes such as money laundering, illegal fishing & poaching, drug & arms smuggling and trafficking, terrorism, human trafficking and illegal immigration as well as smuggling of flora and fauna. The Government through the MTDP III aims at enhancing and strengthening the PNGDF air, land and naval capacities and capabilities to meet the international minimum standards concerning the national and international security.

The PNG Defense air, land and naval forces need to be modernized to handle complex security challenges at national, regional and international levels. The national security personnel need to be trained and upskilled to handle threats posed by high-powered weapons used for criminal purposes including ethnical and electoral related violence as well as technologically operated systems and bioweapons.

The key priority programs for Defence in 2021 are Air Capability, new Hela Military Barracks and Defence Infrastructure. The PNGDF will continue to deliver the Baiyer-Madang Road project in collaboration with the Department of Works.

Other investment in this sector is the NIO Infrastructure Program which will enable NIO to effectively deliver its core functions with confidence to achieve its Key Result Area. The National

²³ MTDP III 2018, Vol.1, p.40.

Security Program is equally important as it aims to establish the national security coordination mechanisms that will guide and administrate the operation of the sector.

A total of K1,270.8 million has been allocated to the Law and Justice Sector for the 2021 Budget comprising of K1,128.5 million for operational and K147.3 million for capital expenditure. Operational budget consists of K891.7 million for CoE and K236.8 million is for G&S. Total capital budget consists of GoPNG direct financing worth K112.0 million whilst K22.3 million grants and K8.0 million loans from development partners.

5.3.11 Provincial Sector

Improved service delivery at the sub-national level²⁴ through effective Public Service Machinery and integrated approach is the key focus of the Provinces Sector.

There are 20 Provincial Governments, 89 District Development Authorities and 6,444 Wards that make up the Provincial Sector. The National Capital District and the Autonomous Region of Bougainville are guided by their own Organic Laws that defines their roles and responsibilities. The Department of Provincial & Local Level Government Affairs is the lead agency that provides the policy direction on behalf of the National Government. Other agencies such as Department of Implementation and Rural Development and the National Economic Fiscal Commission support the effective delivery of goods and services at the sub-national levels.

The Organic Law on Provincial and Local Level Government (OLPLG) 1995 sets the parameters by which, the sub-nationals and national agencies work to deliver goods and services in accordance with the provision prescribed in the relevant sub-ordinate legislations. For example, the *District Development Authority (DDA) Act 2014* enables Districts to internalise some of the national functions such as the establishment of District Procurement Board and enables DDAs to enter into business ventures.

The Organic Law on Provincial and Local Level Government devolves certain national functions and demarcates the roles and responsibilities of the sub-national administrations. The OLPLG is further enforced through the enactment of the *PNG Planning & Monitoring Responsibility Act 2016*, which highlights the different service delivery levels and demarcates the roles and responsibilities of sub-national governments at each service centre.

The sub-national governments are allocated more than one third of the capital investment budget each fiscal year with the aim to broaden the rural economic base and improve the social indicators. The government has invested more than K6.0 billion over the last five years in the sector. However, the socio-economic outcomes are not substantial, despite the increased investment. This is due to a number of reasons such as; lack of Institutional capacity²⁵, mismanagement of project funds, lack of coordination amongst stakeholders within the province, high cost of service delivery due to geographical locations and lack of enabling infrastructures.

The current Government focuses on key investments that underpins rural development for a broad-based economic growth. The investments include rehabilitation of health and education facilities; construction of climate resilient inter-provincial and district roads; rural electrification; water and sanitation; and communication and information network that boosts business activities.

²⁴ MTDP III 2018-2022, Vol.2, Implementation Framework and Investment Plan, p.98

²⁵ Lack of Monitoring & Evaluation, Human resource, necessary utilities services such as water, electricity, telecommunication, internet connectivity,

Each provincial administration receives K10.0 million from the total allocation of K220.0 million whilst each district administration receives K10.0 million from the total allocation of K890.0 million. The ward administrations are allocated K644.0 million in total and each ward receives K10,000.0. The total allocation of DSG is at K55.5 million which is administered by the Department of Implementation and Rural Development. Each district receives different allocations based on the size of population and the district. Table 18 shows the Fixed Commitments of the Government in 2021.

Table 18: Fixed Commitments of the Government in 2021 (Kina, million).

Program	Total	% of Fixed Commitments
PSIP	220.0	12%
DSIP	890.0	49%
WSIP	65.0	4%
DSG	55.5	3%
SSG	36.5	2%
Bougainville	100.0	6%
IDG (Wafi Golpu)	100.0	6%
Impact Infrastructure Projects (PNG LNG)	48.0	3%
IDG (PNG LNG)	79.5	4%
Grant Counterpart	25.0	1%
Loan Counterpart	175.0	10%
IDG New Ireland Province (Lihir MoA)	4.0	0%
MoAs	19.0	1%
Total Grand	1,817.5	100%

Source: Department of National Planning and Monitoring

The total budgetary allocation for the Provincial sector is K3,939.0 million of which K2,541.6 million is for operational budget and K1,396.4 million is for capital budget. Operational budget consists of K1,957.6 million for CoE and K584.0 million is for G&S. Total capital budget consist of GoPNG direct financing worth K1,354.0 million whilst K25.6 million grants and K16.8 million loans from development partners.

5.3.12 Transport Sector-

An improved transport system enables a sustainable socioeconomic development and effective flow of goods and services. The aim of the transport sector is to build a quality, resilient and safe transport infrastructures to improve the transport network. Hence, it is crucial that relevant agencies play complementary roles to ensure major infrastructures developed are affordable and equitable access for all.

The Sector consists of Department of Transport and Infrastructure (DoTI) as the lead agency, Department of Works (DoW), Road Traffic Authority (RTA), National Maritime Safety Authority (NMSA), PNG Ports Corporation Limited (PNGPCL), National Airports Corporation (NAC), Rural Airstrips Authority (RAA), Civil Aviation Safety Authority (CASA), Accident Investigation Commission (AIC) and PNG Air Services Limited (ASL).

The major policies that guide the transport sector in achieving the MTDP III goals are: Medium Term Transport Plan II (2019-2020), National Road Network Strategy 2018-2037, Air Service Policy, Air Transport Policy, International Air Safety and Security Compliance (ICAO), *Road Traffic Act*, *Road Fund Act*, *National Ports Act*, *Civil Aviation Safety Act (CASA)*, *National Maritime Act*, etc. Furthermore, the current government has given prominence to the

development in the transport sector (and other sectors) through NEC Decision #113/2020 to connect the whole of PNG to provide access to rural communities.

Significant efforts have been put into arresting the deteriorated transport infrastructure assets. Sections of the National Highways have been reconstructed, rehabilitation of selected provincial roads, further extension of Port Moresby International Airport plus the other 21 airports, rehabilitation of rural airstrips, and the delivery of wharves and jetties. One of the notable reforms in the Transport Sector is the passage of the *Road User Fund Act (2020)* which has resulted in the merger of DoW and NRA. However, high cost of maintenance and sustainability continues to become a major challenge for the sector exacerbated by lack of scientific knowledge and engineering, unfavourable geography and climate conditions. This slows socioeconomic development; hence limits access to markets and social services for majority of the population. It results in high cost of doing business in PNG.

In 2021, the sector will focus on connecting all of PNG to enable economic growth and reduce poverty. Hence, most of the missing link roads will pass through economic potential and poverty hotspot areas. The key priority programs/projects for 2021 include the major Wharves Development Program (K8.0 million), Civil Aviation Development Investment Program (K391.4 million), National Airport Upgrade Program, Rural Airstrip Upgrade (K4.0 million), Maritime and Waterway Navigational Safety System (K16.0 million), Accident Investigation System Development (K2.0 million), Freight Subsidy Program, District Commodity Roads Program, District Plant and Transport Division Program, National Highway Rehabilitation Program (K20.0 million), Provincial Towns and Urban Roads Program and National & Subnational Bridges Programs (K25.0 million).

A total of K2,149.4 million has been allocated for the Transport Sector for the 2021 Budget of which K200.4 million is for operational and K1,948.9 million for capital expenditures. The total operational budget consists of K125.9 million for CoE and K74.5 million for G&S. Total capital budget consists of GoPNG direct financing worth K1,024.0 million whilst K59.6 million grants and K865.4 million loans from development partners.

5.3.13 Utilities Sector

Quality infrastructure in the Utilities Sector is crucial to enable socio-economic development. The Sector plays a vital role in providing the basic amenities necessary to create an enabling environment for economic growth and to improve social outcomes. The primary objective of the Sector is to improve the quality of lives for all people living in urban centres, rural towns and communities to enable access to effective and affordable communication and information systems, affordable and clean energy, clean water supply and sanitation, affordable housing and other utilities infrastructures.

The Sector comprises of Department of Communication Information Technology, National Broadcasting Corporation (NBC), National Information Communication Technology Authority (NICTA), the Department of Energy, National Housing Corporation (NHC), WaSH Project Management Unit and State-Owned Enterprises such as PNG Power Limited (PPL), Telikom Limited, PNG DataCo Limited, Water PNG Limited (WPNG), Kumul Consolidated Holdings Limited, and Kumul Telikom Holdings Limited.

The Government is committed to meet MTDP III and PNGDSP 2030 targets through provision of modern and affordable information & communication technology; improved access to reliable, affordable and clean energy supply; access to safe clean drinking water, reliable and improved sanitation and hygiene facilities; and provide affordable housing for Papua New Guineans. The

MTDP III targets will be achieved through the implementation of National Energy Policy 2017-2027, Information and Communication Policy 2008, WaSH Policy 2015-2030,

Currently, only 17.0 per cent of the households have access to electricity; 41.0 per cent safe drinking water and 13.0 per cent²⁶ improved sanitation. About 50.0 per cent of Health and Education facilities in the country have access to safe and clean (drinking) water and improved sanitation facilities. The communication coverage has improved from 4.7 per cent in 2007 to 50.0 per cent in 2020 and more than 20.0 per cent of the population are estimated to have internet access. The Government has made significant investments in land and housing program to ease the rising real-estate price in urban centres. The COVID-19 has caused 100.0 per cent increase in the hygiene practises mostly in the urban centres of the country.

However, the Sector also continues to be challenged with insufficient financial resources, landownership issues, lack of competition amongst utility service providers, effects of climate change, lack of technical capacity and innovative technologies. The structural reforms need to be undertaken to provide a policy and legislative platforms to address issues confronting the sector. For instance, the National Land and Housing Policy needs to be developed to provide a conducive environment that promotes competition in the real-estate industry. The Energy authority needs to enact a legislation to regulate the electricity industry.

In 2021, the Government in collaboration with Development Partners and Private Sector will continue to invest in renewable energy generation, rehabilitating deteriorated main power grids, and extension to household connectivity. The other areas of investment in the Sector includes telecommunication, affordable land & housing program and safe (drinking) water & sanitation. Through the implementation of the National Energy Policy 2017-2027, Government will establish an effective administrative mechanism to coordinate and promote investments in the subsector.

The major ongoing impact programs and projects for the sector are; The completion of Kumul Submarine domestic Cable Network (K70.0 million), Coral Sea Cable Projects (K4.0 million), National Energy Rollout Plan (NEROP) Generation, Transmission Program; National Broadband Network (NBN) Project; Rural Electrification Program; Hagen Mendi Tari Grid Development Project Ramu Transmission System Reinforcement Project and Town Electrification Investment Program (TEIP). The Provincial and District Water Supply & Sanitation Program and National Affordable Land & Housing.

The Utilities sector has been allocated K387.4 million in the 2021 budget of which K36.6 million for operational expenditure and K 350.8 million for capital expenditure. The operational budget consists of K31.7 million in CoE and K4.9 million in G&S. Total capital budget comprises of GoPNG direct financing worth K99.0 million whilst K1.6 million grants and K310.0 million loans from development partners.

5.4 EXPENDITURE EFFICIENCY MEASURES

Expenditure efficiency measures will continue to be implemented in the 2021 Budget through the Non-Financial Instructions (NFIs), OSPEAC and the Arrears Verification Committee (AVC).

5.4.1 Non-Financial Instructions

In deliberating the 2021 Budget, areas where improvements could be made to promote efficiency in the whole of the public sector were identified. These areas of improvements

²⁶ PNG Voluntary National Review Report 2020

constitute Non-Financial Instructions (NFIs) and Department of Treasury was directed to issue Non-Financial Instructions (NFIs) in the 2021 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 2021 as part of the Quarterly Budget review process conducted under the *Public Finance (Management) Act 1995* every year. NFIs that are *Generic* applies to all agencies and *Specific NFIs* applies to specific 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. Attend Staffing and Establishment Review Meetings conducted by Department of Personnel Management (DPM).
 - e. Establish Project Steering Committees (PSC) for all projects funded under the capital budget and have quarterly meetings.
 - f. Have asset registers to keep track to all their assets.

Specific

- a. Department of Treasury and Department of Personnel Management to initiate discussion to configure the Catholic and Christian Health Workers awards in the Alesco payroll.
- b. Finance to roll out IFMS to all the Provincial Health Authorities.
- c. Revenue generating agencies to provide reports to Treasury and Finance.
- d. National Housing Corporation to establish its board to oversee its operations and provide their revenue generating strategies by 2021-second quarter review.
- e. Treasury to review the freeze on the purchase of vehicles and formulate a strategy to control purchase and hire of vehicles.
- f. Finance -IFMS Board
 - to have regular meetings and provide direction for IFMS rollout;
 - should be comprised of Deputy Secretaries; and
 - to have a Nationalisation process.

5.4.2 Organisational Staffing Personnel Emoluments Audit Committee (OSPEAC)

The Government will continue to consolidate public service pay roll expenditure in the 2021 Budget through Organisational Staffing & Personnel Emolument Audit Committees (OSPEAC) by scrutinising the Government public service pay bill, determining causes of the over expenditure and recommending and implementing corrective measures.

In progressing the work undertaken by the technical team, OSPEAC recommends some immediate measures to be undertaken in 2021. These measures include:

a. *Formation of the OSPEAC Secretariat:*

It is very important that the OSPEAC Secretariat is established immediately to ensure OSPEAC activities marked for 2021 are expedited. The Secretariat will articulate the required processes, systems and recommendations to ensure that the efficiency of the Personnel Emolument budget is realised.

b. *Linking the IFMS system to Ascender:*

Due to untimely updating of expenditure data from the existing systems, the proposed payroll process reform will involve immediate upload of concept data on to IFMS. This allows for Government to access reports once the payroll is processed. This will greatly assist in analysing the personnel emoluments expenditure data on a fortnightly basis as the information provided will be close to real time data. This exercise involves the immediate upload of concept payroll expenditure into IFMS after the pay is run. Following this, the concept expenditure report (upload into IFMS) can be compared against the ledger reports in IFMS.

c. *Payroll and Manpower cleansing:*

OSPEAC will continue with the cleansing of the Ascender payroll system and other lead up activities to minimise the annual budget over runs. Work on payroll and manpower cleansing has commenced. The audit includes integrating employees' details on the ascender payroll with their file number or NID source with the aim of employing one person on one position. In addition, photograph image will be taken for each employee and be attached to a created portal on the Ascender payroll for Identification (Image) purposes to avoid having more than one person attached to one position. Four (4) agencies in each sector were identified to audit their staffing and payroll data. These agencies include:

- Department of Works;
- National Agricultural Quarantine Institute Authority;
- Hela Provincial Administration; and
- Western Highlands Provincial Health Authority.

d. *Public Service Retirement*

2021 will be the second year for the Government to set aside K430.0 million to pay for retirement benefits for employees exiting the public service in 2021. The appropriation of K430.0 million in 2021 is to pay out the aging public servants and the public servants who will retire on medical grounds. The payment for 2021 will be done according to the sectors commencing with the sector that has the highest number of public servants for retirement.

5.4.3 Industrial Awards

Memorandum of Agreements contains Industrial Awards of worker groups through negotiations with the respective unions (Associations). The MOAs are made by agreements where all parties in consultation with other stakeholders and Government Agencies.

There are currently ten Public Sector Worker Unions (Associations) registered under the *Industrial Organisation Act 1962* which are recognised by the State. The list of Unions with the name of the Industrial Awards contained in the MoAs are shown on the table.

No.	Union/Association	Industrial Awards in MoAs	Effective date	Until replaced by new agreement on and after
1	Public Service	DPM and PEA MoA	1 st January 2017	31 st December 2019
2	Teachers	TSC with DPM & Teachers Association	1 st January 2017	31 st December 2019
3	Police	DPM with Police and Police Association	1 st January 2017	31 st December 2019
4	Doctors	DPM with NDoH and NDA	1 st January 2014	31 st December 2016
5	Nurses	Nurses and Department of Health	1 st January 2016	31 st December 2018
6	Health extension Officers	HEO and Ass & Department of Health	1 st January 2011	31 st December 2013
7	Allied Health	Allied Health ass & Department of Health	1 st January 2010	26 st December 2013
8	Community Health Workers	CHW Ass & Department of Health	1 st January 2007	31 st December 2010
9	Medical Laboratory Workers	MLTPs & Department of Health	1 st January 2011	31 st December 2013
10	Health Support Workers	PNGHSW & Department of Health		

Source: Department of Treasury and Department of Personal Management

a. Current Union demands

From the ten Unions, the government has received five sets of claims. These are from the:

1. PNG Nurses Association (PNGNA);
2. Public Service Employees Association (PEA);
3. Medical Laboratory Technical Personnel Association (MLTPA);
4. PNG Health Extension Association (PNGHEA); and
5. National Doctors Association (NDA).

All Memorandum of Agreements (MoA) with Unions are still applicable until a revised MoA replaces it. However, due to the current economic constraints, all the unions' requests have been stalled. For the Nurses Association, an agreement has been reached to pay K75.0 per fortnight for medical and life insurance cover for the nurses.

5.4.4 Arrears Verification Committee

The Arrears Verification Program is one of the Budget Reform Programs of the current Government and forms part of the International Monetary Fund (IMF) Staff Monitoring Program (SMP). The Arrears Verification Program will run for two years with the objective to identify, verify, clear, mitigate and manage incurrence of future arrears.

Controlling arrears is a critical part of best practice financial management. Unpaid arrears can impact Government performance and service delivery, inhibit budget management and lead to long-term structural and governance issues. Failure to pay valid contracts on time with private sector firms and international organisations damages business confidence and economic growth.

Particularly in recent years, government arrears have not been managed well and has increased the interest payments and outstanding debts for the PNG Government. There is also a culture across the public service where historical arrears are ignored in favour of more immediate needs

or claims. This has resulted in long-term debt liabilities to the PNG Government, which is compounded by accruing interest charges, reputational damage and heightened sovereign risk. If this were to continue unchecked then has the potential to undermine the PNG Government's reputation, impact its ability to attract high quality investment and constrain economic growth.

A critical enabler of the Arrears Verification Program is the establishment of an Interagency Committee (now called the Arrears Verification Committee (AVC)) and a Secretariat to coordinate the undertaking of the Committee. Both the Committee and Secretariat to be hosted by the Department of Treasury with representation from the Departments of Treasury, Finance, Planning and State Solicitors Office including an External Auditor from a reputable international firm.

The Arrears Verification Program has commenced in January of 2020 and will continue into 2021. The key achievements for the Program in 2020 encapsulate the following:

- 1) An Arrears Verification Terms of Reference (ToR) has been developed to guide the work of both the Committee and the Secretariat.
- 2) An Arrears Verification & Management Strategy Paper has been developed and will be elevated to the Ministerial Economic Committee (MEC) for endorsement. Upon endorsement, the measures will be implemented respectively.
- 3) An Arrears Assessment Framework and Guidelines have also been developed.
- 4) Stocktaking of the arrears to better understand the extent, composition and vintage of the arrears in addition to setting the parameters for requesting the type of information the arrears claim needs to include and by when;
- 5) Verification with the collection of pay records and other personnel management information, unpaid invoices and categorization of the claims and establishing a transparent mechanism for responding to claimants with rejected claims;
- 6) Classification of the arrears to enable the establishment of a database for all arrears that can be disaggregated by key descriptors including vintage, debtor, creditor, economic category, payment status;
- 7) Prioritisation with establishing a framework with set criteria for prioritisation payment using the arrears database. Criteria can include socioeconomic impact, vintage, cost and risk, and other principles and;
- 8) Payment of the arrears follows the agreed prioritisation principles and timely schedule to ensure a consistent application and the committee works closely with the Treasurer and other relevant Ministers to ensure these payments align with budget strategy and priorities.

In 2021, the Arrears Verification Committee will continue the stocktaking, verification, classification, prioritising and making payment. Consequently, the Committee will commence implementation of the Arrears Verification and Management Strategy.

The implementation of this strategy is to mitigate and manage future incurrence of arrears. Some of the key reform agendas of the Strategy will include:

- 1) Re-enforcing the respective penalty clauses under the Public Financial Management Act for Agency Heads that incur substantial arrears;
- 2) Re-emphasising the criticality of compliance in line with the National Procurement (Act) Processes;
- 3) Strengthening internal controls and processes through respective Agency Heads Key Performance Indicators (KPIs) and;
- 4) Strengthening control measures on the broad expenditure categories (Capital Works, Utilities, Rentals, and Hire Cars etc) that incur substantial arrears.

The table below provides a snapshot of the high-level indicators of the arrears verified and pre-endorsed by the AVC and payments facilitated to date.

Arrears	Verified Amounts (K)	Pre-endorsed Amounts (K)	Payments (K)
Recurrent	409,573,075.6	409,573,075.6	101,583,473.2
Capital	247,868,079.0	247,868,097.0	41,375,000.0
Grand Total	657,441,154.6	657,441,172.6	142,958,473.2

Source: Department of Treasury

5.5 Donor Funding from Development Partners

The medium-term goal for the Government of Papua New Guinea on development cooperation is to make maximum contribution to the achievement of MTDP III priorities and the supporting national, sectoral, and sub-national policies and plans. The GoPNG has been receiving development cooperation assistance forged through diplomatic relations and different development modalities since independence in 1975. This includes loans, grants, technical assistance, budget support, blending financing, south-south and triangular cooperation.

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 official Development Partners (DPs) support that 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 with their support not channelled through the Government Budgetary System but contribute 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.

Over the years, loans and grants have been the significant sources of revenue to support the capital investment budget. With the formulation of MTDP III in 2018, most development partners have aligned their country strategies to the priorities of the Government. However, targeted project implementation towards the Key Results Areas (KRAs) of the MTDP III are yet to be fully realized.

The Development Cooperation supports different MTDPIII sectors²⁷. The policy priorities of the Marape Government continue to invest in the policy priorities of the MTDPIII. This consistent support creates a conducive environment for sustainable development and increase investor confidences. The Government will continue to rely on development cooperation to achieve the MTDPIII Goal of “securing our future through inclusive sustainable economic growth” in the medium-term.

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 GoPNG and DPs are; slow drawing down of loans; lack of GoPNG counterpart; land acquiring issues; DPs going directly to GoPNG agencies and provinces; and the DPs yet to fully comply with Government Finance Statistics (GFS) 2014 reporting standard. Some of these issues will be discussed during the proposed GoPNG/DP High Level Forum in 2021.

Other challenges include lack of loan counterpart obligation by GoPNG and fees accumulated from non-draw down of loan projects. This issue relates to all loan projects, but the very challenging and alarming cases are with the Exim Bank of China. Because the GoPNG is struggling to meet its loan counterpart obligations it affects the implementation of most projects; increases the loan fees; increase in undisbursed loans; and increase in debt stock resulting in the overall negative impact of PNG’s economy. All outstanding GoPNG counterpart arrears will be settled through Project Steering Committee meeting process beginning in 2021 for the Arrears Vetting Committee (AVC) to approve funding for the outstanding arrears.

With the declaration of COVID-19 in March 2020, most DPs funded projects where affected especially during the two-separate lock-downs. However, the GoPNG relaxed all the restrictions placed but it depends again on the global situation. The global situation is expected to continue to have an effect on the implementation of projects. It is highly unlikely for all loans and grants projects to fully disbursed which are annually projected based on the increased 2021 ceiling, therefore the ceiling for loans and grants for 2021 are lower than that of 2020.

Despite these challenges, the GoPNG is committed in providing the ownership and leadership required to effectively deliver development with the support of its DPs through reforms in its business processes. The introduction of Public Expenditure & Financial Accountability (PEFA) assessment, the formulation of the PEFA Roadmap and the subsequent PEFA Assessment Report, the development of PNG Development Cooperation Policy (2018-2022) with its defined dialogue process between the National Government and all stakeholders, the development of MTDPIII policy priorities and its implementation plan and the SLOSH mechanism have progressed the process of having a strengthened Government System to provide confidence to our Development Partners.

In 2021, the total Development Partner assistance (Grants and Loans) is K2, 646.41 million or 39 per cent of total 2021 capital expenditure of K6,713.91 million. Despite the challenges including COVID-19, 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 total Development Partners grants for 2021 are estimated at K1,008.01 million or 15 per cent of the total 2021 capital expenditure of K6,713.91 million. This is K76.01 million or 8 per cent increase from 2020 grants projected amount of K932.10 million. The Government of Australia through Department of Foreign Affairs and Trade (DFAT) provides the largest share

²⁷ Economic; Social; Infrastructure; Law & Order; Governance & Administration; Cross-Cutting; and Provinces

of grants totaling up to K609.45 million which is 60.5 per cent of total grants and 23 per cent of both grants and loan total. Despite a projected decline in the overall aid to PNG in 2021, the Government of Australia will continue to maintain its commitment to support PNG through key interventions.

The total loans from Development Partners in 2021 amount to K1,638.40 million or 24.4 per cent of total 2021 capital expenditure K6,713.91 million. It is an increase of K273.4 million or 20 per cent from 2020 loan projected amount of K1,365.0 million. The ADB is the largest multilateral partner providing mostly infrastructure projects through loans (K715.08 million) making it PNG's largest DP in 2021 and the largest multilateral partner.

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

Table 19: 2021 Loans, Grants and Government Counterpart funding (Kina, million)

Development Partners	2021 Grants (Million)	2021 Loans (Million)	2021 Counterpart (Million)	2021 Total (L+G+CP) (Million)
ADB	20.0	715.08	30.0	765.08
CESKA		160.0	8.0	168.0
DFAT	609.45	16.0	14.0	639.45
EIB		76.0	5.0	81.00
EU	135.64	-	1.0	136.64
IFAD	-	31.53	2.0	33.53
Indian Exaim Bank	-	15.0	9.0	24.0
JICA	69.46	155.37	10.0	234.83
NZAID	29.30	-	-	29.30
PRC	27.0	280.0	62.0	369.0
UN	117.16	-	-	117.16
USAID	-	-	-	-
WB	-	189.42	9.0	198.42
Total	1,008.01	1,638.40	150.00	2,796.41

Source: Department of National Planning and Monitoring

5.6 Infrastructure Tax Credit Scheme (ITCS)

The Infrastructure Tax Credit Scheme has been designed to allow developers of the major resource projects both 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%
- Primary Industry: 1.5% and
- Tourism Industry: 1.5%

The moratorium placed on the approval and funding of new ITCS projects in 2017 was lifted in 2018 through NEC No.238/2018 which also approved the revised ITCS guidelines. However, there were some loopholes in the revised ITCS guidelines. The Internal Revenue Commission, Department of Treasury and Department of National Planning and Monitoring are currently reviewing the policy and legislation governing the administration and implementation of the program with the aim of strengthening the program.

The total number of projects implemented up to September 2020 is 46 to the value of K426.74 million and a cumulative expenditure of K392.22 million against these 46 projects. Table 4 below shows the annual expenditure against these projects from 2019 to 2020.

The ongoing projects currently implemented covers Health, Education Law & Justice, Transport and Utilities Sectors. Such projects include, the Kupiano District Hospital, road infrastructure projects and School Infrastructure Development Projects located in Central, Southern Highlands, Hela and Western Provinces. Projects in Enga Province were terminated by Porgera Joint Venture following the Government's decision on non-renewal of the Special Mining Lease.

The table below shows the annual expenditure from 2018 to 2020.

Table 20: ITCS Expenditure: 2019-2021

Year	2019	2020 (September)	2021 (Projection)
Expenditure (K' million)	126.38	71.34	50.14

Source: Department of National Planning & Monitoring

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

5.7 STATUS OF TRUST ACCOUNTS

Pursuant to Section 15 of the *Public Finance Management Act (PFMA), (Amended 2016)*, the Department of Finance (DoF) gives authorization 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 or cash flow pressures in the economy while at the same time giving time to Government agencies to properly plan and implement their priority projects and programs over a period of time.

