2023 NATIONAL BUDGET

VOLUME 1
ECONOMIC AND DEVELOPMENT POLICIES

For the year ending 31st December 2023

PRESENTED BY

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MINISTER FOR TREASURY

ON THE OCCASION OF THE PRESENTATION OF THE 2023 NATIONAL BUDGET

FOREWORD

On behalf of the Marape-Rosso Government, I am honoured to present the 2023 National Budget under the theme: "**Implementing the Vision**".

The 2023 Budget is historic. It is the first budget for the 11th Term of Parliament with the Pangu Party and its coalition members returned to power. This provides major policy continuity as well as credibility on responsible economic management.

The Budget is delivered in the context of "gloomy and uncertain" global outlook, but a much more positive domestic outlook. The PNG economy is expected to exceed K113.0 billion in 2023. Real non-resource sector growth is forecast at 4.6 per cent, continuing the recent strong growth record of 4.8 per cent in 2021 and 4.5 per cent in 2022. This is only the second time in PNG's post-Independence history where there have been three years in a row of real non-resource growth of over 4.0 per cent – the other period being 2010 to 2012. Inflation is forecast to fall from 6.6 per cent in 2022 down to 5.7 per cent in 2023. The external accounts are strong with major trade surpluses and foreign exchange reserves are at record levels and expected to hit K13 billion by the end of 2023 with ADB and Australian budget support inflows. The Kina has been steady against the US dollar and risen against most other currencies, helping keep inflation low although also hurting rural incomes.

The 2023 Budget is historic on several other benchmarks. It is the largest budget in PNG's history at K24,566.9 million. It collects the most revenue in PNG's history at K19,582.0 million. The deficit is much larger than I ever would have wanted at K4,984.9 million, but I am pleased that it is estimated to fall by K1,000.0 million in 2023.

Expenditures are estimated to grow by 10.9 per cent in 2023, nearly half the estimated growth in revenues of 20.8 per cent.

Revenues growing at nearly double the pace of expenditures is a good news story for budget repair.

The 2023 Budget is yet another demonstration of this government's economic credibility.

In 2019, the Marape Government quickly secured additional financing to cover the K2.3 billion budget deficit blow out that was exposed through the Due Diligence process. It then delivered nearly a billion Kina in cuts to the GoPNG budget while allowing concessional loan projects to proceed.

In 2020, after the global COVID-19 pandemic reduced government revenues by K2.5 billion, GoPNG expenditure was held to the initial budget forecast. This was despite absorbing K508 million in COVID-19 direct expenses, possibly the only country in the world to exercise such fiscal discipline.

In 2021, the fiscal deficit outcome of K6.27 billion was considerably below the K6.613 billion forecast at budget time, further demonstrating a record of fiscal repair.

In 2022, the budget is on track to keep to the budget deficit forecast of K5,984.7 million. Extra temporary revenues from the Ukraine-Russian war were directed at protecting households

In 2023, the deficit forecast is expected to decline by a further billion Kina.

Year after year of credible budget repair. There were those in 2019 that doubted the Marape Government was up to the task. Year after year the actions on budget repair speak for themselves. Performance to date provides credibility for the continuing actions under the 13-year fiscal plan.

Within this fiscal consolidation, the 2023 Budget also continues with major structural reforms.

The most prominent of these is the shift in the share of budget resources going to capital expenditure, especially towards the GoPNG Public Investment Program. The capital budget rises to K9,795.9 million in 2023, of which K6,615.0 million is our GoPNG Public Investment Program (PIP). The PIP has grown by 224.0 per cent under the Marape Government, climbing from just K2,040.7 million in 2018. The Marape Government is the infrastructure government!

Two key activities are worth highlighting in the capital budget. First is delivering on the commitment to channel at least 5.6 per cent of the budget to the PNG Connect program which is estimated at K1,375.0 million with over half being delivered through our international partnerships. There is also a massive increase in funding to K1,180.0 million for the Provincial and District Infrastructure programs, designed to ensure that capital investment is spread throughout the country, guided by local priorities, and opening greater job opportunities for local communities.

The Law and Order sector has been a particular priority for 2023, with a major increase in funding of 28.9 per cent or K401.0 million. This has been directed at supporting strong police recruitment and improved goods and services. The judiciary is also a major beneficiary of this program, with a 50 per cent increase in 2023 and a further 50 per cent increase planned in 2024.

The health and education sector is benefitting from a major increase in funding of K406.0 million to support increased numbers of teachers, nurses and doctors. The 13-year plan has this funding fully built into its financing while still mapping out a clear path of on-going budget repair.

The increases in funding for the police and judiciary, for teachers and health workers, is only possible because some very tough decisions have been made. Outside of these key areas, there is no other growth in public service levels through to 2027. Goods and services funding has been cut for non-priority areas by between 5.0 per cent (for core government services) through to over 40.0 per cent for other agencies.

Although inflationary pressures are expected to ease during 2023, the government has provided K590.0 million for a household assistance package to assist with dealing with cost-of-living pressures. The Marape Government understands that families have been doing it tough with the prices of some key goods rising faster than the overall inflation rate. The household assistance package consists of K280.0 million in income tax cuts for 2023, K150.0 million in cuts to excise taxes on fuel for the first six months of 2023, and K160.0 million to fund school project fees. The government will continue monitoring the situation and, subject to budget constraints, will consider doing more if higher inflationary pressures emerge.

Apart from the temporary tax cuts in the household assistance package, some hard decisions have been made to support revenue growth. Taxes have increased on the banking sector through a banking company income tax rate of 45.0 per cent applying to all commercial banks.

The Non-Tax Revenue Administration (NTRA) Bill is expected to raise K550.0 million. Export taxes on round logs have increased by 20.0 per cent, with funds directed toward a PNG United Nations Biodiversity and Climate Change Trust Fund, aimed to leverage up further international grant contributions and part of a “Targeted Grants Strategy”.

This is also a time of great international uncertainty. How long will the Ukraine-Russian war continue? How long will international interest rates continue to rise and when will inflation start to fall? In the context of these uncertainties, the Marape-Rosso Government will continue monitoring the situation and adjust during the year if necessary. In particular, if inflationary pressures begin to re-emerge, then the government will look towards adjusting expenditure to reduce the level of aggregate demand in 2023. If resource revenues are not as strong as forecast, we will adjust and once again re-prioritise expenditure, including the option of smoothing expenditure across the medium-term.

I thank all those who have worked so tirelessly to prepare yet another National Budget. I congratulate in particular the new Secretary for Treasury, Mr Andrew Oaeke, for his constant support and advice during this budget process.

I commend the 2023 National Budget to the Honourable Members and to the people of Papua New Guinea.

HON. IAN LING-STUCKEY, CMG. MP
Minister for Treasury

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1.1 IMPLEMENTING THE VISION

1.1.1 The 13-year Plan and Implementing the Vision

The Marape-Rosso led coalition government emerged from the 2022 elections with a stronger mandate to continue with their PNG Restoration and Growth Commitment that was signed at Loloata in December 2020. The commitment includes a commitment to continue with a budget repair strategy based on the principles - *"spending money more wisely, raising revenues more fairly*, and *financing debt more cheaply*".

A central component of these objectives is to return to a budget surplus by 2027. This means that the nation stops building up more and more debt. Once back in surplus, any future government can decide whether to continue growing surpluses with the option of repaying all debt by 2034. Alternatively, it could decide to have smaller surpluses and direct more of the government's revenues towards human and physical capital formation. These will be important choices going forward.

A framework that helps guide these options is the "13-year Plan". The plan was introduced into the 2022 Budget, and we are now into its second year. The Plan helps put annual decision-making into a medium-term framework. This can help inform choices for better decision-making. The Plan also sets out a realistic funding envelope. Arguably, too many of PNG's previous medium-term plans have been more "aspirational" in nature, promising great things but without the budget to support implementation. The 13 year plan provides a disciplined framework for bringing those development aspirations into the reality of limited revenues. The 13-year Plan provides the framework for implementing the Marape-Rosso Government's vision.

This introductory chapter will draw out the linkages between the original vision of our founding fathers and enshrined in our constitution, the four core development objectives of the Pangu Party led coalition, the United Nations Sustainable Development Goals, and the 13-year Plan.

1.2 OVER-ARCHING GUIDING PRINCIPLES FOR THE 13-YEAR PLAN

The development road map set out in the framework of the fiscal plan and accompanying policy prescriptions of the Marape government are philosophically anchored in the development doctrine espoused by the Five National Goals and Directive Principles, as enshrined in the preamble of the PNG National Constitution.

1. **integral human development**: for every person to be dynamically involved in the process of freeing himself or herself from every form of domination or oppression so that each man or woman will have the opportunity to develop as a whole person in relationship with others.
2. **equality and participation**: for all citizens to have an equal opportunity to participate in, and benefit from, the development of our country.
3. **national sovereignty and self-reliance:** Papua New Guinea to be politically and economically independent.
4. **natural resources and environment**: for Papua New Guinea's natural resources and environment to be conserved and used for the collective benefit of us all, and be replenished for the benefit of future generations.
5. **Papua New Guinean ways:** to achieve development primarily through the use of Papua New Guinean forms of social, political and economic organisation.

Guided by the tenets of this doctrine of development and the Marape vision***,*** the government adopted the mission; ***to take back PNG and leave no child behind***. To work toward this vision the Marape ' development strategy, over the medium term, adopted four (4) core objectives. These objectives spell out the government policy response to arresting the decline in the many aspects of good governance, the erosion in social and economic development enablers, and the strategic positioning of the governments to achieving the national vision and global human development targets.

1. **Strong economy:** the government intends to build a strong economy on the back of a competent fiscal and monetary policy. The 13-year plan is central for doing the hard work on the fiscal side. Budget repair reduces pressures on other parts of the economy, including lowering inflationary pressures. The plan provides a framework of certainty for business that can build confidence. This is already being recognised by the international private sector such as Moody's recent upgrade in PNG's credit outlook. This broad framework helps create a favourable investment environment to increase FDI, and stimulate broad based growth including through commercialisation of downstream and value adding industries. The intention is to achieve sustainable development outcomes realised from both sustainable growth in the blue and green economies, as well as the mining and petroleum sector. The fundamental commitment is expressed in the target of lifting real growth in the non-resource sector to a least 5.0 per cent per annum. This is reflected in the 13-year plan, with small on-going incremental growth rates for 2027 onwards. PNG should be able to return to the stronger years of economic growth in the 2000s, especially as it moves back towards a freely convertible Kina. The growth forecasts built in the 13-year plan are also conservative in that they do not include any new resource projects. This is in line with best international practice of not including them until the Final Investment Decision. There is a considerable upside in these "strong economy" forecasts.

2. **Connect PNG:** Connect PNG 2020-2040 elevates the economic corridor development concept as a strategy for restructuring PNG economy into a broad-based sustainable economy. It leverages the nation's infrastructure development plan to channel and amass the agriculture and livestock, forestry, fisheries, non-agricultural informs sector, small and medium enterprises, manufacturing and tourism to create a fully integrated broad-based economy going forward into 2050 and beyond. The World Bank's PNG Economic Update 2020 pointed out that the current impediment to economic growth is the state of the national infrastructure. The country's 8,738 km of national roads consist of 12 separate road networks (not interconnected), and roughly 25,000 km of provincial and district roads are mostly unsealed. About 35.0 per cent of the population live more than 10 km from a national road, and 17.0 per cent have no access to roads at all, making aviation and maritime shipping crucial transport modes but are very costly also. The Marape Government has deliberately chosen national infrastructure development as the critical economic enabler (SDG 7), opening up and connecting economic corridors for industrial clusters (SDG 9) in the economic sector in its drive to stimulate inclusive and sustainable economic growth to Take back PNG and Leave No Child Behind (SDG 1, 2 & 3). PNG Connect, with a commitment of funding of 5.6 per cent of the national budget, is but one part of the Government's overall commitment to capital infrastructure. There has been a 224.0 per cent increase in Public Investment Program funding, from K2,041.0 million in 2018 to K6,615.0 million in 2023. Overall, the capital program, including international support, will total an estimated K9796.0 million in 2023.

3. **Going Rural:** Success in social and economic diversity rests predominantly within the agriculture sector. Almost 85 per cent of the population are domiciled in rural and remote communities and derive a living from farming. It is arguably the highest

employer and stimulus for local community-based economies. Agriculture plays a vital role in transforming and diversifying the economy to reach self-reliance, whilst achieving other essential outcomes like food security and improving nutrition. Going Rural also promotes export revenue growth, with PNG potentially serving major markets across Asia. The Prime Minister's 2021 UNGA statement asserted that PNG can be the Food Hub for the Asia Pacific Region, contributing to the global food security agenda under SDG 2 and alleviating poverty in all its forms. The fisheries sector is estimated to employ 40,000 people with women making up 90 per cent of employees. The Oil Palm industry already employ 20,000 people. In contrast, the mining and petroleum sector is estimated to employ 27,000 people. Strong growth rates in the rural sector can directly create more jobs in PNG than the resource sector. This is part of the reason that the new Government has created three more Ministries to help ensure that the rural sector receives the appropriate policy attention required.

4. **Good Governance:** Governance is essential to the development fortunes of the country. The Public administration system arranges, manages and supervises agencies of government that regulate and control community laws and statutes. These agencies need to be continually reformed to respond to the changing needs of society and to satisfy the public's interests and needs. The Marape Government recognises this and intends to increase the capacity of the state to address the governance challenges facing the country. The approach in the 13-year plan involves clear priority-setting.

These development goals require sound and responsible fiscal strategy to realise their full intent. The 2023 Budget, designed as the second year of the 13-year fiscal plan, provides the spine for the growth strategy to work toward delivering inclusive sustainable outcomes. The 13-year fiscal plan, built around ten (10) principles, undergirds this growth towards budget surplus by 2027. The ten (10) principles are:

1. spend the money we have more wisely;
2. raise the revenue more fairly;
3. finance the debts more cheaply;
4. leverage friendly international support more intelligently;
5. focus on growth in the agriculture, forestry and fisheries sectors, SMEs and informal economy;
6. distribute resources benefits more equitably;
7. stimulate non-resource growth back to at least 5.0 per cent annually;
8. comprehensive government SOE reform program for cheaper energy, internet and water;
9. getting foreign exchange inflows more freely; and
10. create at least ten thousand (10,000) jobs annually.

Guided by the 13-year fiscal plan the country, can move to a surplus budget in 2027. This builds responsible budget repair over the last three years, as set out in the Foreword. Further, by 2029 the debt to GDP ratio will be reduced back to below 40.0 per cent of GDP, the level set out in the *FRA (amended 2020)*, although delivered one year earlier than required This can be delivered two (2) years earlier than originally set out when the debt ratio would be back under 40.0 per cent within ten (10) years.

The 13-year fiscal plan is based on realistic revenue estimates, themselves based on the growth of our economy and on-going work to stamp down on the black economy. Indeed, it has significant conservative estimates in that the plan does not include a single toea of revenue from any of the planned major resource investments that are very likely to go ahead. When confirmed, such investments will provide an upside bonus.

Long term fiscal consolidation strategy can lead to broader based economic growth, a wider taxation base and a strengthened government capacity to provide critical social services and institutional and human capital enablers for robust growth into the future.

Crucial to having this 13-year fiscal plan is having the credible economic team that can actually deliver the plan for our great country of PNG. Getting to these powerful options will require fiscal discipline. It will require a government committed to getting the budget basics right, getting more into our capital programs, supporting provinces, supporting more teachers and police and nurses.