A total of K13,167.2 million (K12,818.5 million from 2019 FBO + K311.7 million + K37.0 million COVID-19 related expenses), up to and including the 2020 Budget appropriations has been expended through the Budget Funded Trust Accounts since 2005 for the implementation of government's various 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 1st January to 30th September, 2020. As at the reporting date, the trust account appropriations for the 2020 Budget cannot be highlighted as all these funds were and could still be issued directly to the department and agencies concerned.

Including the 2020 appropriations for trust accounts in 2020 Budget and the supplementary budget, a total of K348.7 million (K311.7 million + K37.0 million have being expended from January up to September 2020.

Table 21: Movement of Funds in Budget Funded Trust Accounts from 1st January – 30th September 2020 (Kina, million).

Trust Account Name	1-Jan-2020	Debit	Credit	30-Sept-2020
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Flexible, Open and Distance Education (FODE) Rehabilitation - GoPNG	0.0	0.3	0.2	0.1
Tuition Fee Free Education Trust Account (Main)	110.5	170.5	259.5	21.6
PNG Rural Communications Project GOPNG	2.0	0.3	1.4	0.9
Small Medium Enterprise (SME) Risk Sharing Facility (GoPNG)	0.0	2.0	1.3	0.7
Central City Trust Account	26.8	0.0	0.0	26.8
Financial Management Improvement Programme (FMIP) - GoPNG	2.0	10.2	9.8	2.4
FMIP Provincial Capacity Building Imprest Trust Account	0.7	3.4	2.7	1.3
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 Sub	0.7	0.0	0.0	0.7
Public Service Audit Program	0.6	0.0	0.0	0.6
APEC – Authority	0.1	0.0	0.0	0.1
Highlands Region Road Improvement Investment Program (HRRIP) Project 2 - GoPNG Counterpart Funding TA*	1.4	1.0	1.0	1.4
Multiple LNG Development Trust Account*	0.3	2.5	0.9	1.9
Coastal Vessels Account	0.1	0.0	0.0	0.1
Water Supply Sanitation Development Project – GoPNG*	2.8	0.0	0.1	2.7
Tsak Valley Electrification Project - GoPNG Counterpart Fund	0.0	9.5	0.0	9.5
2020 National Population and Housing Census Trust Account	0.0	15.6	10.3	5.3
Higher Education Loan Program	0.0	30.0	24.4	5.6
Trans East West New Britain Highway	0.1	0.0	0.0	0.1
Mukurumanda Jail Project Trust Account	5.0	0.0	0.2	4.8
Total	162.8	245.3	311.6	95.9

Source: Department of Finance.

Note:

1. The total January opening balance of all Budget Funded trust accounts has changed from the one previously reported in the 2020 MYEFO Report because some new budget funded trust accounts has being added onto the list.
2. 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 reflects all its subsidiary accounts.
3. Trust Accounts not shown have balances below K20 000.00 and or no transaction to be reflected.
4. * - The balances and fund movements of the trust accounts with asterisk could not be fully determined due to non – availability of bank statements at the time of the 2021 Budget preparation.

The opening balance of the Budget Funded Trust Accounts as at 1st January 2020 was K162.8 million. Expenditure incurred in this period totalled K311.7 million with K245.2 million as receipts within the same period and the closing balance as at 30th September 2020 was K95.9 million.

Following is a summary of expenditures above K5.0 million from Budget Funded Trust Accounts for the period 1st January to 30th September 2020:

- K259.5 million was expended on the current government's "Government Tuition Fee Subsidy (GTFS)" Education Policy rollout;
- K24.4 million was expended on the Higher Education Loan Program (HELP) to assist tertiary students in their tuition fees;

- K10.3 million was expended on the 2020 National Population and Housing Census Trust Account; and
- K9.8 million was expended on the Financial Management Improvement Program (FMIP) project.

Many trust accounts above did not incur expenses and it is assumed the operations of the trust accounts might have being affected by the recent impact of COVID-19 pandemic thus, a decrease in expenses and receipts into and from the trust accounts.

As a result, of the COVID-19 World outbreak in the first quarter of 2020, the PNG Government has allocated funds to respective provinces and districts to carry out awareness and preparatory work in containing the spread of this deadly virus.

A total of K214.0 million was paid to each of the Provincial and to District COVID-19 Emergency Trust Accounts during the second and third quarter of 2020. The total funds expended for the COVID-19 related activities amounted to K37.0 million, thus having K178.0 million balances as at 30th September 2020. The funds in those COVID-19 Trust Accounts are available to be accessed and used throughout the year by the respective Provincial and the District Authorities to support their COVID-19 preparedness.

Table 22 below shows the list for 22 COVID -19 Provincial Subsidiary Trust Accounts and the movement of funds from 1st July to 30th September 2020.

Table 22: COVID-19 Provincial Subsidiary Trust Accounts 2020 (Kina, millions)

Trusts Accounts	Bal as at 01 Jul 20	Debit	Credit	Bal as at 30 Sept 20
COVID-19 Emergency Trust Account – Enga Province	0.0	2.5	0.0	2.5
COVID-19 Emergency Trust Account – Hela Province	0.0	1.5	0.7	0.8
COVID-19 Emergency Trust Account – Southern Highlands Province	0.0	1.5	0.1	1.4
COVID-19 Emergency Trust Account – Western Province	0.0	1.5	0.0	1.5
COVID-19 Emergency Trust Account – Western Highlands Province	0.5	1.8	0.7	1.5
COVID-19 Emergency Trust Account – Eastern Highlands Province	0.0	1.5	0.0	1.5
COVID-19 Emergency Trust Account – Morobe Province	0.0	1.5	0.2	1.3
COVID-19 Emergency Trust Account – Madang Province	0.0	1.5	1.1	0.4
COVID-19 Emergency Trust Account – East Sepik Province	0.0	1.5	0.0	1.5
COVID-19 Emergency Trust Account – West Sepik Province	0.0	1.5	0.0	1.5
COVID-19 Emergency Trust Account – Milne Bay Province	0.0	1.5	0.0	1.5
COVID-19 Emergency Trust Account – Oro Province	0.0	1.5	0.0	1.5
COVID-19 Emergency Trust Account – National Capital District	0.0	1.5	0.0	1.5
COVID-19 Emergency Trust Account – Central Province	0.0	1.5	0.2	1.3

Trusts Accounts	Bal as at 01 Jul 20	Debit	Credit	Bal as at 30 Sept 20
COVID-19 Emergency Trust Account – East New Britain	0.0	1.5	0.0	1.5
COVID-19 Emergency Trust Account – West New Britain	0.0	1.5	0.0	1.5
COVID-19 Emergency Trust Account – New Ireland Province	0.0	1.5	0.0	1.5
COVID-19 Emergency Trust Account – Jiwaka Province	0.0	1.5	0.0	1.5
COVID-19 Emergency Trust Account – Simbu Province	0.0	1.5	0.0	1.5
COVID-19 Emergency Trust Account – Manus Province	0.0	1.5	0.0	1.5
COVID-19 Emergency Trust Account – Gulf Province	0.0	1.5	0.0	1.5
COVID-19 Emergency Trust Account – Autonomous Region of Bougainville	0.5	4.0	2.3	2.2
TOTAL	0.9	37.0	5.0	33.0

Source: Department of Finance

Table 23 below shows List for the 89 COVID-19 District Subsidiary Trust Accounts and the movement of funds from 1st July to 30th September 2020.

Table 23: COVID-19 District Subsidiary Trust Accounts 2020 (Kina, millions)

Trust Accounts	Bal as at 01 Jul 2020	Debit	Credit	Bal as at 30 Sept 2020
COVID-19 Emergency Trust Account – Middle Fly District	0.0	1.9	0.0	1.9
COVID -19 Emergency Trust Account – North Fly District	0.0	1.9	0.0	1.9
COVID -19 Emergency Trust Account – South Fly District	0.0	1.9	0.0	1.9
COVID -19 Emergency Trust Account – Kerema District	0.0	1.9	0.0	1.9
COVID -19 Emergency Trust Account – Kikori District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account – Gollala District	0.0	2.0	0.5	1.5
COVID -19 Emergency Trust Account – Rigo District	0.0	2.0	0.3	1.7
COVID -19 Emergency Trust Account – Abau District	0.0	2.0	1.8	0.2
COVID -19 Emergency Trust Account – Kairuku Hiri District	0.0	2.0	0.7	1.3
COVID -19 Emergency Trust Account – Moresby South District	0.0	2.0	0.3	1.7
COVID - 19 Emergency Trust Account – Moresby North East	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account – Moresby North West	0.0	2.0	0.1	1.9
COVID -19 Emergency Trust Account – Kiriwina Goodenough District	N/A	N/A	N/A	N/A

Trust Accounts	Bal as at 01 Jul 2020	Debit	Credit	Bal as at 30 Sept 2020
COVID -19 Emergency Trust Account – Central Bougainville District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account – Esa'ala District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account – Samarai Murua District	0.0	2.0	1.0	1.0
COVID -19 Emergency Trust Account – Ijivitari District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account – Kagua Erave District	0.0	2.0	0.4	1.6
COVID -19 Emergency Trust Account – Imbongu District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account – Mendi District	0.0	2.0	1.1	0.9
COVID -19 Emergency Trust Account – Ialibu Pangia District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account – Nipa Kutubu District	0.0	2.0	1.9	0.2
COVID -19 Emergency Trust Account – Tari Pori District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account – Komo Magarima District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account – Koroba Kopiago District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account – South Bougainville District	0.0	2.0	0.6	1.4
COVID -19 Emergency Trust Account – Wabag District	0.0	2.0	0.6	1.4
COVID -19 Emergency Trust Account – Kandep District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account – Laiagap Pogera District	0.0	2.0	1.6	0.4
COVID -19 Emergency Trust Account – Wapenamanda District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account – Kompiam Ambum District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account – Tambul Nebilyer District	0.0	2.0	0.8	1.2
COVID -19 Emergency Trust Account – Mul Baiyer District	0.0	2.0	0.8	1.2
COVID -19 Emergency Trust Account – Dei District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account - Hagen District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account - North Waghi District	0.0	2.0	1.0	1.0
COVID -19 Emergency Trust Account – Anglip South Waghi District	0.0	2.0	0.8	1.2

Trust Accounts	Bal as at 01 Jul 2020	Debit	Credit	Bal as at 30 Sept 2020
COVID -19 Emergency Trust Account – Jimi District	0.0	2.0	0.4	1.6
COVID -19 Emergency Trust Account – Kerawagi District	0.0	2.0	0.1	1.9
COVID -19 Emergency Trust Account – Kundiawa/ Gembogle District	0.0	2.0	0.9	1.2
COVID -19 Emergency Trust Account – Sinesine Yongomul District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account – Karamui Nomane District	0.0	2.0	0.3	1.7
COVID -19 Emergency Trust Account – Gumini District	0.0	2.0	0.3	1.7
COVID -19 Emergency Trust Account – Chuave District	0.0	2.0	0.4	1.6
COVID -19 Emergency Trust Account – Daulo District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account – Goroka District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account – Ungai Bena District	N/A	N/A	N/A	N/A
COVID -19 Emergency Trust Account – Henganofi District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account – Lufa District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account – Okapa District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account – Kainantu District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account – Obura Wonenara District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account – Tewai Siasi District	2.0	2.0	2.9	1.2
COVID -19 Emergency Trust Account – Markham District	0.0	2.0	0.2	1.8
COVID -19 Emergency Trust Account – Huon Gulf District	0.0	2.0	0.7	1.3
COVID -19 Emergency Trust Account – Lae District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account – Kabwum District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account – Bulolo District	1.2	2.0	2.8	0.4
COVID -19 Emergency Trust Account - Minyamya District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account – Finchafen District	0.3	2.0	0.7	1.6
COVID -19 Emergency Trust Account – Nawaeb District	1.0	2.0	0.9	2.1
COVID -19 Emergency Trust Account – Middle Ramu District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account – Rai Coast District	0.0	2.0	0.5	1.5

Trust Accounts	Bal as at 01 Jul 2020	Debit	Credit	Bal as at 30 Sept 2020
COVID -19 Emergency Trust Account – Madang District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account – Bogia District	0.0	1.8	1.1	0.8
COVID -19 Emergency Trust Account – Usino Bundi District	0.0	2.0	0.4	1.6
COVID -19 Emergency Trust Account – Sumkar District	0.0	2.0	1.0	1.0
COVID -19 Emergency Trust Account – Yangoru Saussia District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account – Wewak District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account – Wosera Gawi District	0.0	2.0	0.3	1.7
COVID -19 Emergency Trust Account - Ambunti Dreikir District	0.1	2.0	0.5	1.6
COVID -19 Emergency Trust Account – Maprik District	0.0	2.0	0.9	1.1
COVID -19 Emergency Trust Account – Angoram District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account – Telefomin District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account – Vanimo Green District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account – Nuku District	0.0	2.0	0.4	1.6
COVID -19 Emergency Trust Account – Aitape Lumi District	0.3	2.0	0.6	1.8
COVID -19 Emergency Trust Account – Manus District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account – Kavieng District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account – Namatanai District	0.0	2.0	2.0	0.0
COVID -19 Emergency Trust Account – Pomio District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account – Rabaul District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account – Gazelle District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account – Kokopo District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account – Talasea District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account – Kandrian Gloucester District	0.0	2.0	0.0	2.0
COVID -19 Emergency Trust Account – North Bougainville District	0.0	2.0	0.2	1.8
COVID-19 Emergency Trust Account – Sohe District	0.0	2.0	0.0	2.0
COVID-19 Emergency Trust Account – Alotau District	0.0	2.0	0.4	1.6

Trust Accounts	Bal as at 01 Jul 2020	Debit	Credit	Bal as at 30 Sept 2020
Total	4.0	173.0	32.0	145.0

Source: Department of Finance.

Note:

1. All the figures above are reported to the nearest millions.
2. N/A – The banks statements of the two trust accounts were not available at the time the report was compiled but could still be reported in 2020 Final Budget Outcome (FBO).

CHAPTER 6: TAX EXPENDITURE

6.1 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 undertaken by the Government directly and specifically from the tax revenue'. The following document presents estimates 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 taxpayers, through exclusions, deductions, deferrals, credits and tax rates. 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 taxpayers to write-off depreciation costs at a faster rate than is normally allowable. Thus, taxpayers get to deduct higher amounts from their assessable income in the starting years of the investment. In this case, the Government incentivises the taxpayer by allowing him/her to delay the tax payment to the Government. Thus, the government can be said to have foregone revenue temporally by foregoing the opportunity to collect revenue earlier.

Structure of the Tax Expenditure

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 below are statistics as reported by the taxpayer. The self-reported figures may suffer from gross inaccuracies because 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 will also revisit the models previously made and try to improve the accuracy of the estimates.

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.

6.2 COMPANY TAX INCENTIVES IN THE INCOME TAX ACT 1959

6.2.1 Interest

Revenue Foregone (Kina, million)			
	2017	2018	2019
Non- Resource	3.1	5.2	3.2
Resource	1.0	2.1	11.8
<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 15.0 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.

6.2.2 Fishing Operations

Revenue Foregone (Kina, million)			
	2017	2018	2019
Non- Resource	0.0	0.0	0.0
Resource	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.

6.2.3 Dividends

Revenue Foregone (Kina, million)			
	2017	2018	2019
Non- Resource	0.6	4.0	0.0
Resource	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. In other words such 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.

6.2.4 Export Sales

Revenue Foregone (Kina, million)			
	2017	2018	2019
Non- Resource	41.9	0.0	0.0
Resource	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)*.

6.2.5 Rural Development Incentive

Revenue Forgone (Kina, million)			
	2017	2018	2019
Non- Resource	0.0	0.1	0.1
Resource	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.

6.2.6 Bougainville Incentive

Revenue Forgone (Kina, million)			
	2017	2018	2019
Non- Resource	0.0	0.0	0.0
Resource	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.

6.2.7 Solar Heating

Revenue Forgone (Kina, million)			
	2017	2018	2019
Non- Resource	0.0	0.1	0.0
Resource	0.0	0.0	0.0
<i>Legislative Reference</i>	<i>Section 68A of ITA 1959</i>		

This is a special incentive to promote use of cleaner energy and therefore expenses on plant or equipment related to solar heating are allowable as deductions irrespective of the scope of project.

6.2.8 Gifts

Revenue Forgone (Kina, million)			
	2017	2018	2019
Non- Resource	0.2	0.3	1.7
Resource	0.0	0.0	10.2
<i>Legislative Reference</i>	<i>Section 69 of ITA 1959</i>		

The expenditures to charitable organisations and other humanitarian foundations, including political parties, by a tax payer are allowed either as a direct deduction or in some cases a double deduction from their assessable income. Some of these organisations, 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.

6.2.9 Deduction Educational Expenses (individuals only)

Revenue Forgone (Kina, million)			
	2017	2018	2019
Non- Resource	0.2	0.0	0.0
Resource	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 taxpayer). 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 taxpayer in connection with the education of a dependent child is an allowable deduction.

6.2.10 Double Deduction – Staff Training

Revenue Forgone (Kina, million)			
	2017	2018	2019
Non- Resource	1.2	0.0	0.0
Resource	3.8	0.0	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 Papua New Guinea. 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 75.0 per cent of the expenditure and not more.

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.

6.2.11 Double Deduction – Export Market Development

Revenue Forgone (Kina, million)			
	2017	2018	2019
Non- Resource	0.0	0.1	0.0
Resource	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 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 75.0 per cent of the expenditure and not more. This is done to incentivise manufacturing of products for the export market of PNG.

6.2.12 Double Deduction - Tourism

Revenue Forgone (Kina, million)			
	2017	2018	2019
Non- Resource	0.3	0.2	0.1
Resource	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 that the tax savings for such additional deduction is up to 75.0 per cent of the expenditure and not more.

6.2.13 Additional Depreciation – Fuel Conservation

Revenue Forgone (Kina, million)			
	2017	2018	2019
Non- Resource	0.0	0.0	0.0
Resource	0.0	0.0	0.0
<i>Legislative Reference</i>	<i>Section 37(4) of ITA 1959</i>		

This deduction allows for additional 20.0 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.

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

Revenue Forgone (Kina, million)			
	2017	2018	2019
Non- Resource	0.0	0.0	0.0
Resource	0.0	0.0	0.0
<i>Legislative Reference</i>	<i>Section 73(5) of ITA 1959</i>		

This deduction allows for additional 30.0 per cent depreciation in the initial year when the cost of capital was incurred, when an oil-fired plant or equipment is replaced by a non-oil-fired plant or equipment to incentivise fuel conservation and sustainable production.

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

Revenue Forgone (Kina, million)			
	2017	2018	2019
Non- Resource	0.0	0.0	0.2
Resource	0.0	0.0	0.0

<i>Legislative Reference</i>	<i>Section 73(6) of ITA 1959</i>
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This deduction allows for additional 30.0 per cent depreciation in the initial year when the cost of capital was incurred, when a non-oil-fired plant or equipment is acquired (purchased) for production.

6.2.16 Additional Depreciation –Industrial Development

Revenue Forgone (Kina, million)			
	2017	2018	2019
Non- Resource	8.6	30.4	23.8
Resource	0.0	0.0	0.0
<i>Legislative Reference</i>	<i>Section 73(7) of ITA 1959</i>		

This incentive allows for depreciation deduction. When a tax payer adds industrial plant in PNG that has not been previously used in the country, 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.

6.2.17 Additional Depreciation –Primary Production

Revenue Forgone (Kina, million)			
	2017	2018	2019
Non- Resource	2.1	6.5	5.5
Resource	0.0	0.0	0.0
<i>Legislative Reference</i>	<i>Section 73(9) of ITA 1959</i>		

Capital expenditure incurred by a taxpayer on acquiring the following types of new plant or article is provided a 100.0 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/snorkelling operator. Note that the additional depreciation does not extend to all primary production activities, namely logging and forestry for commercial purposes.

6.2.18 Research and Development Expenditure

Revenue Forgone (Kina, million)			
	2017	2018	2019
Non- Resource	0.0	0.2	0.0
Resource	0.0	0.0	0.0
<i>Legislative Reference</i>	<i>Section 95(1) of ITA 1959</i>		

A taxpayer is allowed 150.0 per cent deduction on expenditure incurred on scientific research and development.

6.2.19 Primary Production Development Expenditure

Revenue Forgone (Kina, million)			
	2017	2018	2019
Non- Resource	0.7	2.0	0.1
Resource	0.0	0.0	0.0
<i>Legislative Reference</i>	<i>Section 97A of ITA 1959</i>		

This incentive is intended to encourage primary production such as agriculture development in PNG. Any expenditure incurred in primary production is an allowable deduction for tax purposes. For instance, if a taxpayer spends K100.0 on agriculture development, K100.0 is allowed to be deducted for tax purposes.

A 100.0 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.

6.2.20 Primary Production 150% extension services

Revenue Forgone (Kina, million)			
	2017	2018	2019
Non- Resource	0.0	0.2	0.1
Resource	0.0	0.0	0.0
<i>Legislative Reference</i>	<i>Section 97B(1) of ITA 1959</i>		

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

A 150.0 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.

6.2.21 Double Deduction – Unit of Property

Revenue Forgone (Kina, million)			
	2017	2018	2019
Non- Resource	0.0	0.0	0.1
Resource	0.0	0.0	0.0
<i>Legislative Reference</i>	<i>Section 155J of ITA 1959</i>		

6.2.22 Amortization – Exploration Expenditure

Revenue Forgone (Kina, million)			
	2017	2018	2019
Non- Resource	0.0	0.0	0.0
Resource	11.3	21.8	62.1
<i>Legislative Reference</i>	<i>Section 155N of ITA 1959</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 25.0 per cent of the un-deducted pool balance or such amount that would reduce income tax payable by 10.0 per cent.

6.2.23 Double Deduction - Exploration Expenditure (Mining)

Revenue Forgone (Kina, million)			
	2017	2018	2019
Non- Resource	0.0	0.0	0.0
Resource	0.0	0.0	0.0
<i>Legislative Reference</i>	<i>Section 156E of ITA 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.

6.2.24 Amortization – Allowable Capital Expenditure

Revenue Forgone (Kina, million)			
	2017	2018	2019
Non- Resource	0.0	0.0	0.0
Resource	59.3	41.4	0.0
<i>Legislative Reference</i>	<i>Section 158J of ITA 1959</i>		

6.2.25 Remote Banking Services

Revenue Forgone (Kina, million)			
	2017	2018	2019
Non- Resource	0.0	0.0	0.0
Resource	0.0	0.0	0.0
<i>Legislative Reference</i>	<i>Section 219D of ITA 1959</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.

6.3 GOODS AND SERVICES TAX ACT 2003**6.3.1 Zero Rating of GST**

Revenue Forgone (Kina, million)			
	2017	2018	2019
GST exempt sales (output debit)	49.8	36.9	360.5
GST zero rated sales	145.2	110.9	2.3
Deferred import liabilities	2.0	0.6	5.2
GST exempt sales (input Credit)	37.9	30.6	0.0
<i>Legislative Reference:</i>	<i>Division 6, Section 19 of the GST Act 2003</i>		

Suppliers to be exempted from the GST or may be eligible to get refunds on certain amounts of the GST payment depending on the type of sale and purchase made. There are two kinds of

GST incentives in the GST law: Zero rated sales (i.e. sales of goods that are charged GST at 0.0 per cent of the sale price but claim credits for GST paid on the inputs); and GST exempt sales.

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.

6.4 TAX INCENTIVES IN THE CUSTOMS TARIFF ACT

6.4.1 Import Duty

Revenue Forgone (Kina, million)			
	2017	2018	2019
Estimate	25.2	33.3	50.6
<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.

6.4.2 Import Excise

Revenue Forgone (Kina, million)			
	2017	2018	2019
Estimate	43.1	105.1	7.1
<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.

6.4.3 Export Duty

Revenue Forgone (Kina, million)			
	2017	2018	2019
Estimate	0.1	0.1	0.0
<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 7: FINANCING AND DEBT MANAGEMENT STRATEGY

7.1 FINANCING BACKGROUND TO THE 2021 BUDGET

The Government's financing and debt management strategy over the medium term beginning 2021, is to maintain our debt sustainability in light of the external shock to the debt-to-GDP ratio anchor following the COVID-19 pandemic. In order to maintain this debt sustainability, the Government plans to continue to explore concessional sources of external financing and using our domestic instruments to maintain a healthy amortization and interest profile. In 2021, hardly any country in the world has been able to escape a negative shock to its debt stock profile as nations look to expand fiscal stimulus. In Papua New Guinea, however, the deterioration in debt stock has been far less than our peers in the Pacific and therefore, with revenue streams from new resource projects on the horizon, PNG continues to be a good investment prospect for domestic and international creditors.

Looking back at 2020, the original National Budget deficit was estimated at K4,631.1 million. This was to be financed through net external borrowing of K3,373.8 million and net domestic borrowing of K1,257.3 million. The external financing mainly was through budget support from the international agencies, the multilateral and bilateral partners.

The early onset of the pandemic negated the prospects of certain sources of financing such as World Bank's second fiscal resilience Development Policy Operation (DPO) and the ADB's partial credit guarantee scheme. However, the Government was swift in beginning negotiations on new sources of credit identified by the multilateral agencies for the Global response to COVID-19 economic impact. As early as May of this year, the Government was able to complete negotiations around the IMF Rapid Credit Facility (RCF) and received K1,258.0 million in financing in June to continue to execute the budget. The Government also issued COVID-19 Treasury Bonds and realised slightly over K1.0 billion in the first half of the year to execute the budget.

The reductions in revenue and requirements for expenditure to respond to COVID-19 reflected in the 2020 Supplementary Budget increased the overall requirement for debt to K6,630.3 million, despite significant savings identified. Of this, K4,261.6 million was expected from external financing, K1,923.0 million from domestic market and additional K445.6 million from cash balances brought forward into 2020. The 2020 Mid-Year Economic and Fiscal Outlook (MYEFO) report identified additional sources of funding that included cash reserves from the Trust Account and external financing through various COVID-19 linked budget support facilities from multilateral agencies and domestic securities to cover the rest of the year. The external budget support financings are expected mainly from the ADB's SOE reform loan, HSSDP II and COVID-19 Pandemic Response Option (CPRO), Australian Treasury's budget support for 2021 and other friendly bilateral support.

With the 2020 Supplementary Budget, the Government also approved the amendments in the *Fiscal Responsibility Act (FRA)* as well as the revised *Central Banking Act 2000* to improve cash flow and financial management in the future. The *FRA* amendment allows a higher borrowing ceiling (up to 60.0 per cent debt-GDP ratio, increased from 45.0 per cent) for the Government to be able to execute an appropriate fiscal response to stimulate the economy, while keeping room above to absorb further unexpected shocks. The *FRA* amendment also includes the amendment to reduce the debt to GDP ratio to below 40.0 per cent by the end of a ten (10) year period. The revision in the *Central Banking Act* allows the Government to expand its Temporary

Advance Facility (TAF) with the Central Bank to manage temporary shortages in financing. The focus on concessional external sources brings with it the challenges in timing of disbursement of loans on the schedule of multilateral board meetings which happens usually at the end of the year. The TAF facility in addition to improving government's cash flow management, will provide temporary facility of an adequate amount to continue to fund budget operations through the year.

In 2020 the estimated financing profile comprises of:

- (a) the Government of Australia's Budget Support loan of USD400.0 million (K1,383.6 million). Of which USD300.0 million (K1,037.7 million) will be used to refinance Export Finance Australian (EFA) Loan acquired in 2019 whilst USD100.0 million (K345.9 million) as new financing;
- (b) the Rapid Credit Facility (RCF) from International Monetary Fund (IMF) of USD363.6 million (K1,258.0 million), which was received in June;
- (c) first tranche of ADB SOE Link Reform loan of USD100.0 million (K345.9 million), additional USD150.0 million (K518.9 million) from Health Services Sector Development Policy (HSSDP) and USD250.0 million (K864.8 million) from ADB COVID-19 Pandemic Response Option (CPRO);
- (d) concessional loan drawdowns of K1,365.0 million linked to capital projects; and
- (e) net issuance of K1,257.2 million in domestic security debt comprised of K328.1 million in net new issuance of Treasury Bills, a net new issuance of K1,029.6 million in Treasury Bonds and a net amortisation of K100.5 million in domestic loans.

Of the total net financing requirement (K6,630.3 million) for the 2020 Supplementary Budget, the Government has successfully raised 60.9 per cent in concessional financing with IMF CRF Loan of K1,258.0 million while the remaining has come from the domestic market sources. The 2020 financing profile also includes repayment of K100.5 million of a domestic contingent liability, K882.2 million amortization of commercial financing, K372.5 million amortisation of external concessional loans and K978.4 million amortisation in external extraordinary loans.

Since 2019, the *FRA* includes the definition of 'General Government debt' so that it may include state guarantees for which the Government is liable for, as per international best practice. Furthermore, the *FRA* also includes 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. To mitigate the temporary fiscal imbalances, the upper limit for the Debt to GDP ratio shall not be in excess of 60.0 per cent in first 5 years and shall not be in excess of 40.0 per cent after 10 years. Taken together, 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.

7.2 FINANCING REQUIREMENTS 2021 BUDGET

The total financing requirement for the 2021 Budget is set at K6,612.8 million. The 2021 Budget deficit will be financed largely through the same strategy employed for the 2020 Budget, but with added reform agenda to maintain debt sustainability. External financing will be from the concessional budget support programs from the multilateral and bilateral creditors. Part of the deficit will be from the concessional loan drawdown for projects. The domestic borrowing will comprise of Treasury Bonds and Treasury Bills issuance over the year supported possibly by the BPNG's quantitative easing program and an expanded securities market.

In 2021, the Government will continue to exploit all avenues of cheap and concessional financing. The Government is engaging constructively with the Australian Government

authorities for potential Australian Infrastructure Financing Facility for Pacific (AIFFP) program, especially on infrastructure projects that will assist PNG. This will be absorbed into concessional project-linked stock of loans available for drawdown in future years linked to project implementation.

In 2021, the Government is projecting to utilise World Bank's COVID-19 USD100.0 million (K345.9 million) budget support facility, World Bank's Fiscal Emergency Development Policy Operations (EDPO) budget support facility of USD70.0 million (K242.1 million) and the second tranche of the ADB SOE Budget Support of USD150.0 million (K518.9 million). The Government is also in negotiations with other friendly bilateral partners for additional budget support of approximately close to a K1.0 billion. All these external budget support will assist finance the deficit.

Other options available to the Government in 2021 are - the ADB Partial Guarantee Scheme, which allows the borrower to raise financing from a commercial source at a cheaper rate considering the strong 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 through either conventional lending or a Sovereign Bond. This may materialise in 2021 after recent amendments made to the SOE reforms.

The Government plans to increase its access to financing through concessional loan facilities already available on planned projects to K1,638.4 million. The concessional financing takes care of up to 24.8 per cent of GoPNG's capital funding requirement for 2021.

The Government's main amortisation commitments for 2021 includes, K100.5 million for two (2) domestic commercial guarantee loan and K983.2 million in external commercial liabilities to reduce its interest obligations in the future and reduce exposure to expensive forms of debt. With the amortisation and concessional financing planned for 2021, the Government is anticipated to save some interest costs over the medium term on these expensive loans.

Together with the amortisation, the Government's exposure to the domestic securities market for 2021 is estimated to be a net addition of K2,000.0 million that includes K1,600.5 million in net issuance of Treasury Bonds, K500.0 million in Treasury Bills and net amortisation of K100.5 million on domestic loans.

Table 24: Deficit Financing by Instrument and Debt Outstanding 2019-2025 (Kina, million)

Debt Instruments	2019	2020	2021	2022	2023	2024	2025
	Actual	Sup. Budget	Budget	Est	Est	Est	Est
Domestic Debt	19,333.5	21,256.5	23,256.5	26,501.0	28,504.4	29,745.7	30,457.7
Treasury Bills	10,191.3	10,519.4	11,019.4	12,323.7	12,907.9	13,372.9	13,838.9
Treasury Bond	7,966.6	9,662.0	11,262.5	13,303.2	14,822.9	15,699.7	16,046.2
Loans	1,175.6	1,075.1	974.6	874.1	773.6	673.1	572.6
External Debt	14,333.4	18,595.0	23,207.8	25,258.4	26,579.9	28,524.7	30,652.4
Debt securities	1,700.7	1,700.7	1,700.7	1,700.7	1,700.7	1,700.7	1,700.7
Concessional	8,676.7	9,669.2	10,772.8	11,725.6	12,559.8	14,232.9	16,006.4
Commercial	1,970.4	1,088.2	149.4	131.7	91.8	51.9	12.0
Extraordinary	1,985.6	6,136.9	10,584.9	11,700.4	12,227.6	12,539.2	12,933.3
Gross Debt* (ex. Arrears)	33,666.9	39,851.5	46,464.3	51,759.3	55,084.3	57,377.6	59,137.6

Gross Debt (inc arrears)	35,648.9	41,058.7	47,964.3	52,259.4	55,084.9	57,377.6	59,137.6
% GDP (without arrears)		48.8%	51.5%	52.1%	52.5%	51.7%	50.5%
% GDP (with arrears)		50.3%	53.1%	52.6%	52.5%	51.7%	50.5%

Source: Department of Treasury.

The financing requirement for 2021 will result in total government debt reaching K46,464.3 million by end of the year, equivalent to 51.5 per cent of GDP. This is below 60.0 per cent of GDP as per the revised *FRA (amended) 2020*. Moreover, the planned debt portfolio maintains the domestic share of financing at 50.1 per cent of total debt stock. The external financing mix in 2021 is planned to improve with concessional sources of financing accounting for at least 49.9 per cent of total debt stock.

Table 25: Composition of financing by instrument for 2020-2021 (Kina, million)

Deficit		-6,612.8
External Loans	Value (US\$)	Value Kina
Disbursements		
World Bank (Fiscal) DPO	70.0	242.1
World Bank (Emergency) DPO	100.0	345.9
ADB SOE Budget Support	150.0	518.8
Bilateral Support	300.0	1,037.6
Concessional Project Loans	473.7	1,638.4
Commercial	12.8	44.4
Repayments		
Concessional Project Loans	-154.6	-534.8
Other External Repayments	-288.9	-999.1
External (net)	663.0	2,293.2
Domestic (net)		2,000.0
Remaining		-2,319.6
Other Possible External		
Further donor, bilateral or other	670.7	2,319.7
After Other Possible		0.0

Source: Department of Treasury

7.3 UPDATE ON DOMESTIC MARKET CONDITIONS FOR FINANCING DEFICIT

As described previously, additional financing provided through the IMF's RCF, totalling USD363.6 million (K1,258.0 million) and transfers from funds (cash balances) held in the Trust Accounts from 2019 provided some relief on domestic market requirements in 2020. Towards the end of this year, the Government is anticipating to receive external budget support funding from international agencies including the bilateral and multilateral partners. The external financing will ease further the pressure on the domestic debt securities market and also smoothen out foreign exchange imbalances.

During the COVID-19 pandemic, the domestic debt market was able to provide the needed liquidity in the first half of the year backed by a quantitative easing by the Central Bank through a buy-back of government securities. However, throughout the remaining year the market was signalling reduced appetite for the shorter-term Treasury bill in the last two quarters. 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 including two foreign banks and two superfunds, continue to have internal limits on lending to the Government. The lack of PMMR transfers, in part, contributed to the illiquidity on the main local banks. The Bank of PNG continues to redeem its government securities to remain in compliance with its statutory end-year '*no lending to Government*' requirements in the *Central Banking Act (CBA)* and also to meet the new Financial Reporting and Accounting Standards.

The Government will continue to refinance domestic maturities along with adding issuance early in the year. Currently, planned external financing includes Budget Support loan from bilateral partners, ADB and WB Budget Support loans and ADB SOE Link Budget Support. The remaining financing items will be signalled to the market immediately following conclusion of consultations.

With the anticipation of the large inflows of external budget support funds, reliance on the domestic market is expected to ease to allow the Government to restructure and smoothen the maturity profile of its domestic debt portfolio.

7.4 MEDIUM TERM DEBT STRATEGY AND OPERATIONAL PLAN 2021-2025

As part of the 2020 Supplementary Budget, the Medium-Term Debt Strategy (MTdS) 2018-2022 has been updated based on current economic conditions and events, taking into account the impact of COVID-19 and the debt relief initiatives offered by both multilateral and bilateral donors. One of the key elements of the revised strategy over the medium term is to continue to build confidence in the PNG economy through transparent budgeting, in line with international standards. This will open up avenues to access low-cost concessional financing from both bilateral and multilateral sources, with an objective to keep debt at sustainable levels considering the cost-risk trade-offs.

The revised Medium-Term Debt Strategy (MTdS) 2021-2025, operationalises these objectives in order to achieve the desired composition of the Government's debt portfolio, which captures the Government's strategy with regard to the cost-risk trade-offs. The major strategies to support the debt management objective comprises of the following:

- Maintaining debt at sustainable levels.** The revised FRA target band of Debt to GDP ratio of 45-60.0 per cent applies to general Government debt (including the state's contingent liabilities) at book value and includes valuation changes from exchange rate movements and incurring implicit and explicit state guarantees debt as and when they emerge. The change is required to enable the current government to implement its desired fiscal policy within legally prescribed conditions of Papua New Guinea's constitutional framework. The change made to the FRA limit in 2020 after the COVID-19 impact provides flexibility for the Government to absorb further external shocks to the government revenue and macro-fiscal framework. In addition, the extreme uncertainty around the future path in duration and magnitude of the impact of the COVID-19 pandemic could continue to weaken the economy adding more pressure on debt financing.

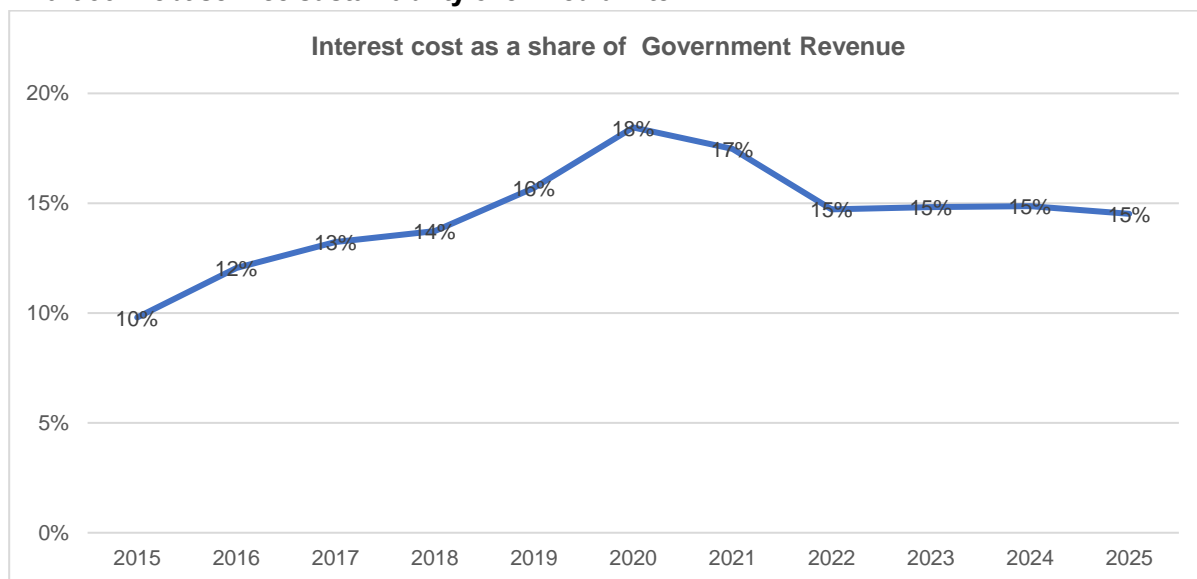
- **Maintaining financial risk at prudent levels.** Since the introduction of the original MTdS 2018-2022, the debt composition in the portfolio has changed. The share of foreign currency debt to total Government debt has increased from 30.0 per cent in the previous strategy to 50.0 per cent. The reduction in the domestic debt target relative to foreign debt is a trade-off between domestic liquidity and interest rate risk against foreign currency risk and to capitalise on the current concessional lending offered by both multilateral and bilateral lenders.

The Government's heavy reliance on the domestic debt market has had an impact on the domestic interest rates. The current weighted average interest paid on external loans is 3.2 per cent while domestic weighted average interest is 8.7 per cent showing interest rate differentials of 5.5 per cent. Total interest cost as a share of Government revenue for 2021 is projected to be 17.4 per cent.

With the strategy to capitalise on low interest rate external loans, the Government anticipates interest rate as a share of Government Revenue (excluding grants) to stabilise and flatten out to below 20.0 per cent over the medium term. As shown in the chart 36, cost of debt has been steadily increasing. Since 2015, the share of Interest as a percentage of Revenue has been steadily increasing. The change in the strategy ease away from domestic borrowing is also in the hope of curbing the rise in cost of debt.

Refinancing and rollover risks are the immediate concerns of the current MTdS. The repayment profile shows the majority of the debt falling due that needs to be refinanced in the next 5 years is the costly domestic debt. Therefore, in terms of strategy going forward the Government will consider debt switches and debt buybacks to smoothen out the domestic maturity profile.

Chart 36: Debt service sustainability over medium term



Source: Department of Treasury

The strategy continues to maintain that developing and efficiently managing the domestic debt market involves broadening and deepening the market in domestic securities and improving the market infrastructure. That would entail:

- (a) Addressing a number of preconditions for the development of the domestic bond market. These include:

- (i) improving the efficiency of the primary market (the current manual and cumbersome processes will need to be changed to attract non-resident investors and encourage secondary trading);
 - (ii) promoting money market and interbank transactions through repurchase agreements;
 - (iii) developing automated clearing, settlement and custody facilities;
 - (iv) establishing a bond market code of conduct with effective oversight by BPNG;
 - (v) promoting the establishment of pools of liquidity to allow small investors access to the market;
 - (vi) improved coordination between monetary, fiscal and regulatory authorities and market participants; and
 - (vii) developing and maintaining a centralised source for bond market information and data.
- (b) Developing and managing the offshore commercial market. This will diversify funding sources to provide an alternative market-based financing instrument, ease domestic liquidity and foreign exchange constraints. The release of the PNG's first international sovereign bond in 2018 was the first step in developing the offshore market. It provided PNG with a sovereign reference price, which allows international investors to take a position in PNG, and facilitates non-resident purchases of domestic bonds through a market-based assessment of interest differentials.

The Government will endeavour to improve in this area by improving communication with the market by the publication of a more detailed and timely borrowing plan in 2021. These preconditions will underpin the goals of expanding the existing highly concentrated investor base and promoting a more liquid and efficient secondary market.

Table 26: Deficit Financing Projections by Instrument 2020-2025 (Kina, million)

Debt Instruments	2019	2020	2021	2022	2023	2024	2025
	Actual	Sup. Budget	Budget	Est	Est	Est	Est
Net Acquisition of Financial Assets	-783.9	-445.6	0.0	0.0	0.0	0.0	0.0
Net Incurrence of Liabilities	4,172.0	6,630.2	6,612.8	5,295.1	3,325.5	2,292.7	1,760.0
Domestic Net Financing	1,054.2	1,923.0	2,000.0	3,244.5	2,004.0	1,241.0	712.0
Treasury Bills	1,513.7	328.1	500.0	1,304.3	709.2	465.0	466.0
Treasury Bond	-355.7	1,695.4	1,600.5	2,040.7	1,519.8	776.0	246.0
Loans	-103.8	-100.5	-100.5	-100.5	-225.0	0.0	0.0
Borrowing	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-103.8	-100.5	-100.5	-100.5	-225.0	0.0	0.0
External Net Financing	2,333.9	4,261.6	4,612.8	2,050.6	1,321.5	1,051.7	1,048.0
Debt securities	0.0	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	0.0
Concessional	968.0	992.5	1,103.6	952.8	834.2	740.1	653.9
Borrowing	1,311.7	1,365.0	1,638.4	1,568.2	1,611.7	1,673.1	1,773.5
Amortization	-343.7	-372.5	-534.8	-615.4	-777.5	-933.0	-1,119.6
Commercial	36.9	-882.2	-938.8	-17.7	-39.9	0.0	0.0
Borrowing	54.8	0.0	44.4	22.2	0.0	0.0	0.0
Amortization	-17.9	-882.2	-983.2	-39.9	-39.9	0.0	0.0
Extraordinary	1,329.0	4,151.3	4,448.0	1,115.5	527.2	311.6	394.1
Borrowing	1,359.9	5,129.7	4,462.8	1,144.3	564.7	1,337.2	1,646.4
Amortization	-30.9	-978.4	-15.9	-28.8	-37.5	-1,025.6	-1,252.3

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 27: Debt stock as a share of GDP 2019-2023 (Kina, million)

Debt Instruments	2019	2020	2021	2022	2023	2024	2025
	Actual	Sup. Budget	Budget	Est	Est	Est	Est
Gross Government Debt	33,666.9	39,851.5	46,464.3	51,759.4	55,084.9	57,377.6	59,137.6
<i>Debt to GDP %</i>	39.8%	48.8%	51.5%	52.1%	52.5%	51.7%	50.5%
Domestic	19,333.5	21,256.5	23,256.5	26,501.0	28,505.0	29,746.0	30,458.0
<i>% of gross</i>	57.4%	53.3%	50.1%	51.2%	51.7%	51.8%	51.5%
External	14,333.4	18,595.0	23,207.8	25,258.4	26,579.9	27,631.6	28,679.6
<i>% of gross</i>	42.6%	46.7%	49.9%	48.8%	48.3%	48.2%	48.5%
Gross Government Debt - with arrears	35,648.9	41,058.7	47,964.3	52,259.4	55,084.9	57,377.6	59,137.6
<i>Debt to GDP %</i>	42.2%	50.3%	53.1%	52.6%	52.5%	51.7%	50.5%

Source: Department of Treasury

7.5 MANAGING PORTFOLIO RISK 2020-2025

As part of updating the Medium-Term Debt Strategy, the Government, through Department of Treasury conducted a portfolio risk assessment, in partnership with the World Bank to assess debt sustainability risks of the strategy. In implementing the updated financing strategy in the 2021 Budget, the Government will be managing a number of risks including exchange rate risk, liquidity risk, interest rate risk, refinancing risk and others. These risks will be mitigated through:

- i. exchange rate risk – this risk is mitigated through managing the currency composition of external debt. The exchange rate risk increases as a proportion of foreign currency debt increases. This risk would be mitigated by ensuring the currency composition is aligned with export receipts and foreign exchange reserves. Current target for external debt as a share of total debt is 50 percent. When considering taking on more external loans foreign currency risk increases. For any economy, it is always safer to have a larger share of domestic debt compared to external debt. Having a larger share of foreign currency debt makes PNG susceptible to higher exchange rate risk and adverse external shocks. The Government will adhere to maintain this risk by committing to limiting the volume of non- concessional borrowing in line with IMF guidelines.

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

Target	2019 Actual	2020 Est.	2021 Budget	2022 Est.	2023 Est.	2024 Est.	2025 Est.
50%	43%	47%	47%	46%	43%	42%	45%

Source: Department of Treasury

- ii. smoothening 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 explicitly state the authority for the Department of Treasury to actively manage Government debt.
- iii. lengthening the duration of the domestic portfolio will be lengthened in 2021 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. Currently, the domestic debt portfolio is slightly overweight in T-bills.

Table 29: Percentage of Treasury Bills to Treasury Bonds under the Domestic Debt Portfolio

Target	2019 Actual	2020 Est.	2021 Budget	2022 Est.	2023 Est.	2024 Est.	2025 Est.
50%	53%	49%	51%	50%	51%	48%	46%

Source: Department of Treasury

Table 30: Average Maturity of the Domestic Debt Portfolio

Target	2019 Actual	2020 Est.	2021 Est.	2022 Est.	2023 Est.	2024 Est.	2025 Est.
5 Years	3.1	3.9	3	4.3	4.8	5.3	5.5

Source: Department of Treasury

To achieve the above targets, the domestic securities market will need to be stabilised first, with the implementation of the domestic debt raising plan and commensurate BPNG intervention into the foreign exchange market to extinguish the foreign exchange imbalance. This is to be undertaken as a prerequisite to domestic security market reform.

- iv. Addressing a number of preconditions for the development of the domestic bond market includes: 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 to the market; improved coordination between monetary, fiscal and regulatory authorities and market participants; and developing and maintaining a centralised source for bond market information and data.²⁸ These preconditions 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, namely through rectifying the current foreign exchange imbalance and restrictions on access to foreign currency at redemption or repurchase, implementing access and disposal arrangements through improved market infrastructure for automated clearing, settlement and depository functions, and facilitating secondary market liquidity;
- 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 more detailed and timely debt management and borrowing plan in early 2021.

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 that future budgets are able to be executed as programmed from early in the fiscal year. The lengthening of the debt portfolio through these longer-term external issuances, also means that refinancing risk is reduced.

²⁸ Refer to World Bank, Review of the PNG Government Bond and Capital Market Development, August 2015.

The domestic debt market should be able to be stabilised over the medium term through implementation of the domestic debt retirement plan, thereby resolving the foreign exchange imbalance and then allowing the orderly development of the domestic bond market.

CHAPTER 8: NATIONAL REFORM AGENDA

8.1 OVERVIEW

The Government in 2020 under the umbrella of ‘taking back PNG’ introduced number of reforms consistent with the Government plan to connect PNG through better infrastructure such as roads, boost economic activities and to ensure key development aspiration of PNG are achieved for betterment of our great nation. Those reforms are guided by the objectives of Vision 2050 and the Papua New Guinea Development Strategic Plan 2010 – 2030 (DSP).

Implementation of most reforms in 2020 was delayed due to the COVID-19 pandemic and its impact on the economies of the whole world including Papua New Guinea. The Government has put in place measures such as the economic stimulus package to address some of the economic and social challenges to support the people affected as well as business activities. In addition, the Government will continue to introduce reforms in the 2021 Budget to assist in the budget recovery and better PNG into the future. This will require a clear and consistent commitment by the Government to address the underlying issues that affect service delivery and impede private sector investment and growth.

The superannuation and life insurance industries have grown significantly over the past years. Both the Central Bank and the Department of Treasury has established a Superannuation and Life Insurance Review Committee to examine specific areas of the superannuation and life insurance legal framework in order to improve the effectiveness and efficiency of these industries in 2021.

Furthermore, the Government is still committed to establish the Sovereign Wealth Fund (SWF) of Papua New Guinea. The Government will continue to progress work with the timing of the full establishment of the SWF becoming contingent on the prospects for revenue receipts from the natural resource sector in the medium term. With the experience of COVID-19 impact on the Fiscal Regime, it is important for PNG to have SWF in place to ensure PNG save some money during economic glory days to sustain our economy when faced with such recession in future. Moreover, the Government will continue 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.

8.2 KEY REFORMS

Increasing opportunity and revenue from labour mobility

The Marape Government took decisive steps in 2020 to improve its performance in labour mobility. While COVID-19 shut down international movement, at March 2020 PNG had over 300 workers overseas – more than the total number mobilised in 2019. Momentum was building strongly, and is expected to continue when borders reopen.

An independent Labour Mobility Unit was established in February 2020, located within Department of Treasury. Its staff include a seconded officer from the Department for Labour and Industrial Relations, and focal point have been established in the Department for Immigration and the Civil and Identity Registry Office. Consultants and contracted staff have supplemented management ongoing worker movement and recruitment of key staff will continue in 2021.

During the COVID-19 restrictions, the Labour Mobility Unit took the opportunity to embed improved systems and processes to ensure effective mobilisations once borders reopen. Operational policies have been implemented, and refinement of the regional recruitment model. Work Ready Pools have been built in Madang, Enga, Esa'ala, Lae and New Ireland, and work is going on in other regions including Central Bougainville, East Sepik, Hela, Morobe, Mt Hagen, Oro, Southern Highlands Province and North Fly. Other regions will follow soon.

Workers in Australia have been given extended visas which allowed them to remain working throughout the COVID-19 border closures. We estimate these workers will send up to K10.0 million in remittances in 2020. The majority of workers in New Zealand have returned home, with around fifty (50) remaining. In late 2020, consultations with Australia began on border reopening and it is expected that small mobilisations will commence early in 2021. If borders reopen during 2021, it is anticipated that up to one thousand (1000) workers will be mobilised.

In 2021, the Labour Mobility Unit will focus on staffing and appointment of a permanent head of unit, increasing worker mobilisations as borders open and refining worker preparation and mobilisation systems to make PNG an employer of choice. The Unit will work with the World Bank on a major initiative to strengthen labour sending systems and increase revenue from remittances. We expect strong results from this focused attention once borders open and international travel resumes.

8.3 PUBLIC SECTOR REFORM

8.3.1 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 Internal Revenue Commission (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 introduced in 2008 focuses on ensuring that the total revenues 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 that it is a revenue sharing arrangement. The calculation of the equalization 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, 2020 and 2021 Grant distributions have further excluded Goods and Services Tax (GST) and Bookmakers Tax transfers to provinces, since these were already assessed as part of provinces fiscal capacities. The 2021 Grant calculation process involved subtracting K613.7 million (sum of both GST & Bookmakers Tax) from K10,918.0 million.

The Equalization Amount for the 2021 Fiscal year has subsequently increased by K23.1 million, a slight increase from K603.9 million in 2020 to K627.0 million. The following table shows how the NNR amount for 2021 is calculated (Kina, Million).

Act Definition	Final Budget Outcome Equivalents	2018	2019	Difference
General tax revenue*	Tax revenue	9,966.9	10,304.3	337.4
MINUS (-)				
Mining & Petroleum tax revenue	Mining & Petroleum taxes	775.0	760.7	-14.3
EQUALS (=)				
		2020 Budget	2021 Budget	
Net National Revenue Amount (NNR)		9,191.9	9,543.6	351.7
Multiplied by (*) 6.57%				
Equalization Amount		603.9	627.0	23.1

Source: National Economic and Fiscal Commission (NEFC)

*excludes GST and BTT transfers to Provinces.

The minimum funding level for the equalisation amount in 2021 is calculated according to the following formula (Kina million):

Net National Revenue (NNR) (X)	6.57%	=	NEFC estimate of 2021 equalisation amount
(K9,543.6)	(x)	6.57%	(K627.0)

8.3.2 Superannuation Reforms

Under Section 76 of the *Superannuation General Provision Act 2000*, the State is required to make a mandatory employer's superannuation contribution of 8.4 per cent of the base salary of each employees of the State to an Authorised Superannuation Fund (ASF). Employees are also required to contribute 6.0 per cent of their base salary as the employee contribution to an ASF. The Government provides funding to the Nambawan Super Limited (NSL) and the Comrade Trustee Services Limited (CTSL) on a fortnightly basis for its employer and employee contribution to meet its superannuation obligations as stipulated under the superannuation legislation.

Amidst the COVID-19 pandemic, the Government has cautiously settled its outstanding unfunded exit liability owed to the NSL in 2020 and will continue with its obligation to settle the exit liability in 2021. Concurrently, the Government will continue to work closely with CTSL in 2021 to settle the State's exit and pension liabilities owed to members of the Defence Force. The review of the State's unfunded superannuation liability owed to NSL prior to 1990 has been delayed due to COVID-19 pandemic. This audit review is expected to continue and be completed in 2021.

One off Covid-19 Voluntary Withdrawal (Amendment of Section 90)

In response to COVID-19 pandemic, the Government has passed the bill on the *Superannuation General Provision (Amendment) Act 2020*. This Superannuation Bill is part of the Government's Economic Stimulus Package to address some of the economic and social challenges associated with the COVID-19 pandemic.

The inclusion of Section 90(8) is to provide for a one-off voluntary early withdrawal of a member's own employee contributions.

The purpose of this is considered necessary in light of the adverse impact of COVID-19 pandemic, particularly where a member's employment is terminated by the employer as a direct or indirect result of the COVID-19. This amendment would enable members to access their contributions to sustain their livelihood. The amendment is pending certification by the Speaker of the Parliament. Once certified, it is anticipated that the amendment will be operational in 2021.

Review of the Superannuation and Life Insurance Industries

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.