Table 1: The 13year Fiscal Strategy for Budget Repair and Reconstruction

	10th Parliament Budgets					11th Parliament Budgets					12th Parliament Budgets					13th Parliament Budgets	
	2018 FBO	2019 FBO	2020 FBO	2021 FBO	2022 SB	2023 Budget	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
GDP	**79,405**	**83,845**	**85,348**	92,322	107,807	113,108	120,994	129,800	138,858	145,829	**158,690**	**173,026**	**189,021**	**206,881**	**226,842**	**249,169**	**274,164**
Non-Resource GDP	62,896	60,087	62,896	69,814	77,818	85,281	93,596	102,888	112,976	124,198	*137,059*	*151,396*	*167,390*	*185,251*	*205,212*	*227,539*	*252,534*
Resource GDP	*16,508*	*23,758*	*22,452*	22,508	29,990	27,827	27,398	26,912	25,883	21,630	*21,630*	*21,630*	*21,630*	*21,630*	*21,630*	*21,630*	*21,630*
GDP Non-resource Nominal Growth (%)	*8.0%*	*4.9%*	*4.7%*	11.7%	11.5%	*9.6%*	*9.8%*	*9.9%*	*9.8%*	*9.9%*	*10.4%*	*10.5%*	*10.6%*	*10.7%*	*10.8%*	*10.9%*	*11.0%*
GDP Non-resource Real Growth (%) (less infla	***3.4%***	***1.6%***	***-1.2%***	4.8%	4.5%	4.6%	4.5%	4.9%	4.9%	5.0%	***5.1%***	***5.2%***	***5.3%***	***5.4%***	***5.5%***	***5.6%***	***5.7%***
GDP Nominal Growth (%)	9.2%	5.6%	1.8%	11.9%	16.8%	4.9%	7.0%	7.3%	7.0%	5.0%	*8.8%*	*9.0%*	*9.2%*	*9.4%*	*9.6%*	*9.8%*	*10.0%*
GDP Real Growth (%)	-0.8%	4.5%	-3.5%	0.1%	4.6%	4.0%	3.6%	3.7%	3.7%	3.8%	*3.8%*	*3.8%*	*3.8%*	*3.8%*	*3.8%*	*3.8%*	*3.8%*
GDP Non-resource Nominal per capita	7,255	6,723	6,825	7,348	7,944	8,445	8,989	9,585	10,208	10,884	11,650	12,482	13,386	14,369	15,438	16,603	17,873
GDP Non-resource Real Growth per capita	0.3%	-1.5%	-4.3%	1.7%	1.4%	1.5%	1.4%	1.8%	1.8%	1.9%	2.0%	2.1%	2.2%	2.3%	2.4%	2.5%	2.6%
Total Revenue	**14,085**	**13,680**	**12,093**	**13,860**	**17,389**	**19,582**	**20,499**	**22,227**	**25,124**	**28,369**	**31,669**	**36,189**	**40,839**	**45,735**	**51,313**	**57,676**	**63,620**
% of GDP	17.7%	16.3%	14.2%	15.0%	16.1%	17.3%	16.9%	17.1%	18.1%	19.5%	20.0%	20.9%	21.6%	22.1%	22.6%	23.1%	23.2%
Total revenue growth rate		-2.9%	-11.6%	14.6%	25.5%	12.6%	4.7%	8.4%	13.0%	12.9%	11.6%	14.3%	12.9%	12.0%	12.2%	12.4%	10.3%
GoPNG Revenue (Total Revenue *less Grants*)	**12,249**	**11,904**	**10,667**	**11,772**	**15,564**	**17,557**	**18,424**	**20,102**	**22,949**	**26,144**	**29,394**	**33,865**	**38,465**	**43,310**	**48,838**	**55,151**	**61,045**
% of GDP	15.4%	14.2%	12.5%	12.8%	14.4%	15.5%	15.2%	15.5%	16.5%	17.9%	18.5%	19.6%	20.3%	20.9%	21.5%	22.1%	22.3%
Tax Revenue (Non-Resource)	*9,701*	*10,157*	*9,619*	*10,494*	10,832	12,558	14,488	16,356	18,466	20,868	23,604	26,725	30,287	34,357	39,010	44,336	49,206
Tax Revenue (Resource MPT)	775	761	183	635	3,000	2,342	1,326	840	949	1,072	1,213	2,123	3,018	3,180	3,361	3,564	3,791
Other Revenue (Non-Resource)	1,120	606	298	263	583	975	1,093	1,234	1,394	1,575	1,781	2,017	2,286	2,593	2,944	3,346	3,713
Other Revenue (Resource)	*653*	*381*	*569*	*381*	1,150	1,683	1,517	1,671	2,140	2,629	2,795	2,999	2,873	3,180	3,522	3,905	4,334
Grants	*1,836*	*1,776*	1,425	2,088	1,825	2,025	2,075	2,125	2,175	2,225	2,275	2,325	2,375	2,425	2,475	2,525	2,575
Total Expenditure	**16,417**	**18,956**	**19,398**	**20,131**	**23,374**	**24,567**	**24,468**	**25,689**	**26,898**	**28,262**	**29,650**	**31,308**	**33,333**	**35,558**	**37,702**	**38,937**	**40,817**
% of GDP	20.7%	22.6%	22.7%	21.8%	21.7%	21.7%	20.2%	19.8%	19.4%	19.4%	18.7%	18.1%	17.6%	17.2%	16.6%	15.6%	14.9%
GoPNG Expenditure (Total Expenditure *less F*	**14,581**	**17,180**	**17,973**	**18,268**	**21,799**	**22,542**	**22,393**	**23,564**	**24,723**	**26,037**	**27,375**	**28,984**	**30,958**	**33,133**	**35,227**	**36,413**	**38,242**
% of GDP	18.4%	20.5%	21.1%	19.8%	20.2%	19.9%	18.5%	18.2%	17.8%	17.9%	17.3%	16.8%	16.4%	16.0%	15.5%	14.6%	13.9%
Operational Component (PE and G&S)	**9,896**	**10,721**	**10,331**	**10,575**	**12,064**	**12,260**	**12,780**	**13,641**	**14,549**	**15,498**	**16,071**	**17,166**	**18,389**	**19,844**	**21,538**	**22,378**	**23,921**
% of Total Expenditure			53.3%	52.5%	51.6%	49.9%	52.2%	53.1%	54.1%	54.8%	54.2%	54.8%	55.2%	55.8%	57.1%	57.5%	58.6%
Compensation of Employees	*5,198*	*5,423*	*5,831*	*6,094*	*6,346*	*6,942*	*7,161*	*7,598*	*7,900*	*8,206*	*8,754*	*9,340*	*9,966*	*10,635*	*11,349*	*12,112*	*12,928*
Number of Teachers (5% to 2027 then 10% increases)					*59,307*	*62,272*	*65,386*	*68,655*	*72,088*	*79,297*	*87,187*	*95,862*	*105,400*	*115,888*	*127,418*	*140,096*	*154,036*
Number of Health Sector workers (Nurses and Doctors) (5% to 2027 then 10% increases)					*21,738*	*22,825*	*23,966*	*25,164*	*26,423*	*29,065*	*31,957*	*35,137*	*38,633*	*42,477*	*46,703*	*51,350*	*56,459*
Number of Police (10% increase annually from 2023)					*5,000*	*5,500*	*6,050*	*6,655*	*7,321*	*8,419*	*9,256*	*10,177*	*11,190*	*12,303*	*13,527*	*14,873*	*16,353*
Goods and Services	*4,193*	*4,193*	*3,325*	*3,202*	*4,403*	*3,860*	*4,048*	*4,341*	*4,798*	*5,271*	*5,111*	*5,417*	*5,792*	*6,337*	*7,052*	6839	7249
GTFS		*392*	*339*		*766*	*766*	*820*	*877*	*938*	*1,004*	*1,074*	*1,150*	*1,230*	*1,316*	*1,408*	*1,507*	*1,612*
HELP and TESAS			*61*		*76*	*76*	*81*	*87*	*93*	*100*	*107*	*114*	*122*	*131*	*140*	*150*	*160*
Medical Supplies		*234*	*217*		*286*	*336*	*360*	*385*	*412*	*440*	*471*	*504*	*540*	*577*	*618*	*661*	*707*
Rental					*200*	*200*	*214*	*229*	*245*	*262*	*281*	*300*	*321*	*344*	*368*	*393*	*421*
Utilities					*200*	*200*	*214*	*229*	*245*	*262*	*281*	*300*	*321*	*344*	*368*	*393*	*421*
Elections					*750*	*0*	*0*	*50*	*250*	*450*	*0*	*0*	*50*	*250*	*600*	*0*	*0*
Residual					2,125	*2,282*	*2,360*	*2,484*	*2,615*	*2,753*	*2,897*	*3,049*	*3,208*	*3,375*	*3,551*	*3,735*	*3,928*
CoE and G&S % of Total Expenditure	57.2%	50.7%	47.2%	46.2%	46.0%	44.0%	45.8%	46.5%	47.2%	47.7%	46.8%	47.1%	47.3%	47.7%	48.8%	48.7%	49.4%
Provincial Component (funds capital and ope	**504**	**1,104**	**1,175**	**1,279**	**1,316**	**1,458**	**1,572**	**1,702**	**1,851**	**2,020**	**2,206**	**2,409**	**2,630**	**2,873**	**3,137**	**3,427**	**3,743**
Provincial Functional Grants	*504*	*490*	*588*	*558*	*594*	*642*	*674*	*715*	*765*	*826*	*892*	*963*	*1,040*	*1,123*	*1,213*	*1,310*	*1,415*
GST & BTT Transfers		*614*	*587*	*721*	*722*	*816*	*898*	*987*	*1,086*	*1,195*	*1,314*	*1,446*	*1,590*	*1,749*	*1,924*	*2,116*	*2,328*
% of Total Expenditure	3.1%	5.8%	6.1%	6.4%	5.6%	5.9%	6.4%	6.6%	6.9%	7.1%	7.4%	7.7%	7.9%	8.1%	8.3%	8.8%	9.2%
Interest Payment (Debt Service)	**1,853**	**2,147**	**2,165**	**2,255**	**2,324**	**2,511**	**2,615**	**2,692**	**2,711**	**2,691**	**2,591**	**2,294**	**1,979**	**1,557**	**867**	**29**	**-981**
% of Total Expenditure	11.3%	11.3%	11.2%	11.2%	9.9%	10.2%	10.7%	10.5%	10.1%	9.5%	8.7%	7.3%	5.9%	4.4%	2.3%	0.1%	-2.4%
Capital Investment Component	**4,668**	**6,088**	**6,901**	**7,301**	**8,985**	**9,796**	**9,072**	**9,356**	**9,637**	**10,073**	**10,988**	**11,848**	**12,965**	**14,156**	**15,297**	**16,530**	**17,877**
% of Total Expenditure	28.4%	32.1%	35.6%	36.3%	38.4%	39.9%	37.1%	36.4%	35.8%	35.6%	37.1%	37.8%	38.9%	39.8%	40.6%	42.5%	43.8%
GoPNG PIP	*2,041*	*3,001*	*3,909*	*3,946*	*6,092*	*6,615*	*5,783*	*5,957*	*6,124*	*6,443*	*7,210*	*7,915*	*8,869*	*9,890*	*10,851*	*11,936*	*13,129*
PIP as share of Budget	*12.4%*	*15.8%*	*20.2%*	*19.6%*	*26.1%*	*26.9%*	*23.6%*	*23.2%*	*22.8%*	*22.8%*	*24.3%*	*25.3%*	*26.6%*	*27.8%*	*28.8%*	*30.7%*	*32.2%*
Concessional Loans	*792*	*1,312*	*1,568*	*1,494*	*1,318*	*1,156*	*1,214*	*1,274*	*1,338*	*1,405*	*1,503*	*1,609*	*1,721*	*1,842*	*1,971*	*2,069*	*2,173*
Donor Support Grants	*1,836*	*1,776*	*1,425*	*1,862*	1,575	2,025	2,075	2,125	2,175	2,225	2,275	2,325	2,375	2,425	2,475	2,525	2,575
BUDGET BALANCE (Deficit)	**-2,332**	**-5,276**	**-7,305**	**-6,270**	**-5,984**	**-4,985**	**-3,969**	**-3,462**	**-1,774**	**107**	**2,018**	**4,880**	**7,507**	**10,177**	**13,611**	**18,739**	**22,803**
% of GDP	-2.9%	-6.3%	-8.6%	-6.8%	-5.6%	-4.4%	-3.3%	-2.7%	-1.3%	**0.1%**	1.3%	2.8%	4.0%	4.9%	6.0%	7.5%	8.3%
Fiscal Parameters																	
Budget Balance (% of GDP)	*-2.9%*	*-6.3%*	*-8.6%*	*-6.8%*	*-5.6%*	*-4.4%*	*-3.3%*	*-2.7%*	*-1.3%*	*0.1%*	*1.3%*	*2.8%*	*4.0%*	*4.9%*	*6.0%*	*7.5%*	*8.3%*
Consolidation					*1.2%*	*1.1%*	*1.1%*	*0.6%*	*1.4%*	*1.4%*	*1.2%*	*1.5%*	*1.2%*	*0.9%*	*1.1%*	*1.5%*	*0.8%*
Expenditure Rule (operating budget as % of nc	*15.7%*	*17.8%*	*16.4%*	*15.1%*	*15.5%*	*14.4%*	*13.7%*	*13.3%*	*12.9%*	*12.5%*	*11.7%*	*11.3%*	*11.0%*	*10.7%*	*10.5%*	*9.8%*	*9.5%*
Average Interest Cost	*5.6%*	*6.5%*	*5.4%*	*4.7%*	*4.3%*	*4.2%*	*4.1%*	*4.0%*	*4.0%*	*3.9%*	*3.9%*	*3.7%*	*3.7%*	*3.6%*	*2.9%*	*0.3%*	*8.5%*
Debt	**32,863.9**	**32,863.9**	**40168.4**	**48173.1**	**54157.6**	**59,142.5**	**63,111.2**	**66,573.6**	**68,347.6**	**68,240.6**	**66,222.3**	**61,342.1**	**53,835.4**	**43,658.5**	**30,047.5**	**11,308.6**	**-11,494.5**
Debt/GDP	41.4%	39.2%	47.1%	52.2%	50.2%	52.3%	52.2%	51.3%	49.2%	46.8%	41.7%	35.5%	28.5%	21.1%	13.2%	4.5%	-4.2%

Growth - 5% real in non-resource by 2027 and then increasing by 0.1% per year, 5% inflation, conservative assumption of not including new resource projects until a FID - so considerable upside, although revenue from any new projects likely many years away.

Revenue - General growth rate from 2025 based on nominal growth plus compliance gains of 2.5% per year. Average growth rate is 11.4% from 2022. Revenue growth over the last 40 years has averaged 10.9%, with many lengthy periods of over 13%

PNG LNG - K750m extra MPT in 29 rising to K1500m in 30 - general growth of 10% nominal and average 1% compliance

PNG LNG - K300m PNG extra dividends in 26, K600m in 27, reduced to K500m in 29 and to K400m in 30 as the MPT increases

Wages - 13% for core services which covers 10% growth in employment numbers (over 3 times estimated population growth rate - a clear 'quality gain') and 3% wages. 3% increase for non-core areas covering wages growth. Includes retirement arrears of K300m in 2023 then falling to K200m in 2024 and K100m in 2025. Reductions based on savings from retirement arrears program.

This "quality" gain is estimated to increase core service numbers in line with the table. This allows for an increase in police numbers of 10% per annum from 2023 onwards. Given recruitment and training issues in the health and education sectors, numbers are expected to grow by 5% a year through to 2027 and then increasing to 10%.

Specific programs listed in Goods and Services are expected to grow at 7% per annum. This is slightly below a combined inflation and population growth rate, implying an assumption of gains in efficiencies of around 1% per annum

The residual goods and services component grows at 5% per annum.

Underlying Funding for GoPIP capital programs grows at 10% from 2021 with major topups in early years of K1,750m in 2022, K1,840m in 2023, and then declining to top-ups of K530m in 2024 and K390m in 2025.

There is slower planned growth in the concessional project loans after very strong growth in 2019 to 2021. Following a major cut in 2022, the outyears grow at 5%. Donor grants also expected to grow by K50 per annum. It is expected that a planned "Targeted Grant Strategy" program will lift this growth rate substantially. Being a grant, this will equally add to revenues and expenditures, with no net impact on the deficit or debt.

1.3 PNG'S CONTINUED COMMITMENT TO SUSTAINABLE DEVELOPMENT GOALS

The 2023 budget focuses on actions aimed at implementing the Pangu-led coalition vision. These can be clearly linked to the internationally agreed Sustainable Development Goals.

In his address at the APEC 2022 conference the Prime Minister called for; APEC countries to continue to usher a pathway for economic growth that is consistent with principles that reconcile economic, environmental and social imperatives by prescribing economic growth strategies that promote green growth and sustainable development. This call reinforces the continuation of the prescriptions of the 2022 budget strategy and the alignment of government's fiscal policy with the Sustainable Development Goals (SDGs).

Goal 8, in particular is aimed at promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. The focus on SDG 8 is part of the Pangu led government's intention to shift development strategy toward greener, cleaner and carbon reducing modalities of growth.

This shift continues also the paradigm shift advocated by PNG Vision-2050, DSP-2030, and in particular StaRs to increase investments and actions in strategic assets to realize desired socio-economic returns. It reinforces the government's commitment toward the long-term budget repair and reconstruction strategy following the ten (10) principles of prudent fiscal management. The nine strategic actions that will continue the Marape Governments commitments to the implementation of Sustainable Development Goal (SDG) eight (8) are presented in Table 2 below.

Table 2: Strategic Actions

Strategic Action	Policy initiatives	Sector Strategies & Related SDGs
Prudent, Responsible and Sustainable Fiscal and Monetary Regimes	- Internal Revenue Reforms (MTRS); Fair and equitable taxes reduce concessions eliminate tax holidays - Monetary Policy Reforms (MTDS); - On-going Independent Review of BPNG - Affordable debt strategy & repayments Anti-Corruption legislation	Good Governance & Prudent Management, Law and Justice SDG 8 – Decent work and economic growth, SDG 16 – Peace, justice and strong institutions
Economic Enablers – Transport Infrastructure	Connect PNG Transport Infrastructure Network Economic Corridors Provincial and District Infrastructure	Enabling Infrastructure SDG 8, SDG 9 – Industry innovation and infrastructure, SDG 10 – Reduce inequalities, SDG 11 – Sustainable cities and communities, SDG 12 – Responsible consumption and production, SDG 13 – Climate action
Economic Enablers – Reliable and Efficient ICT & Communications Network	ICT Policy Communications Network e-Commerce Platforms	Enabling Infrastructure SDG 4 – Quality education, SDG 6 – Clean water and sanitation, SDG 7 – Affordable and clean energy, SDG 8, SDG 9

Economic Enablers – Clean Renewable Energy and Safe Water and Sanitation	Clean, Green Renewable Energy Clean, Safe Water and Sanitation	Enabling Infrastructure Climate Change Urbanization and Industrialization SDG 1- No poverty, SGG 2 – Zero hunger, SDG 3- Good health and well – being, 5 – Gender equality, SDG 6, SDG 7, SDG 8, SDG 9, SDG 13
Renewable Resources - Enhance Revenue in Increased Production, Diversification and Value-Addition	Increase production and export revenue Downstream Processing, Value-addition, new markets Economic and Livelihood Diversification Environment & Cultural Asset Protection, Management and Services Local Labour Mobilisation, skilled jobs and employment	Agriculture, Fisheries, Forestry, Tourism, Manufacturing, Labour & Employment SDG 1, SGG 2, SDG 3, SDG 4, SDG 5, SDG 7, SDG 8, SDG 9, SDG 10, SDG 11, SDG 12, SDG 13, SDG 14 – Life below water, SDG 15 – Life on land
Extractive Resources - Enhance Benefits in local business participation, employment and community and environment services.	FID National & Local Content PPP, CSO,	Mining, Oil & Gas Environment, Law and Social Justice SDG 5, SDG 7, SDG 8, SDG 9, SDG 10, SDG 11, SDG 12, SDG 16 – Peace, justice and strong institutions
Local Entrepreneurship – MSME's, SME's and Commerce	MSME's & SME's, Local Financial Institutions & Banks	Mining, Oil & Gas Environment, Law and Social Justice SDG 5, SDG 8, SDG 9, SDG 10, SDG 12, SDG 14, SDG 15, SDG 16
Education for Innovation, Human Talent Development, Labour Mobilisation and Employment	National Education Plan STEM Curriculum and School of Excellence Human Talent Development Labour mobilisation and decent work for all	Education, Science, Technology, Innovation and Human Resource SDG 3, SDG 4, SDG 5, SDG 8, SDG 10
Women Empowerment & Equality for All – Fight against Anti-discrimination, gender and ethnic violence, domestic violence, family and sexual violence, youth empowerment.	Women Empowerment Gender Equality Anti-Discrimination Youth empowerment	Community and Social Empowerment and Justice SDG 5, SDG 8, SDG 9, SDG 10, SDG 16

1.4 SUMMARY

The Marape Government has embarked on a reform agenda that appears ambitious but is in fact a responsible strategic response to the changing development circumstances of the country. It is predicated on a vision statement that is deliberately audacious to awaken national consciousness, hope and action to mobilise social and political capital for the future.

The reform program is guided by four interrelated core objectives that are interdependent in relationship; *Strong Economy, Connect PNG, Going Rural and Governance.* The strong economy built on the back of a 13 fiscal consolidation plan seeks to prudently manage the debt burden that the country is currently facing, and to bring it to surplus by 2027, and a capital expenditure and formation strategy consistent with building PNG's human and physical capital. Guided by the fiscal consolidation plan and a prudent monetary policy, the government will seek to invest in strategic enablers that can drive the growth of the economy into one that is broad based, inclusive and robust with a strong rural centric growth strategy.

CHAPTER 2: ECONOMIC DEVELOPMENTS AND OUTLOOK

2.1 WORLD ECONOMIC GROWTH OUTLOOK

2.1.1 Overview

The global economy is undergoing a much more severe slowdown than previously anticipated due to an inflation surge not seen in decades, tightening financial conditions in most regions, Russia's invasion of Ukraine, and the persistent COVID-19 pandemic, all of which, pose great threats to the global economic growth prospects. The monetary and fiscal policy easing to salvage the global economic activity from the pandemic-related impacts are now unwinding as policy makers tighten settings to slow inflation. Global economic growth prospects in 2023 hinges on the results of monetary policy, the course of the war in Ukraine, and the possibility of further pandemic-related demand and supply distortions.

PNG's economic growth and outlook are not isolated from global developments, given its exposure through primary commodities exports and high imports dependency for household and capital goods. While PNG has benefitted from the historical highs in commodity prices in 2022, growth has been impacted by high fuel prices and inflation, which eroded household's real income. Should this trend continue in 2023, it will adversely affect domestic revenue collections and economic growth. Global freight rates and food prices have also directly impacted domestic inflation via imported inflationary pressure. Notwithstanding the adverse impacts from these global challenges, the PNG non-resource economy is expected to continue its strong recovery from the 2020 COVID-19 situation, with a third year of real growth expected at 4.5 per cent or above. Inflation forecasts also indicate that PNG's overall inflation rate has remained below historic averages and is expected to fall in 2023 and 2024.

2.1.2 Economic Activity

Global economic growth is projected at 3.2 per cent in 2022 and 2.7 per cent in 2023 – a downward revision of 0.2 percentage points from the July World Economic Outlook (WEO) forecast. The revision reflects the expectation that more than a third of the global economy will contract in 2022 and 2023 as the three (3) largest economies – United States, European Union, and China, continue to experience slowdowns in economic activity. The global economic outlook anticipates the worse is yet to come, thus there is a possibility of recession in 2023. Russia's persistent attacks on Ukraine continues to destabilise the global economy through the devastation of livelihoods and causing a severe energy and food crisis in Europe which is negatively affecting living costs and economic activity. The elevated food prices resulting from the war have caused hardships for low-income households world-wide, especially for low-income countries. Stubborn and broadening inflation pressures have ignited a swift tightening of monetary conditions, coupled with a stronger appreciation of the US Dollar against most other currencies in the contest to cool off global demand and gradually tame inflation. However, prices have continued to rise despite monetary policy tightening, thus leaving policy makers anxious. China has confronted a fresh COVID-19 situation through its zero-COVID policy involving repeated lockdowns and restrictions, coupled with a property crisis, which have further deepened the drop in global demand.

2.1.3 Advanced Economies

Growth in the advanced economies is projected at 2.4 per cent in 2022, 0.1 percentage points weaker than the July WEO update. The downward revision is due to a downgrade to

United States (US) growth – reflecting a real GDP contraction as deteriorating real disposable incomes continue to depress consumer demand, and interest rate hikes crush spending on residential investment. The Euro area growth revision is less severe than the United States as Italy and Spain have seen a marginal recovery, especially in tourism-related services and industrial production for the first half of 2022. However, both economies, including Germany and France, are expecting growth to slow down towards the end of 2022 and start of 2023 as the war in Ukraine continues. In 2023, the growth in advanced economies is expected to plunge further to 1.1 per cent, a downward revision of 0.3 percentage points from the July WEO update. This reflects the anticipated negative outcomes discussed above and the downgrades are mostly focused in the United States and European economies.

Growth in the United States for 2022 is expected to be 1.6 per cent, with no growth on a fourth-quarter on fourth-quarter basis before falling further to 1.0 per cent in 2023. The Euro area is expected to experience a growth rate of 3.1 per cent in 2022 before declining to 0.5 per cent in 2023. The 2022 growth forecast reflects positive growth in Spain and Italy which partially offset the downgrades in France and Germany.

The United Kingdom is also expecting a slowdown as growth subsides from 3.6 per cent in 2022 to 0.3 per cent in 2023 – reflecting high inflation and tighter monetary policy which will reduce consumer purchasing power and discourage consumption and business investment. However, Japan is expected to experience growth of 1.7 per cent in 2022 before moderating to 1.6 per cent in 2023 - mainly reflecting external factors through negative terms of trade and inflation related divergence in consumption and wage growth.

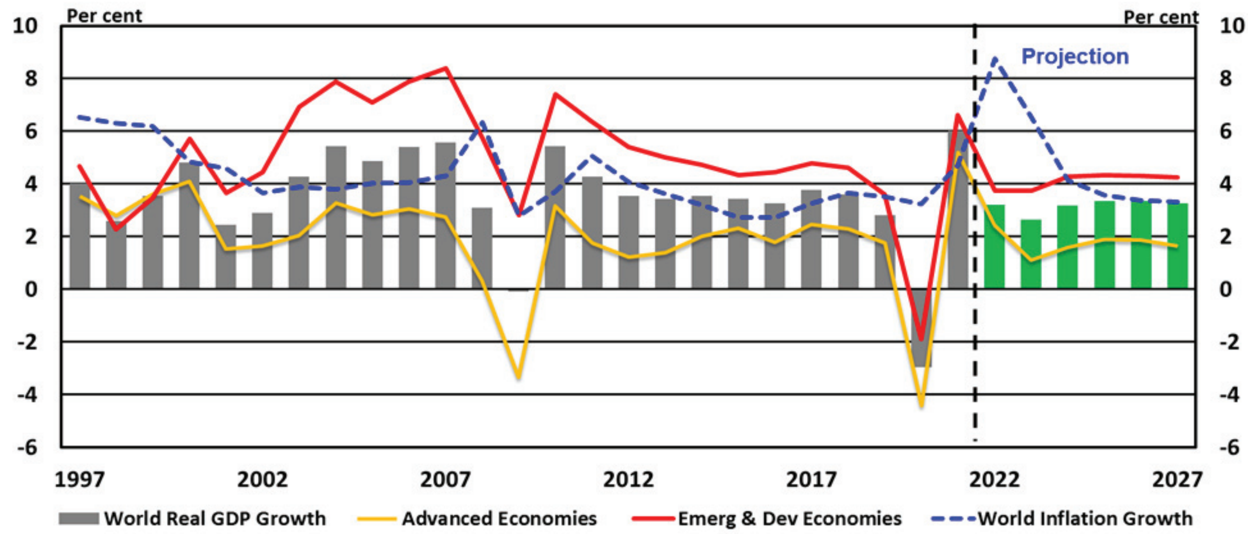
2.1.4 Emerging Markets and Developing Economies

Growth in the Emerging Markets and Developing Economies (EMDEs) is expected to decline to 3.7 per cent in 2022 and remain there in 2023, in contrast to further slowdowns expected in advanced economies. The modest upgrade from the July forecast reflects a smaller than expected contraction in European EMDEs. China's growth for 2022 has been revised down to 3.2 per cent, reflecting renewed COVID-19 lockdowns and a property market crisis, before rising to 4.4 per cent in 2023.

Growth in India is projected to be 0.6 percentage points lower than the July WEO forecast at 6.8 per cent in 2022, reflecting a weaker than expected outturn in the second quarter and more subdued external demand from China, the US, and the Euro area.

Beyond 2023 and over the medium term, global growth is projected to average around 3.2 per cent as the hostile shocks of 2022 are expected to have prolonged effects on output thus casting a significant amount of uncertainty over the forecasts for global growth and inflation. Advanced economies' growth projections are expected to experience more negative revisions than those for EMDEs.

Chart 1: World Economic Growth (1997-2027)



Source: International Monetary Fund (IMF), World Economic Outlook (WEO) October 2022

2.1.5 Risks

Risks to the outlook continue to be on the downside and are expected to gain momentum going forward as the global economy struggles with the impacts of the Russian invasion of Ukraine, a slowdown in economic activity as central banks intensify efforts to calm inflation, and the persistent pandemic spill-over effects.

Therefore, the global growth baseline forecast is subject to substantial uncertainty and further slowdown if the following risks materialise:

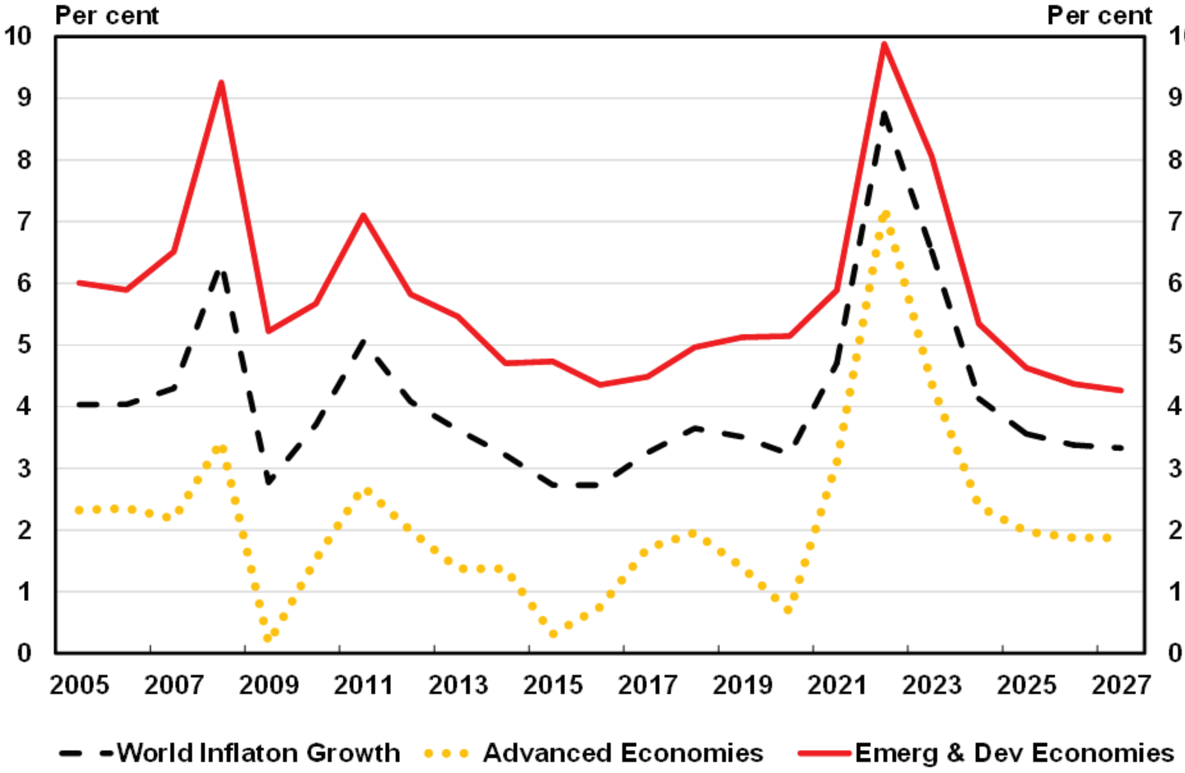
- ***policy mistakes (under or overtightening monetary policy)*** – due to mixed signals from different economic regions and groupings, and the conditioning of policy actions on incoming data could de-anchor inflationary expectations and further distort the baseline forecast;
- ***divergent policy paths and dollar strength –*** divergences in economic policies may continue to contribute to US Dollar strength, which could create cross-border tensions and increase debt repayments for dollar denominated loans;
- ***inflationary forces persisting for longer*** – further blows to energy and food prices could keep headline inflation for much longer than anticipated. Energy prices are and will remain particularly sensitive to the course of the war in Ukraine and the potential flaring up of other geopolitical conflicts;
- ***widespread debt distress in vulnerable emerging markets*** – should inflation remain elevated, further policy tightening in advanced economies may add pressure to borrowing costs for emerging market and developing economies;
- ***a resurgence of global health scares*** – the COVID-19 pandemic is still taking a heavy toll on global supply chains and the workforce, resulting in prolonged absenteeism, reduced productivity, and falling output. The evolution of more aggressive and lethal coronavirus variants remains a risk for the global economy; and
- ***fragmentation of the world economy hampering international cooperation*** — The Russian invasion of Ukraine and fractured relations between Russia and many other countries. New geopolitical tensions—in east Asia and elsewhere—are also becoming more likely. Such tensions risk disrupting trade and eroding the pillars of multilateral cooperation frameworks that took decades to build.

2.1.6 World Inflation

High inflation has been felt globally since the beginning of 2022, driven by higher energy and food prices as the spill over effects from the Russia-Ukraine war and supply-demand imbalances emerged following the pandemic. The spike in consumer prices prompted a rapid shift in policy stance among central banks to reverse previous monetary easing. The hawkish monetary tightening in advanced economies, led by the Federal Reserve, triggered streams of capital outflow from emerging economies and caused a sharp appreciation of the US Dollar against most currencies. China's zero-COVID policy further weighed on global inflation as continued border lockdowns and movement restrictions domestically strained global supply chains.

In the advanced economies, inflation is projected to rise substantially to 7.2 per cent in 2022, 4.1 percentage points higher than the 2021 outcome and 0.6 percentage points higher than the July WEO update. Inflation is expected to ease to 4.4 per cent in 2023.

Chart 2: World Inflation (per cent Growth)



Source: International Monetary Fund (IMF), World Economic Outlook (WEO) October 2022
Note: Advance Economies inflation in 2009 was 0.2 per cent.

Inflation in the Emerging Markets and Developing Economies (EMDEs) is projected to increase significantly by 9.9 per cent in 2022, 4.0 percentage points higher than the 2021 outcome before subsiding to 8.1 per cent in 2023.

Slower global economic growth and weaker demand in China have helped to ease the pressure on energy prices. However, potential punitive supply cuts from Russia and underinvestment in the oil and gas extraction sector could escalate the situation and accelerate price growth. Countries with high dependency on energy imports such as Papua New Guinea will feel higher inflationary effects in 2022 and 2023 in the event that energy prices remain elevated. This in turn, is expected to increase inflationary pressures and undermine economic growth unless policy measures are undertaken to relieve this pressure such as PNG's Household Assistance Packages in 2022 and 2023.

Higher interest rates in many key economies are expected to reduce inflationary pressures through lower demand as borrowing cost becomes more expensive and asset price declines.

Upside risk to inflation includes the uncertainty in Russia-Ukraine war that might possibly lead to further supply cuts and extension of the sanctions on imports from Russia. The downside risks are extensive monetary policy tightening and weaker demand.

2.1.7 Agriculture Commodities

Prices for PNG's key agricultural export commodities were trading higher in the first half of 2022, but have somewhat moderated in the third quarter reflecting turbulent conditions in the global economy. The rally in prices were driven by tight market supply due to hostile weather conditions and the COVID-19 related supply disruptions in 2021 – coupled with a fresh shock to the global supply chains and trade links as Russia invaded Ukraine in March 2022. This further squeezed market supply and drove prices to multi-year highs in the first half of 2022.

Demand remained elevated from mid-2021 to 2022 due to faster than expected post COVID recovery. However, the emergence of a global inflation prompted a globally synchronized monetary policy tightening, together with a fresh COVID-19 situation in China has depressed household consumption and spending across regions, thus reversing demand below pre-COVID levels. Uncertainty surrounding commodity prices is expected going forward as the global economy struggles to address the current situation and the headwinds ahead.

Coffee

Coffee prices have consistently experienced new multi-year highs since 2021 and into the first half of 2022. The 2022 September quarter prices averaged around US$6,818.7 per tonne, 48.0 per cent above the budget price, and 50.0 per cent higher than a year ago.

The surge in coffee prices has been driven by the increasing post-COVID demand and limited supply from Brazil (world's top coffee producer), coupled with supply chain disruptions. The inadequate supply from Brazil reflects production deficits due to an extreme frost that adversely affected the country's coffee producing regions. In addition, the reopening of restaurants, cafes, and shops after COVID-19 has boosted the consumption of the world's favourite hot beverage to historical highs since late 2021. However, since reaching a new decade high in February 2022, the price of Arabica beans has moderated due to the global inflation surge reducing household consumption and spending, coupled with the supply boost from major producers after experiencing unfavourable weather conditions.

In 2022, prices are projected to average US$5,804.3 per tonne, 2.9 per cent lower than the 2022 MYEFO projection and 26.0 per cent higher than 2022 Budget estimate.

Looking ahead, prices face a downside risk as concerns about a recession and monetary policy tightening across regions are expected to dent demand. On the supply side, production from Brazil is expected to recover together with ample supply from other major producing countries as favourable weather supports production. Prices are expected to fall due to robust supply coupled with weak demand. Therefore, the coffee price assumption underpinning the 2023 Budget is projected to average around US$5,445.0 per tonne.

Cocoa

Cocoa prices have been trending on the low side after reaching multi-year highs in 2021 as demand bounced back following the easing of COVID-19 restrictions, especially in the US and Europe (major consumers), as cocoa based products – mainly chocolate consumption increased thus lifting prices upwards. Unfavourable weather conditions impacted market supply which further supported prices. The price rally however, stumbled in February 2022 as improved supply from the world's two major producers (Ivory Coast and Ghana) entered the market as weather conditions improved.

On the demand side, surging global inflation and tightening of monetary policy amid recession fear, has capped consumption allowing prices to retreat from their highs as demand subsided since February.

Prices for 2022 are projected to average around US$2,383.3 per tonne in 2022, 3.0 per cent and 7.4 per cent lower than the 2022 MYEFO and 2022 Budget respectively.

In 2023, amid the mixed market sentiments - prices are expected to decline further as demand remain weak and supply improves. The 2023 Budget projects cocoa price to average around US$2,285.0 per tonne.

Palm Oil

The palm oil price maintained its rally in 2021 and soared to fresh highs in the first half of 2022 as production plunged in Malaysia, (World's second largest palm oil producer) due to labour shortages, coupled with supply disruptions of substitutes like sunflower seed oil from producers in Russia and Ukraine. Up to September, prices averaged around US$1,211.6 per tonne, a gain of 27.0 per cent compare to the same period in 2021. Bolstering the price rally further was the supply disruption from Indonesia due to brief ban on its palm oil exports in an attempt to address its domestic price hikes, complemented by a drought in Latin America which reduced soybean output.

However, prices began to slow down in late June as Indonesia reversed its export ban and Malaysia ramped up production – resulting in excess inventories. Furthermore, the post-COVID demand from 2021 abated as the global inflation surge reduced household consumption of palm oil-based products.

In 2022, prices are projected to average US$1,131.2 per tonne, 2.2 per cent higher than the 2022 MYEFO price projection as the major producers (Indonesia and Malaysia) attempt to clear their respective warehouse inventories to house the expected increased production for the next harvest season.

In 2023, the palm oil price is expected to fall further as excess supply coupled with weak demand continues. Therefore, the palm oil price assumption for the 2023 Budget is projected to average around US$896.0 per tonne.

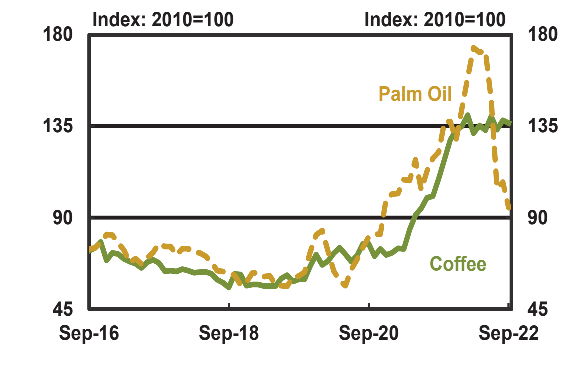
Copra Oil

The copra oil price is on a marginal decline after reaching a high in the first half of the year. This was driven by the increased demand for coconut oil usage in the health, cooking, and cosmetic industries arising from the release of pent-up demand following the easing of COVID restrictions. On the supply side, production from the top producer, the Philippines, has been constrained due to pandemic-related restrictions on labour input and aging palm trees.

In recent months, prices have been supressed by the severe downgrade in consumer purchasing power as a result of the broad-based global inflation. In addition, the excess supply of copra oil in the market has pushed price further down as the weak demand could not accommodate the excess supply. However, the price fall is minimal compared to the same period in 2021. Coinciding with these developments, prices are expected to average around US$1,588.0 per tonne in 2022, 14.0 per cent higher than the 2022 MYEFO price projections.

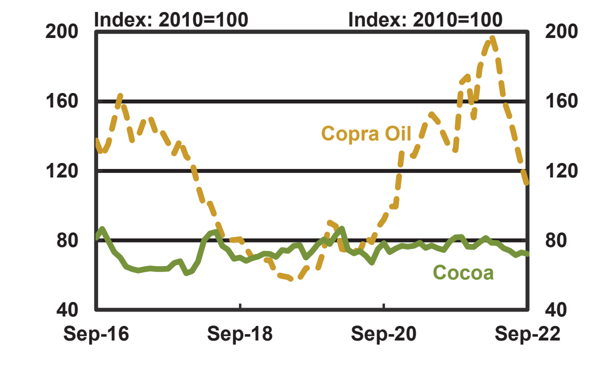
The copra oil assumption for the 2023 Budget is projected to average around the same level from 2022 at US$1,588.0 per tonne.