The Government through the Bank of Papua New Guinea and Department of Treasury has established a Superannuation and Life Insurance Review Committee (SLRC) 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 review will be in two parts concerning the two industries under review:

- i) Specific matters concerning the superannuation and Life Insurance Industries; and
- ii) Taxation matters concerning the Superannuation and Life Insurance Industries.

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. A Secretariat/Technical Working Group consisting of the Bank of PNG, Department of Treasury and the Internal Revenue Commission will support the Committee. The review is expected to be completed in mid-year of 2021.

8.4 A COMPETITIVE AND DYNAMIC PRIVATE SECTOR

8.4.1 Consumer and Competition Framework Reform Implementation

In 2014, a comprehensive review of PNG competition, regulation and consumer protection regime or framework was initiated. The purpose of the review was to create a competitive business environment that encourages innovation, productivity, consumer welfare and inclusive growth to keep pace with the changing business environment and global market developments.

This review resulted in a report comprising 192 reform recommendations after undertaking thorough public stakeholder consultations across the regions of the country. In August 2018, the Government through a NEC decision approved the final report and endorsed the implementation of the reform recommendations in the report in its entirety.

These recommendations are grouped into five (5) prioritised reform work-streams that are going to be driven by different technical working teams, who will implement the reform programs over the short to medium term (2019 – 2030). 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 implementation phase commenced with the development of the National Competition Policy (NCP), which was completed and endorsed by Cabinet in July of 2020 and will be launched and roll-out through awareness workshops in 2021. The details of the NCP are outlined in the following section. The next major priority for implementation is the legislative reform that will be undertaken in 2021 going forward to ensure all competition matters are addressed through a consolidated law. Memorandum of understanding between agencies and the Independent Consumer and Competition Commission (ICCC) would also be established where necessary to encourage better coordination and collaboration as well as strengthening relationships for effective regulation, compliance and enforcement.

8.4.2 National Competition Policy

Government's need competition policies as they set the framework that inform other policies to facilitate and uphold competitive outcomes in the markets. The policy is a critical component of the overall economic policy framework that is intended to promote economic efficiencies as well as maximise consumer and social welfare.

In that regard, the conclusion of the review into the Consumer and Competition Framework in 2017 found that Papua New Guinea's legislation for consumer protection, regulation of monopolistic markets, and protection of the competitive market processes are fragmented. The review also identified that PNG did not have an overarching expressed policy statement on competition and consumer protection to guide decision-making, protect consumers and reform on competition matters, hence the report recommended for the development of a National Competition Policy (NCP) for PNG.

The NCP is designed to respond to the current and foreseeable future needs of PNG's businesses, consumers and the overall competition environment. 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 and consumers/public, removing impediments to businesses and most importantly, encourage consumer and social welfare. Overall, it states the broader pro-competitive policies and intentions of the Government of Papua New Guinea on how markets should operate.

The National Competition Policy was formulated after wider stakeholder consultations in 2018 and the Government on the 08th of July 2020 approved the final draft. Treasury will progress the implementation of the policy going forward in 2021.

8.4.3 Competition Regulation and Consumer Protection Operations

The ICCC is responsible for the enforcement of competition and consumer law of PNG to ensure markets are competitive and consumers' interests are protected. 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 legislations.

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 concerning the supply of electricity, water and sewerage, compulsory third-party motor vehicle insurance, and essential 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 businesses and consumers.

Besides investigating complaints relating to alleged anti-competitive business conduct and applications for clearance and authorization for business mergers and acquisition, starting in 2021, the ICCC intends to amend certain parts of its competition law that deal with business cartel activities. Currently, the ICCC Act does not have explicit provisions that deal with cartel activities such as bid rigging and market sharing. The ICCC also intends to undertake a study into the public tendering process to see if the established process encourages effective bidding in public procurement.

In the space of economic regulation, below are some existing regulatory contracts that are due for review and work has commenced and will continue in 2021. These include the review of the current price path, minimum service standards, penalty mechanisms and reporting requirements for PNG Power Limited under the existing regulatory contract. The electricity regulatory contract review aims to address how to advance public interest on PNG Power Limited's current state of services, with a view to enhancing efficiency gains are passed on to businesses and consumers. Once the review of the regulatory contract is completed, the new regulatory arrangements will be established for PNG Power Limited for the next regulatory period commencing retrospectively from 2019.

Some other periodic reviews that will be undertaken in 2021 are as follows:

- **For specific declared goods and services including rice, flour and water and sewerage services.** The Rice and Flour Industry Pricing Reviews scheduled to be undertaken in 2020 did not occur due to the COVID-19 Pandemic and State of Emergency in PNG. The ICCC had to reallocate funding for these reviews to enforce the National Emergency Order 19 (Price Regulation) throughout PNG. Therefore, these two (2) pricing reviews have been deferred to 2021. Furthermore, 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. Once these amendments and the merger are concluded; the ICCC will proceed to undertake a review into the Water and Sewerage Services in 2021;
- **A comprehensive review into the existing Postal Services Regulatory Contract in 2021.** Once these are completed, the ICCC will put in place new regulatory

arrangements for Post PNG Limited for the next regulatory period commencing 1st January 2022.

- **The ICCC will continue its work in the electricity industry to promote safe, reliable and quality electricity services in PNG.** This will be enabled through effective monitoring and compliance including other regulatory mechanisms. In 2020, the ICCC was able to secure technical assistance from the United Nations Development Program (UNDP) through the Office of Climate Change and Development Authority (CCDA) for the development of the PNG Off-Grid Code Project. The project is in two phases. First is to explore available regulatory frameworks; this has started with implementation commencing in 2020. The second phase involves the development of the Off-Grid Code, which the ICCC will implement in 2021.

In 2020, the ICCC embark on amending the packaging and labelling fee under the *Packaging Act 1975*. A discussion paper has been formulated purposely to gauge the views of all stakeholders to provide and suggest comments/views on the proposed approaches that ICCC recommends to set a new packaging and labelling fee. The consultation will be conducted towards the end of 2020 and a final report to be provided to State Solicitor in 2021.

The ICCC is willing to expand its consumer protection roles and functions throughout PNG. In 2019, the ICCC reviewed its Memorandum of Understandings with six (6) Provincial Administrations. The provincial administrations include Manus, Madang, Morobe, Simbu, Hela and Milne Bay.

The ICCC is expected to complete the review of the MoUs and have them renewed and endorsed with the respective provincial administrations. Similar MoU arrangements are being considered with other provinces as well.

8.4.4 Transport Sector Efficiency

Transportation is critical for movement of people and for provision of goods and services. Transportation costs are important and 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 recently completed its review of the PMV and Taxi fare. The release of the ICCC's determination in the 2019 PMV and Taxi fare review Final Report and new PMV and taxi fares for 2020 were delayed due to the COVID-19 pandemic. However, the new fares are soon to release upon Gazettal Notice. This is an important exercise ICCC has undertaken with the support of Road Traffic Authority and Police Traffic. The new fares will be disseminated through the media, the ICCC website and at the ICCC Regional offices. This is to ensure efficiency in the transport sector and in particular for the PMV and taxi operators to comply with the approved fares and consumers are charged correctly. The new fares are expected to come into effect in 2021.

In reforming transport sector in PNG, the Road Traffic Authority (RTA) will take on the delegated function of inspecting and certification of taxi meters. The ICCC and the RTA have been working together to transfer the function to RTA to perform whilst ICCC will only concentrate on setting taxi and PMV fares. RTA will be performing the taxi meter inspection and certification commencing 1st January 2021.

8.4.5 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. The *National Information and Communication Technology (NICTA) Act 2009* mandates NICTA to regulate and promote the ICT sector in PNG.

NICTA will continue with its administrative roles to ensure the ICT services and infrastructures benefits the people and contributes to the economic and social development of PNG. Key programs but not limited to wholesale and retail price regulation, data collection through household survey to improve policy design and promote universal access and service programs will continue into 2021.

In addition, the SIM Card Registration Regulation 2016 was gazetted on the 23rd of July 2016; Statutory Instruments No. 7 of 2016 as published in the National Gazette No. G228 dated April 22, 2016. The Regulation applies to all Mobile Network Operators (MNOs) and all persons who use a SIM Card in Papua New Guinea. SIM Card Regulation is more of addressing the improper use of ICT services through devices using SIM Cards but does not address the content aspects of things such as fake news and harmful content on social media platforms which is covered under the Cybercrime Code Act. Digicel (PNG) Limited, Telikom (PNG) Limited and Bmobile have commenced deactivation of all unregistered mobile subscribers. All MNOs, by law, are to register their SIM cards by 30th September 2020. NICTA is ensuring all unregistered SIM cards are deactivated and will continue conducting physical audits and inspections for compliance purposes in 2021.

8.4.6 The Informal Sector and Small-Medium Enterprises (SMEs)

Small to Medium Enterprises (SMEs) play a vital role in a country's overall economic growth, especially for developing and emerging economies. SMEs play a major role in job creation as well as the national income of households and the country. Meanwhile, the Informal Sector continues to evolve as the economy expands. The informal sector comprises the bulk of the population living in the towns and cities as well as the rural areas. This sector serves as the main income source for these segments of the population.

Small-Medium Enterprises (SMEs)

In 2020, the Government announced the review of the SME Policy 2016 and the SME Master Plan 2016-2030. The Review Coordinating Committee comprising of Small Medium Enterprises Cooperation (SMEC) and the Department of Commerce and Industry amongst other stakeholders had planned to roll out regional consultation workshops throughout the four (4) regional centres in the country. The main objective of these regional and national consultative workshops are to gather the views and inputs from the stakeholders to review the SME Policy and SME Development Master Plan, and align it to the Government's vision of '*Taking back PNG*' through development of the Agriculture and SME sector. Key areas that will be covered during the review consultations include;

- Reviewing and redefining the current SME definition,
- Development of a new definition for informal sector businesses,
- Review and amendment of the *SME Corporation Act 2014* to broaden the functional and regulatory powers of SMEC as a mandated SME Development agency,
- Reviewing, redefining and regulation of Business Activities Reserved for Papua New Guineans (Reserved Business Activity Listing),

- SME Policy alignment, integration and development of Provincial and District SME Policies.

The current Policy has set some ambitious goals by 2030 including growing SME numbers, creating formal employment and reducing unemployment and so forth. Through this consultative review process, these targets will be revised so that measurable targets are set that can be achieved accordingly using resources provided by the Government.

The Government plans to achieve these objectives by adopting strategies across the key areas of entrepreneurial development, innovation, legislative framework, catalyst projects, infrastructure development, integrated coordination structure and providing adequate resources and support accordingly.

The review was delayed and is expected to commence by end 2020 and continue into 2021.

The Informal Sector

The Informal Economy National Audit Report launched in September 2019 was a big milestone for the Consultative Implementation and Monitoring Council's (CIMC) Informal Economy Sectoral Committee. This committee has been driving the national audit agenda since 2011. Through the Department for Community Development and Religion and UN Women, the survey was undertaken and the final report produced. 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 for a review of the National Informal Economy Policy and *Informal Sector Development and Control Act 2004* as well as the development of the Informal Economy Voice Strategy.

The regional and national consultative workshop on the review of SME Policy 2016 will also be discussing and reviewing/redefining the current SME definition and developing a new definition for the informal sector businesses in PNG. This is to ensure there is a clear differentiation between the two sectors. This clear demarcation will assist other policy development of the Government to promote and improve the two sectors. Both the SME and the Informal sector are key Government priorities, thus its development will continue to be progressed in 2021.

8.4.7. 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 in an economy can determine either the sustainable expansion or a contraction of the economy. The financial sector also has a major role in 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 that 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) 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 contains a prioritised list of reform recommendations 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, progress has been slow with only a few milestones achieved due to the COVID-19 pandemic. With the implementation governance structure now being in place, the Treasury Department and the Bank of PNG will continue to work with all key stakeholders to ensure the reform recommendations under the four work streams above will be implemented in 2021.

8.4.8 Financial Inclusion Programs

National Financial Inclusion Strategy and Policy

Implementation of the financial Inclusion programs will continue as a high priority area into 2021. Through the continued implementation of the National Financial Inclusion Policy (NFIP) and review of the Second National Financial Inclusion Strategy (2016-2020), it is expected that a Third Strategy will be completed in 2021 and endorsed for implementation.

The NFIP is an overarching policy that will effectively guide the financial inclusion policy reforms and ensure an organisational structure and strategic framework to progress the financial inclusion ambitions in the country. 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.

Microfinance Expansion Program

The Microfinance Expansion Project (MEP) is also 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 (GoPNG). Bank of PNG has been the executing agency of the past two phases of this project.

A third phase has been discussed and will be finalized by the end of 2020 for implementation in 2021 once approved by the Treasurer. The third phase is aligned with the second Strategy of the National Financial Inclusion. It will build on from the second Strategy with the main objective of promoting financial inclusion through the extension of micro-finance and financial literacy services, innovation and financial product development for Papua New Guineans, largely targeting the rural population and the SME sector.

8.4.9 Financial Consumer Protection framework

Consumer welfare and well-being is of paramount importance to the Government as it is directly linked with the people's standard of living. Several Government sanctioned diagnostic reviews including, the Financial Services Sector Review and the Consumer and Competition Framework Review identified the need to strengthen consumer protection in the financial sector, particularly for small and new customers of the financial sector who are vulnerable to abusive conduct.

In addressing this gap, the National Financial Inclusion Strategy and the Financial Services Sector Development Strategy calls for the establishment of a proportionate Financial Consumer

Protection (FCP) framework for fair and equitable treatment of individual consumers of financial product and services.

Building on from the previous work done on FCP, a further Diagnostic Study was undertaken in 2018 by the International Finance Corporation (IFC) in association with Bank of PNG on the existing FCP regulatory and supervisory framework in PNG. The study identified significant gaps in the framework when compared to the international best practices.

Later in 2018, Bank of PNG signed a cooperation agreement with IFC to provide technical assistance to develop FCP regulatory and supervisory framework. This will ensure that 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.

In February 2019, the FCP Regulations were drafted taking into consideration the gaps and international standards. This also included industry consultations for provinces and the industry stakeholders. In late 2020 and looking forward, it was expected that the consultation of the new FCP Act and Regulation will be completed, however due to COVID-19 pandemic restrictions, its been delayed and will be progressed into 2021. This reform activity also expects the establishment of the necessary institutional structures to implement the regulation and strengthen its capacity while further creating awareness among financial consumers and institutions.

8.4.10 Land Reform Program

Access to secured land drives private sector growth hence reforming land will continue to remain a focus of the Government in 2021. The effort in this regard is made through the National Land Reform Program. To date considerable strides were made under the key areas of land administration, land dispute settlement and unlocking of customary land for commercial use. One notable achievement being the amendments made to the Customary Land Registration and Land Groups Incorporation Acts, which enabled the registration of customary land in PNG.

Despite some notable achievements, there was a loss of implementation momentum of the program over the last five (5) years since 2014. In 2018, some corrective measures were taken to revive and strengthen the program. The allocation of funding for the program in 2019 and the staging of the second land summit in the same year resulted in 17 recommendations or reform packages, which were endorsed by the National Executive Council for implementation in late 2019. The program administrative set-up including recruitment of staff is being finalized in 2020 and actual work on the deliberation and implementation of the 17 recommendations will commence in 2021.

8.4.11 Commodity Price Stabilization

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 for 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 has a discouraging effect on production. As one of the approaches in supporting the agriculture sector, the Government will consider undertaking reforms to provide commodity price support initiatives commencing in 2021. Consequently, 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 commodity price stabilisation policy for the Government to consider.

8.4.12 Minimum Wages

The Government is committed to protecting the welfare of workers whilst at the same time ensuring that business operations are sustainable. The last minimum wages was set in 2016 and may subject to review should there be a popular demand from major parties.

Commencing 2021, the Government through the Department of Labor and Industrial Relations (DLIR) in collaboration with key government agencies including Department of Treasury will work very closely with other relevant parties to improve the minimum wages setting processes; develop a workable monitoring and reporting mechanisms to promote compliance and support any initiatives that requires improvement of labor data record keeping and management.

Treasury is part of a working committee that is currently drafting the Labor Market Information and the National Employment Policies. One of the recommendations is to develop a central labor data management system for the country where labor market information will be shared with relevant partners for their decision-making.

8.5 ASIA-PACIFIC ECONOMIC COOPERATION (APEC)

In 2020, almost all of the APEC meetings were hosted virtually by Malaysia due to the COVID-19 pandemic. PNG participated in most of those virtual meetings. As an APEC member economy, PNG will continue to participate in the APEC meetings that will be hosted by New Zealand in 2021. Under the APEC's three main pillars of 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).

Domestically, to achieve tangible outcomes from the APEC meeting hosted in PNG (2018), the Government is embarking on domesticating the 2018 APEC Chair's Statement. This is by aligning PNG's key domestic deliverables identified in our development goals of the PNG Vision 2020, Medium Term Development Plan III 2018-2022, and the Domestic Strategic Plan 2010-2030 with the broader APEC pillars. This will aid PNG to tap into the wealth of expertise, experiences and capacity building initiatives within the APEC forum to grow our domestic economy.

In its effort to achieve more benefit for the betterment of the country, the Government has developed PNG Foreign Policy on APEC (PNGFPA). This will serve as a roadmap to pursue the implementation and domestication of the 2018 APEC Chair's Statement and realign PNG's participation in the APEC process. The Government will continue the 2018 APEC Chair's Statement domestication initiatives into 2021.

8.6 IMPLEMENTATION OF THE SOVEREIGN WEALTH FUND OF PAPUA NEW GUINEA

The Papua New Guinea Sovereign Wealth Fund (SWF) is designed essentially as a Natural Resources SWF by the Government. The principal source of financing natural resources SWFs are revenues resulting from the exploitation of oil, gas and mineral resources.

The emergence of a new resources sector through the current Liquefied Natural Gas (LNG) production presented an opportunity to significantly advance and develop PNG. Consequently, the Government agreed to the establishment of the PNG SWF to save, manage and invest revenues from the PNG LNG Project and other resource projects for the purposes of macroeconomic stabilisation, asset management and intergenerational equity.

However, the fall in commodity prices in late 2014, project loan repayments and accelerated depreciation provisions in the PNG LNG Project Agreements have affected the payment of tax revenues to the State, which then affected the establishment of the Sovereign Wealth Fund. The Government recognizes that Natural Resources SWFs are normally used to save money when resource revenues are large and there is a significant surplus to invest. This is not currently the case for Papua New Guinea.

The Government's position is that the low prices of commodities do not allow putting aside savings for use in future times of need in the short term, and that under present conditions, the Government would require all resource revenues to reduce the effect on the levels of Government debt. In addition, the prevailing adverse economic and financial conditions have required the Government not only to run annual budget deficits in line with its Medium Term Fiscal Strategy, but also to use resource revenues for budget support.

In view of the current size of resource revenues, the significant deficit and rate of interest on at least some external loans, the Government acknowledges that the immediate establishment of the SWF would not be appropriate.

Nevertheless, the Government is still committed to the establishment of the SWF as an important part of its macroeconomic management policies to manage and invest the revenues generated by resource projects in the future. These resource projects are PNG LNG Project Expansion (P'ynyang) Project, Papua LNG Project, Pasca A Gas Condensate Project, Wafi-Golpu Copper and Gold Project, and Frieda River Copper and Gold Project.

The Government has now agreed with the International Monetary Fund (IMF) to progress with the SWF under the IMF Staff-Monitored Program (SMP). Under this arrangement with IMF, the Government has agreed to create a plan for the full implementation of the SWF when new natural gas and other resource projects come on stream, which, also would serve as a Structural Benchmark.

The plan for the full implementation of the SWF has been developed in line with the requirements of the Organic Law on the Sovereign Wealth Fund, and include consistency of the current arrangements with PNG's long-term development interests, and alignment with the implementation of the medium-term fiscal framework to manage natural resource project revenues and reduce pro-cyclicality of fiscal policy.

The Government will also review the arrangements with its resource sector State Owned Enterprises, Kumul Petroleum Holdings and Kumul Minerals Holdings with the aim of ensuring more direct and transparent payment of revenues to the SWF.

CHAPTER 9: ENHANCING STATE'S INVESTMENTS

9.1 OVERVIEW

The State, through its entities undertakes various commercial investments. Most of these investments are in infrastructure and utilities, communications, mining, oil and gas sectors. All these investments are managed through the established Government Kumul Holding structure; Kumul Consolidated Holding Limited (KCHL) manages the State's investments in, electricity, water and sanitation, ports, airports, banking and agriculture; Kumul Mineral Holdings Limited (KMHL) and Kumul Petroleum Holdings Limited (KPHL) manages State's investments in mining and petroleum industries respectively. Recently, Kumul Telikom Holdings Limited (KTHL) was incorporated to consolidate States interests in Telecommunications whilst Kumul Agriculture Holdings Limited (KAHL) is responsible for States investments in the Agriculture sector.

The State has other investments managed through its Statutory Authorities, including those in fisheries and forestry. All these investments are expected to operate as commercial ventures that generate returns for the State as the shareholder, whilst delivering needed services throughout the economy.

The State's shareholding in these investments range from minority shareholdings to 100.0 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 therefore vital to stimulate growth and sustainable development of the economy.

9.2 SOE OBJECTIVES AND STATE'S INVESTMENT PERFORMANCE

The Kumul Holding entities aim to allow greater focus on industry expertise to drive commercial decision making which allows for better financial performance and service delivery to the wider PNG community. Performance of the Kumul entities over the last few years, however, has being mixed – some entities have performed well while others have performed well below expectations.

The Government in 2020 proposed to strategically assess and review all state investments with the intent to improve performances through various policy reforms in the medium term. The review will begin in the first quarter of 2021. A concept note and program will be submitted to NEC by the Department of Treasury to commence the review process. The review is anticipated to provide recommendations that should translate into new policy initiatives and legislative amendments to guide the State in decision making in the effective management of state investments going forward.

In 2021, State Owned Enterprise (SOE) reforms will focus on improving fiscal oversight to ensure delivery of improved services and returns to the State. To ensure this reform initiatives are successfully delivered, stakeholder's support including political support is key.

SOE's are mandated to play critical roles to support the Government achieve its development ambitions. They are expected to practice good corporate governance and adhere to strict commercial disciplines in all their operations. The ability of the Government to provide essential services to the population depends on the effectiveness of governance and management frameworks of these SOEs. Hence, the need to better improve and reform the SOEs operations and performance still remain a challenge.

10.2.1 General Business Trust Assets

(KCHL) was established through the enactment of *Kumul Consolidated Holdings Authorisation Act 2015*. It is a mandated trustee of the General Business Trust (GBT) Assets and maintains oversight of the performance and risk management associated with SOEs and other listed shareholdings.

The valuation of GBT assets as at 31st December 2019 was K4.4 billion. The total value of the assets decreased in 2019 compared to 2018 due to decline in the fair values of the big SOEs such as PNG Power, Kumul Telikom and Air Niugini. The value of Quoted Equity Investments in 2019 was K999.1 million, while the value of Unquoted Equity Investments (mostly its interests in SOEs) was K3.4 billion. Table 32 below provides a list of assets under the GBT as well as valuations (on a fair value basis), gross revenues, and net profit before tax of major unquoted assets.

Kumul Agriculture Holding Limited (KAHL)

KAHL was incorporated on 13th November 2017. KAHL is anticipated to manage the development of coffee, cocoa, rice, dairy, poultry and grains. This includes the appraisal of feasible projects to confirm the viability of the projects and make informed decisions within the agriculture sector. NEC approved KAHL as a state's investment within the General Business Trust in 2018.

Kumul Consolidation Holding Limited (KCHL)

In FY 2020, a projection of K120.0 million in dividends is expected from KCHL. To produce such results, the State expects that the assets under the GBT must improve their financial performance. The State will ensure that relevant target intervention programs such as the 2019 SOE reform program should encourage improved performance of KCHL going forward.

Table 31 shows dividends paid by KCHL, KPHL and Ok Tedi Mining Limited (OTML) in 2019, 2020 and projections for 2021. KCHL did not pay the budgeted K80.0 million dividend to the State for 2019. KCHL is not likely to pay its 2020 projected dividends to the State. KCHL's ability 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.

The Government's revised Dividend Policy, which is currently being finalized by Department of Treasury is expected to guide the payment of dividends by the three Kumul holdings entities in 2021 and onwards.

Table 31: Dividends paid to the State (Kina, million)

Entity	2019 Actual	2020 Budget Proj	2020 Supp.	2020 YTD	2020 Revised	2021 Budget
Kumul Petroleum Holdings Limited	250	500	250	200	250	300
Kumul Consolidated Holdings Limited	0	0	0	0	0	0
Ok Tedi Mining Limited.	131.2	300	100	100.5	100	200

Source: Department of Treasury (As at 31st October 2019).

KPHL paid K250.0 million in dividends to the State in FY 2019 whilst Ok Tedi Mining Limited paid K131.2 million, which is consistent with its 2019 projections. KCHL, on the other hand did not pay any Dividends to the State for both 2018 and 2019. Projected dividend payments were

transferred to meet funding shortfalls in impact projects where State has made prior funding commitments.

As per the *Dividend Policy 2015*, the payout ratio for SOEs (KCH) 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 (or KMHL) and petroleum (or KPHL) entities, the minimum amount is 70.0 per cent.

Table 32: General Business Trust (GBT Assets), as at 31st December 2019

PARTICULARS S GBT (K' Millions) (Assets 100% owned unless indicated)	2018 Valuation	2019 Valuation	2018 Gross Revenue	2019 Gross Revenue	2018 Net Profit Before Tax	2019 Net Profit Before Tax	2018 Dividends Paid to KCH	2019 Dividends Paid to KCH
Kumul Telikom Holdings	696.0	565.0	480.6	517.7	- 59.2	-103.4	-	-
Air Niugini Ltd	212.0	141.0	995.0	1082.0	-115.0	-61.0	-	-
Eda Ranu	130.0	195.0	114.2	125.1	0.7	0.9	-	-
Motor Vehicle Insurance Limited	600.0	634.0	68.0	82.9	77.0	38.6	25.0	38.6
National Development Bank Ltd	546.0	476.0	43.5	44.6	-12.4	4.9	1.0	-
PNG Ports Corporation Ltd	588.0	603.0	261.0	287.0	56.0	65.0	-	16.2
PNG Power	223.0	147.0	873.0	909.0	-17.0	-198.0	-	-
Water PNG	199.0	158.0	99.8	101.9	16.3	13.8	4.8	6.9
Post PNG	149.0	139.0	42.0	41.0	1.3	1.1	-	-
PNG Dams Ltd	288.7	288.7	0.0	0.0	-0.2	-0.2	-	-
Port Moresby Private Hospital Ltd (now Kumul Tech Dev Corp)	53.3	51.0	0.2	0.6	0.0	0.5	-	-
Other incl Work In Progress	144.1	51.4	-	-	-	-	-	-
Allowance for Impairments	-16.2	-15.0	-	-	-	-	-	-
TOTAL UNQUOTED EQUITIES	3,812.9.9	34341	2977.4	3191.8	-52.7	-237.7	30.8	61.7
Bank of South Pacific (18% share)	870.2	999.1	-	-	-	-	107.7	117.9
Highlands Pacific Ltd	9.0	0.0	-	-	-	-	-	-
TOTAL QUOTED EQUITIES	879.2	999.1	0.0	0.0	0.0	0.0	107.7	117.9
TOTAL	4,692.1	4,433.2	2,977.4	3,191.8	-52.7	-237.7	138.5	179.6

Source: Kumul Consolidated Holdings Limited (KCH) 2019 Financial Statements as at 31st December 2019 (audited).

The Government expects all Kumul Holding entities to operate as commercial entities. 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.

9.3 BROADER REFORMS

9.3.1 Sectoral Policy Reforms

The Government's sectoral reform programs aim to attract and enhance investments in all sectors of the economy. This reform will among others review the performance of current investment portfolio, take stock and assess the value of these investments in relation to growth potential and to ensure proper and timely reporting to assist Government to make informed decisions.

In 2021, the Government will begin the following policy reform initiatives:

- State Investment Review.
- Development of an Investment Registry Reporting Framework.
- Development of a Sectoral Investment Plan.