Chart 3: Price Index of Palm Oil & Coffee



Source: International Monetary Fund (IMF) and Reuters

Chart 4: Price Index of Copra & Cocoa



Source: International Monetary Fund (IMF) and Reuters

Dwindling demand, coupled with boosted supply are anticipated to keep prices for most agricultural commodities down over the remainder of 2022 and beyond. Reflecting these developments, the majority of the PNG's key agricultural export prices are expected to be below the high prices of 2021 and early 2022, although generally higher than the pre-COVID-19 prices.

2.1.8 Mineral and Petroleum Commodities

Developments in the global economy continue to dictate the price trends for PNG's petroleum and mineral export commodities. Global economic activity has experienced extreme challenges since the first quarter of 2022, following the two years of successive pandemic induced downturns. As a result, the global market for commodities has been disrupted from both the demand and supply fronts and thus prices for PNG's mineral and petroleum export commodities have been undergoing rigorous price volatility not seen in decades.

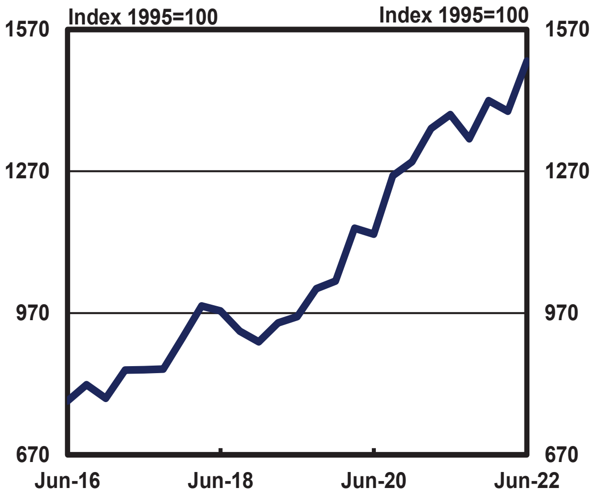
All mineral and petroleum export commodities reached multi-year highs in the first quarter of 2022 due to the supply disruption caused by the Russia-Ukraine war and the related international sanctions on Russia. However, global demand for commodities subsided in the second quarter as battle against the surging global inflation across regions gained momentum – coupled with fresh COVID-19 lockdowns in China which suppressed the extension of post COVID demand in 2022. Following the release of the 2022 MYEFO report in July, prices for PNG's petroleum and mineral export commodities began to fall from their first quarter peaks as global demand diminished due to reduced spending and consumption resulting from tighter monetary policy actions across the globe. In addition, post-COVID production and supply chain recoveries – coupled with a fresh blow from the Russia-Ukraine war, further amplified price instability as the global economy encountered new demand side turbulences.

All mineral and petroleum commodity prices have been revised down except for Gold and Nickel in line with the prevailing conditions. Gold and Nickel remained buoyant against the weak market demand and price falls. Ongoing interest rate hikes, the slowdown in China, and fears of recession are expected to further reduce demand for PNG's main export commodities.

Chart 5: IMF All Commodity Price Index

Source: International Monetary Fund (IMF) October WEO

Chart 6: PNG Export Commodity Price Index



Source: Bank of PNG

The Bank of Papua New Guinea's (BPNG) Export Price Index increased by 5.4 per cent in the first half of 2022 compared to the same period in 2021, reflecting increase in most commodity prices. Recent data show the price of oil fell sharply, with WTI averaging US$92.0 per barrel in the September quarter, 15.4 per cent below their June quarter highs. Copper has also come down sharply by 19.0 per cent in the September quarter (quarter on quarter) while gold retreated below US$1,700.0 an ounce in mid-September. On agriculture commodities, almost all prices have decreased driven by lower demand and improved supply.

Liquefied Natural Gas (LNG)

The LNG price assumption is linked to the Asian LNG market price benchmark given LNG's main exports markets are in Asia. Almost 75.0 per cent of the LNG traded in the Asian market is sold on long-term contracts which links the price of LNG to the price of crude oil (commonly the Japanese Customs-cleared Crude (JCC) price) with a lag of several months.

Therefore, the oil price is used as an indicator in tracking trends in the LNG price and making informed projections complemented by the publicly released LNG price estimates by the World Bank, Petroleum Association of Japan, and Japanese Customs.

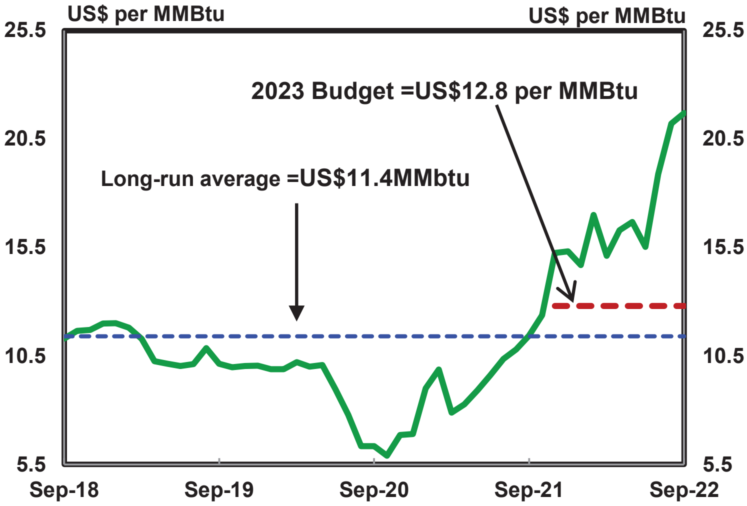
Over the year to September 2022, LNG prices have increased sharply reflecting the earlier peaks in crude oil prices. Prices averaged around US$17.5 per MMBtu, 82.3 per cent above the corresponding period in 2021. The main driver for the price rally in the first quarter of 2022 was the supply shock which hit the market after Russia attacked Ukraine on 24 February, 2022. The price rise was further supported by export bans from Russia as countries – such as the US and European nations – mounted campaigns against Russia's invasion of Ukraine.

Prices, however, moderated briefly in the first half of 2022 and rebounded again in July as Russian supplies were further reduced. The fall in supply was exacerbated by additional disruptions to large Russian gas suppliers. These supply issues, coupled with a fear of increased winter demand for gas, consequently saw natural gas prices in Europe surge by more than 30.0 per cent.

On the demand side, the slowdown in China coupled with the global economic slowdown and recession fears have moderately capped the price hikes driven by the supply shocks. However, an expected winter demand and further supply cuts from Russia pose an upside risk for prices going forward.

With these developments, the LNG price is expected to average around US$14.6 per MMBtu in 2022, up from US$10.8 per MMBtu recorded in 2021. Looking ahead into 2023, the LNG price is projected to fall to US$12.8 per MMBtu.

Chart 7: Liquefied Natural Gas Price



Source: World Bank Pink Sheet (LNG, Japan, US$/MMBtu)

Crude Oil

Oil prices have increased sharply throughout the first quarter of 2022 and sustained its rise into the second quarter of 2022 (see Chart 8). However, prices have also experienced extreme fluctuations in the third quarter with diverging factors dragging the oil price in different directions. Conflicting supply-and-demand factors have increased the uncertainty for the oil price forecast going forward.

Oil prices averaged US$92.0 per barrel in September quarter, 30.0 per cent higher than the corresponding period and 54.0 per cent above the 2022 Budget estimate of US$64.0 per barrel.

During the first half of 2022, the crude oil market was hit hard by the Russia-Ukraine conflict, causing more severe supply disruptions accompanied by a surge in global inflation and fears of a possible global recession. Prices have reached historical highs above the US$100.0 per barrel territory in the first quarter of 2022.

The price rally was short lived and dropped below US$100.0 per barrel amid worries over demand as China – the world's largest oil importer – implemented further COVID-19 lockdowns, complemented by an economic downturn, which saw demand subsiding. In addition, the interest rate hikes aimed at fighting global inflation and rising recession fears in the US and Europe have discouraged prices from rising further. The downtrend in prices was again short-lived as tight global supply continued to impact the oil market due to additional bans on Russian oil as other major oil importers joined the US in the campaign against Russia to cease its attack on Ukraine as part of a wider international sanctions on Russia. This caused the price to reach another high in June before losing its gains.

The aggressive sanctions against Russian oil exports pose an upside risk for prices as further bans on Russian oil could ignite another price rally above US$100.0 per barrel. However, the persistent downtrend in global demand due to surging inflation, shrinking financial conditions, the slowdown in China, and fears of a global recession pose significant downside risks.

Considering these developments, the price assumption towards the end of the year anticipates both the supply and demand mismatches to balance out, and prices are expected to average US$95.0 per barrel in 2022, which is still 48.0 per cent above the Budget estimate and somewhat less optimistic compared to the first quarter levels.

Chart 8: Crude Oil Price

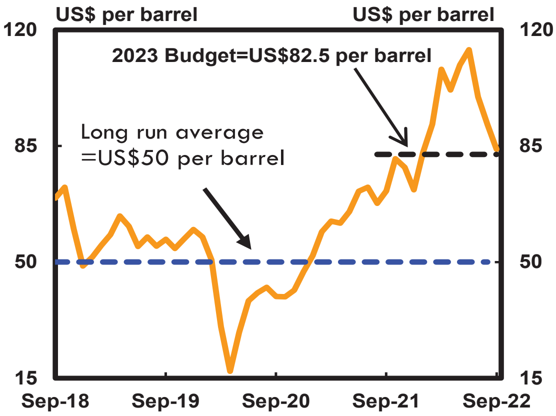
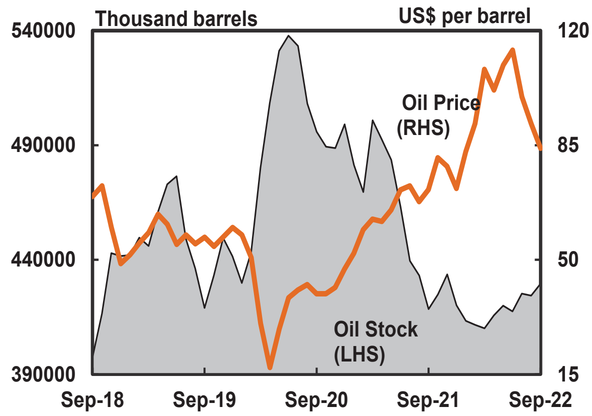


Chart 9: Crude Oil Price against Stock



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

Looking beyond to 2023, the volatility in the oil market due to demand concerns and multi-directional supply factors are expected to balance out towards the first half of 2023.

Considering these developments, the oil price assumption underpinning the 2023 Budget is projected to average around US$82.5 per barrel.

Copper

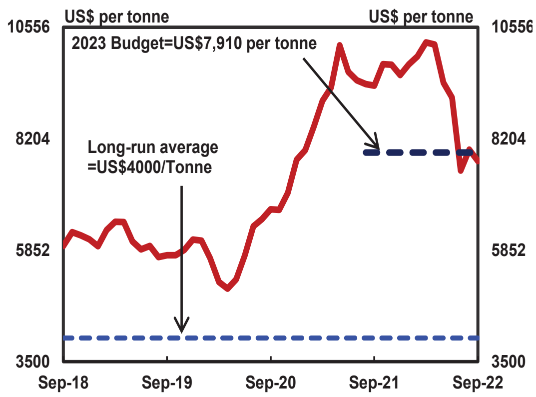
Copper prices performed well and beyond expectations in 2021 and sustained their rally into the first quarter of 2022 as the post COVID demand recoveries saw prices reaching record highs. However, prices declined by more than US$1,000.0 a tonne across the month of June after exceeding the US$10,500.0 per metric tonne threshold in March as the red metal encountered severe macro headwinds in the second and third quarter.

On the supply side, disruptions in major copper producing countries, especially Chile and Peru, coupled with the uncertainty on the start-up of some large-scale projects, signalled an upside risk for prices. Over the year to September, copper prices averaged around US$9,078.0 per tonne, which is 1.2 per cent lower than the US$9,186.2 per tonne recorded in the same period of 2021.

Looking ahead, prices are expected to drift lower than the 2021 and 2022 first quarter levels - as the strong macro headwinds subdue demand. This is expected to more than offset the impacts of supply disruptions, thus leaving copper prices to be mainly driven by demand towards the end of 2022.

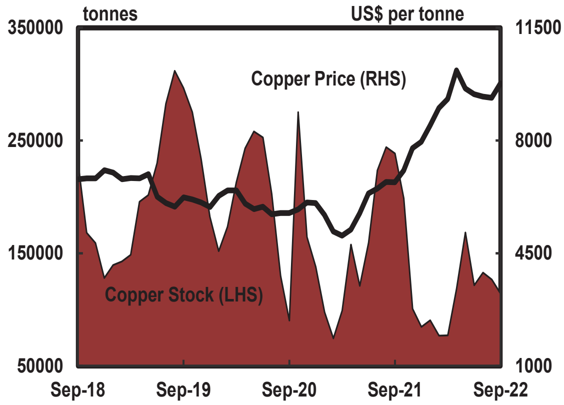
Considering these developments, the copper price forecast for 2022 has been revised down to US$8,811.0 per tonne, 4.0 per cent lower than the 2022 MYEFO price forecast and 3.0 per cent below its 2022 Budget estimate prices.

Chart 10: Copper Price



Source: London Metal Exchange

Chart 11: Copper Price against Stock



Source: London Metal Exchange

In 2023, both supply and demand factors are expected to gain momentum which pose a higher level of uncertainty in the copper market. Balancing these factors, the copper price assumption underpinning the 2023 Budget is projected to average around US$7,910.0 per tonne, which is lower than previous levels.

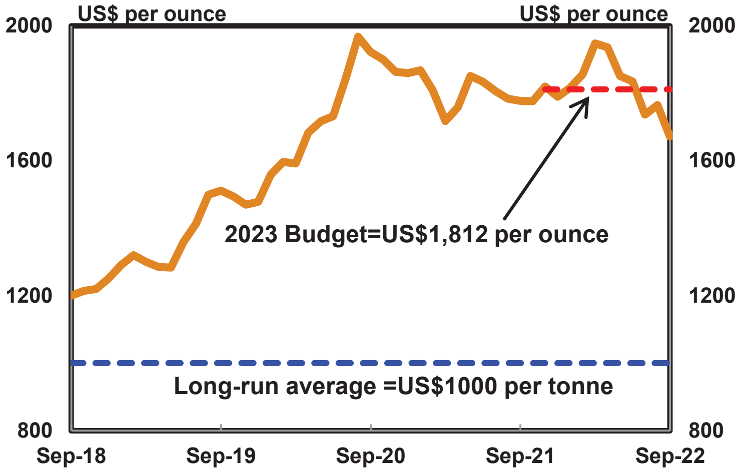
Gold

Gold prices fell after reaching a peak in March 2022, driven by the interest rate hikes from the U.S. Federal Reserve Bank and European central banks, among others, to combat the surging inflationary pressures.

Up to September 2022, gold prices averaged US$1,825.0 per ounce, 1.4 per cent higher than average prices of the corresponding period last year. Gold prices are expected to remain slightly higher for the remainder of 2022.

Against this backdrop, the gold price is projected to average around US$1,816.0 per ounce in 2022, a rise of 1.5 per cent from the 2022 Budget estimate.

Chart 12: Gold Price



Source: IMF and Bank of England

In 2023, gold price is expected to fall further due to continued interest rate hikes and US dollar strengthening. Offsetting the downward price pressures will be rising demand for gold as a safe haven asset, particularly in the face of the ongoing Russia-Ukraine war, global recession fears, unexpected geopolitical tensions, and further possible COVID-19 related shocks.

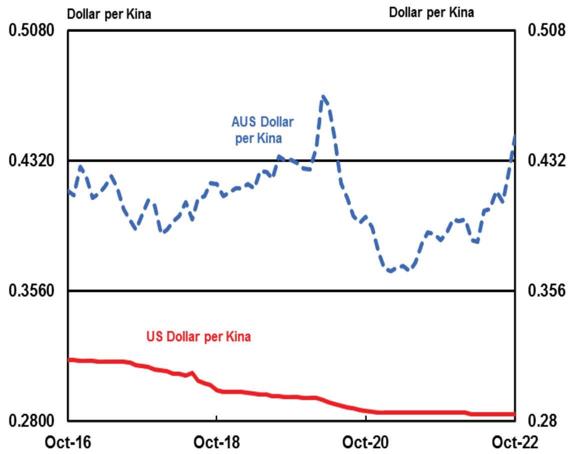
Given current market sentiments, most factors are likely to push the gold price to the downside. Against this backdrop, the gold price assumption for the 2023 Budget is being projected at US$1,812.0 per ounce.

2.2 EXCHANGE RATE DEVELOPMENTS

As global inflation soared to a multi-decade high in 2022, central banks around the world have rapidly lifted policy rates to combat inflation. Most notably, the US Federal Reserve has raised interest rates aggressively by three percentage points since early 2022 to a 14-year high, and communicated that further rises are likely. Tighter financial conditions and fears of a global recession have prompted capital outflows from emerging markets and developing economies, and subsequently fuelled the appreciation of US Dollar (USD) against other major currencies.

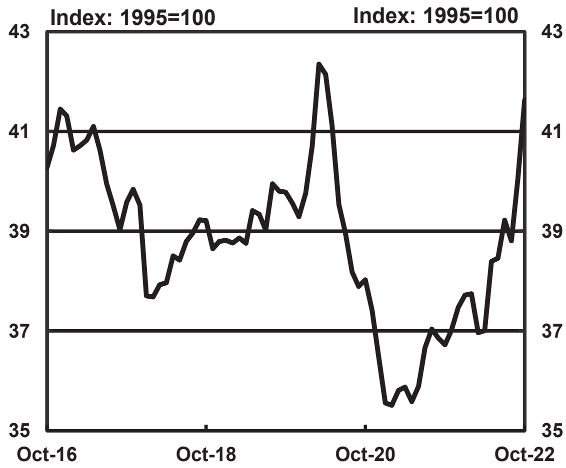
Since January 2022, the Kina depreciated against the USD by 0.4 per cent, while it appreciated against the Australian Dollar (AUD) by 12.0 per cent. The appreciation of the Kina against the AUD was largely driven by cross-currency movements as the AUD, along with other major currencies, weakened against the USD. Furthermore, the Kina received a further boost from streams of large foreign exchange (FX) inflows during the year, stemming from windfall revenues from favourable commodity prices as well as international support financing the budget.

Chart 13: Exchange Rate Developments



Source: Bank of Papua New Guinea

Chart 14: Trade Weighted Index



Source: Bank of Papua New Guinea

As a result, PNG's Trade Weighted Index (TWI) rose sharply by 11.0 per cent in 2022, reflecting the appreciation of the Kina against currencies of its key trading partners such as the AUD, Singaporean Dollar, Chinese Yuan, Japanese Yen and the Malaysian Ringgit amongst others (Chart 14). Adjusting for inflation differentials across key trading partners' currencies, PNG's real effective exchange rate (REER) increased by 5.0 per cent in 2022, the highest level since 2015. This is contrary to the REER depreciation trend witnessed in 2021 (see Chart 15).

According to BPNG's 2022 September Monetary Policy Statement, Foreign Exchange (FX) inflows up to August 2022 totalled K12,710.4 (US$3,609.8) million, of which K4,252.0 million came from the resource sector, K3,591.0 million from the AFF sector and K2,783.3 million from LNG taxes. An outflow of US$4,156.7 million (K14,636.2 million) was recorded, resulting in a net FX outflow of US$546.9 million (K1,925.8 million).

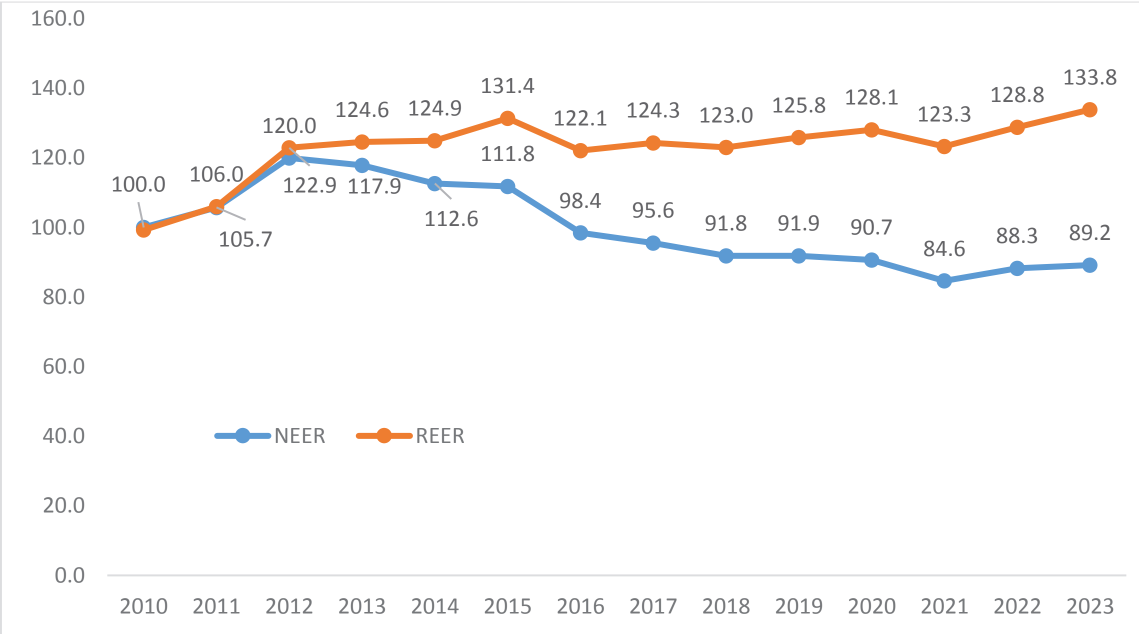
Despite the improvement in FX inflows and international reserves (US$3,300.6 million or K11,621.8 million as of 30th September 2022) providing cover of up to 9.2 months of total imports and 16.3 months of non-mineral imports, there are still reports of FX imbalances in the market, a common phenomenon since mid-2014 when BPNG policy moved away from a market based exchange rate. In fact, anecdotal evidence suggests that FX conditions have worsened, with some waiting up to eight weeks for orders to be filled. The FX issue remains the key impediment to business according to PNG's two (2) largest Chamber of Commerce.

The longer waiting time could be attributed to the new compliance measures introduced by BPNG to all Authorised Foreign Exchange Dealers (AFEDs) in July 2022. The measure was aimed at improving and enhancing due diligence processes to ensure FX orders are genuine and supported with relevant and necessary documentation.

Another contributing factor for the long waiting time could be due to the stance taken by the BPNG in managing its foreign reserves. PNG has accumulated significant foreign reserves in recent years, but the inflow was primarily driven by the Government's external budget financing loans, instead of structural improvements in foreign direct investment environment or non-resource exports. BPNG viewed such developments as unfavourable, and its regular intervention in the FX market as unsustainable as the gains in foreign reserves are essentially pre-committed external debt servicing in the medium-term. This has resulted in BPNG accumulating more foreign reserves, with an import cover ratio higher than its regional peers.

The Treasury monitors the developments in the FX market closely and acknowledges the market distortion induced by long waiting times. It continues to work with BPNG to address the ongoing FX imbalances.

Chart 15: Real and Nominal Effective Exchange Rates (REER and NEER), 2010 = 100



Source: Department of Treasury

2.3 DOMESTIC ECONOMIC DEVELOPMENTS AND OUTLOOK

2.3.1 Summary of Developments in 2022 and Outlook

The non-resource sector, as a whole, is expected to grow by 4.5 per cent, 0.1 percentage and 1.0 per cent point higher than the 2022 MYEFO and 2022 Budget estimates, respectively. Growth in the non-resource sector was revised up to reflect stronger performance recorded in the Business Liaison Sectors (BLS) of the economy, spurred by the election related spending and the resumption of business activities. Despite this, the growth of Agriculture, Forestry, and Fisheries (AFF) sector was revised to 2.1 per cent, down by 0.4 and 0.8 percentage point than the 2022 MYEFO and 2022 Budget estimates, respectively. The downgrade in the AFF sector growth was to account for the impact of prolonged election-related violence in the Highlands region on the informal agriculture sector.

Growth in the resource sector is underpinned by a favourable performance in the mining and quarrying sector, which recorded a 13.5 per cent growth in 2022. While Porgera continues to remain closed, major mines such as Ok Tedi, Lihir and Simberi have recovered strongly from the production disruptions in 2021. The Oil and Gas sector is on track to experience positive real growth in 2022 of 1.4 per cent. This relatively lacklustre performance is attributed to a steep decline in Condensate production from the Hides gas field in spite of higher LNG production.

Combined for GDP, following the opening of international borders and easing of movement restrictions, the PNG economy is expected to rebound in 2022 with a real growth of 4.6 per cent, supported by a broad-based recovery and low base effect in 2021. The latest growth estimate is 0.1 and 0.8 percentage points lower than the 2022 MYEFO estimate and the 2022 Budget, respectively, due to weaker performance in the Agriculture, Forestry and

Fisheries (AFF) and Oil and Gas sectors. Despite the slight downgrade from 2022 MYEFO, the overall growth is a marked improvement from the 2021 growth estimates of 0.1 per cent[1] and a contraction of 3.2 per cent in 2020.

In 2023, the economy is expected to grow at 4.0 per cent, 0.5 percentage point lower than 2022 MYEFO estimate. The downgrade was attributed to a significant decline in the Oil and Gas sector (-7.2 per cent) as PNG LNG revised its LNG production down to its nameplate capacity for 2023 and outer years. Nevertheless, overall growth is expected to remain robust, supported by the resumption of Porgera mine and strong domestic demand.

Over the medium-term, PNG's overall growth is expected to moderate at 3.8 per cent. Medium-term growth is expected to be supported by the non-resource sector as the resource sector is projected to remain stagnant in the outer years as most resource projects are expecting to produce at their respective nameplate capacity. The non-resource sector is projected to reach 5.0 per cent growth in 2027, driven by the Government's broad-based inclusive growth agenda, which includes empowering Small Medium Enterprises (SME), improving connectivity/access to markets through the Connect PNG initiative, reducing public sector arrears and SOE reforms as well as strengthening the ease of doing business through series of structural reforms in the economy.

2.3.2 2022 Domestic Economic Update

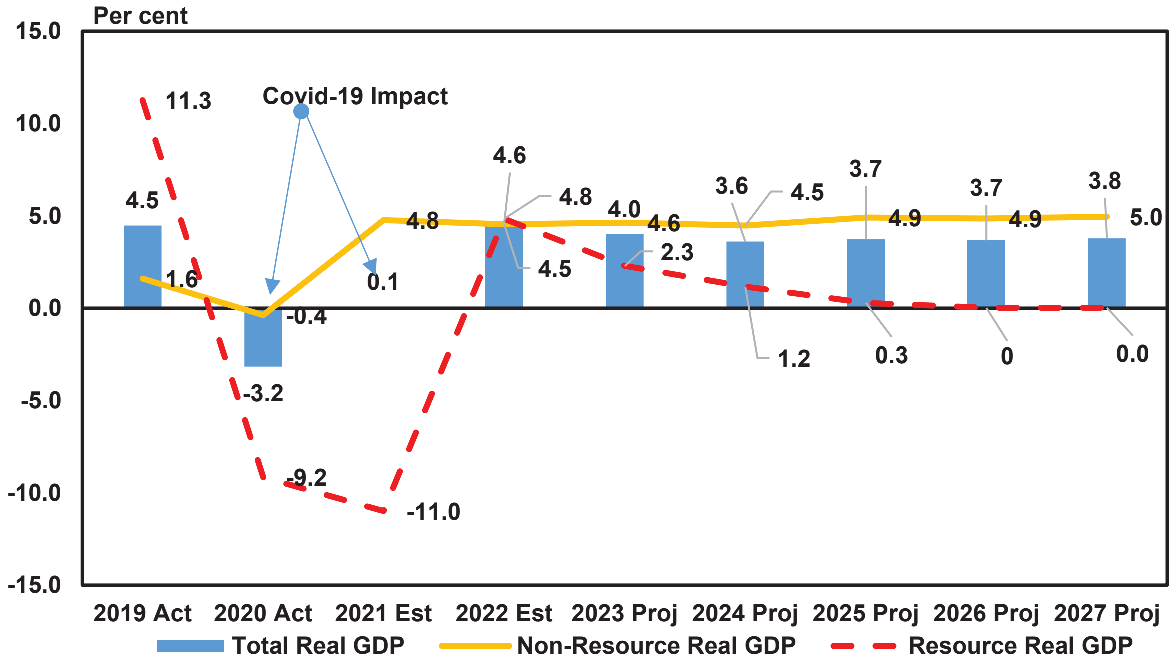
The domestic economy is estimated to grow by 4.6 per cent in 2022, down by 0.1 percentage points from the 2022 MYEFO estimate of 4.7 per cent. This is mainly driven by weaker than expected performance in the Oil and Gas and AFF sectors.

In 2022, the Oil and Gas sector is estimated to grow modestly by 1.4 per cent compared to the 2.7 per cent estimated at the 2022 MYEFO. Low growth in the sector was attributed to a 33.0 per cent decline in Condensate production in 2022, although the shortfall is offset by higher LNG production than its nameplate capacity of 8.3 million tonnes per year. Mining and Quarrying sector is estimated to grow strongly by 13.5 per cent in 2022, up from 12.9 per cent at 2022 MYEFO. Increased gold production from Ok Tedi, Hidden Valley, and Kainantu together offset the slight decline in Ok Tedi's copper and Ramu Nickel's cobalt productions.

Overall, the resource sector is estimated to grow by 4.8 per cent, 0.9 percentage point lower than the 2022 MYEFO estimate.

[1] 2022 MYEFO estimated 2021 growth to be 0.3 per cent, however, growth is now estimated at 0.1 per cent reflecting the National Statistical Office (NSO) 2020 GDP actuals base effect. The real and nominal GDP estimates for the 2023 Budget are built on the recently released 2020 actual GDP statistics published by the NSO on 4th November 2022.

Chart 16: Real Economic Growth (2019-2027)



Source: Actuals from NSO. Estimates and projections from Department of Treasury.

Growth in the non-resource sector in 2022 is estimated at 4.5 per cent, 0.1 and 1.2 percentage point higher than the 2022 MYEFO and 2022 Budget, respectively. The improved growth outcome reflects increased economic activities in the Business Liaison Sectors (BLS) of the economy, aided by stronger than expected recovery in the private sector and increased election related spending.

The AFF sector is estimated to grow by 2.1 per cent, slightly lower than the 2.5 per cent estimated at MYEFO due to lower coffee output (down 6.4 per cent). The lower output is due mainly to election related activities and violence in the Highlands region (impacting farmers availability to attend to coffee and domestic farming), coupled with delays in funding the Freight Subsidy Scheme (FSS) in the first three months of 2022.

However, other BLS sectors grew higher to offset moderate growth in the AFF sector, which include Public Administration and Defense, real estate, wholesale and retail trade, and information and communication sectors. Growth in these sectors have benefited from increased Government spending and surge in private consumption associated with the 2022 National Election.

2.4 2023 Economic Outlook

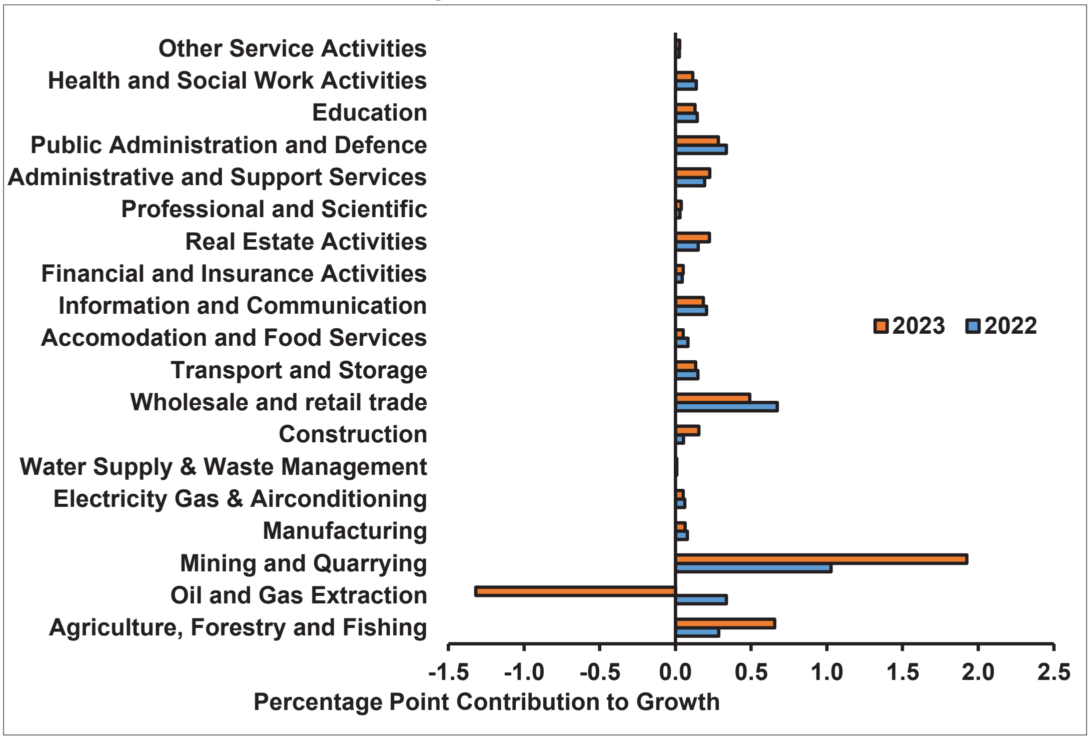
In 2023, the PNG economy is expected to grow by 4.0 per cent, of which, the non-resource and resource sectors are set to increase by 4.6 per cent and 2.0 per cent, respectively.

The non-resource sector's performance will be underpinned by:

[2] FSS is a CIC program funded by the Government to move coffee from rural areas not accessible by road to markets, and has been in place since 2010. In the 2022 Budget, the Government allocated K4.0m for the program, however, there was a delay in funding the program in the first quarter of 2022, consequently reducing coffee production and exports.

- AFF sector is projected to grow by 4.0 per cent in 2023. This growth is driven by a rebound in AFF sector production including increased output of coffee (up 19.5 per cent), cocoa (up 15.4 per cent), logs (up 7.1 per cent), and domestic farming, following production disruptions due to election related violence in the highlands and slower growth in China affecting log exports.
- Cocoa production is expected to be boosted by the maturing of over 2.0 million cocoa trees planted four years ago and the continued rollout of the remote cocoa freight subsidy program.
- 3.5 per cent growth in the Real Estate sector, supported by continued urbanisation and improved labour mobility as COVID-19 restrictions ease.
- 3.3 per cent growth in Transport and Storage. The re-opening of Porgera mine and international borders are anticipated to generate extra activities for trucking and logistic sector.
- 3.0 per cent growth in the construction sector. The K1.4 billion PNG Ports maritime port infrastructure development and the Government's Connect PNG projects are expected to provide stimulus to the construction sector in 2023 and beyond.

Chart 17: Contribution to Growth by Sectors, 2022 and 2023



Source: Department of Treasury

Details of the growth in the AFF sector in 2023 are as follows:

- Coffee production is projected to increase by 19.5 per cent, aided by normalisation in production. Despite 2022 being a good year for coffee, challenges faced by the industry include: aging of coffee trees in the smallholder and plantation sectors; breakdown in rural infrastructure; increase in lawlessness; the continual threat of quality problems; possible shortage of land and labour; and threat of major pests and diseases. Production over the medium term is expected to face downside risks. The COVID-19 Pandemic and its workings as a non-tariff barrier inadvertently propped up prices through stock/inventory shortages in consuming/importing countries. Another possible short-term downward pressure on production is decreased prices for farmers as buyers or exporters factor the increased fuel and freight costs into their pricing, as lower prices reduce the incentive for farmers to increase production. Delays in funding the CIC FSS could also reduce coffee production and exports.

- Cocoa production is projected to increase by 15.4 per cent, and 12 per cent on average annually over the medium term (2024-2027) due to a huge demand for hybrid clones, and the setup of satellite nurseries in different cocoa growing districts, LLGs, and wards. The National Government has set an annual 10.0 per cent target increase in production for the overall agriculture sector in the next three (3) years up to 2024. In line with this target, the cocoa industry has come up with its own projection of a 12.0 per cent annual increase for the next five (5) years. A total of over 2 million cocoa trees have already been planted over the past four years under the Cocoa Board's District Nursery program. Planting is continuing, with a target of 1 million cocoa trees per district in the years ahead. Other lead partners like Agmark, Outspan PNG, and the World Bank (PPAP – Cocoa Component) have also run parallel nursery and planting programs to complement the Cocoa Board's main nursery program. The PPAP cocoa component has also planted over 4 million cocoa trees since 2012. In addition, the remote cocoa freight subsidy program, which is viewed as a marketing program, has provided a pull effect on production in the past few years and is expected to increase production in the next three years.

Growth in the Mining and Quarrying sector is projected to grow strongly by 23.4 per cent in 2023, reflecting the resumption of the Porgera mine in the second quarter of 2023 since the shut-down in April 2020. In addition, production from the Ok Tedi mine is expected to increase as a result of better access to high grade ores (impact of the new Crusher).

The Oil and Gas sector, however, is projected to contract by -7.2 per cent in 2023. This is due to a substantial downgrade in condensate and LNG production, as PNG LNG envisages producing below its nameplate capacity, a level that is lower than its 2022 production level. The contraction in the Oil and Gas sector is expected to be offset by growth in the Mining and Quarrying sector, resulting in an overall 2.0 per cent resource sector growth.

2.4.1 Medium Term Outlook (2024-2027)

Over the medium-term, the non-resource PNG economy (where most people in PNG earn their livelihoods) is expected to grow at an annual average rate of 4.8 per cent. The positive outlook is in line with the Government’s plan to drive a broad-based inclusive growth agenda with strong emphasis on SMEs, infrastructure connectivity, and structural reforms to ease business constraints.

Growth in non-resource sector is supported by AFF. This growth reflects the full recovery of the economy as restrictions on the movement of labor across domestic and international borders are removed over the medium term. However, its performance also hinges on the developments in the global commodity markets. Changes in prices could pose a risk to PNG’s production as PNG is a small open economy and price taker.

The Government’s ‘Connect PNG’ policy is expected to facilitate greater development on the AFF sector with road linkages to cocoa, coffee, and copra plantations that will prove cost efficient for farmers to retain more proceeds. The continued rollout of the PNG Cocoa Board’s major projects such as the nursery project will continue to support growth and development in the cocoa industry. Palm oil production is anticipated to increase over the medium-term, aided by the removal of border restrictions that will facilitate the mobility of specialized labor. This, coupled with the anticipated ramping-up of the Markham Farming Company Limited production, palm oil production over the medium-term is expected to remain high, contributing strongly to the AFF sector’s growth.