Table 33: Sectoral Policy Reforms: Key Deliverables - Work Programme

KEY DELIVERABLES		PRIORITY - POLICY OBJECTIVES	OUTCOMES	TIME FRAME
1	i. Review Of State Investments	Kumul Review	Report Findings & Recommend Reforms	2020 – 2021
	ii. Review Of State Investments - Outside Of The Kumul Structures	Independent Review & Audit Of All State Investments	Report Findings & Recommend Reforms	2020 – 2021
2	Formulation Of An Investment Registry Reporting Framework	Treasury Lead	Reporting Of Policy	2021
3	National Investment Strategy For Specific Sectors	Treasury Lead	Specific Sectoral Plans & Targeted Outcomes	2021

The policy objective to review all state investments to capture and maintain a robust consolidated reporting framework at the Central Government level for all State investments. This strategic approach will provide the Government with an oversight on all fiscal operations on investments. The Department of Treasury will lead these reform initiatives to promote transparency, accountability and good governance on all State's investments.

9.3.2 Public Money Management Regularisation (PMMR) Act 2017

The *PMMR Act 2017* was part of the PFM reforms intended to address the declining non-tax revenue base and bringing all Government agencies into the budget process. The Act was also intended to bring greater level of transparency and accountability in the management of revenues that Statutory Authorities collect through fees and charges.

The Government through PMMR collected more than one billion kina of excess revenue to support the national budget in the last two years. It also ensured the agencies operate more efficiently and minimized unnecessary expenditure. However, the Supreme Court has declared the *PMMR Act* as invalid and unconstitutional in mid-2020 thereby nullify *the PMMR Act* which consequently impacted the 2020 revenue collection. A new law to be called the Non Tax Revenue Administration Bill is currently being considered in order to address the invalidities and continue the Government policy on Non Tax revenue in 2021 onwards.

9.3.3 Review of the Board (Fees & Allowances) Act 1955.

The review of the board fees and allowances was completed in July 2020. The review recommended for the revision of the current 2006 fee determinations set by the then government and for necessary amendments to be made to the *Board Act (1955)*.

The review findings are briefly outlined below:

- The current 2006 board fee structure was not reviewed for the last fourteen years. Furthermore, the fee structure needs to be adjusted to capture rising cost of goods and services.
- High performing Boards/agencies to be rewarded for their contributions to growing the economy.
- It is imperative that different fee structures be proposed for different state agencies that are operating in different sectors/industries.
- These fee structures should reflect the level of decision making that is required by the board and is to be determined consistent with the annual performance of the agency and its contribution to the economy as a whole.

Furthermore, given the absence of a policy or regulatory framework for the *Board Act 1955*, the review proposed for the Government to formulate a Guideline (*Directors Remuneration Policy*) for all State agencies. These reform activities will be undertaken in 2021 going forward.

9.4 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 these infrastructure and essential services. One of the commonly used procurement and delivery modalities utilised by many countries around the world is the PPP model.

PPP arrangements aim to maximise value and increase the quality and competitiveness of the public services/infrastructure provision. It supplements limited public sector capacities and raise additional capital in an environment of budgetary constraints and fiscal decline.

Having realised the opportunities PPPs present, the Government adopted the PPP concept through formulation of a National PPP Policy and subsequent enactment of the PPP Law in 2014.

The implementation of the *PPP Act* in the preceding years took off to a slow start due to Government's differing policy preference and initiatives although there was some initial work done to kick-start the implementation process.

There were interventions made to review and amend the *PPP Act* by other Government Agencies (for various reasons). However, the Government recently through a NEC Directive has rejected proposed amendments and affirmed implementation of the initial *PPP Act 2014* by Treasury Department. Hence, in 2021 the Government would progress the development of the PPP regulations to establish and operationalise the PPP Centre to take carriage of implementation going forward.

9.5 MANAGING THE NON-RENEWABLE RESOURCE SECTOR

Papua New Guinea is a significant producer of mining and petroleum resources and these resources comprise a sustainable portion of the State's asset holdings. PNG's economy is

highly reliant on the resource industry – more so than any other resources jurisdictions and significantly contributes directly and indirectly to State's revenues, whilst also delivering wide-ranging socio-economic benefits to the people of Papua New Guinea.

The Government, at the course of effectively managing the sector, has recognized a lot of positive effect on the country's economy. It has recognized a general increase in the economic activities and maximized benefits for the people in the community level and meeting Government's development objectives.

In the short term, due to the economies all around the world being hit by the effects of COVID-19, commodity prices expected to remain lower especially for mineral and petroleum commodities. In the event that the commodity prices pick up in the medium term, it will allow an optimum flow of revenues into the SWF and also drawdowns into the National Budget. This can happen in consistent with the SWF formula in the organic law, which gives effect to the Stabilization role SWF plays.

In light of the global uncertainty caused by COVID-19, in 2021, the Government will focus on taking larger policy objective to reassess PNG's development directions and regain lost opportunities. The Government will take approaches to have a greater fairness in the resource sector. The Government chartered a diverse approach under the banner 'Take back PNG' to ensure the necessary policy directives and legislative guidelines are employed to ascertain optimal benefit generation from its resources. The government will continue to deliver the following;

9.5.1 Sustainable Benefits Management Policy

The Government will introduce a sustainable Benefits Management policy guiding the generation, distribution and sustainable use of benefits from resource projects for the landowners and sub-national governments. The work has already been initiated and the Government will progress what has been initiated to have a positive impact on the major stakeholders of any extractive industries sector.

9.5.2 Fiscal Template for Extractive Resource Projects

The Government has initiated Fiscal Template that aims to ensure transparency and more consistency in negotiating project agreements with prospective developers. The work on the Fiscal Template is anticipated to be completed in 2021 for Government consideration and endorsement.

9.5.3 State Equity Participation

The work on State Equity Participation has already been initiated and progressed. The Policy will aim to provide a framework to guide State Investment decision in relation to equity acquisition in extractive resource projects. The policy also aims to make the equity participation decision more transparent and ensure good governance. The Government will continue the development of the policy, which will guide investment decisions.

9.5.4 Napa Napa Project Agreement

The Napa Napa oil refinery project agreement was signed off in 1997. Its intention was to encourage downstream processing of petroleum products, with the National Government's policy intervention of making available cheaper petroleum products for its citizens. This led to

the State and InterOil Ltd (then) agreeing to the Napa Napa Project Agreement for Inter-Oil Ltd to build an oil refinery and produce petroleum products to meet the country's demand.

The Napa Napa Oil Refinery Plant was and still is the first and pioneer project of its kind, in the downstream processing of petroleum products. It was given some protection by the State in order to protect the refinery plant through policy measures and fiscal incentives.

The 'Import Parity Pricing' formula is the single most important consideration in the PA. This sets the benchmark price, which is used to set the wholesale price of the landed cost and the locally produced petroleum products pricing mechanism.

The NapaNapa Refinery Project Agreement (PA) has not had a proper review for 23 years to date. A temporary review was done in 2007 between the State and Inter Oil Ltd, which resulted in some interim directives for three (3) months temporary reprieve given to the refiner. However, these temporary directives have not been finalized and agreed to but have been in operation since 2007.

There is an apparent need to review the temporary pricing formula currently in use, and thus; the review of the PA in its entirety emend. Looking ahead, the State will amicably request for the review and engage with stakeholders for PA review in 2021.

9.6 EXTRACTIVE SECTOR PROJECT UPDATES

The PNG's Extractive Sector projects consist of existing and upcoming projects. The Government will monitor and evaluate both categories of projects on an on-going basis through line agencies ensuring business operations are within PNG laws and regulations.

9.6.1 MINING PROJECTS

Existing Mines

The OK Tedi mine has recovered well after the Covid 19 pandemic initiated shutdown from 5th August to 14th September, 2020 which affected its operation. The current resource envelope indicates potential production for another 10 years after its current extension. The mine holds a large portfolio of exploration leases near its current operations and continues to undertake exploration activities near the current mine.

Lihir gold mine is one of 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 expected to last for another 20 years. Due to additional capital expenditures on the new pit, the State's Corporate Income Tax (CIT) revenue has dropped. The Lihir Pit Optimization Study affirmed the potential benefits of lateral mine development of the open pit. The Government will ensure additional revenue mechanisms are in place through introduction of measurable fiscal terms.

The Ramu Nickel mine is a project that integrates mining beneficiation and refining. The project has been in operation for 9 years now but has yet to declare any profits and pay some tax to the Government. The project operator has applied for an extension for the project at a cost of US\$2.1 billion but has withdrawn it. The Government will continue to address any disagreements between the State and project developer to allow continuous production in its current license area into the future.

The Hidden Valley mine is an open-pit, gold-silver mine in Morobe Province. Construction of the mine started in 2007 and commercial production began in September 2010. A pre-feasibility study of the life of mine extension is underway to evaluate the economic potential to extend the mine's life by three years, at an annual gold production of 200,000 ounces. The project has positively impacted the province as well as the nation economically and if the pre-feasibility study is successful, going forward, it will continue to bring the same level or more economic benefits to the country.

Kainantu mine's life span is about 10 years and the mine is in the fourth year of production. It is a medium sized underground mining project. The mine operator declared the mine profitable and anticipated mine life of over 15 years. The Government will continue to provide its support where necessary to ensure the smooth operation of the mine.

The Porgera Gold Mine has ceased operation by the mine operator Barrick Niugini Limited after it reached its leased mine life span in August 2019. The developer applied for a 20-year Special Mining Lease (SML) extension however; the Government refused the SML renewal on April 15, 2020. Later on 25th August, the SML was transferred to KMHL. The Government intends to increase its take in the project and to ensure the State receives no less than 50.0 per cent of the project benefits.

Simberi Mine is located on Simberi Island in Tabar Islands Group, New Ireland Province. The gold deposits of Simberi mine contain oxide and sulphide materials. The mine's life span of 8 years was due in 2018 however, the mine operator (St. Barbara) carried out a pre-feasibility study which realised a probable 80 per cent increase to the life of the mine's productive life by 3 years, which turned out to be better gold mine. The mine operator's chance of reopening the mine depends very much on the proposed changes to the PNG Mining Act. If reopened, the economic benefit streams of the project will need to be reviewed again.

Proposed Mines

The proposed Wafi-Golpu project has the potential to make a significant economic and social contribution to Papua New Guinea over a long period. The mine 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 a green field pit to port development located in the Sandaun and East Sepik provinces of Papua New Guinea. The project developer submitted an SML application in 2018 with its revised feasibility study report. Considering the risks associated with the project's financing, the State's capacity to participate in the project, the total State's take to be capped off at no less than 50.0 per cent, no progress has been made to date on the State's part. The latest updates have been to consider engaging Australian Aid and PNG Government support, under a Public Private Partnership (PPP) program for infrastructure development (roads) and other major infrastructure developments integrated into the project's developments.

Woodlark mine gold project proponent released its prefeasibility study in 2017 which indicated that Woodlark has the potential to be robust, low stripping ratio pit operation that can deliver an

average of 100, 000 ounces of gold per annum over 10 years. The project has the potential to add to the national economy if developed.

9.7 PETROLEUM PROJECTS

Existing Petroleum Project

The PNG LNG Project is the only existing and producing project and is into its sixth year of production. 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, which should also result in increased revenue to its shareholders including the State.

Proposed Petroleum Projects

The Papua LNG Project is a gas project to be developed in the Gulf Province. The Government expects the proposed project to produce 10.3 trillion cubic feet (tcf) of gas and 92.0 million barrels of condensate that will generate total revenue of up to 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. The project Gas Agreement (GA) was executed between the State, Total E & P, Exxon Mobil and Oil Search Limited in 19th April 2019. The State will take-up a 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 will be the first offshore gas project in PNG, which will be developed in two phases. The first phase will be gas re-cycling or liquid stripping where production and sale of natural gas liquids will take place (including propane, butane and condensate streams) and the second phase will be gas blowdown where production and export of natural gas (LNG) and continued production and sale of natural gas liquids will take place. The project is expected to have a life span 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 had a recoverable resource reserve of 1.1-2.3 tcf of dry and condensate of 9-15 million barrels according to the last appraisal in 2012. The updated appraisal had indicated an increase of gas reserve to 4.36 trillion cubic feet (tcf) and the increased figure was also included in its Application for Petroleum Development Licence (APDL). The Government has ensured that the P'nyang Gas project is a stand-alone project and will have a separate Gas Agreement (GA). The GA will ensure that the State is able to introduce new production-based taxes and receive 50 per cent or more of the project benefits.

The Stanley Gas project is a proposed gas project to be developed in the Western Province. The Government has signed a Gas Agreement (GA) for its development and issued a Petroleum Development Licence (PDL10) in 2014. However, due to unfavourable oil prices that deemed the economics of the project unviable, development and production has not yet commenced.

9.8 PNG EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE (PNGEITI)

Improving transparency and accountability in PNG's extractive sector enables the country to mitigate poor economic performance, corruption, conflict, and increase investor confidence. The initiative (EITI) is all about "talking transparency". Corruption exists in an environment of secrecy, of partial or non-existent access to information. Information absence can lead to distrust and conflict. By publishing information on payments being made by the extractive industry companies, receipted by the National Government as revenues (through relevant departments and State entities), and redistributed to Provincial and Local Level Governments, and by disclosing these transfers in a transparent manner through the EITI reporting process can assist in addressing.

PNG signed up to the initiative in 2013 and became an EITI candidate country in 2014. PNG is amongst the 52 resource-rich countries implementing the EITI global best practice Standard. Since then, the implementation of EITI in PNG continues to gain momentum with the publication of the sixth PNGEITI Annual Country Report. The timely publication of the annual report signifies PNG's commitment in meeting its reporting obligation as a member nation of the EITI Global.

Consistent with the Government's 2018 National Budget Economic and Development Policies Statement (Vol.1, p.115), the PNGEITI Multi Stakeholder Group (MSG) progressed the work on the development of the PNGEITI National Policy Framework and the subsequent legislation. The National Executive Council (NEC) approved the PNGEITI National Policy Framework in 2019, which set the basis for development of an EITI legislation. The legislation will pave way for the PNGEITI's transition into a statutory entity (PNGEITI Commission) to provide the legal basis for implementation of EITI activities in the country.

The first draft of the PNGEITI Commission Bill was ready in October 2019, however further consultation with the State Solicitor's office and key stakeholders was necessary before it was finalized. Due to the Covid-19 pandemic lock downs and restrictions, further work to finalize the Bill this year was hindered. The draft Bill is anticipated to be finalized in the first quarter of next year and presented to NEC and subsequently to Parliament before end of 2021.

Apart from the Policy and Legislative work, PNGEITI is also engaged in addressing particular action items (corrective actions) as recommended from its first validation or an independent assessment in 2018 on the Government's effort to implement the EITI. Through this validation process, PNG attained 'Meaningful Progress', which is the second highest scoring. The top scoring is to achieve a 'Satisfactory Progress' and this requires PNG to meet all the requirements of the EITI Global Standard. The country was tasked with addressing the corrective measures before its next round of validation that was initially scheduled for April 2020.

Despite the Covid-19, disruptions to the PNGEITI 2020 work Programs, the National Secretariat has been supporting the MSG to continue working on other critical projects. These projects are the; Beneficial Ownership disclosure reporting, a Scoping into the operations of State-Owned Entities (SOEs) in the extractive sector, a Scoping Study on an online reporting platform for PNGEITI, the financial year 2019 PNGEITI Report preparation, Education mainstreaming project and continuation of the project on Improving Resources Related Revenue Management in PNG. Some of these projects are being undertaken with support from development partners.

PNG is expected to publish its seventh report for the financial year 2019 by December of 2020. This will ensure PNG as a country, is up to date with its reporting requirement as an EITI implementing country, consistent with the EITI Global Standard.

9.9 REFORMING THE RENEWABLE RESOURCE SECTOR

9.9.1 Agriculture Sector

The current Governments' emphasis is on reviving the Agriculture sector to diversify the economic growth of Papua New Guinea away from the non-renewable sector. The agriculture sector is important, as it is the lifeline of the nation's livelihood since our forefathers. The aim is to commercialize agriculture that will create spin off opportunities for people of PNG to participate in while generating returns for the Government.

Commodities

Fresh Produce

The Fresh Produce Development Authority (FPDA) is responsible for facilitating the development of fresh produce industry in Papua New Guinea to build capacity, enhance food security and promote healthy living to enable small holders to venture from subsistence farming to commercial operations. The budgetary appropriation for 2020 was impacted by COVID-19 pandemic and economic down turn resulting in slow implementation of FPDA's activities.

Projects supported through partnership arrangements have shown progressive results against target outcome in line with the Medium-Term Development Plan III. These projects include; The National Seed Potato Multiplication project; the Market Supply Value Chain; the Citrus project and; the Bulb Onion project. The deliverables support the pillars of increasing revenue and wealth creation and providing quality infrastructure and utilities.

The Market for Village farmers Project is supported through counter-part funding from the National Government for over 6 years from 2018 – 2024. It targets fresh food produce sectors (94% of village farmers) to transition from semi-subsistence agriculture to market oriented farming as a business.

Government through PFDA will continue the partnership arrangements with GoPNG (Provincial and District); institutions; donor partners and other stakeholders to continue to deliver on the various projects and endeavor on generating revenues from these existing projects.

The Government initiated Freight Subsidy Scheme in 2020 has resulted in more produce being freighted from Lae to Port Moresby however, with mixed results. In 2021, FPDA plans to ensure the National Government's Freight Subsidy is effectively coordinated to ensure its sustainable going forward through continuous tracking of the impact of COVID_19 on food production and supply system.

Coffee

Coffee is the second largest agricultural commodity in PNG and is regulated by Coffee Industry Corporation (CIC). PNG produces two varieties of coffee; Arabica coffee grown in the Highlands region and Robusta coffee grown in the coastal region. The Government will continue to support the industry's priorities through budgetary appropriation.

The coffee Access Road program is aimed at building roads and bridges in remote coffee growing districts. CIC and District Development Authorities have initiated a memorandum of Understanding/Agreement (MOU/MOA) to established counter funding arrangement for construction and rehabilitation of five (5) coffee economic roads. An estimated fifty thousand

inaccessible coffee farmers will benefit from this infrastructure with an expected increase of 5 to 10 per cent of export volume of green beans by 2025.

The Coffee Berry Borer is a pest and disease affecting coffee cherry beans resulting in falling yields and inconsistency in quality to meet market demand. Despite the CBB challenge, CIC will increase its awareness and research capacity oriented towards increasing and improving skills and knowledge of farmers; adopting innovative technology and farming practices; and creating better value for PNG coffee through the specialty markets and more.

In 2021, CIC will continue to invest in new priority projects such as the Coffee SME Growers Groups, Roll-Out of Coffee Curriculum Program and Accessing Secured Land for Coffee Development as a way forward.

The Government, through CIC, will focus on a Coffee Rehabilitation and Expansion program to rehabilitate existing plantations and consider establishing new smallholder plantations. This program will coincide with the recent Government Land Reform initiative (amended Incorporated Land Group and Customary Land Registration Acts). This project aims to increase coffee production volumes.

The program will be piloted in Eastern Highlands Province through the use of Incorporated Land Group (ILG) and the Voluntary Customary Land Registration (VCLR) process to rehabilitate existing run-down plantations and develop new plantations on green fields to ensure ownership of these plantations are transferred to landowners and assist to facilitate private investments in coffee plantations.

Coconut

The Kokonas Industri Koporesen (KIK) is the regulating institution of the coconuts industry in PNG. While expanding its traditional copra emphasis, KIK has ventured into down-stream processing through development of Micro Small and Medium Enterprises (MSME) of High Value Coconut products and creating market access. KIK is also developing bio-security measures against pest and disease and coconut replanting program.

The Coconut Research Program contains four activities namely: Coconut cultivating and improvement; Soil improvement and farming system; Management of Borgia Coconut Syndrome (BCS) and Coconut Rhinoceros Beetle (CRB) and; Developing a biosecurity plan for the coconut industry. These activities have been affected by the COVID-19 pandemic and shows slow progress in 2020.

The Market Development and Trade Program contains seven (7) activities. To improve quality of: copra; coconut products to HACCP standards; lab and downstream facilities and product packages, labelling & branding. As well as establishing new MSMEs' partners; promoting and awareness of products and; facilitating farmer and MSMEs training. There has been some progress made in 2020 and will continue in 2021.

The Coconut Disease Containment & International Coconut Genebank Relocation involves seven (7) activities. These include: Awareness of BCS; Genebank sanitation; undertaking BCS Tolerance & Screening Study; Relocation of BCS Tapo checkpoint to Naru in Ramu Highway; Pre-Entry Quarantine Nursery; Genebank Relocation and Developing Risk Management Strategy for BCS. These activities are also affected by the COVID -19 and delayed funding including elapsing of donor support for the Development of the Risk Management Strategy for BSC resulting in slow implementation of these activities in 2020.

The Coconut Nurseries Establishment and Seed Distribution Program contains six activities that includes: Appraised and Rehabilitation of coconut plantation and smallholder blocks; Increasing number of Nurseries; Seedling Distribution and Planting; Mobilizing Farmers; Training Farmers and; Awareness. These activities indicate progressive results against target outcome despite delays due to COVID-19 pandemic.

Cocoa

The PNG Cocoa Board (PNGCB) is the Government's arm focused on facilitating a sustainable cocoa industry to advance the livelihood of the rural population, with the aim to bring about innovative farming practices that creates income generation through cocoa production.

The PNGCB is venturing into re-establishment of cocoa nurseries in the provinces and introducing Cocoa Pod Borer tolerant seedlings due to declining production volume. The Establishment of Provincial Cocoa Nurseries in 2020 saw a slow start to the implementation process due to COVID-19 pandemic as well as slow release of funding. These challenges have hampered the project's performance to meet key quarterly targets. CB has established agreements with provinces to initiate this program, which will continue into 2021 and beyond.

The PNGCB under its Research Extension and Development program is exploring ways to develop cocoa varieties that are early bearing, resistant to pest and disease, and high yielding through understanding the reproductive biology of cocoa. This technology will eventually be transferred to farmers and other stakeholders through training modules. This program is being supported by various funding sources including donor support.

9.9.2 Forestry sector

The PNG Forest Authority (PNGFA) is embarking on several initiatives in 2021 under the capital expenditure program as well as generating income from its internal sources to supplement the National Governments grant.

The Expansion and Development of existing Reforestation Projects consists of nine (9) reforestation projects earmarked by PNGFA as plantation developments projects for commercial and industrial utilisation. This is to drive socio-economic growth and delivering sustainable development for PNG consistent with the Development Strategic Plan 2010-2030 in line with Vision 2050. The projects were identified on both the State and customary land which PNGFA will work with landowners in ILG Groups through their respective Incorporated Landowners "Tree Growers Association" with the purpose to acquire more land for reforestation.

The Upgrading of PNGFA Information and Communication Systems project is designed to facilitate three outcome: (1) to capture better and reliable forest resource data to manage the nation's forest resources; (2) to achieve socio-economic growth and; (3) to mitigate emissions of greenhouse gases. A National Forestry Inventory (NFI) field assessments was conducted in seven (7) provinces however, donor support ended in 2019 and the project work stopped. The continuation of this project is important as it will provide accurate and reliable information for assessing PNG's actions towards mitigations of climate changes concerns and management of forest including socio-economic activities.

PNGFA anticipates to collect 20 per cent of Log Export Tax revenue to support operational costs and K20/m3 from forest management levy for reforestation/ afforestation function as part of the national government policy direction. The fees and levies are estimated to generate K160.00 million annually which will go towards covering internal costs for staff increase in normal monitoring & logging; Industrial monitoring- processing; plantation development and

sustainable development initiatives with other countries/partners. This is awaiting clearance of all legal and administrative processes.

Timber Rights Purchase (TRP) Claims and Issues

TRP claims and issues has been an outstanding matter for State to settle over a period of time. Numerous submissions have been made by forest resource owners across PNG over several years seeking payments of monies claimed to be owed under TRP agreements made during colonial administration. The Government through the Department of Treasury and the National Forest Authority will establish Policy guidelines and processes that will assist in addressing TRP matters.

9.10 STATE PARTICIPATION AND INVESTMENTS IN AGRICULTURE SECTOR

9.10.1 State Participation and Investments in Agriculture Sector Environment and Climate Change

The Climate Change Development Authority is the lead agency responsible for developing policies and plans relating to climate change.

The Government through Climate Change Development Authority (CCDA) has launched the Green Climate fund Country Programme and No Objection Procedure Guidelines in 2020 with support from the US Government. This allows PNG to access climate change financing through readiness support to manage and build reliance to climate change threats in PNG.

The Government through CCDA has completed the due diligence process to enable CCDA to start generating revenue. These new fees are Carbon levies to be collected on all fuel types; Synthetic fertilizers and; Green fees. These proposed fees and levies will support the Government and sector agencies to implement the Sustainable Development Goal 13 Road Map measures. It is estimated that a significant amount of revenue will be generated for the Government annually once approved.

The launching of the Papua New Guinea Sustainable Development Goal 13 Road Map will enable respective sectors including all stakeholders to take onus in driving the SDG actions respectively to promote a climate resilient economic wise in climate governance, energy, forestry, agriculture fisheries, infrastructure, biodiversity conservation, tourism, health and minerals.

The Building Resilience to Climate Change in PNG Project is aimed at increasing resilience to the impacts of climate vulnerability and climate change with an outcome to improve capacities of communities in vulnerable atolls and islands. The cross cutting project has three outputs implemented by CCDA, National Fisheries, National Agricultural Research Institute and PNG Ports Corporation.

In 2021, the program aims to implement three outputs: (1) Carry out Climate change and vulnerability assessments and adaptation plans developed for target communities (CCVAP); (2) Implement Sustainable fishery Eco-systems and food security investments piloted in nine identified vulnerable islands and atoll communities and; (3) Enabling framework for climate-resilient infrastructure and early warning and communication network including additional financing for climate proof Provincial wharf in Alotau. The project is supported by the National Government and donor partners and administered by Asian Development Bank.

Mobilising Land for Renewable Resource Projects

The Government focus is to increase investments in the renewable resource sector. The development of agriculture and forestry projects encompass huge hectares of land that are customarily owned. This requires proper approaches to identify and mobilize genuine landowners and to recognize their rights over customary landownership before committing State to participate in customary land lease arrangements.

Under the ongoing land reform programs, the government through the Department of Lands and Physical Planning will utilize the Incorporated Land Group (ILG) and the Voluntary Customary Land Registration (VCLR) processes to mobilize customary land to allow potential developments to take place. Under the (ILG/VCLR) process the customary landowners will have land titles in perpetuity (last forever) enabling them to make available their land for potential development purposes. The program “Accessing Secured Land for Coffee Development” will be piloted in EHP with establishment of MOUs signed between landowners and CIC representing the Government in 2021 onwards.

Facilitating Investments in Agriculture

The agriculture system in PNG range from small-scale subsistence, intensive farming and commercial/agri-business. It covers the activities of both the private and public sector in cropping (food, fruits, vegetables, and tree crop), livestock farming (meat, dairy and animal husbandry), management of land, water resources and post-harvest areas.

Investments in this sector can also strengthen incomes and consumption in rural areas, thereby improving food security through enhancing not only food availability but also access to food and food utilization.

As such, the Government through the Department of Treasury and the Department of Agriculture and Livestock will establish a strategic framework to facilitate long-term reforms and investments in the agriculture sector. The strategic framework will consider a holistic approach that can drive the growth of the agriculture sector in the medium to long term by driving investments, infrastructure development, and creating access to markets and finance. This aims to generate more economic activity and expand the PNG's economy. This program is at the concept stage awaiting further approval to progress.