The Transport and Storage, Accommodation and Food services, Manufacturing and Wholesale and Retail sectors are expected to recover and grow strongly over the medium term as the recovery of the global economy is expected to improve global supply lines and see much freer flow of trade and labour mobility.

Growth in the Electricity, Gas and Air-conditioning sector over the medium term is driven by the operations of Dirio Gas-based 45 Megawatts (MW) power plant and NiuPower Gas-based 10 MW power plant, and the PNG Energy Utility Performance and Reliability Improvement Project that aims to improve, rehabilitate, and upgrade infrastructure on the Port Moresby, Gazelle, and Ramu Grids owned by PNG Power.

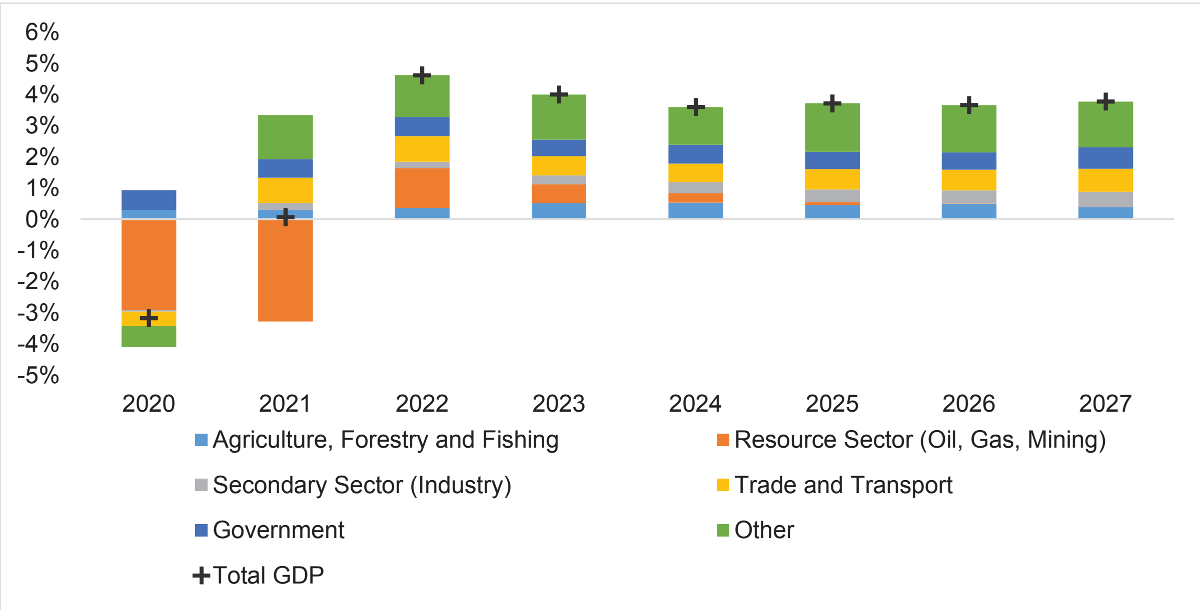
The Government over the medium term will continue its efforts to encourage downstream processing of resources and strengthen its compliance reforms aimed at increasing revenue, supported by financial sector reforms focused on encouraging international trade and reducing foreign exchange imbalances.

On the resource sector, Mining and Quarrying sector is projected to grow by 3.3 per cent in 2024 driven by the full-year of production from the Porgera mine, and supported by the expectation of higher production from Ok Tedi due to access to high-grade ore. However, the sector is projected to slow down over the medium term, with a lackluster growth of 1.4 per cent in 2025, before plateauing in 2026-27. This projected growth profile is underpinned by an expected flattening in output on the assumption that mines are maturing.

Similarly, the Oil and Gas sector is projected to contract by 0.1 per cent in 2024 and 0.4 per cent in 2025 before remaining stagnant for the outer years as PNG LNG moves towards producing at its nameplate capacity.

The outlook in the resource sector does not capture the pipeline projects such as the Wafi-Golpu and Papua LNG project. The pipeline projects will be captured once they reach the final investment stages and Final Investment Decisions (FID) are confirmed. This forecasting assumption is in line with best international practice.

Chart 18: Drivers of total real GDP growth 2020-2027



Source: NSO and Department of Treasury.

2.5 LABOUR MARKET

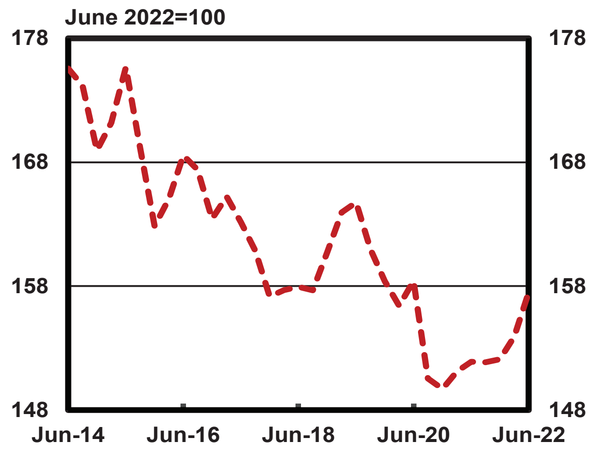
Total employment in the formal private sector improved in 2022 due to fresh recruitment in both mineral and non-mineral sectors as business operations and activities ramped up production targets to cater for post-COVID demand and spending. According to the BPNG's provisional employment statistics for June quarter 2022, total employment increased by 3.7 per cent (See Chart 19) through the year from June 2021 to June 2022 driven by an increase in the mineral sector by 7.4 per cent and non-mineral sector by 3.2 per cent.

The increase in the mineral sector largely reflects the rise in new recruitment due to increased production and activities by mineral companies, driven by the resumption of operations following the removal of COVID-19 restrictions in late 2021 and increased prices and demand in the first half of 2022. Annual employment growth increased by 7.4 per cent compared with a decline of 19.3 per cent in the corresponding period.

Over the year to June, employment in the non-mineral sector increased by 3.7 per cent compared to a decline of 1.9 per cent during the corresponding period, reflecting increased business activity in the Building and Construction, Transportation, Manufacturing, Finance, Business and other Services. These increases more than offset the fall in employment from other non-mining sectors (See Chart 20).

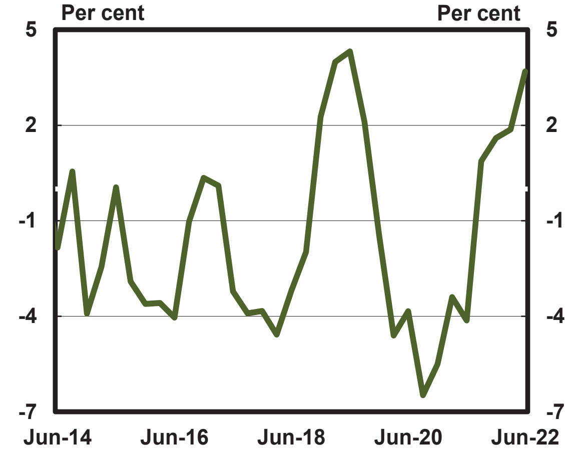
However, the non-mineral sectors that reported declines in employment during the same period were the Wholesale, Retail and the Agriculture, Forestry and Fisheries sectors due to seasonal cost cutting measures from firms given increased operational costs and election related disruptions (See Chart 21).

Chart 19: Employment Index



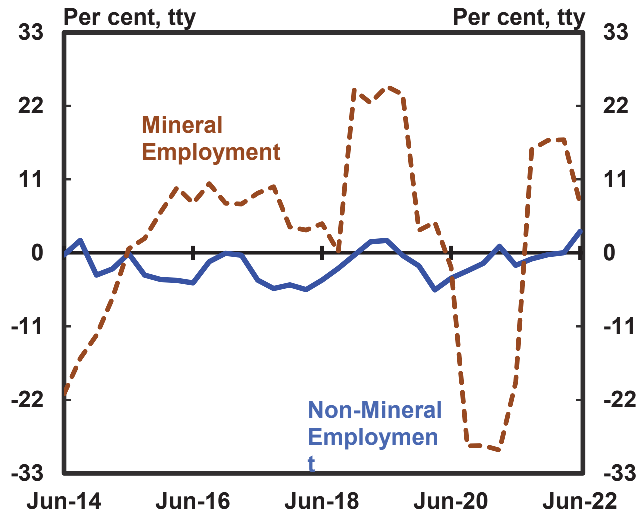
Source: Department of Treasury and Bank of PNG

Chart 20: Total Employment Growth



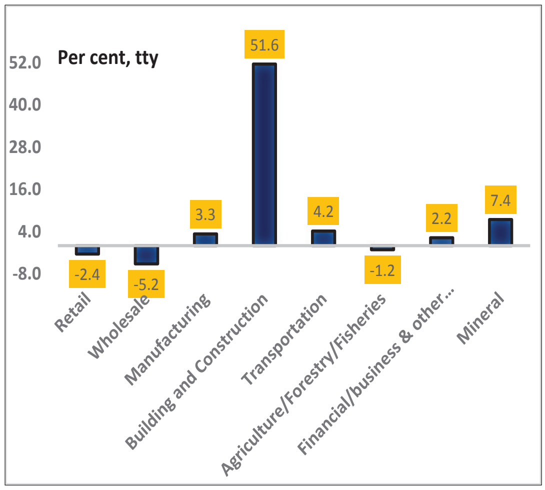
Source: Department of Treasury and Bank of PNG

Chart 21: Mining & Non-Mining Employment Growth



Source: Bank of PNG

Chart 22: Industrial Employment Growth



Source: Bank of PNG

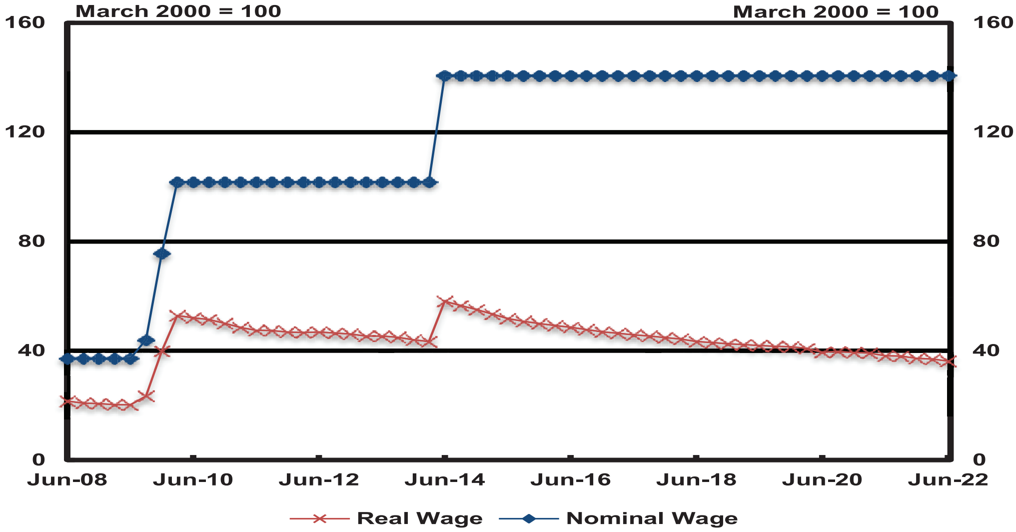
2.5.1 Nominal Salary and Wages

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.

The MWB Determination in July 2016 was the third and final phase of an increase to the minimum wage 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. There are reports that some employers are not using these minimum wage rate determinations.

Chart 23: Wages Index



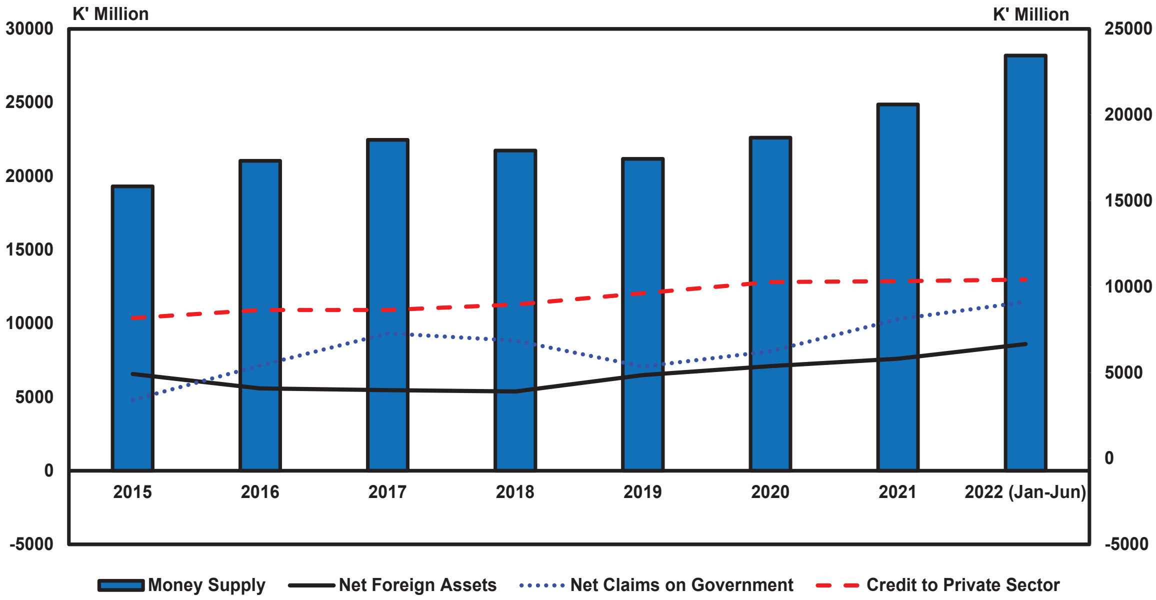
Source: Department of Treasury, Bank of PNG and National Statistical Office (NSO).

2.6 MONETARY DEVELOPMENTS

The Bank of PNG (BPNG) tightened its policy stance by increasing the KFR by 25 basis point to 3.25 per cent in July 2022, as its policy response to curtail inflation and liquidity. The change in monetary policy stance has very little influence over the market interest rates due to excess liquidity in the financial and banking system.

Money supply in the first half of 2022 increased by 17.2 per cent to an average of K28,833.9 million, compared with an average of K24,598.1 million over the same period last year, as net domestic borrowing by the government and net earnings from foreign assets increased by 15.1 per cent and 6.3 per cent respectively.

Chart 24: Money Supply (Kina Million)



Source: Bank of PNG

According to the BPNG's 2022 September Monetary Policy Statement (MPS), the broad money supply is projected to grow by 13.7 per cent in 2022, down from 14.7 per cent growth forecast in the March 2022 MPS. Growth in the money supply is driven by increases in Net Foreign Assets (NFA) (50.8 per cent) and Net Domestic Assets (NDA) (8.6 per cent), respectively.

The increase in net claims on Central Government reflects continued issuance of Government debt securities, while growth in the Private Sector Credit is associated with a pick-up in economic activity. In line with these developments and projections, the growth in the monetary base was revised up to 7.5 per cent, compared with the 6.6 per cent growth rate forecast in the March 2022 MPS.

2.7 CONSUMER PRICE INDEX

2.7.1 2022 Inflation Update

Headline inflation reached 6.1 per cent in the first quarter of 2022, then eased back to 5.5 per cent in the second quarter 2022. The underlying or core inflation, which excludes seasonal food, energy, and volatile items, also decreased slightly by 0.4 percentage point in the second quarter of 2022 following a spike of 1.0 percentage point in the previous quarter.

Higher food, betel nut, and transport prices were the major drivers of consumer inflation. Food, tobacco, and betel nut accounted for more than two-thirds of overall inflation over the last two (2) quarters. Food inflation was mainly driven by higher cereal, fruit, and vegetable prices. While fruit and vegetable prices moderated, cereal prices have increased consistently in recent quarters. Higher betel nut prices contributed to about one-third of the overall inflation rate in the second quarter. Transport prices went up by 13.0 per cent year-on-year in the same quarter, mainly due to higher imported fuel prices and transport fares.

In response to the high fuel prices in the first quarter, the Government introduced the fuel relief measures (excise and GST exemption on fuel products) to soothe the impact of elevated fuel prices. The Government also re-introduced the Tuition Fees Subsidy, which saw zero tuition fees in primary and secondary education and resulted in a 13.0 per cent decline in education CPI.

Chart 25: Headline & Underlying CPI (Through-the-Year)

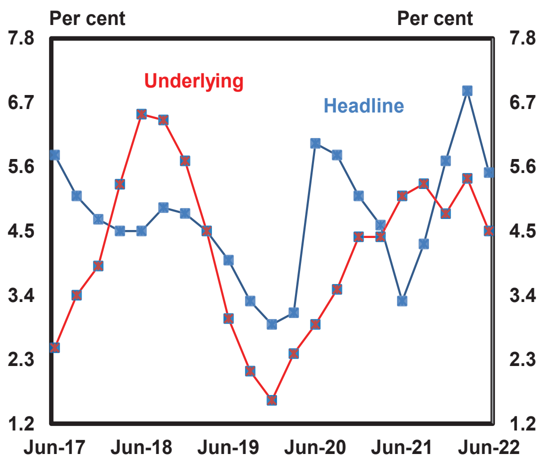
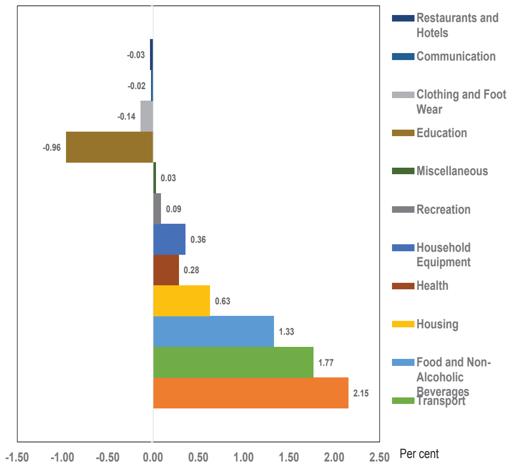


Chart 26: Percentage Contribution to CPI (Through the Year)



Source: National Statistical Office

2.7.2 Tradable and Non-Tradable Goods

Prices of tradable goods reverted to 5.0 per cent in Q2 2022, after reaching 9.0 per cent in first quarter of the 2022. This is not unexpected as inflation soared in the major import partners. PNG's three (3) major import partners, Australia, Singapore, and the United States (US) who account for around 70 percent of total imports have been experiencing higher inflation since the second half of 2021. Despite a series of cash rate hikes and tightened monetary policy, inflation is on the rise in the partner countries. In the June quarter of 2022, the year-on-year consumer price inflation was 6.1 per cent in Australia, 5.9 per cent in Singapore, and 8.6 per cent in the US.