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	15,505,000.00	48,421,800.00	2,169,200.00	2,820,000.00			68,916,000.00	4,599,041	3,407,968	5,360,111	1,474,458	117,053	61,617	720,754	323,778	16,064,781	802,480	3,034,429	3,836,909	19,901,690	88,817,690	
Gulf	14,066,200.00	19,995,600.00	309,900.00	639,300.00			35,011,000.00	6,231,751	5,374,090	7,712,017	2,859,376	628,602	117,795	1,917,274	2,875,176	27,716,081	154,753	1,429,388	1,584,140	29,300,222	64,311,222	
Central	20,178,000.00	66,093,600.00	309,900.00	2,794,500.00			89,376,000.00	7,384,554	6,274,928	12,489,899	3,202,594	627,383	100,015	2,941,012	2,335,114	36,675,501	-	2,150,406	2,150,406	38,825,907	128,201,907	
NCD*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Milne Bay	8,596,400.00	70,376,300.00	330,500.00	1,195,800.00			80,499,000.00	7,330,356	7,677,933	7,638,501	3,298,052	453,867	102,178	3,337,874	2,323,142	32,161,901	311,793	2,524,478	2,836,271	34,998,173	115,497,173	
Oro	11,959,400.00	30,406,100.00	516,500.00	1,284,100.00			44,166,100.00	5,242,738	4,694,561	4,711,354	2,521,704	367,395	98,844	2,093,836	1,822,554	21,552,986	774,527	1,801,009	2,575,536	24,128,521	68,294,621	
Southern Highlands	27,090,100.00	96,147,800.00	382,200.00	765,000.00			124,385,100.00	6,649,342	8,979,993	8,372,781	2,954,733	792,041	170,200	3,984,513	1,993,013	33,896,617	737,581	2,620,332	3,357,912	37,254,529	161,639,629	
Hela	11,050,800.00	38,248,700.00	154,900.00	319,500.00			49,773,900.00	7,715,057	5,960,148	5,851,372	2,260,626	639,628	98,771	2,186,179	3,075,405	27,787,185	1,032,886	1,593,987	2,626,873	30,414,059	80,187,959	
Enga	11,667,400.00	83,886,100.00	206,600.00	1,032,900.00			96,793,000.00	3,088,026	4,225,722	6,825,060	955,017	344,411	35,016	1,610,953	1,256,956	18,341,161	257,124	2,798,529	3,055,653	21,396,814	118,189,814	
Western Highlands	15,295,800.00	106,033,200.00	392,500.00	1,402,600.00			123,124,100.00	2,589,102	1,424,838	1,949,137	858,064	328,164	37,645	336,956	725,679	8,249,585	863,303	2,089,150	2,952,452	11,202,037	134,326,137	
Jiwaka	11,868,200.00	58,897,800.00	129,100.00	503,800.00			71,398,900.00	6,017,961	9,133,133	13,620,012	1,484,046	446,164	127,858	2,435,003	2,491,047	35,755,224	-	1,411,289	1,411,289	37,166,513	108,565,413	
Simbu	20,215,000.00	78,384,600.00	206,600.00	920,800.00			99,727,000.00	8,995,686	11,751,596	12,022,975	3,016,060	821,896	139,360	3,279,663	4,477,778	44,505,015	408,826	1,585,351	1,994,177	46,499,192	146,226,192	
Eastern Highlands	10,487,600.00	119,880,500.00	723,100.00	2,334,200.00			133,425,400.00	7,436,787	13,941,920	20,162,741	2,769,032	706,608	128,984	3,739,717	3,356,826	52,242,614	803,715	2,899,535	3,703,251	55,945,864	189,371,264	
Morobe	34,644,300.00	165,345,800.00	1,239,500.00	7,210,300.00			208,439,900.00	-	-	-	-	-	-	-	-	-	2,685,126	5,017,382	7,702,507	7,702,507	216,142,407	
Madang	26,959,900.00	106,741,100.00	723,100.00	2,290,900.00			136,715,000.00	9,961,445	10,681,278	14,191,317	4,043,078	589,195	81,017	3,740,519	3,894,247	47,182,095	919,603	4,035,069	4,954,671	52,136,767	188,851,767	
East Sepik	19,305,700.00	94,015,800.00	1,032,900.00	2,811,600.00			117,166,000.00	9,934,721	13,354,387	21,969,779	3,905,021	731,600	126,470	3,073,303	4,106,982	57,202,273	707,734	4,469,724	5,177,458	62,379,732	179,545,732	
Sandaun	12,393,300.00	50,257,200.00	723,100.00	1,158,400.00			64,532,000.00	11,082,516	10,547,492	9,291,190	4,096,882	539,812	94,813	2,576,076	3,990,019	42,218,800	531,156	4,016,986	4,548,142	46,766,942	111,280,942	
Manus	8,741,400.00	26,315,300.00	516,500.00	704,900.00			36,278,100.00	2,250,432	3,479,151	5,696,761	1,794,365	501,970	82,533	1,803,453	2,307,931	17,916,595	233,562	533,747	767,309	18,683,904	54,962,004	
New Ireland	16,081,500.00	42,289,400.00	2,427,400.00	881,700.00			61,680,000.00	-	-	-	-	-	-	-	-	-	439,803	1,194,326	1,634,129	1,634,129	63,314,129	
East New Britain	22,740,700.00	87,928,400.00	309,900.00	1,397,000.00			112,376,000.00	2,634,824	2,685,223	2,896,680	1,621,247	164,760	40,695	641,772	496,320	11,181,522	966,383	2,806,837	3,773,220	14,954,742	127,330,742	
West New Britain	17,174,200.00	60,705,900.00	1,032,900.00	3,465,000.00			82,378,000.00	5,917,745	8,974,186	9,267,781	3,524,743	609,000	186,190	2,636,491	2,233,488	33,349,625	602,787	1,769,865	2,372,652	35,722,276	118,100,276	
Bougainville*	32,500,000.00	70,500,000.00	480,300.00	8,515,500.00			111,995,800.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
TOTAL	368,520,900.00	1,520,871,000.00	14,316,600.00	44,447,800.00	-	-	1,948,156,300.00	115,062,094	133,888,546	170,029,468	46,639,098	9,409,550	1,830,001	43,055,347	44,085,456	563,999,561	13,233,141	49,781,818	63,014,959	627,014,520	2,463,175,020	

Note:

NCD and Bougainville are not part of the Intergovernmental Financing Arrangement therefore do not receive any function grants

NCD receives Goods and Services Grant through a single Town and Services Grant indicated under urban LLG Grants category

ABG receive Goods and Services Grants through a single category of Recurrent Goods and Services Grants

Village Court and Land Mediation Allowances are now paid through the Alesco payroll system and are budgeted under the Village Court & Land Mediation Secretariat

Table 1.2: Grants, Transfers and other resources of the Provinces (Kina Thousand)

Table 2.2: Grants, transfers and other resources of Provincial Governments						
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	19,850,964	16,398,976	0	40,300,000	1,131,487	77,681,426
Gulf	29,249,496	4,205,758	0	590,000	1,424,126	35,469,380
Central	38,775,181	4,874,702	0	0	13,047,245	56,697,127
NCD*	0	313,870,988	3,819,555	0	0	317,690,543
Milne Bay	34,947,447	9,642,666	0	0	2,255,763	46,845,876
Oro	24,077,795	4,564,917	47,974	0	741,674	29,432,360
Southern Highlands	37,203,803	15,246,792	4,302	0	2,528,813	54,983,710
Hela	30,363,333	5,149,648	0	0	0	35,512,981
Enga	21,346,088	4,594,858	0	38,872,220	11,125,396	75,938,562
Western Highlands	11,151,311	45,374,498	442,655	0	2,576,164	59,544,628
Jiwaka	37,115,787	756,803	0	0	0	37,872,590
Simbu	46,448,466	4,513,200	0	0	1,584,524	52,546,189
Eastern Highlands	55,895,138	17,987,531	443,597	716	4,616,862	78,943,845
Morobe	7,651,781	155,301,943	1,015,154	3,743,517	10,895,443	178,607,838
Madang	52,086,041	20,616,859	1,223,175	0	2,500,038	76,426,113
East Sepik	62,329,006	15,822,411	42,423	0	5,424,820	83,618,659
Sandaun	46,716,216	3,890,340	0	0	7,661,992	58,268,549
Manus	18,633,178	5,091,461	0	403	1,309,474	25,034,516
New Ireland	1,583,403	15,115,010	0	41,947,238	1,314,975	59,960,627
East New Britain	14,904,016	41,425,695	146,125	0	8,022,111	64,497,947
West New Britain	35,671,550	16,708,812	171,558	0	7,402,623	59,954,543
Bougainville*	0	0	0	0	0	0
TOTAL	626,000,000	721,153,868	7,356,518	125,454,094	85,563,530	1,565,528,010

Notes

1) GST is based on 60% of the 2019 net inland GST collections, to be distributed to each province in 2021

2) Bookmakers is 40% of 2019 net collections

3) NEFC estimate based on 2019 actual collections which includes dividends from equity shares of mining and petroleum resource projects

4) NEFC estimate based on 2019 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 Actual	2019 Est	2020 Proj	2021 Proj	2022 Proj	2023 Proj	2024 Proj	2025 Proj
Agriculture, Forestry and Fishing										
nominal	11619.9	12799.8	13478.0	14297.0	15209.8	16598.0	18064.7	19232.2	20625.3	22097.7
deflator	122.4	131.7	132.6	140.5	146.4	154.5	161.9	167.4	174.1	180.9
real	9496.8	9720.4	10164.7	10174.2	10385.4	10741.6	11159.9	11489.2	11847.9	12215.8
rate of real growth	2.7	2.4	4.6	0.1	2.1	3.4	3.9	3.0	3.1	3.1
Oil and Gas Extraction										
nominal	9657.8	11953.9	13888.2	14462.9	10657.9	12488.4	13782.8	14164.4	14740.1	15045.0
deflator	70.6	83.9	122.5	106.0	80.6	93.4	102.0	104.8	109.1	111.3
real	13683.0	13389.9	11339.6	13649.1	13223.2	13365.1	13516.3	13516.3	13516.3	13516.3
rate of real growth	6.7	-2.1	-15.3	20.4	-3.1	1.1	1.1	0.0	0.0	0.0
Mining and Quarrying										
nominal	5862.3	7428.5	8237.0	8866.2	8358.4	10644.7	13091.7	13399.3	13672.5	13951.0
deflator	93.6	102.1	110.8	114.3	136.3	158.5	171.8	175.8	179.3	182.9
real	6264.0	7277.4	7435.7	7759.1	6131.2	6716.1	7620.0	7623.7	7625.7	7627.4
rate of real growth	17.4	16.2	2.2	4.3	-21.0	9.5	13.5	0.0	0.0	0.0
Manufacturing										
nominal	1256.1	1410.8	1369.1	1451.1	1536.7	1615.0	1729.2	1852.7	1992.8	2163.5
deflator	120.4	130.4	135.7	139.6	145.7	150.1	156.1	160.8	164.7	168.7
rate of deflator growth	13.3	8.3	4.1	2.9	4.3	3.0	4.0	3.0	2.4	2.4
real	1043.3	1081.8	1008.9	1039.1	1054.7	1075.8	1108.1	1152.4	1210.0	1282.6
rate of real growth	3.8	3.7	-6.7	3.0	1.5	2.0	3.0	4.0	5.0	6.0
Electricity Gas & Airconditioning										
nominal	541.2	588.2	638.0	688.0	770.9	834.0	914.7	998.8	1094.8	1199.8
deflator	105.7	109.8	114.1	117.4	122.5	126.2	131.2	135.2	138.5	141.8
rate of deflator growth	0.2	3.9	3.9	2.9	4.3	3.0	4.0	3.0	2.4	2.4
real	511.9	535.7	559.1	569.3	648.3	666.9	697.1	738.7	790.7	848.0
rate of real growth	5.1	4.6	4.4	4.8	7.4	5.0	5.5	6.0	7.0	7.0
Water Supply & Waste Management										
nominal	124.9	137.9	152.1	164.3	176.2	187.0	200.2	214.5	230.7	250.5
deflator	137.6	144.5	144.8	149.1	155.5	160.2	166.6	171.6	175.8	180.0
rate of deflator growth	6.3	5.0	0.3	2.9	4.3	3.0	4.0	3.0	2.4	2.4
real	90.7	95.5	105.0	110.2	115.3	116.7	120.2	125.0	131.3	139.1
rate of real growth	4.2	5.2	10.0	5.0	2.8	3.0	3.0	4.0	5.0	6.0
Construction										
nominal	5145.4	4849.6	5035.1	5264.0	5420.5	5697.0	6040.5	6409.6	6763.0	7134.5
deflator	123.0	129.7	135.9	139.9	145.9	150.4	156.3	161.0	165.0	169.0
rate of deflator growth	7.0	5.4	4.8	2.9	4.3	3.0	4.0	3.0	2.4	2.4
real	4181.8	3739.2	3704.1	3763.3	3714.4	3788.7	3864.5	3980.4	4099.8	4222.8
rate of real growth	1.9	-10.6	-0.9	1.6	-1.3	2.0	2.0	3.0	3.0	3.0
Wholesale and retail trade										
nominal	6345.9	6844.9	7368.9	7749.4	8165.8	8616.0	9225.0	9931.3	10682.3	11597.3
deflator	118.3	126.1	133.2	137.1	143.0	147.3	153.2	157.8	161.6	165.6
rate of deflator growth	7.3	6.6	5.6	4.3	4.3	3.0	4.0	3.0	2.4	2.4
real	5363.2	5427.4	5532.2	5653.9	5710.5	5847.5	6022.9	6294.0	6608.7	7005.2
rate of real growth	1.7	1.2	1.9	2.2	1.0	2.4	3.0	4.5	5.0	6.0
Transport and Storage										
nominal	1462.3	1614.7	1773.0	1860.9	1625.0	1679.4	1806.8	1954.5	2122.3	2204.7
deflator	108.8	118.8	126.0	129.7	135.3	139.4	144.9	149.3	152.9	149.9
rate of deflator growth	3.4	9.1	6.1	2.9	4.3	3.0	4.0	3.0	2.4	2.4
real	1343.8	1359.5	1407.1	1435.2	1201.3	1204.9	1247.1	1309.4	1388.0	1471.2
rate of real growth	2.4	1.2	3.5	2.0	-16.3	0.3	3.5	5.0	6.0	6.0
Accommodation and Food Services										
nominal	1131.0	1211.5	1439.7	1521.5	1458.8	1506.1	1643.9	1776.2	1930.9	2096.3
deflator	116.3	119.5	128.6	132.3	138.1	142.3	147.9	152.4	156.1	159.9
rate of deflator growth	5.3	2.7	7.6	2.9	4.3	3.0	4.0	3.0	2.4	2.4
real	972.1	1013.6	1119.4	1149.6	1056.5	1058.6	1111.6	1167.1	1237.2	1311.4
rate of real growth	0.3	4.3	10.4	2.7	-8.1	0.2	5.0	5.0	6.0	6.0
Information and Communication										
nominal	1048.3	1074.2	1166.9	1243.9	1386.0	1556.7	1747.7	1944.5	2131.3	2335.7
deflator	91.0	91.0	96.5	99.3	103.6	106.7	111.0	114.3	117.1	119.9
rate of deflator growth	0.2	0.0	6.0	2.9	4.3	3.0	4.0	3.0	2.4	2.4
real	1151.8	1180.3	1209.3	1252.8	1338.0	1458.4	1575.1	1701.1	1820.2	1947.6
rate of real growth	4.4	2.5	2.5	3.6	6.8	9.0	8.0	8.0	7.0	7.0
Financial and Insurance Activities										
nominal	1881.4	1951.4	2076.0	2166.1	2194.4	2338.0	2508.1	2666.5	2827.2	2996.9
deflator	119.0	125.4	131.1	134.9	140.8	145.1	150.8	155.3	159.1	163.0
rate of deflator growth	6.7	5.4	4.5	2.9	4.3	3.0	4.0	3.0	2.4	2.4
real	1581.4	1555.8	1583.2	1605.4	1558.8	1611.8	1663.4	1716.6	1777.7	1838.9
rate of real growth	-5.0	-1.6	1.8	1.4	-2.9	3.4	3.2	3.2	3.5	3.5
Real Estate Activities										
nominal	4080.3	4453.6	4741.4	5000.9	5254.0	5494.9	5883.3	6254.9	6631.8	7030.0
deflator	120.3	126.8	132.4	136.2	142.1	146.4	152.1	156.8	160.6	164.5
rate of deflator growth	7.1	5.4	4.4	2.9	4.3	3.0	4.0	3.0	2.4	2.4
real	3392.4	3511.6	3582.1	3671.6	3697.3	3752.8	3865.4	3989.1	4128.7	4273.2
rate of real growth	4.9	3.5	2.0	2.5	0.7	1.5	3.0	3.2	3.5	3.5
Professional and Scientific										
nominal	695.6	682.4	647.1	672.5	698.2	726.6	766.6	813.4	858.3	905.4
deflator	108.7	112.3	117.4	120.8	126.1	129.9	135.0	139.1	142.5	145.9
rate of deflator growth	5.0	3.3	4.5	2.9	4.3	3.0	4.0	3.0	2.4	2.4
real	639.9	607.6	551.1	556.6	553.8	559.4	567.7	584.8	602.3	620.4
rate of real growth	-2.0	-5.0	-9.3	1.0	-0.5	1.0	1.5	3.0	3.0	3.0
Administrative and Support Services										
nominal	4704.8	5030.9	5924.2	6156.9	6487.7	6751.8	7158.9	7559.5	7976.2	8414.3
deflator	119.1	126.7	132.1	135.9	141.8	146.1	151.9	156.5	160.3	164.2
rate of deflator growth	8.4	6.4	4.2	2.9	4.3	3.0	4.0	3.0	2.4	2.4
real	3948.9	3969.3	4485.3	4539.2	4575.2	4621.2	4713.7	4831.5	4976.5	5125.7
rate of real growth	0.6	0.5	13.0	1.0	1.0	1.0	2.0	2.5	3.0	3.0
Public Administration and Defence										
nominal	3193.0	3358.0	3801.0	4067.7	4130.7	4384.9	4694.8	4981.7	5256.4	5545.1
deflator	116.2	119.9	123.4	127.0	132.5	136.5	140.2	143.6	146.2	149.8
rate of deflator growth	5.1	3.2	2.9	2.9	4.3	3.0	4.0	3.0	2.4	2.4
real	2748.6	2800.2	3079.3	3202.5	3170.5	3211.3	3307.7	3406.9	3500.1	3614.4
rate of real growth	1.7	1.9	10.0	4.0	-0.7	1.0	3.0	3.0	3.0	3.0
Education										
nominal	1675.2	1968.7	2112.9	2261.2	2429.9	2578.9	2761.1	2929.9	3091.4	3261.2
deflator	114.3	117.6	122.4	125.9	131.4	135.4	140.7	145.0	148.5	152.1
rate of deflator growth	4.6	2.8	4.1	2.9	4.3	3.0	4.0	3.0	2.4	2.4
real	1640.0	1674.6	1726.4	1795.4	1849.3	1904.8	1961.9	2020.8	2081.4	2143.8
rate of real growth	5.7	2.1	3.1	4.0	3.0	3.0	3.0	3.0	3.0	3.0
Health and Social Work Activities										
nominal	1374.8	1436.0	1515.7	1622.1	1749.3	1856.6	1987.8	2109.3	2225.6	2347.8
deflator	123.1	124.8	124.8	128.4	133.9	138.0	143.5	147.8	151.4	155.1
rate of deflator growth	4.9	1.4	-0.1	2.9	4.3	3.0	4.0	3.0	2.4	2.4
real	1116.8	1150.3	1215.0	1263.6	1306.1	1345.3	1385.7	1427.2	1470.1	1514.2
rate of real growth	15.8	3.0	5.6	4.0	3.4	3.0	3.0	3.0	3.0	3.0
Other Service Activities										
nominal	453.9	471.7	503.1	528.0	561.9	590.5	626.1	658.0	694.2	732.4
deflator	113.5	121.9	128.6	132.3	136.0	142.2	147.8	152.3	156.0	159.8
rate of deflator growth	0.3	7.4	5.5	2.9	4.3	3.0	4.0	3.0	2.4	2.4
real	399.8	387.0	391.3	399.1	407.1	415.2	423.5	432.0	445.0	458.3
rate of real growth	-2.1	-3.2	1.1	2.0	2.0	2.0	2.0	2.0	3.0	3.0
Total GDP										
nominal	65038.2	72521.6	79404.7	84108.6	81627.0	90265.5	99383.3	104916.7	110879.6	117150.8
rate of nominal growth	8.1	11.5	9.5	5.9	-3.0	10.6	10.1	5.6	5.7	5.7
deflator	105.3	115.0	126.2	126.3	127.4	136.2	143.9	148.3	152.8	156.6
real	61742.2	63072.4	62896.3	66581.9	64050.2	66271.6	69052.2	70737.0	72586.5	74726.7
rate of real growth	4.1	2.2	-0.3	5.9	-3.8	3.5	4.2	2.4	2.6	2.9
Total non-mining GDP										
nominal	49518.1	53139.3	57279.5	60779.5	62610.7	67132.4	72508.8	77353.0	82467.0	88154.7
rate of nominal growth	8.5	7.3	7.8	6.1	2.0	7.2	8.0	6.7		

**Table 2: Contributions to Growth in Real Gross Domestic Product
(Percentage points)**

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Actual	Actual	Actual	Actual	Actual	Actual	Est	Proj	Proj	Proj	Proj	Proj	Proj
Agriculture, Forestry and Fishing	0.9	0.7	-0.5	0.4	0.4	0.7	0.0	0.3	0.6	0.6	0.5	0.5	0.5
Oil and Gas Extraction	0.1	9.5	12.5	1.4	-0.5	-3.3	3.7	-0.6	0.2	0.2	0.0	0.0	0.0
Mining and Quarrying	0.6	0.5	0.2	1.6	1.6	0.3	0.5	-2.4	0.9	1.4	0.0	0.0	0.0
Manufacturing	0.0	0.0	-0.3	0.1	0.1	-0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Electricity Gas & Airconditioning	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	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
Construction	-0.3	0.4	-1.0	0.1	-0.7	-0.1	0.1	-0.1	0.1	0.1	0.2	0.2	0.2
Wholesale and retail trade	0.4	0.1	-0.6	0.2	0.1	0.2	0.2	0.1	0.2	0.3	0.4	0.4	0.5
Transport and Storage	0.2	-0.4	0.1	0.1	0.0	0.1	0.0	-0.4	0.0	0.1	0.1	0.1	0.1
Accommodation and Food Services	0.1	0.0	0.0	0.0	0.1	0.2	0.0	-0.1	0.0	0.1	0.1	0.1	0.1
Information and Communication	0.0	0.6	0.1	0.1	0.0	0.0	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Financial and Insurance Activities	0.5	-0.8	-0.6	-0.1	0.0	0.0	0.0	-0.1	0.1	0.1	0.1	0.1	0.1
Real Estate Activities	0.4	0.2	0.2	0.3	0.2	0.1	0.1	0.0	0.1	0.2	0.2	0.2	0.2
Professional and Scientific	-0.1	-0.1	-0.3	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Administrative and Support Services	-0.3	0.2	-0.2	0.0	0.0	0.8	0.1	0.1	0.1	0.1	0.2	0.2	0.2
Public Administration and Defence	0.4	0.6	0.2	0.1	0.1	0.4	0.2	0.0	0.0	0.1	0.1	0.1	0.1
Education	0.4	0.2	0.1	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	0.0	0.0	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other Service Activities	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL GDP*	3.8	13.5	9.5	4.1	2.2	-0.3	5.9	-3.8	3.5	4.2	2.4	2.6	2.9
Total Non-mining GDP	3.6	4.1	-4.1	1.5	1.5	4.0	2.4	-1.1	3.3	3.7	3.5	3.7	4.2

Source: Department of Treasury

Table 3: Prices of Main Export Commodities

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Proj	Proj	Proj	Proj	Proj	Proj
AGRICULTURE													
Copra	835	1322	1339	1848	2374	2309	2386	2449	2611	2778	2806	2834	2863
Cocoa	4591	7156	8260	9358	6329	7552	7934	8177	8506	9049	9141	9233	9326
Coffee	6947	9327	9220	9358	10714	10128	10228	12195	14067	15439	15985	16146	16309
Palm Oil	1866	2111	1720	1877	2155	1884	1839	2077	2255	2399	2423	2448	2472
Rubber	5621	4287	3534	3333	4655	3911	4006	4131	4328	4236	4125	4083	4124
Tea	3577	4021	3939	4222	4727	4107	4233	3997	3918	3835	3734	3696	3734
Copra Oil	1815	2586	2690	3358	4519	3430	2484	3147	3349	3563	3599	3635	3672
Logs (K/m³)	220	250	269	294	302	304	327	267	298	321	325	328	331
MINERALS													
Gold (US\$/oz)	1411	1266	1160	1248	1258	1270	1392	1783	1961	1985	2005.8	2024.5	2044.6
Silver (US\$/oz)													
Copper (US\$/ton)	7331	6864	5502	4865	6166	6517	6006	6004	6584	6584	6598.4	6629.1	6673.9
Oil (Kutubu Crude: US\$/barrel)	104	93	49.0	44	51	65	57	39	44	45	46.0	47.4	48.3
LNG (US\$ per thousand cubic feet)		14.4	7.9	7.1	8.1	10.2	10.6	8.0	8.7	8.8	9.0	9.3	9.3
Condensate (US\$/barrel)		93	49	44	51	65	57	39	44	45	46.0	47.4	48.3
Nickel (US\$/tonne)	15030	16847	11831	9595	10415	13109	10960	10639	11145	11817	12324.0	12591.8	12800.0
Cobalt (US\$/tonne)	24600	30724	29255	25639	55988	72820	22836	21483	24598	27250	29375.5	30583.8	31250.5

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

Table 4: Volume of Main Export Commodities

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Proj	Proj	Proj	Proj	Proj	Proj
AGRICULTURE													
Copra	15.8	48.2	33.6	43.5	50.6	63.6	36.6	35.7	40.3	41.7	41.7	41.7	41.7
Cocoa	38.7	33.6	30.9	40.1	31.9	33.3	26.4	29.7	31.1	43.8	49.0	54.9	54.8
Coffee	48.5	48.4	42.8	68.0	47.8	52.1	47.2	45.1	47.2	51.2	45.5	51.2	52.2
Palm Oil	487.2	514.8	486.9	540.7	621.8	614.3	581.0	595.7	599.0	595.0	590.9	574.7	586.0
Rubber	3.4	3.2	2.2	2.4	2.9	4.9	3.4	2.9	2.8	2.8	3.0	3.1	3.3
Tea	2.9	2.1	1.3	0.9	1.1	0.5	0.4	0.3	0.4	0.4	0.4	0.4	0.4
Copra Oil	13.5	11.1	14.6	17.9	16.2	13.7	15.6	11.6	12.6	15.8	16.3	16.3	16.3
Logs	3317.0	3793.0	3868.0	3655.0	3260.5	4040.0	3684.0	2855.2	2992.1	3469.5	3469.5	3469.5	3469.5
Marine products	46.2	78.2	99.4	174.5	165.5	202.2	196.3	202.2	208.3	214.5	220.9	227.6	234.4
MINERAL													
Gold (tonnes)	55.0	58.1	53.5	59.4	63.0	63.2	73.9	52.9	55.9	60.6	61.6	62.6	63.6
Silver (tonnes)				19.1	36.1	33.7	53.6	48.2	31.3	36.7	36.7	34.1	34.1
Copper (tonnes)	92.9	89.6	46.4	71.0	100.4	87.4	111.0	88.8	110.9	139.6	139.6	139.6	139.6
Oil (million barrels)	8.3	8.2	7.0	9.5	7.3	4.1	3.6	4.4	4.6	4.6	4.6	4.6	2.0
LNG (Tbtu)		187.0	377.8	389.1	447.0	382.0	433.0	446.0	430.0	438.0	438.0	438.0	438.0
Condensate (MB)		6.2	10.6	11.3	10.9	8.9	11.0	10.0	10.0	10.0	10.0	10.0	10.0
Nickle (tonnes)	15,900.0	20,900.0	21,600.0	22,400.0	35,800.0	25,500.0	40,300.0	28,996.9	33,000.0	33,000.0	33,000.0	33,000.0	33,000.0
Cobalt (tonnes)	1400.0	2100.0	2100.0	2300.0	3400.0	2900.0	3600.0	2537.1	2880.0	2880.0	2880.0	2880.0	2880.0

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

Table 5: Value of Main Export Commodities

Kina Million

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Proj	Proj	Proj	Proj	Proj	Proj
AGRICULTURE, FORESTRY, FISHERIES													
Copra	13.2	63.7	45.0	80.4	120.1	146.9	87.3	87.4	105.3	115.7	116.9	118.1	119.3
Copra Oil	24.5	28.7	39.2	60.1	73.2	46.8	38.8	36.7	42.1	56.3	58.7	59.2	59.8
Cocoa	206.0	243.1	255.7	359.9	202.0	251.5	209.5	242.6	264.5	396.2	448.2	507.1	510.9
Coffee	336.7	450.3	393.5	646.9	450.1	528.0	482.8	550.0	664.3	790.9	727.9	827.1	850.6
Palm Oil	903.5	1086.4	837.6	1014.7	1339.7	1157.2	1068.3	1237.0	1350.7	1427.4	1431.8	1406.7	1448.8
Rubber	19.4	13.8	7.9	8.0	13.5	19.1	13.6	11.9	12.3	12.0	12.3	12.8	13.6
Tea	10.4	8.4	4.9	3.8	5.2	2.0	1.7	1.2	1.6	1.6	1.5	1.5	1.5
Other Agriculture (a)	252.6	325.4	243.2	303.7	609.8	253.2	254.1	297.2	332.3	365.2	386.8	409.8	434.1
Forest Products	724.1	950.3	1040.1	1083.7	999.8	1002.0	1238.9	761.3	890.9	1115.3	1126.6	1137.9	1149.4
Marine Products	234.4	354.9	497.1	1046.6	1316.6	1120.7	1127.6	1207.3	1303.3	1398.3	1501.9	1616.9	1740.8
Total Agricultural, Forestry, Fishing Exports	2724.8	3525.0	3364.2	4607.8	5130.0	4527.5	4522.4	4432.5	4967.2	5678.9	5812.5	6097.2	6328.8
MINERAL													
Gold	5414.6	5462.5	5376.5	6976.4	7612.2	8493.3	11205.2	10484.8	12968.2	15148.8	15717.0	16281.3	16872.4
Copper	1524.8	1510.7	746.5	1114.9	1962.2	1821.2	2193.3	1790.1	2609.4	3495.5	3538.5	3590.9	3651.7
Silver	102.4	83.3	61.2	32.8	63.1	62.5	93.3	86.5	59.9	74.6	75.3	70.8	71.5
Oil	2030.9	2086.0	1003.4	1253.8	1255.9	910.2	741.4	921.2	693.7	826.7	859.8	802.4	826.0
LNG		5695.1	9841.1	8188.9	10467.5	13835.1	15600.2	11745.3	13710.6	15150.7	15568.0	16200.7	16512.3
Condensate		1383.4	1502.6	1592.3	1935.1	574.6	627.4	393.6	439.0	452.0	460.3	474.2	0.0
Nickel	426.9	883.2	695.1	668.2	1179.0	1101.7	1494.8	1066.8	1353.6	1526.9	1608.5	1660.0	1704.5
Cobalt	129.1	112.1	164.6	195.2	614.1	572.5	280.4	188.5	260.7	307.3	334.6	351.9	363.2
Refined Petroleum Products	978.2	871.5	541.3	862.5	1196.5	1394.5	1293.7	925.6	1125.7	1257.7	13.2	14.0	14.7
Total Mineral Exports	10606.9	18087.8	19932.3	20885.0	26285.6	28765.6	33529.8	27602.5	33220.8	38240.2	38175.2	39446.1	40016.3
TOTAL EXPORT VALUE	13331.7	21612.8	23296.5	25492.8	31415.6	33293.1	38052.3	32035.0	38188.0	43919.1	43987.7	45543.3	46345.1

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													
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Proj	Proj	Proj	Proj	Proj	Proj
CURRENT ACCOUNT BALANCE	-7908.1	5950.9	12145.9	16064.7	16732.7	17342.4	17186.1	13787.3	16794.4	19427.0	19253.8	19806.6	19765.9
Trade Balance	-6598.5	6656.8	12946.6	16052.3	17513.4	18118.4	19582.1	16353.7	19518.9	22385.6	22416.3	23189.4	23581.5
<i>Goods Balance</i>	1189.9	11768.0	16233.1	19006.2	21658.1	22134.0	24389.1	20331.8	24338.6	28002.1	28005.7	28970.8	29440.9
Credit (Exports)	13332	21613	23297	25493	31416	33702	38052	32035	38188	43919	43988	45543	46345
Debit (Imports)	-12142	-9845	-7063	-6487	-9757	-11568	-13663	-11703	-13849	-15917	-15982	-16573	-16904
<i>Services Balance</i>	-7788.4	-5111.2	-3286.5	-2953.9	-4144.7	-4015.6	-4807.0	-3978.1	-4819.7	-5616.4	-5589.5	-5781.4	-5859.4
Services Credit	937	516	404	403	950	1426	1080	1112	1193	1288	1374	1465	1566
Services Debit	-8726	-5627	-3691	-3357	-5095	-5442	-5887	-5090	-6012	-6905	-6964	-7247	-7426
Income Balance	-1448.4	-988.8	-1095.3	-720.2	-1429.8	-2032.7	-3552.9	-3660.0	-3924.3	-4238.6	-4521.8	-4820.7	-5153.2
Income Credit	87	40	27	16	74	103	212	218	234	253	270	287	307
Income Debit	-1535	-1029	-1122	-736	-1504	-2136	-3765	-3878	-4158	-4491	-4791	-5108	-5460
Transfers Balance	138.8	282.9	294.6	732.6	649.1	1256.7	1156.9	1093.5	1199.8	1280.0	1359.3	1437.9	1337.6
Transfers Credit	1076	1131	1047	1240	1394	1577	1537	1478	1593	1685	1774	1863	1774
Transfers Debit	-937	-848	-752	-508	-745	-320	-381	-384	-394	-405	-414	-425	-436
CAPITAL AND FINANCIAL ACCOUNT(a)	6189	-8000	-12831	-16203	-16697	-17342	-17186	-13787	-16794	-19427	-19254	-19807	-19766
NET ERRORS AND OMISSIONS	1718.7	2049.0	685.1	138.0	-35.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current account balance as percentage of Gross Domestic Product (GDP)	-16.6	10.4	20.2	24.7	23.1	21.8	20.4	16.9	18.6	19.5	18.4	17.9	16.9

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

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Annual	Annual	Annual	Annual	Annual	Annual	Annual	Annual	Annual	Annual	Jun Qtr*
Retail	129.4	135.2	153.8	167.9	162.4	159.6	148.6	141.7	132.7	136.3	130.2
Wholesale	172.6	192.2	197.6	217.1	215.4	207.5	204.0	193.0	198.4	194.0	187.9
Manufacturing	163.7	176.6	185.2	198.7	188.3	180.2	178.4	169.4	167.7	180.4	188.7
Building and Construction	187.5	172.0	188.0	213.7	266.6	262.5	242.3	184.7	164.4	147.5	113.5
Transportation	122.0	150.8	165.2	177.0	174.4	172.7	172.4	163.3	150.2	132.3	120.3
Agriculture, Forestry, Fisheries	156.5	168.9	173.7	168.3	170.4	168.1	165.2	165.9	157.7	158.7	173.5
Financial and Business	132.5	136.3	139.9	133.6	124.4	123.7	119.6	121.7	126.2	130.3	112.5
TOTAL NON-MINERAL	149.6	159.4	168.625	173.9	173.6	169.7	166.1	156.5	151.5	151.9	150.2
MINERAL	150.7	163.6	177.7	266.1	240.1	241.2	262.2	281.8	304.4	359.3	355.3

Source: BPNG.

* June Quarter Preliminaries

Table 8: Monetary Aggregates

Kina Million											
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Annual	Jun Qtr*
Domestic Credit	7169.4	7703.8	8833.6	10103.8	11724.1	13054.7	13920.3	13794.3	14569.1	15323.8	15607.6
% Change	7.6	7.5	14.7	14.4	16.0	11.3	6.6	-0.9	5.6	5.2	7.1
Net Credit to Central Government	-202.8	-1076.8	297.0	2755.5	4163.8	5345.3	9008.7	9155.4	6810.6	7150.4	7779.9
% Change	-135.3	431.0	-127.6	827.8	51.1	28.4	68.5	1.6	-25.6	5.0	14.2
Credit to Private Sector	6945.4	7519.0	8434.3	9910.6	10263.9	10611.9	11379.1	10972.9	11757.04	12231.89	12923.7
% Change	17.7	8.3	12.2	17.5	3.6	3.4	7.2	-3.6	7.1	4.0	9.9
Money Supply	13175.7	15292.2	16966.8	18105.6	18716.3	20218.6	22417.1	22275.0	21377.6	22312.0	22354.0
% Change	11.4	16.1	11.0	6.7	3.4	8.0	10.9	-0.6	-4.0	4.4	4.6
Money Velocity (M3*) (average)	2.9	2.8	2.6	2.6	3.1	3.0	2.9	3.3	3.7	3.8	3.7

Source: BPNG

*June Quarter Preliminaries

Table 9: Major Assumptions Underlying the Budget

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Actual	Actual	Actual	Actual	Actual	Est	Proj	Proj	Proj	Proj	Proj	Proj
Economic Growth												
Total Real GDP (%)	13.5	9.5	4.1	2.2	-0.3	5.9	-3.8	3.5	4.2	2.4	2.6	2.9
Non-mining Real GDP (%)	4.1	-4.1	1.5	1.5	4.0	2.4	-1.1	3.3	3.7	3.5	3.7	4.2
Inflation												
Average on Average (%)	5.2	6.0	6.7	5.4	4.7	3.6	4.0	4.8	4.2	4.3	4.5	4.5
Dec on Dec (%)	6.6	6.4	6.6	4.7	4.9	2.8	3.5	5.8	3.8	4.6	3.7	3.7
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	143.6
Interest rate												
Kina Rate Facility (KFR)	6.25	6.25	6.25	6.25	6.25	5.50	3.00	3.00	3.00	3.00	3.00	3.00
Inscribed Stock (3 year yield)	8.0	9.7	9.7	9.7	9.0	10.5	9.0	9.8	9.8	9.8	9.8	9.8
Mineral Prices												
Gold (US\$/oz)	1266	1160	1248	1258	1270	1392	1783	1961	1985	2006	2024	2045
Copper (US\$/ton)	6864	5502	4865	6166	6517	6006	6004	6584	6584	6598	6629	6674
Oil (Kutubu Crude: US\$/barrel)	93	49	44	51.0	64.5	57.0	39.2	43.9	45.2	46.0	47.4	48.3
LNG (US\$ per thousand cubic feet)	14	7.9	7.1	8.1	10.2	10.6	8.0	8.7	8.8	9.0	9.3	9.3
Condensate (US\$/barrel)	93	49	44	51.0	64.5	57.0	39.2	43.9	45.2	46.0	47.4	48.3
Nickel (US\$/tonne)	16847	11831	9595	10415	13109	10960	10639	11145	11817	12324	12592	12800
Cobalt (US\$/tonne)	30724	29255	25639	55988	72820	22836	21483	24598	27250	29375	30584	31250

Source: Department of Treasury.

Table 10: Statement of Operations for General Government

Kina Million	Actual	Budget Estimates		Projections				
	2018	2019	2020 Suppl. Budget	2021 Budget	2022	2023	2024	2025
TRANSACTIONS AFFECTING NET WORTH:								
Revenue	14,085.0	13,680.5	11,359.1	12,995.0	15,095.1	17,041.6	18,833.9	20,626.1
Taxes	10,475.8	10,918.1	9,647.2	11,109.7	12,579.7	14,455.1	16,314.0	18,091.4
<i>Taxes on Income, profits, and capital gains</i>	6,119.2	6,070.4	5,470.6	5,945.3	6,471.9	7,371.2	8,259.4	9,058.7
<i>Taxes on payroll and workforce</i>	8.6	1.9	1.4	0.0	0.0	0.0	0.0	0.0
<i>Taxes on goods and services</i>	3,537.3	3,936.6	3,437.9	4,351.1	5,147.7	6,004.4	6,858.2	7,706.3
<i>Taxes on international trade and transactions</i>	810.7	909.3	737.3	813.3	960.1	1,079.5	1,196.3	1,326.3
Grants	1,835.7	1,775.6	932.1	1,008.3	1,092.7	1,076.5	1,145.8	1,215.0
Other Revenue	1,773.5	986.8	779.8	877.0	1,422.7	1,509.9	1,374.1	1,319.7
<i>Dividends</i>	1,033.5	501.2	500.0	650.0	600.0	600.0	400.0	400.0
<i>Statutory Transfers</i>	655.0	405.0	205.0	121.1	456.2	477.3	491.3	491.3
<i>Fees and Charges</i>	85.1	80.5	73.9	103.2	243.8	279.9	330.1	275.7
<i>SWF Inflows</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Interest & Fees from Lending</i>	0.0	0.0	0.7	0.7	0.7	0.7	0.7	0.7
Resource Revenue	1,428.5	1,141.9	511.2	813.6	948.4	1,039.6	832.2	1,051.9
<i>Mining and Petroleum Taxes</i>	775.0	760.7	161.2	313.6	448.4	539.6	532.2	751.9
<i>Mining, Petroleum and Gas Dividends</i>	653.5	381.2	350.0	500.0	500.0	500.0	300.0	300.0
<i>Transfer from the Stabilization Fund (SWF)</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Revenue as percentage of GDP</i>	<i>17.7%</i>	<i>16.3%</i>	<i>13.9%</i>	<i>14.4%</i>	<i>15.2%</i>	<i>16.2%</i>	<i>17.0%</i>	<i>17.6%</i>
Total Expenditure and lending	16,134.2	17,852.5	17,989.3	19,607.8	20,390.2	20,367.1	21,126.6	22,386.1
<i>Expense as percentage of GDP</i>	<i>20.3%</i>	<i>21.2%</i>	<i>22.0%</i>	<i>21.7%</i>	<i>20.5%</i>	<i>19.4%</i>	<i>19.1%</i>	<i>19.1%</i>
Expense²	14,021.4	14,811.3	14,482.8	15,852.7	16,457.2	16,506.9	17,095.7	18,052.7
Compensation of employees	5,198.4	5,423.8	5,762.8	5,706.5	5,626.6	5,371.8	5,404.0	5,420.5
Use of goods and services	4,879.2	5,800.7	3,756.8	5,815.5	6,462.4	6,547.0	6,771.3	7,412.9
Interest	1,853.3	2,129.1	2,048.0	2,254.9	2,206.7	2,510.0	2,780.0	2,973.7
Grants	1,999.8	1,371.6	2,583.9	1,965.6	2,049.6	1,965.6	2,025.5	2,127.3
Social benefits	0.9	0.0	217.7	54.3	53.6	51.1	51.4	51.6
Other expense	89.9	86.1	113.6	55.8	58.4	61.5	63.4	66.7
Net Acquisition of Non-Financial Assets*	2,112.8	3,041.2	3,506.4	3,755.1	3,933.0	3,860.2	4,030.9	4,333.4
Fixed Assets	2,112.8	3,041.2	3,506.4	3,755.1	3,933.0	3,860.2	4,030.9	4,333.4
Gross Operating Balance³	63.6	-1,130.8	-3,123.7	-2,857.7	-1,362.1	534.6	1,738.2	2,573.4
Net Lending (+) / Net Borrowing (-)	-2,049.2	-4,172.1	-6,630.2	-6,612.8	-5,295.1	-3,325.5	-2,292.7	-1,760.0
<i>Net lending/borrowing as percentage of GDP</i>	<i>-2.6%</i>	<i>-5.0%</i>	<i>-8.1%</i>	<i>-7.3%</i>	<i>-5.3%</i>	<i>-3.2%</i>	<i>-2.1%</i>	<i>-1.5%</i>
Primary Balance ⁴	-195.9	-2,043.0	-4,582.2	-4,357.9	-3,088.5	-815.6	487.2	1,213.7
Non-resource net lending (+)/borrowing (-)	-3,477.7	-5,314.0	-7,141.3	-7,426.4	-6,243.5	-4,365.1	-3,124.9	-2,811.9
Non-resource primary balance	-1,624.4	-3,184.9	-5,093.4	-5,171.5	-4,036.9	-1,855.2	-345.0	161.8
Transactions in financial assets and liabilities	2,049.2	4,172.0	6,630.2	6,612.8	5,295.0	3,325.0	2,292.0	1,759.9
Net Acquisition of Financial Assets	-1,373.81	-783.90	-445.60	-	-	-	-	-
Domestic	-1,373.81	-783.90	-445.60	-	-	-	-	-
External	-	-	-	-	-	-	-	-
Net Incurrence of Liabilities	3,423.0	3,388.1	6,184.6	6,612.8	5,295.0	3,325.0	2,292.0	1,759.9
Domestic	-173.3	1,054.2	1,923.0	2,000.0	3,244.5	2,003.5	1,241.3	711.9
<i>Debt securities: Treasury bills</i>	-516.9	1,513.7	328.1	500.0	1,304.3	584.2	465.0	466.0
<i>Debt securities: Treasury bonds</i>	343.6	-355.7	1,695.4	1,600.6	2,040.7	1,519.8	876.8	346.5
<i>Loans</i>	-146.0	-103.8	-100.5	-100.5	-100.5	-100.5	-100.5	-100.5
External	3,596.3	2,333.9	4,261.6	4,612.8	2,050.5	1,321.4	1,050.7	1,048.0
<i>Debt securities: Sovereign bonds</i>	1,672.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Loans</i>	1,924.1	2,333.9	4,261.6	4,612.8	2,050.5	1,321.4	1,050.7	1,048.0
Gross Domestic Product⁵	79,404.7	84,108.6	81,627.0	90,265.5	99,383.3	104,916.7	110,879.6	117,150.8

Source: Department of Treasury

1. General government represents national and provincial governments, the Autonomous Bougainville government and commercial and

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 accounts in PNG.

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 and services.

Economic Items Descriptions1. **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) fund2. **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 schemes4. **Other Expense** – comprises mainly of TESAS and other education and health schemes and5. **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			
	2018	2019	2020 Suppl.	2021 Budget	2022	2023	2024	2025
CASH FLOWS FROM OPERATING ACTIVITIES								
Revenue Cash Flows	12,248.8	11,904.9	10,427.0	11,986.7	14,002.4	15,965.0	17,688.1	19,411.1
Taxes	10,475.8	10,918.1	9,647.2	11,109.7	12,579.7	14,455.1	16,314.0	18,091.4
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Revenue	1,773.5	986.8	779.8	877.0	1,422.7	1,509.9	1,374.1	1,319.7
<i>Revenue as percentage of GDP</i>	<i>15.4%</i>	<i>14.2%</i>	<i>0.1</i>	<i>13.3%</i>	<i>14.1%</i>	<i>15.2%</i>	<i>16.0%</i>	<i>16.6%</i>
Expense cash flows²	12,061.2	13,203.9	13,149.1	14,595.6	15,119.2	15,196.2	15,714.2	16,601.3
Compensation of employees	5,074.6	5,281.5	5,578.9	5,511.9	5,434.8	5,188.7	5,219.8	5,235.7
Uses of goods and services	4,879.2	5,800.7	3,756.8	5,815.5	6,462.4	6,547.0	6,771.3	7,412.9
Interest	1,853.3	2,129.1	2,048.0	2,254.9	2,206.7	2,510.0	2,780.0	2,973.7
Grants	164.2	-404.0	1,651.8	957.3	956.9	889.1	879.8	912.3
Other payments	89.9	396.5	113.6	55.8	58.4	61.5	63.4	66.7
<i>Expense as percentage of GDP</i>	<i>15.2%</i>	<i>15.7%</i>	<i>16.1%</i>	<i>16.2%</i>	<i>15.2%</i>	<i>14.5%</i>	<i>14.2%</i>	<i>14.2%</i>
Net cash inflow from operating activities	187.6	-1,299.0	-2,722.1	-2,608.9	-1,116.8	768.9	1,973.8	2,809.8
CASH FLOWS FROM TRANSACTIONS IN NONFINANCIAL ASSETS:								
Net cash outflow from investment in nonfinancial assets	2,112.8	3,041.2	3,506.4	3,755.1	3,933.0	3,860.2	4,030.9	4,333.4
Expenditure cash flows	14,173.9	16,245.1	16,655.6	18,350.7	19,052.2	19,056.3	19,745.2	20,934.8
Cash surplus (+) / Cash deficit (-)	-1,925.2	-4,340.3	-6,228.5	-6,364.0	-5,049.8	-3,091.3	-2,057.1	-1,523.7
<i>Surplus/Deficit as percentage of GDP</i>	<i>-2.4%</i>	<i>-5.2%</i>	<i>-7.6%</i>	<i>-7.1%</i>	<i>-5.1%</i>	<i>-2.9%</i>	<i>-1.9%</i>	<i>-1.3%</i>
CASH FLOWS FROM TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES (FINANCING):								
Transactions in financial assets and liabilities	2,049.2	3,388.1	5,739.0	6,612.8	5,295.0	3,325.0	2,292.0	1,759.9
Net acquisition of financial assets other than cash	- 1,373.81	- 445.60	- 445.60	-	-	-	-	-
Domestic	- 1,373.81	- 783.90	- 445.60	-	-	-	-	-
External	-	-	-	-	-	-	-	-
Net incurrence of liabilities	3,423.0	3,388.1	6,184.6	6,612.8	5,295.0	3,325.0	2,292.0	1,759.9
Domestic	-173.3	1,054.2	1,923.0	2,000.0	3,244.5	2,003.5	1,241.3	711.9
External	3,596.3	2,333.9	4,261.6	4,612.8	2,050.5	1,321.4	1,050.7	1,048.0
Net cash inflow from financing activities	4,796.8	3,388.1	6,630.2	6,612.8	5,295.0	3,325.0	2,292.0	1,759.9
<i>Net cash inflow as percentage of GDP</i>	<i>6.0%</i>	<i>4.0%</i>	<i>8.1%</i>	<i>7.3%</i>	<i>5.3%</i>	<i>3.2%</i>	<i>2.1%</i>	<i>1.5%</i>
Net change in the stock of cash	2,871.7	-952.2	401.7	248.8	245.2	233.7	234.9	236.3
Gross Domestic Product³	79,404.7	84,108.6	81,627.0	90,265.5	99,383.3	104,916.7	110,879.6	117,150.8

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*

**Table 12: General Government Revenue 2014 GFS Economic Classification
(Kina Million)**

Kina Million	Actual		Budget Estimates		Projections			
	2018	2019	2020 Supp Budget	2021 Budget	2022	2023	2024	2025
REVENUE¹	14,085.0	13,680.5	11,359.1	12,995.0	15,095.1	17,041.6	18,833.9	20,626.1
TAXES	10,475.8	10,918.1	9,647.2	11,109.7	12,579.7	14,455.1	16,314.0	18,091.4
Taxes on Income, Profits and Capital Gains	6,119.2	6,070.4	5,470.6	5,945.3	6,471.9	7,371.2	8,259.4	9,058.7
Payable by individuals	3,101.9	3,211.6	3,308.0	3,455.7	3,711.5	4,376.1	5,062.1	5,367.9
Personal Income Tax	3,101.9	3,211.6	3,308.0	3,455.7	3,711.5	4,376.1	5,062.1	5,367.9
Salaries/Wages (Group Tax)	-	-	-	-	-	-	-	-
Individual Income Tax (Assessed)	-	-	-	-	-	-	-	-
Payable by corporations and other enterprises	2,751.9	2,500.6	1,865.0	2,100.3	2,341.8	2,547.6	2,722.5	3,198.9
Company Tax	1,933.0	1,696.9	1,648.6	1,724.0	1,826.5	1,936.9	2,115.9	2,361.8
Mining and Petroleum Taxes	775.0	760.7	161.2	313.6	448.4	539.6	532.2	751.9
Royalties Tax	26.3	25.8	33.7	37.6	40.2	42.6	44.3	45.5
Management Tax	17.6	17.2	21.5	25.1	26.7	28.5	30.1	39.7
Other taxes on income, profits and capital gains	265.4	358.2	297.6	389.3	418.5	447.4	474.8	491.8
Dividend Withholding Tax Mining	-	-	-	-	-	-	-	-
Dividend Withholding Tax Non Mining	154.6	215.0	171.0	218.4	232.7	250.0	266.7	273.9
Interest Withholding Tax	110.8	128.0	5.0	131.9	142.3	152.8	162.8	172.1
Tax Related Court Fines	-	14.6	121.4	38.8	43.3	44.4	45.1	45.1
Sundry IRC Taxes & Income	-	0.6	0.2	0.2	0.2	0.2	0.2	0.7
Taxes on Payroll and Workforce	8.6	1.9	1.4	-	-	-	-	-
Taxes on Goods and Services	3,537.3	3,936.6	3,437.9	4,351.1	5,147.7	6,004.4	6,858.2	7,706.3
General taxes on goods and services	2,167.4	2,299.2	2,038.2	2,591.0	3,110.5	3,669.6	4,224.3	4,769.9
Value Added Tax	2,067.1	2,252.5	2,002.9	2,494.8	3,005.2	3,553.9	4,100.5	4,644.7
GST ²	2,067.1	2,252.5	2,002.9	2,494.8	3,005.2	3,553.9	4,100.5	4,644.7
GST Collection at Provinces	1,120.3	1,368.2	1,305.9	1,706.1	1,981.9	2,315.3	2,663.4	3,007.0
GST Collection at Ports	1,089.0	1,106.4	979.5	1,128.8	1,338.8	1,577.2	1,808.3	2,058.1
GST Refunds	288.3	276.5	282.6	340.2	315.5	338.6	371.1	420.4
GST from IRC Trust	146.0	54.4	-	-	-	-	-	-
Taxes on financial and capital transactions	100.3	46.6	35.3	96.2	105.3	115.7	123.8	125.2
Bank Account Debit Fees	100.3	46.6	35.3	96.2	105.3	115.7	123.8	125.2
Stamp Duties	-	-	-	-	-	-	-	-
Excise	1,074.8	1,360.7	1,237.9	1,469.6	1,733.6	2,013.2	2,293.1	2,574.3
Excise Duty	774.0	1,061.0	964.2	1,175.1	1,415.5	1,673.9	1,931.4	2,187.7
Import Excise	300.8	299.7	273.7	294.5	318.1	339.3	361.7	386.7
Profits of fiscal monopolies	248.1	273.0	156.9	284.5	297.4	315.4	334.6	355.3
Taxes on specific services	20.4	17.2	10.2	21.2	22.9	24.4	26.0	28.4
Bookmakers' Turnover Tax	205.1	227.2	140.2	255.1	265.6	281.5	298.4	316.3
Gaming Machine Turnover Tax	22.6	28.6	6.6	8.2	8.9	9.5	10.1	10.5
Departure Tax	2.8	2.5	2.9	3.5	3.5	3.5	3.5	4.0
Taxes on use of goods and on permission to use goods or perfo	2.2	2.0	2.3	2.3	2.3	2.3	2.3	3.3
Motor vehicles taxes	1.8	2.0	2.3	2.3	2.3	2.3	2.3	2.3
Motor Vehicle Registration	0.4	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Commercial Vehicle Licenses	0.6	0.5	0.6	1.2	1.2	1.2	1.2	0.7
Other taxes on use of goods and on permission to use goods	-	-	-	-	-	-	-	-
Bookmakers' Licenses	0.3	0.2	0.3	0.5	0.5	0.5	0.5	-
Coastal Trading Licenses	-	-	-	-	-	-	-	-
Registration of Vessels	0.2	0.2	0.2	0.4	0.4	0.4	0.4	0.4
Inflammable Liquid	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Trade Licenses	-	-	-	-	-	-	-	-
Mobile Phone Licenses	-	-	-	-	-	-	-	-
Import and export trade licences	-	-	-	-	-	-	-	-
Insurers' and Brokers' Licences	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Banking & Financial Institutions License	-	-	-	-	-	-	-	-
Liquor Licensing Fee	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Motor Vehicle Trade Licenses	44.3	1.2	2.0	2.6	2.8	2.7	2.8	2.8
Other taxes on goods and services	44.3	1.2	2.0	2.6	2.8	2.7	2.8	2.8
Sundry Taxes (Customs)	810.7	909.3	737.3	813.3	960.1	1,079.5	1,196.3	1,326.3
Taxes on International Trade and Transactions	418.3	511.2	347.3	417.7	495.4	583.6	669.1	761.5
Customs and other import duties	325.3	409.4	347.3	417.7	495.4	583.6	669.1	761.5
Import Duty	392.4	398.1	390.0	395.6	464.8	495.9	527.2	564.8
Export Tax	392.4	398.1	390.0	395.6	464.8	495.9	527.2	564.8
GRANTS	1,835.7	1,775.6	932.1	1,008.3	1,092.7	1,076.5	1,145.8	1,215.0
From Foreign Governments	1,562.4	1,408.5	766.2	766.2	766.2	766.2	766.2	800.3
Current	1,249.9	1,126.8	612.9	612.9	612.9	612.9	612.9	630.0
Cash	-	-	-	-	-	-	-	-
In-Kind	1,249.9	1,126.8	612.9	612.9	612.9	612.9	612.9	630.0
Capital	312.5	281.7	153.2	153.2	153.2	153.2	153.2	170.3
Cash	-	-	-	-	-	-	-	-
In-Kind	312.5	281.7	153.2	153.2	153.2	153.2	153.2	170.3
From International Organizations	273.3	367.1	165.9	242.1	326.5	310.4	379.6	414.7
Current	218.6	293.7	132.7	208.9	293.3	277.2	346.4	364.5
Cash	-	-	-	-	-	-	-	-
In-Kind	218.6	293.7	132.7	208.9	293.3	277.2	346.4	364.5
Capital	54.7	73.4	33.2	33.2	33.2	33.2	33.2	50.2
Cash	-	-	-	-	-	-	-	-
In-Kind	54.7	73.4	33.2	33.2	33.2	33.2	33.2	50.2
OTHER REVENUE	1,773.5	986.8	779.8	877.0	1,422.7	1,509.9	1,374.1	1,319.7
Property Income	1,063.6	529.5	525.4	703.7	797.2	863.3	705.5	658.8
Interest	-	-	0.7	0.7	0.7	0.7	0.7	0.7
Dividends	1,033.5	501.2	500.0	650.0	720.0	750.0	550.0	550.0
Mining Petroleum and Gas Dividends	653.5	381.2	350.0	500.0	500.0	500.0	300.0	300.0
Dividends from Statutory Authorities	380.0	120.0	150.0	150.0	100.0	100.0	100.0	100.0
Shares in Private Enterprise	-	-	-	-	-	-	-	-
Dividends from State Owned Enterprises	-	-	-	-	120.0	150.0	150.0	150.0
Rent	30.1	28.2	24.7	53.0	76.5	112.6	154.8	108.1
Land Lease Rental	23.4	23.0	20.0	48.5	72.0	108.1	150.3	108.1
License Fees and Royalty Payments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Petroleum Prospecting Licenses	6.6	5.2	4.7	4.5	4.5	4.5	4.5	-
Sales of goods and services	32.2	37.3	34.2	35.0	152.1	152.1	160.1	152.4
Sales by market establishments	-	-	-	-	-	-	-	-
Administrative fees	8.2	14.2	4.6	4.6	4.7	4.7	4.9	5.0
Incidental sales by nonmarket establishments	24.0	23.0	29.6	30.4	31.4	31.4	31.4	31.4
Imputed sales of goods and services	-	-	-	-	-	-	-	-
Fines, penalties, and forfeits	1.9	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Transfers not elsewhere classified	675.9	418.2	218.4	136.5	471.7	492.8	506.7	506.7

1. Under the GFS 2014 methodology, non-payable infrastructure tax credits, revenue on asset sales, recoveries and Trust Accounts are included in the revenue total.