Chart 27: Expenditure Basket – June Quarter 2022 Growth (%)

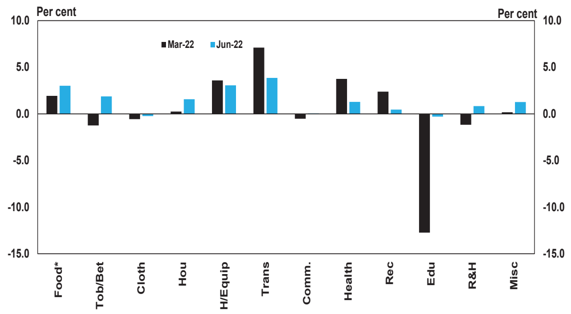
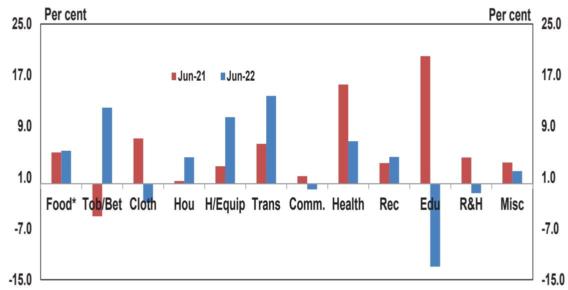


Chart 28: Expenditure Basket – Through the Year Growth (%)



Source: National Statistical Office

Chart 29: Tradable and Non-Tradable Inflation-(Quarterly)

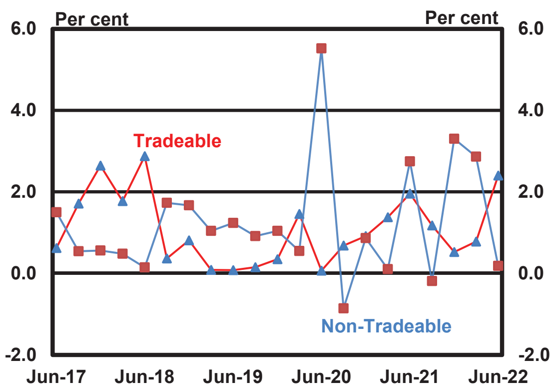
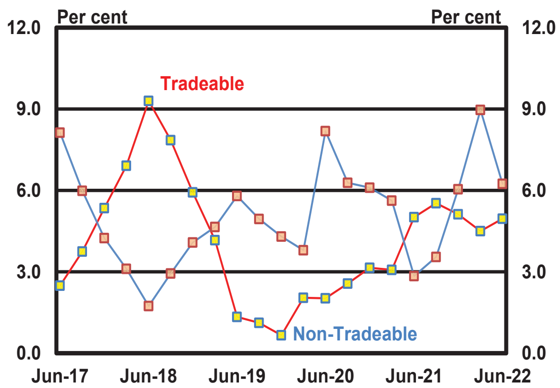


Chart 30: Tradable and Non-Tradable Inflation-(Through-the-Year)



Source: NSO and Department of Treasury

2.7.3 Inflation Outlook

Inflation in 2022 is expected to average at 6.6 per cent, 0.4 percentage points higher than the 2022 MYEFO estimate and 1.0 percentage point higher than the 2022 Budget. The upward revision from the 2022 MYEFO is due largely to the higher quarterly outcomes of the consumer price index reported by the NSO and higher inflation in major import partners.

Inflation would have been much higher than 6.6 per cent had Government not intervened with its temporary tax relief policy on fuel prices (removal of 10.0 per cent GST, excise duty and import tariff on fuel products).

Offsetting some of the inflationary steam is the relatively stable Kina exchange rate against US Dollar. According to the latest external sector assessment by IMF, Kina's real effective exchange rate (REER) estimated to be only 2.0 per cent overvalued due to improvement in PNG's external balance arising from higher terms of trade. Meanwhile, due to monetary policy tightening in US, Kina benefited from cross-currency movement, hence the Australian dollar weakened against Kina, which provided some downward pressure on inflation.

The higher food and energy prices prevailing in the international markets and inflationary pressures in the major trading partners implies that headline inflation will remain at 6.6 per cent (slightly below PNG's long-term average inflation rate of 6.8 per cent) in 2022 before reducing in 2023.

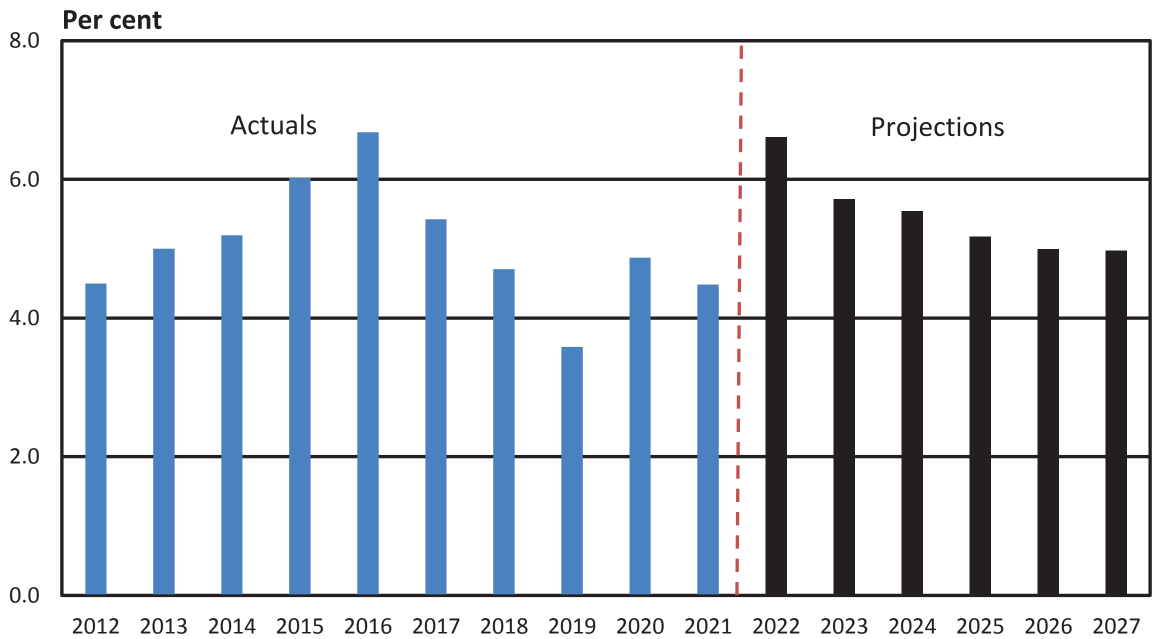
2023 and Medium Term

In 2023, inflation is projected to average at 5.7 per cent as inflationary pressure is expected to subside as a result of monetary policy tightening by central banks and a potential global recession which may also reduce inflationary pressures. The projected fall in oil price is expected to also put downward pressure on prices of goods and services.

On the domestic front, the Government's extension of the fiscal relief measures for another six months in 2023 to continue to mitigate the impact of higher fuel prices on domestic inflation, are also expected to support the cause of cooling off the inflationary pressures.

Over the medium term, inflation is projected to average at 5.2 per cent in line with the Government's macroeconomic stability objective.

Chart 31: Inflation outcome and projection 2012-2027



Source: Actuals from National Statistical Office (NSO). Projections from Department of Treasury.

2.8 BALANNCE OF PAYMENTS AND INTERNATIONAL RESERVES

2.8.1 Balance of Payments 2022 Update

Developments in both the global and domestic economic settings have underpinned movements in PNG's balance of payments during the first six (6) months of 2022.

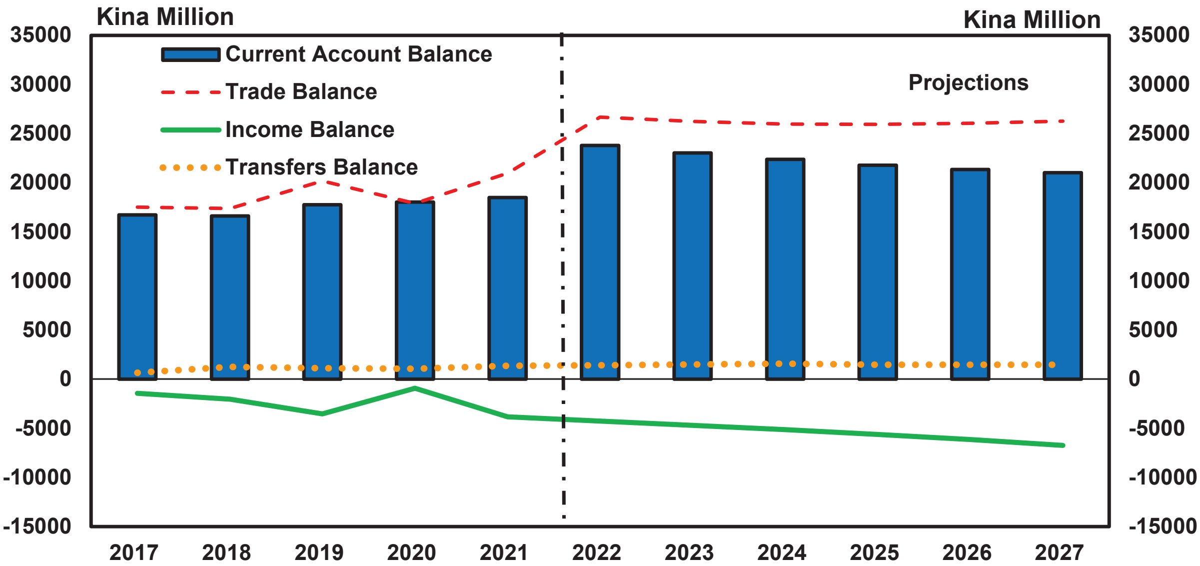
The current account recorded a surplus of K15,173.8 million in the first half of 2022, driven by a widening trade surplus. The trade surplus reflected higher export receipts across PNG's main export commodities due to higher resource production and international prices.

Imports improved in the first half of 2022 but was slightly lower year-on-year on the back of the resumption of domestic economic activity, appreciation of the Kina against major trading partners and increase in general price level of imported goods and services. Notwithstanding this, imports could have been much higher this year if it was not for the persistent foreign exchange imbalance in the economy.

The trade surplus is expected to continue throughout 2022. As a result, current account surplus is expected to reach K23,801.5 million (22.0 per cent of GDP) by the end of 2022, higher than K18,485.9 million (20.0 per cent of GDP) in 2021.

Similar to past trend, strong growth in the current account surplus is expected to be offset by the deficit in financial account, resulting in a net outflow of reserves. The financial outflow is mainly owing to debt service payments related to LNG project construction and foreign currency held in mineral companies' offshore bank accounts, which offsets the increase in project financing inflows by donor agencies during the same period.

Chart 32: Balance of Payment (BOP)



Source: Bank of BPNG

2.8.2 2023 Balance of Payment Outlook

In 2023, the current account surplus is expected to be K23,020.4 million (20.4 per cent of GDP), 3.3 per cent lower than the 2022 estimate. The lower current account surplus in 2023 reflects the lower than expected receipts from PNG's export commodities as prices are expected to decline. Like in the past, the difference in the balance of payment is expected to be financed by foreign reserves.

2.8.3 Medium Term Outlook (2024-2027)

The current account surplus is expected to be lower in 2024 and moderate over the medium-term reflecting a decline in most commodity prices.

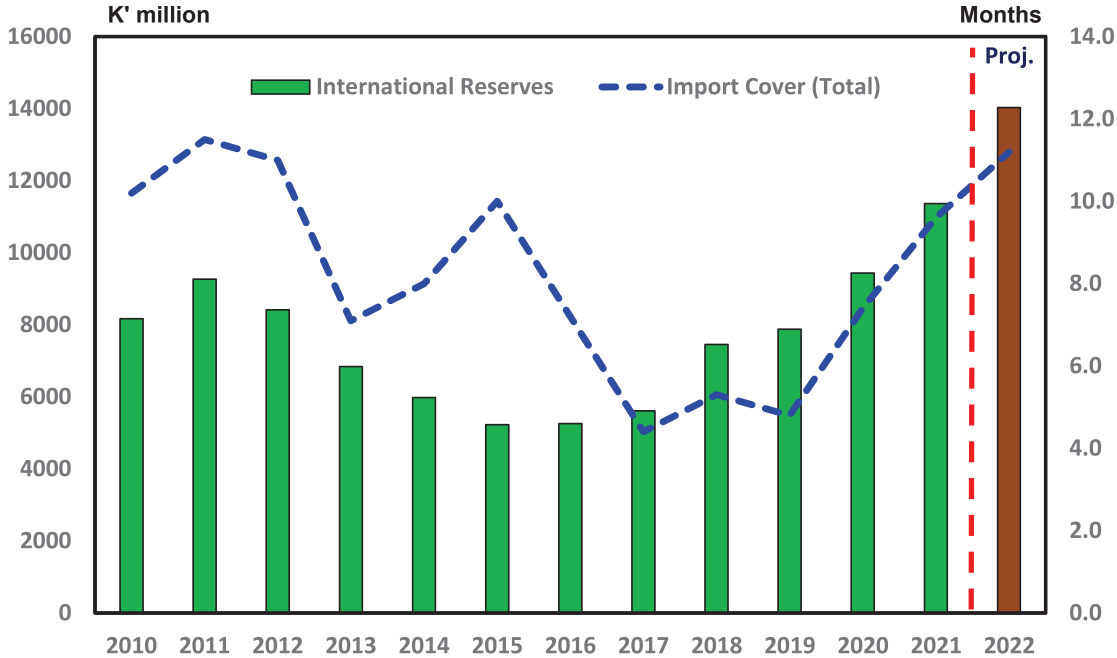
2.8.4 International Reserves

International reserves totaled US$3,296.8 million (K11,608.5 million) at the end of June, which is equivalent to 9.2 months of total import cover and 16.3 months of non-mineral import cover. This is expected to increase to US$3,986.0 million (K14,028.2 million) by the end of 2022, which is 23.0 per cent above the 2021 outcome and is equivalent to 11.2 months of total import cover and 22.1 months of non-mineral import cover.

The increase is due to higher than anticipated inflows in Mining and Petroleum Tax (MPT) over the second half of the year driven by increased mineral and petroleum prices and the Government external borrowing expected to flow in towards year-end from international agencies – both multilateral and bilateral partners.

Despite the buoyant international reserves, businesses are still experiencing delays in receiving their import orders on a timely basis. The Treasury continues to work closely with the Bank to address this ongoing issue. The planned program with the IMF will have a major focus on improving FX imbalances, including options to increase the efficiency and transparency of FX allocations.

Chart 33: International Reserves



Source: Bank of PNG

2.9 Risks To Macroeconomic Stability

There are both upside and downside risks to the economic and fiscal outlook, although the balance is tilted more toward the downside.

2.9.1 Macroeconomic Risks:

- **Persistent global inflationary pressures** – As the Russia-Ukraine war continues with little sign of imminent cease fire, tougher sanctions against Russia are likely, leading to continued global supply chain disruptions. Hence, tight market supply will continue to drive up prices. As an import dependent country, high energy and food prices will have an impact on businesses and constrain private consumption. On the upside, elevated commodity prices are likely to increase PNG's exports.

- **Outbreak of COVID-19 or similar infectious diseases** – COVID-19 exposed the weaknesses in the public health system and its ability to respond to a pandemic of such magnitude. Another pandemic or infectious disease, will have an adverse impact on economic activities and reduce growth.

- **Foreign exchange imbalance** – FX shortage has been unresolved since 2014 and continues to weigh down economic activity, particularly in the non-resource sectors. Should these issues persist in 2023, there is a risk that the economic growth projections will not be achieved, impacting business sentiment, income, employment levels and service delivery.

- **Global growth/commodity prices** – Commodity prices have seen large increases in 2022 and are expected to see moderate declines in 2023, but nonetheless remain at elevated levels. A fall in commodity prices and demand for PNG's exports, will have a negative impact on the terms of trade and Government revenue.

- **Tighter financial conditions** – Prolonged geopolitical tensions and related mismatches in supply and demand could lead to sustained price pressures and rising inflation. This could in turn pressure developed economies to tighten monetary policy faster than anticipated thus leading to tighter conditions in financial markets;

- **Further delay in Porgera mine resumption** – The 2023 Budget growth forecast assumes that the resumption of the Porgera mine will occur in the first quarter of 2023, with production commencing in the second quarter. Any further delay will have a downward effect on the growth forecast. The resumption of production in 2023 is projected to contribute 1.2 percentage points to the overall real GDP growth.

- **Pipeline projects reach Final Investment Decisions (FID) earlier than expected** – The 2023 Budget growth forecast only captures projects that are currently operational, while excluding all proposed investment projects until they each reach Final Investment Decision (FID) stage. New projects that come online in the coming years will strengthen growth and thus pose upside risk, but significant revisions are unlikely until mid-2023 or the beginning of 2024 for major projects, especially in the oil and gas sector.

- **Natural Disasters –** Natural disasters in recent years have negatively affected economic activity, growth, and development. It is therefore essential for the Government and responsible agencies to incorporate mitigation strategies into their operational plans. Climate change still remains an imminent global challenge that could affect economic development and people's lives if it is not addressed.

- **Prolonged election related violence –** Violent events that transpired over the course of the election period are still fresh, and failure to mediate lasting peace between warring parties could interrupt normal business operations and lead to property destruction and further lawlessness.

2.9.2 Fiscal Risks:

- **Unbudgeted Expenditures** – unbudgeted expenditures in 2023 will have fiscal implications. In particular, overruns in health professionals' and teachers' salaries remain a major issue with significant fiscal implications. The Government has put in place further controls over Compensation of Employees (COE) in the 2023 Budget, but failure to adhere to these controls will undermine expenditure estimates leading to likely reductions in other areas of the budget;

- **Shortfall in dividend collections –** Dividend payments from authorities and enterprises account for almost 8.9 per cent of projected total revenue in 2023. Any shortfall in collections, due to agencies failing to pay dividends or a sharp decline in commodity prices, will impact total revenue and have an adverse effect on the fiscal position and financing plans; and

2.9.3 Financing Risks:

- **Heavy reliance on domestic borrowing results in high interest costs** – Whilst the Government has had some success in rebalancing its debt portfolio more toward longer term external debt, there has been an over reliance on short term domestic debt. This brings some risk of swings in interest rates and debt servicing costs; and

- **Exchange rate risks on external loans –** While more external debt reduces interest costs, it also increases exchange rate risks, which will need to be managed carefully.

CHAPTER 3: FISCAL STRATEGY AND OUTLOOK

3.1 FISCAL BACKGROUND – 2022 BUDGET UPDATE

The 2022 National Budget was the third annual budget formulated under the Marape-led Government during these times of unprecedented economic uncertainty.

Following the COVID-19 pandemic, both PNG and the global community faced significant challenges, which were exacerbated by the outbreak of the Russia-Ukraine war. Domestically, the spill-over effect of the war impacted individuals, businesses, and families in the form of higher prices for goods and services and cost-of-living pressures. The Government, in response to these inflationary pressures, undertook corrective policy measures with the announcement of a K611.0 million 'fiscal relief package' in April to ease the pressure on families.

Despite the challenges posed by COVID and the Russia-Ukraine war, the implementation of the 2022 Budget progressed well in the first half of the year. The 2022 MYEFO report projected total revenue and grants at K17,066.0 million, an upward revision of K875.8 million from the 2022 Budget estimate of K16,190.2 million. The revision was driven by significant improvements in global commodity prices in the first half of 2022, due to the war in Ukraine. Substantial upward revisions were made to the projections of Mining and Petroleum Taxes (MPT) due to higher liquefied natural gas (LNG) and oil prices in the first half of the year. The increased revenue projection also reflects the substantial revisions to Dividend Withholding Taxes (DWT) (which captures the one-off higher collection from a single taxpayer in the first half of the year) and the Gaming Machine tax (GMT). On the other hand, projections of tax heads such as Personal Income Tax (PIT), Goods and Services Taxes (GST) Inland and Ports, Inland Excise and Import Excise collections were revised downward, in part due to the relief measures introduced by the Government. Estimates of the Other Revenue category were also revised down due to the delay in passing of the Non-Tax Revenue Administration (NTRA) Bill.