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

Table 13A: General Government Expense by Economic Classification

Kina Million	Actual		Budget estimates		Projection			
	2018	2019	2020 Suppl. Budget	2021 Budget	2022	2023	2024	2025
Compensation of Employees	5,198.4	5,423.8	5,762.8	5,706.5	5,626.6	5,371.8	5,404.0	5,420.5
Wages and salaries	4,486.4	4,827.5	4,632.4	4,817.8	4,750.4	4,535.3	4,562.5	4,576.4
Wages and salaries in cash	4,362.7	4,685.2	4,448.5	4,623.3	4,558.6	4,352.2	4,378.3	4,391.6
Wages and salaries in kind	123.7	142.2	183.9	194.5	191.8	183.1	184.2	184.8
Employers' social contributions	711.9	596.3	1,130.4	888.6	876.2	836.5	841.5	844.1
Actual social contributions	711.9	596.3	1,130.4	888.6	876.2	836.5	841.5	844.1
Use of goods and services*	4,879.2	5,800.7	3,756.8	5,815.5	6,462.4	6,547.0	6,771.3	7,412.9
Use of goods and services	4,879.2	5,800.7	3,756.8	5,815.5	6,462.4	6,547.0	6,771.3	7,412.9
Use of goods and services	4,879.2	5,800.7	3,756.8	5,815.5	6,462.4	6,547.0	6,771.3	7,412.9
Interest**	1,853.3	2,129.1	2,048.0	2,254.9	2,206.7	2,510.0	2,780.0	2,973.7
To nonresidents	210.5	449.0	521.4	456.6	447.7	538.6	617.2	670.1
Interest to Non residents	210.5	449.0	521.4	456.6	447.7	538.6	617.2	670.1
To residents other than general government	1,642.8	1,680.1	1,526.6	1,798.3	1,759.0	1,971.4	2,162.8	2,303.6
Interest to residents other than general governments	1,642.8	1,680.1	1,526.6	1,798.3	1,759.0	1,971.4	2,162.8	2,303.6
Grants***	1,999.8	1,371.6	2,583.9	1,965.6	2,049.6	1,965.6	2,025.5	2,127.3
Grants to other general government units	1,999.8	1,371.6	2,583.9	1,965.6	2,049.6	1,965.6	2,025.5	2,127.3
Grants to other general governments current	1,550.4	1,370.1	1,975.4	1,512.6	1,577.1	1,466.1	1,510.8	1,586.6
Grants to other general governments capital	449.4	1.5	608.4	453.0	472.5	499.5	514.8	540.7
Social Benefits	0.9	0.0	217.7	54.3	53.6	51.1	51.4	51.6
Social assistance benefits	0.9	0.0	217.7	54.3	53.6	51.1	51.4	51.6
Social assistance benefits in cash	0.9	0.0	217.7	54.3	53.6	51.1	51.4	51.6
Other expenses	89.9	86.1	113.6	53.7	56.0	59.2	61.1	64.1
Transfers not elsewhere classified	89.9	86.1	113.6	53.7	56.0	59.2	61.1	64.1
Other expense - Current transfers not elsewhere classified	89.9	86.1	113.6	53.7	56.0	59.2	61.1	64.1
Net Acquisition Nonfinancial assets****	2,112.8	3,041.2	3,506.4	3,757.2	3,935.3	3,862.4	4,033.3	4,335.9
Nonproduced assets	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0
NFA: Intangible nonproduced assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NFA: Land	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Aquisition of Fixed assets	2,112.8	3,041.2	3,506.2	3,757.2	3,935.3	3,862.4	4,033.3	4,335.9
NFA: Buildings and structures	575.8	0.0	926.9	1,943.4	2,000.2	1,969.8	2,045.3	2,203.1
NFA: Dwellings	0.0	0.0	49.5	4.3	4.8	4.5	4.6	5.1
NFA: Fixed assets	1,405.8	2,402.7	1,826.8	1,653.6	1,772.2	1,731.0	1,820.1	1,952.6
NFA: Information, computer, & telecommunications equipment	19.7	10.3	53.6	62.1	60.7	61.6	64.0	68.2
NFA: Machinery & equipment other than transport equipment	15.2	19.8	15.3	0.2	0.2	0.2	0.2	0.3
NFA: Other structures	1.6	11.8	185.0	13.3	14.8	13.9	14.5	15.9
NFA: Transport equipment	4.8	5.7	6.5	31.5	35.3	33.1	34.4	37.8
Other expense - Current transfers not elsewhere classified	89.9	590.8	442.7	48.9	47.1	48.2	50.1	53.2
Total expenditure	16,134.2	17,852.5	17,989.3	19,607.8	20,390.2	20,367.1	21,126.6	22,386.1
as % of GDP	19.6%	21.1%	22.0%	21.7%	20.5%	19.4%	19.1%	19.1%

* Use of goods and services includes operational cost like maintenance and repair of fixed assets.

** Excluding K63.2 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				
	2018	2019	2020 Suppl. Budget	2021 Budget	2022	2023	2024	2025	
National Departments	6,746.2	8,120.4	7,318.9	7,581.0	8,010.4	7,863.1	8,065.4	8,488.1	
Compensation of Employees	2,817.0	2,632.8	2,721.0	2,509.6	2,474.5	2,362.5	2,376.6	2,383.9	
Wages and salaries	2,129.5	2,087.4	1,624.8	1,678.6	1,580.1	1,580.1	1,580.1	1,589.4	
Wages and salaries in cash	2,057.9	2,009.2	1,527.8	1,584.6	1,562.5	1,491.7	1,500.7	1,505.2	
Wages and salaries in kind	71.6	78.3	97.0	93.9	92.6	88.4	89.6	89.2	
Employers' social contributions	687.5	545.4	1,096.1	831.1	819.4	782.3	787.0	789.4	
Actual social contributions	687.5	545.4	1,096.1	831.1	819.4	782.3	787.0	789.4	
Use of goods and services	2,594.3	4,107.7	2,358.7	3,859.1	4,223.9	4,200.5	4,344.1	4,660.5	
Use of goods and services	2,594.3	4,107.7	2,358.7	3,859.1	4,223.9	4,200.5	4,344.1	4,660.5	
Use of goods and services	2,594.3	4,107.7	2,358.7	3,859.1	4,223.9	4,200.5	4,344.1	4,660.5	
Grants	779.2	727.5	776.9	503.7	525.4	555.4	572.4	601.3	
Grants to other general government units	779.2	727.5	776.9	503.7	525.4	555.4	572.4	601.3	
Grants to other general governments current	779.2	727.5	776.9	473.7	494.1	522.3	538.3	565.4	
Grants to other general governments capital	0.0	0.0	0.0	30.0	31.3	33.1	34.1	35.8	
Other expenses	72.7	84.8	111.2	50.9	53.0	56.1	57.8	60.7	
Transfers not elsewhere classified	72.7	84.8	111.2	50.9	53.0	56.1	57.8	60.7	
Other expense - Current transfers not elsewhere classified	72.7	84.8	111.2	50.9	53.0	56.1	57.8	60.7	
Net Acquisition Nonfinancial assets	482.1	567.6	1,180.7	632.5	708.5	664.8	690.4	757.4	
Nonproduced assets	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	
NFA: Intangible nonproduced assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
NFA: Land	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	
Acquisition of Fixed assets	482.1	567.6	1,180.4	632.5	708.5	664.8	690.4	757.4	
NFA: Buildings and structures	0.0	0.0	10.0	590.7	661.6	620.8	644.7	707.3	
NFA: Dwellings	0.0	0.0	15.0	4.0	4.5	4.2	4.4	4.8	
NFA: Fixed assets	446.7	533.9	1,099.2	2.1	2.4	2.2	2.3	2.5	
NFA: Information, computer, & telecommunications equipment	17.7	10.2	7.4	7.5	7.9	7.9	8.2	9.0	
NFA: Machinery & equipment other than transport equipment	11.4	7.5	15.3	0.2	0.2	0.2	0.2	0.2	
NFA: Other structures	1.6	11.8	27.1	12.8	14.4	13.5	14.0	15.4	
NFA: Transport equipment	4.7	4.2	6.4	15.2	17.0	15.9	16.5	18.1	
Social Benefits	0.9	0.0	169.8	23.6	23.3	22.2	22.3	22.4	
Social assistance benefits	0.9	0.0	169.8	23.6	23.3	22.2	22.3	22.4	
Social assistance benefits in cash	0.9	0.0	169.8	23.6	23.3	22.2	22.3	22.4	
Out of scope for GFS coding purposes	0.0	0.0	0.6	1.6	1.8	1.7	1.8	1.9	
Out of scope for GFS coding purposes	0.0	0.0	0.6	1.6	1.8	1.7	1.8	1.9	
Provincial Governments	3,560.9	3,123.9	3,885.6	4,815.0	5,158.5	5,000.9	5,115.6	5,466.8	
Compensation of Employees	1,823.0	1,960.3	1,726.3	1,836.2	1,810.5	1,728.5	1,738.8	1,744.1	
Wages and salaries	1,823.0	1,960.3	1,726.3	1,836.2	1,810.5	1,728.5	1,738.8	1,744.1	
Wages and salaries in cash	1,782.7	1,916.3	1,680.8	1,786.4	1,761.4	1,681.6	1,691.7	1,696.9	
Wages and salaries in kind	40.3	43.9	45.5	49.8	49.1	46.8	47.13	47.27	
Employers' social contributions	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	
Actual social contributions	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	
Use of goods and services	713.6	520.7	427.9	1,063.2	1,311.2	1,386.1	1,428.5	1,650.6	
Use of goods and services	713.6	520.7	427.9	1,063.2	1,311.2	1,386.1	1,428.5	1,650.6	
Use of goods and services	713.6	520.7	427.9	1,063.2	1,311.2	1,386.1	1,428.5	1,650.6	
Grants	1,002.8	636.4	1,686.3	1,414.0	1,474.8	1,359.0	1,400.6	1,471.3	
Grants to other general government units	1,002.8	636.4	1,686.3	1,414.0	1,474.8	1,359.0	1,400.6	1,471.3	
Grants to other general governments current*	626.9	634.9	1,077.9	991.0	1,033.6	892.6	920.0	966.4	
Grants to other general governments capital	375.9	1.5	608.4	423.0	441.2	466.4	480.7	504.9	
Net Acquisition Nonfinancial assets	21.5	6.5	45.0	501.7	562.0	527.3	547.6	600.8	
Acquisition of Fixed assets	21.5	6.5	45.0	501.7	562.0	527.3	547.6	600.8	
NFA: Fixed assets*	21.5	6.5	45.0	501.7	562.0	527.3	547.6	600.8	
Autonomous Bougainville Government	225.9	159.4	241.0	314.4	321.2	323.9	330.7	342.0	
Compensation of Employees	119.8	123.9	118.5	127.1	125.3	119.6	120.4	120.7	
Wages and salaries	119.8	123.9	118.5	127.1	125.3	119.6	120.4	120.7	
Wages and salaries in cash	116.9	120.5	109.5	118.1	116.4	111.2	111.8	112.2	
Wages and salaries in kind	2.9	3.4	9.0	9.0	8.9	8.5	8.6	8.5	
Employers' social contributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Actual social contributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Use of goods and services	28.1	33.5	97.5	163.8	170.9	180.7	186.2	195.6	
Use of goods and services	28.1	33.5	97.5	163.8	170.9	180.7	186.2	195.6	
Use of goods and services	28.1	33.5	97.5	163.8	170.9	180.7	186.2	195.6	
Grants	78.0	0.0	25.0	10.0	9.9	9.4	9.5	9.5	
Grants to other general government units	78.0	0.0	25.0	10.0	9.9	9.4	9.5	9.5	
Grants to other general governments current	4.5	0.0	25.0	10.0	9.9	9.4	9.5	9.5	
Grants to other general governments capital	73.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Net Acquisition Nonfinancial assets	0.0	2.0	0.0	13.5	15.1	14.2	14.7	16.2	
Fixed Assets	0.0	2.0	0.0	13.5	15.1	14.2	14.7	16.2	
Commercial & Statutory Authorities	1,039.2	1,214.3	2,182.4	1,980.1	2,017.0	1,963.5	1,996.9	2,106.6	
Compensation of Employees	438.6	706.7	1,197.0	1,233.6	1,216.3	1,161.2	1,168.2	1,171.7	
Wages and salaries	414.1	656.0	1,162.7	1,159.5	1,107.0	1,071.3	1,113.7	1,117.1	
Wages and salaries in cash	405.2	639.3	1,130.4	1,134.2	1,118.3	1,067.7	1,074.1	1,077.3	
Wages and salaries in kind	8.9	16.6	32.3	25.3	28.7	39.8	39.6	39.8	
Employers' social contributions	24.4	50.8	34.3	57.6	56.8	54.2	54.5	54.7	
Actual social contributions	24.4	50.8	34.3	57.6	56.8	54.2	54.5	54.7	
Use of goods and services	324.1	300.7	451.2	365.7	381.4	403.2	415.5	486.5	
Use of goods and services	324.1	300.7	451.2	365.7	381.4	403.2	415.5	486.5	
Use of goods and services	324.1	300.7	451.2	365.7	381.4	403.2	415.5	486.5	
Grants	46.6	7.8	95.6	37.9	39.5	41.8	43.1	45.2	
Grants to other general government units	46.6	7.8	95.6	37.9	39.5	41.8	43.1	45.2	
Grants to other general governments current	46.6	7.8	95.6	37.9	39.5	41.8	43.1	45.2	
Other expenses	17.2	1.3	1.9	2.9	3.0	3.2	3.3	3.4	
Transfers not elsewhere classified	17.2	1.3	1.9	2.9	3.0	3.2	3.3	3.4	
Other expense - Current transfers not elsewhere classified	17.2	1.3	1.9	2.9	3.0	3.2	3.3	3.4	
Net Acquisition Nonfinancial assets	212.7	197.8	388.8	308.8	346.0	324.6	337.2	369.9	
Acquisition of Fixed assets	212.7	197.8	388.8	308.8	346.0	324.6	337.2	369.9	
NFA: Buildings and structures	0.0	0.0	2.3	267.7	299.8	281.3	292.2	320.5	
NFA: Dwellings	0.0	0.0	34.5	0.2	0.3	0.3	0.3	0.3	
NFA: Fixed assets	206.8	183.8	193.7	25.1	25.1	25.1	25.1	25.1	
NFA: Machinery & equipment other than transport equipment	3.8	12.4	0.0	0.1	0.1	0.1	0.1	0.1	
NFA: Other structures	0.0	0.0	158.0	0.4	0.5	0.4	0.4	0.5	
NFA: Transport equipment	0.1	1.5	0.0	16.4	18.3	17.2	17.9	19.6	
NFA: Information, computer, and telecommunications (ICT) equipment	2.0	0.1	0.3	0.2	0.3	0.3	0.3	0.3	
Social Benefits	0.0	0.0	48.0	30.7	30.3	28.9	29.1	29.2	
Social assistance benefits	0.0	0.0	48.0	30.7	30.3	28.9	29.1	29.2	
Social assistance benefits in cash	0.0	0.0	48.0	30.7	30.3	28.9	29.1	29.2	
Out of scope for GFS coding purposes	0.0	0.0	0.0	0.5	0.5	0.5	0.6	0.6	
Debt Service (Interest Payment)	1,934.7	2,147.2	2,064.4	2,270.8	2,222.2	2,527.4	2,799.1	2,994.1	
Use of goods and services	81.4	18.1	16.4	15.9	15.6	17.4	19.1	20.4	
Use of goods and services	81.4	18.1	16.4	15.9	15.6	17.4	19.1	20.4	
Use of goods and services	81.4	18.1	16.4	15.9	15.6	17.4	19.1	20.4	
Interest	1,853.3	2,129.1	2,048.0	2,254.9	2,206.7	2,510.0	2,780.0	2,973.7	
To nonresidents	210.5	449.0	521.4	456.6	447.7	538.6	617.2	670.1	
Interest to Non residents	210.5	449.0	521.4	456.6	447.7	538.6	617.2	670.1	
To residents other than general government	1,642.8	1,680.1	1,526.6	1,798.3	1,759.0	1,971.4	2,162.8	2,303.6	
Interest to residents other than general governments	1,642.8	1,680.1	1,526.6	1,798.3	1,759.0	1,971.4	2,162.8	2,303.6	
Expenditure supported by donor grants	1,835.7	1,775.7	932.1	1,008.0	1,092.7	1,076.6	1,145.8	1,215.0	
Use of goods and services </									

Table 14: Transactions in Assets and Liabilities for General Government

Kina Million	Actuals		Estimates		Projections			
	2018	2019	2020 Suppl. Budget	2021 Budget	2022	2023	2024	2025
Net Acquisition of Financial Assets	-1,373.8	-783.9	-445.6	0.0	0.0	0.0	0.0	0.0
Domestic	-1,373.8	-783.9	-445.6	0.0	0.0	0.0	0.0	0.0
Currency and deposits	-1,373.8	-783.9	-445.6	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
External	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Monetary gold and special drawing rights (SDR's)	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
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity and investment fund shares	0.0	0.0	0.0	0.0	0.0	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
Financial derivatives and employee stock options	0.0	0.0	0.0	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
Net Incurrence of Liabilities	3,277.0	3,388.1	6,084.1	6,612.8	5,295.0	3,325.0	2,292.0	1,759.9
Domestic	-319.3	1,054.2	1,822.5	2,000.0	3,244.5	2,003.5	1,241.3	711.9
Debt securities	-173.3	1,158.0	1,923.0	2,100.6	3,345.0	2,104.0	1,341.8	812.4
<i>New instruments</i>	12,178.8	12,327.2	12,832.7	13,666.1	15,323.7	15,407.9	14,831.2	15,922.7
<i>Amortisation</i>	12,352.1	-11,169.2	-10,909.7	-11,565.5	-11,978.7	-13,303.9	-13,489.4	-15,110.3
Treasury Bills	-516.9	1,513.7	328.1	500.0	1,304.3	584.2	465.0	466.0
<i>New instruments</i>	11,178.8	11,691.5	9,600.3	11,019.4	12,323.7	12,907.9	13,372.9	13,838.8
<i>Amortisation</i>	11,695.7	-10,177.7	-9,272.2	-10,519.4	-11,019.4	-12,323.7	-12,907.9	-13,372.9
Treasury Bonds	343.6	-355.7	1,695.4	1,600.6	2,040.7	1,519.8	876.8	346.5
<i>New instruments</i>	1,000.0	635.7	3,232.4	2,646.7	3,000.0	2,500.0	1,458.3	2,083.9
<i>Amortisation</i>	656.4	-991.4	-1,537.0	-1,046.1	-959.3	-980.2	-581.5	-1,737.5
Loans	-146.0	-103.8	-100.5	-100.5	-100.5	-100.5	-100.5	-100.5
<i>New borrowing</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Amortisation</i>	146.0	-103.8	-100.5	-100.5	-100.5	-100.5	-100.5	-100.5
Insurance, pension, and standardized guarantee schemes								
Financial derivatives and employee stock options								
Other accounts payable	0.0	103.4	-100.5					
External	3,596.3	2,333.9	4,261.6	4,612.8	2,050.5	1,321.4	1,050.7	1,048.0
Monetary gold and special drawing rights (SDR's)	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
Debt securities	1,672.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>New instruments</i>	1,672.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Amortisation</i>	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
<i>New instruments</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Amortisation</i>	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
<i>New instruments</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Amortisation</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Extraordinary financing	1,672.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>New instruments</i>	1,672.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Amortisation</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	1,924.1	2,333.9	4,261.6	4,612.8	2,050.5	1,321.4	1,050.7	1,048.0
<i>New borrowing</i>	2,233.9	2,726.4	6,494.7	6,146.6	2,734.6	2,176.3	3,010.3	3,419.9
<i>Amortisation</i>	309.8	-392.6	-2,233.1	-1,533.8	-684.1	-854.9	-1,959.6	-2,371.9
Concessional financing	527.7	968.0	992.5	1,103.6	737.2	834.2	780.0	693.8
<i>New borrowing</i>	791.7	1,311.7	1,365.0	1,638.4	1,352.6	1,611.7	1,673.1	1,773.5
<i>Amortisation</i>	264.1	-343.7	-372.5	-534.8	-615.4	-777.5	-893.1	-1,079.7
Commercial financing	601.9	36.8	-882.2	-938.8	-17.7	-39.9	-39.9	-39.9
<i>New borrowing</i>	619.9	54.8	0.0	44.4	22.2	0.0	0.0	0.0
<i>Amortisation</i>	18.0	-17.9	-882.2	-983.2	-39.9	-39.9	-39.9	-39.9
Extraordinary financing	794.5	1,329.1	4,151.3	4,448.0	1,331.0	527.1	310.6	394.1
<i>New borrowing</i>	822.3	1,359.9	5,129.7	4,463.8	1,359.8	564.6	1,337.2	1,646.4
<i>Amortisation</i>	27.8	-30.9	-978.4	-15.9	-28.8	-37.5	-1,026.6	-1,252.3
Insurance, pension, and standardized guarantee schemes		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		
Other accounts payable		0.0	0.0	0.0	0.0	0.0		

1. General government represents national and provincial governments, the Autonomous Bougainville government and commercial and

Kina Million	Actuals		Projections					
	2018	2019	2020 Supp.	2021	2022	2023	2024	2025
OTHER ECONOMIC FLOWS	2,139.9	1,157.7	0.0	0.0	0.0	0.0	0.0	0.0
Holding Gains and Losses	1,497.5	-18.3	0.0	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
External	1,497.5	-18.3	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities - Holding gains and losses	11.5	17.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Concessional financing</i>	0.0	0.0						
<i>Commercial financing</i>	11.5	17.0						
<i>Extraordinary financing</i>	0.0	0.0						
Loans - Holding gains and losses*	1,486.0	-35.3	0.0	0.0	0.0	0.0	0.0	0.0
<i>Concessional financing</i>	1,409.0	-35.3						
<i>Commercial financing</i>	170.0	0.0						
<i>Extraordinary financing</i>	-93.0	0.0						
Other Changes in the Volume of Assets and Liabilities	642.4	1,176.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	103.4	1,176.0	0.0	0.0	0.0	0.0	0.0	0.0
Treasury Bills	0.0	0.0						
Treasury Bonds	0.0	0.0						
Loans	103.4	1,176.0						
External	539.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities	0.0							
<i>Concessional financing</i>	0.0							
<i>Commercial financing</i>	0.0							
<i>Extraordinary financing</i>	0.0							
Loans	539.0							
<i>Concessional financing</i>	411.0							
<i>Commercial financing</i>	128.0							
<i>Extraordinary financing</i>	0.0							

Explanations of 'Other Volume Changes'

2018: K103.4m represents the first principle payment of the State Guarantees

2018: K539m includes previously disbursed loans from Ceska and EBChina (correction on prior years): K411m under project loans, and K128m under commercial loans.

2019: K1,176m represents 3 domestic loans (guarantees) taken on by the state.

Explanation of 'Holding Gains and Losses'

2018: K1,486m and K11.5m represent valuation changes as indicated by the Due Diligence team in 2019.

Table 15: Stocks of General Government Debt

Kina Million	Actuals		Estimates		Projection				
	2017	2018	2019	2020 Suppl. Budget	2021 Budget	2022	2023	2024	2025
Domestic	17,173.1	16,999.8	19,333.4	21,327.4	23,256.5	26,501.0	28,505.0	29,746.0	30,457.9
Debt securities	17,173.1	16,999.8	18,157.8	20,181.4	22,281.9	25,626.9	27,855.9	29,096.9	29,808.8
<i>Treasury Bills</i>	9,194.4	8,677.5	10,191.2	10,519.4	11,019.3	12,323.6	13,032.9	13,497.9	13,963.9
<i>Treasury Bonds</i>	7,978.7	8,322.3	7,966.6	9,662.0	11,262.6	13,303.3	14,823.0	15,599.0	15,845.0
Loans	0.0	(146.0)	1,175.6	1,146.0	974.6	874.1	649.1	649.1	649.1
<i>Guarantees</i>			1,175.6	1,146.0	974.6	874.1	649.1	649.1	649.1
External	6,385.1	9,981.4	14,333.4	18,595.0	23,207.8	25,258.4	26,579.9	27,631.7	28,679.7
Debt securities	0.0	1,672.2	1,700.7	1,700.7	1,700.7	1,700.7	1,700.7	1,700.7	1,700.7
<i>Concessional financing</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Commercial financing</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Extraordinary financing</i>	0.0	1,672.2	1,700.7	1,700.7	1,700.7	1,700.7	1,700.7	1,700.7	1,700.7
Loans	6,385.1	8,309.2	12,632.7	16,894.3	21,507.1	23,557.8	24,879.2	25,931.0	26,979.0
<i>Concessional financing</i>	5,396.4	5,924.1	8,676.7	9,669.2	10,772.8	11,725.6	12,559.8	13,299.9	13,953.8
<i>Commercial financing</i>	1,033.7	1,635.6	1,970.4	1,088.2	149.4	131.7	91.8	91.8	91.8
<i>Extraordinary financing</i>	(45.0)	749.5	1,985.6	6,136.9	10,584.9	11,700.4	12,227.5	12,539.2	12,933.3
Total Central Government Debt	23,558.2	26,981.2	33,666.9	39,922.4	46,464.3	51,759.4	55,085.0	57,377.6	59,137.6
<i>Total debt as percentage of GDP</i>	32%	34.0%	40.0%	48.9%	51.5%	52.1%	52.5%	51.7%	50.5%
Gross Domestic Product²	72,521.6	79,404.7	84,108.6	81,627.0	90,265.5	99,383.3	104,916.7	110,879.6	117,150.8

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*.