The Russia-Ukraine war triggered global inflation, prompting the Government to introduce the tax relief package which includes tax exemptions on selected expenditure items (especially fuel) and subsidies to PNG Power Ltd, the education sector, and other sectors, to relieve inflationary pressures. The Government introduced a further package of K117.3 million to extend the fuel tax reductions to 31st December 2022 and increase the project fee subsidy by a further K34.0 million in the 2022 Supplementary Budget which was presented on 02nd September, 2022.

Despite significant challenges, the Government was able to implement most of its key priority expenditures. Funding for urgent priority expenditures contained in the 2022 Budget such as: the Government Tuition Fee Subsidy (GTFS) program; the Connect PNG and District Roads Program; Medical Supplies; the District Support Improvement Program (DSIP)/Provincial Support Improvement Program (PSIP); and other Public Investment Programs (PIPs) in the capital development budget were frontloaded early in the first half of the year. Furthermore, additional funding was provided for the 2022 National General Election.

The 2022 MYEFO report projected an expenditure envelope of K23,050.3 million, an increase of K875.8 million compared with the 2022 Budget. The main drivers for the increase included: payments to meet outstanding arrears and other commitments; payments for the tax relief package for school project fees (K160.0 million); an estimated overrun in CoE especially Teachers' Salaries (K295.5 million); DSIP funding for the seven new electorates (K21.0 million); and the restoration in SIPs to K10.0 million costing K222.0 million. The net impact of these changes was an increase in estimated revenues and expenditure of the same magnitude of K875.8 million, meaning that there was no change in the size of the budget deficit.

The PNG economy recovered strongly from the COVID-19 pandemic in 2022. The 2022 MYEFO report projected total nominal GDP to grow from K92,264.8 million in 2021 to K110,302.8 million in 2022. The increase in GDP resulted in a fall in the estimated budget deficit as a share of GDP from 5.9 per cent to 5.4 per cent. Similarly, the debt to GDP ratio is estimated to fall from 51.9 per cent of GDP estimated in the 2022 Budget to 47.8 per cent in the 2022 MYEFO report, which is within the prescribed debt-to-GDP ratio of 60.0 per cent as per the *FRA (amended 2020)*.

3.2 2022 SUPPLEMENTARY BUDGET

The Marape Government introduced the 2022 Supplementary Budget on 2nd September 2022 which approved a Total Revenue and Grants envelope of K17,389.1 million against Total Expenditure and Net Lending of K23,373.6 million, ensuring that the fiscal deficit remained as at the 2022 Budget level of K5,984.7 million or 5.4 per cent of GDP. As explained in the Foreword for the MYEFO, an additional K360.0 million in revenues (from keeping all Ok Tedi revenues going to the central government rather than Kumul Mineral Holdings) was identified, and this was allocated for additional expenditure in the 2022 Supplementary Budget.

Table 3: 2022 Supplementary Budget (Kina, million)

Details	2022 Budget	2022 MYEFO	2022 Suppl. Budget	Budget Variance
Total Revenue and Grants	16,190.2	17,066.0	17,389.1	1,198.8
Total Expenditure and Net Lending	22,174.8	23,050.6	23,373.6	1,198.8
Net Lending (+)/Net Borrowing (-)	**-5,984.7**	**-5,984.7**	**-5,984.7**	**0.0**
% of GDP	*-5.9%*	*-5.4%*	*-5.4%*	*0.5%*

Source: Department of Treasury

The 2022 Supplementary Budget approved an increased appropriation of K1,198.8 million for the 2022 Fiscal Year, comprising K965.5 million in operational expenditure and K233.3 million in capital expenditure. Given the increase in global oil prices and the adjustments made to accommodate the fiscal relief package, revenue has also been revised upwards by the same amount (K1,198.8 million) to K17,389.0 million.

Further, the 2022 Supplementary Budget reappropriated and/or increased the appropriation for certain key Government priorities including:

- K243.0 million for SIPs (including funding for the seven new districts);
- K160.0 million for GTFS (project fees);
- K255.0 million for the Government Arrears program;
- K30.0 million for Sustainable Development Goal 8 (SDG #8) Program; and
- K15.0 million for Urban Infrastructures.

An allowance of K295.5 million was also made available for likely overruns on Compensation of Employees (CoE) in the 2022 MYEFO, increasing the CoE appropriation to K6,345.7 million.

Table 4: Expenditure Summary (Kina, million)

Details	2022 Budget	2022 Suppl. Budget
TOTAL EXPENDITURE	**22,174.8**	**23,373.6**
Operating/Recurrent Budget	**13,423.1**	**14,388.6**
Compensation of Employees	6,050.1	6,345.6
Debt Service (Interest payment & fees and charges)	2,324.4	2,324.4
Other Operating (Goods & Services)	5,048.6	5,718.6
Capital Budget/PIP	**8,751.7**	**8,985.1**
GoPNG Funded	5,858.3	6,091.7
Donor Funded	1,574.9	1,574.9
Loan Funded	1,318.4	1,318.4

Source: Department of Treasury

Financing and Debt

The financing plan for the 2022 Supplementary Budget remains unchanged given that there was no change in the size of the original budget deficit. As estimated in the 2022 Budget, the deficit of K5,984.7 million will be financed through net external borrowing of K3,744.7 million and net domestic borrowing of K2,240.0 million.

The external financing includes budget support loans from multilateral and bilateral development partners. The Government is also implementing the third tranche of the Asian Development Bank (ADB) State Owned Enterprise (SOE) Budget Support Loan of USD250.0 million (approximately K877.2 million) for 2022 and will continue to pursue negotiations with other bilateral and multilateral partners for additional budget support. Other external funding includes concessional loan facilities already available on planned projects.

Domestic financing includes K1,750.0 million in net issuance of Treasury Bonds, K260.1 million in net issuance of Treasury Bills, and K229.9 million in domestic loans on infrastructure projects.

3.3 THE 2023 BUDGET STRATEGY

The 2023 Budget is the fourth consecutive annual Budget produced under the Marape Coalition Government. This Budget is being framed within the Government's 13-Year Fiscal Plan that sets out the key elements of the Government's ongoing plan for fiscal consolidation, repair, and sustainability from 2023 to 2027.

The 2023 Budget will continue to be guided by the Five (5) National Goals and Directive Principles, the National Strategy of Responsible Sustainable Development (StaRS), and PNG's commitment to the 17 United Nations Sustainable Development Goals (SDGs) that are 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. It will also be guided by the *'Loloata Commitment'* which was put forward in 2020 as a rescue and reconstruction strategy that began with a fiscal re-adjustment and a revised medium term fiscal strategy.

The broad objectives of the fiscal recovery and repair program under the 2023 Budget is to provide the platform for fiscal consolidation whilst at the same time continuing to support economic growth and community services through: strategic capital formation, particularly in the non-resource sector; expanding the tax base; and improving the delivery of essential services. This will be achieved by addressing the widening structural imbalance between revenues and expenditure.

As set out by the Government in previous budgets, the 2023 Budget plan is based on the following principles:

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

The 2023 Budget is framed based on the elements of the 2022 Supplementary Budget released in September, taking into account the impact of the Russia-Ukraine War, as well as the fiscal performance in the first and early second half of the year which sets the stage for fiscal consolidation and sustainability over the medium term.

This budget is aimed at continuing support towards economic recovery from the COVID-19 pandemic and the Russia-Ukraine war, strengthening the revenue base, improving the quality of expenditure, obtaining cheap responsible financing within prudent risk levels, lowering loan interest costs, and reducing the debt to GDP ratio, while ensuring macroeconomic stability over the medium term.

The main fiscal parameters of the 2023 Budget are:

i. Budget deficit at 4.4 per cent of GDP;
ii. FRA deficit (excluding concessional loans) at 6.3 per cent;
iii. Non-resource primary balance at 6.3 per cent of non-resource GDP; and
iv. Debt estimate of 52.3 per cent of GDP.

The major risks to the fiscal strategy stem from potential revenue and financing shortfalls. A reduction in mining and petroleum taxes, or in corporate income taxes will present a significant risk to the execution of the 2023 Budget. The non-payment of dividend by SOEs also poses a risk to the revenue projections for 2023. Risks on the expenditure side include rising global interest rates, in turn pushing up debt interest repayments. A significant challenge to timely implementation is the realisation of financing options early in the budget execution cycle, although this is mitigated through prudent use of the Temporary Advance Facility (TAF).

Total Revenue and Grants for 2023 is projected at K19,582.0 million (17.3 per cent of GDP). This is K2,192.1 million or 12.6 per cent higher than the 2022 Supplementary Budget estimate of K17,389.1 million.

Table 5: 2023 and Medium Term Revenue Projections (Kina, million)

	2022 Supp. Budget	2023 Budget	2024	2025	2026	2027
Tax Revenue	**13,831.5**	**14,899.6**	**15,813.6**	**17,196.7**	**19,414.9**	**21,940.0**
Taxes on Income, Profits and Capital Gains	8,841.9	8,935.0	8,899.9	9,008.8	9,677.4	10,816.3
Taxes on Payroll and Workforce	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on Goods and Services	4,130.2	5,015.3	5,888.1	6,796.0	7,622.3	8,613.9
Taxes on International Trade and Transactions	859.4	949.4	1,025.6	1,391.9	2,115.2	2,509.9
Donor Grants	**1,824.9**	**2,024.9**	**2,074.9**	**2,124.9**	**2,175.2**	**2,224.9**
Other Revenue (Non-Tax)	**1,732.7**	**2,657.4**	**2,610.2**	**2,905.2**	**3,533.6**	**4,203.8**
TOTAL REVENUE AND GRANTS	**17,389.1**	**19,582.0**	**20,498.8**	**22,226.8**	**25,123.7**	**28,368.7**
% of GDP	*16.1%*	*17.3%*	*16.9%*	*17.1%*	*18.1%*	*19.5%*

Source: Department of Treasury

On the Expenditure side, the Marape Government will continue to support the key policy reforms introduced in 2021 and 2022 consistent with the principles of the *'Marape Manifesto'* and the *'Loloata Commitment'*, in growing the economy, focusing on connecting PNG, supporting rural communities, supporting SMEs, providing responsible government tuition fees, and strengthening SOEs through smarter and targeted reforms.

The Government will continue the implementation of some of the key capital investment projects undertaken in 2021 and 2022 to ensure continued program delivery, especially those that are considered essential and are able to stimulate economic activity and add value to those living in rural communities. These programs aim to reduce the cost of doing business and to connect and expand economic corridors to stimulate economic growth and employment opportunities in rural communities. The increased economic activity generated by these investments will eventfully lead to higher tax collections.

The Government has ensured that the 2023 Budget continues to fully fund Government service priorities in the health, education, law & order, and infrastructure sectors. The 2023 Budget also focuses on investing in MSMEs e-Commerce training and support platforms to expand and formalise 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, the 2023 Budget supports downstream processing and value-addition in agriculture, fisheries, forestry, and tourism.

Total Expenditure & Net Lending for the 2023 Budget is projected at K24,566.9 million, which is K1,193.3 million or 5.1 per cent higher than the 2022 Supplementary Budget estimate. With the increase in expenditure ceiling for 2023, the Government will continue to prioritise and protect funding for essential social sectors such as education, health, and law and order. Consistent with the 2022 Supplementary Budget and the Government's 13-Year Fiscal Plan, the 2023 Budget will continue to strike an appropriate balance between the challenge of stimulating the economy and meeting the requirement of fiscal sustainability and discipline in 2023 and over the medium term.

Table 6: 2022 and Medium Term Expenditure Estimates (Kina, million)

	2022 Supp. Budget	2023 Budget	2024	2025	2026	2027
TOTAL EXPENDITURE	**23,373.6**	**24,566.9**	**24,467.5**	**25,689.2**	**26,897.8**	**28,261.7**
OPERATING BUDGET	**10,748.4**	**10,802.0**	**11,208.6**	**11,938.9**	**12,698.7**	**13,477.2**
Compensation of Employees	6,345.6	6,942.0	7,160.6	7,598.0	7,900.4	8,205.9
Goods & Services	4,402.8	3,860.0	4,048.0	4,340.9	4,798.3	5,271.2
CoE and G&S as share of total expenditure	*46.0%*	*44.0%*	*45.8%*	*46.5%*	*47.2%*	*47.7%*
PROVINCES	**1,315.8**	**1,458.0**	**1,571.7**	**1,701.9**	**1,850.7**	**2,020.4**
Functional Grants	593.9	642.0	674.1	714.5	764.6	825.7
GST & BTT Transfers	721.9	816.0	897.6	987.4	1,086.1	1,194.7
INTEREST COSTS	**2,324.4**	**2,511.0**	**2,615.0**	**2,692.0**	**2,711.0**	**2,691.0**
CAPITAL BUDGET (PIP)	**8,985.1**	**9,795.9**	**9,072.2**	**9,356.4**	**9,637.4**	**10,073.1**
GoPNG Funded	6,091.7	6,615.0	5,783.5	5,957.0	6,124.2	6,443.0
Donor Grants Funded	1,574.9	2,024.9	2,074.9	2,124.9	2,174.9	2,224.9
Project Loan Funded	1,318.4	1,156.0	1,213.8	1,274.5	1,338.2	1,405.1
Capital (PIP) as share of total expenditure	*38.4%*	*39.9%*	*37.1%*	*36.4%*	*35.8%*	*35.6%*

Source: Department of Treasury

The Government will continue to focus on achieving efficiency in spending and value for money by addressing legacy and structural issues that result in wastage. The Government will also remain responsive to unexpected developments, but tailor this to the overall task of budget repair which is so essential for building our economic independence.

The CoE allocation was adjusted based on the 2022 Supplementary Budget estimate and is expected to increase to K6,942.0 million in 2023, mainly driven by a decision, costed at K406.0 million in 2023 and continuing in future years, to support an increase in front-line workers of essential services. This includes funding for an increase in teachers by 5.0 per cent per annum, and a similar on-going growth rate for health workers including nurses and doctors. The extra funding will help ensure police numbers increase from 5,000 in 2022 to at least 7,000 by 2026. The Government's plan to retire public servants who are over the retirement age of 65 years will continue in 2023 and over the medium term, together with other reform programs as part of its efforts to clean-up the payroll and control the increasing growth in CoE.

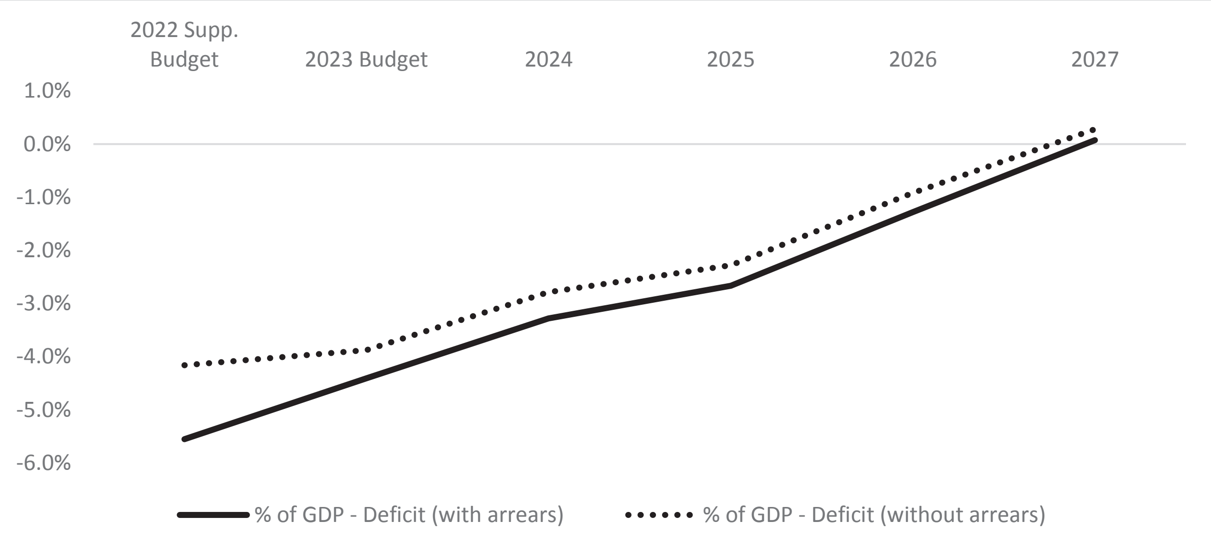
Interest payments have also been adjusted from the 2022 Supplementary Budget estimate to K2,511.0 million in 2023. Over the medium term, interest payments will be on a declining trend reflecting interventions by the Government in reducing interest rates on domestic debt and moving to a more concessional financing base. Hence, the increase in interest payments is not as high as in recent years. Debt management reforms under the new MTdS 2023-2027 will continue to significantly lower interest costs on external debt as well as lower domestic interest rates through capital market reforms.

The medium term projections incorporate a significant amount of arrears repayment, with K600.0 million projected in 2023. This will include arrears under Utilities, Rentals and Goods and Services (other operational costs). This sizeable allocation ensures the outstanding Government arrears are cleared in a sensible and cautious manner over time.

In 2020 the Government introduced a verification process to validate and clear outstanding arrears and the program is now in its third year of implementation. The program is implemented through an inter-departmental committee called the Arrears Verification Committee (AVC) and is supported by an inter-departmental Secretariat housed in the Department of Treasury. The AVC recorded a total stock of K5.2 billion in arrears when it started. Of this stock, the AVC has verified, cleared, and paid arrears totalling of K961.6 million as at 30th June 2022. The stock of arrears has now been reduced to K4,238.4 million. The

Government is committed to continue drawing down in the level of arrears in 2023, which will reduce the Government stock of debt.

Chart 34: Deficit With and Without Arrears



Source: Department of Treasury

As highlighted, total of K600.0 million has been set aside in the 2023 Budget under the Arrears Verification program. The arrears program will likely continue in the medium term, allocating fiscal space to clear up to K2.5 billion in arrears. However, the estimated figure is likely to change depending on the results of the verification process.

With total revenue of K19,582.0 million and total expenditure of K24,566.9 million, the resulting fiscal deficit is K4,984.9 million or 4.4 per cent of GDP. This will increase the level of public debt, excluding valuation changes, to K59,142.7 million or 52.3 per cent of GDP.

Table 7: Budget Balance 2021-2023 (Kina, million)

Fiscal Indicator	2021 Actual	2022 Budget	2022 Suppl. Budget	2023 Budget
Total Revenue and Grants	13,860.4	16,190.2	17,389.1	19,582.0
Total Expenditure and Net Lending	20,130.8	22,174.8	23,373.6	24,566.9
Net Lending (+)/Net Borrowing (-)	**-6,270.3**	**-5,984.6**	**-5,984.5**	**-4,984.9**
as % of GDP	*-6.8%*	*-5.9%*	*-5.6%*	*-4.4%*
Debt as % of GDP	52.18%	53.3%	50.24%	52.3%
Non-resource Primary Balance	-5,037.0	-7,810.2	-5,598.21	-5,398.2
as % of non-resource GDP	*-6.8%*	*-10.5%*	*-7.2%*	*-6.3%*

Source: Department of Treasury

3.4 THE MEDIUM-TERM FISCAL OUTLOOK

The medium-term fiscal outlook has been revised in line with the Government's 13-Year Fiscal Plan. It sets out the key elements of the Government's ongoing plan of budget repair and reconstruction against the backdrop of economic shocks caused by the COVID-19 pandemic and Russia-Ukraine war. The Government's main focus over the medium term will be to maintain fiscal support for economic recovery efforts, strengthen the revenue base, improve the quality of spending, and obtain 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 the growth performance in the economy.

Table 8: Budget Balance 2022–2027 (% of GDP)

	2022 Supp. Budget	2023 Budget	2024	2025	2026	2027
Revenues and Grants	**17,389.1**	**19,582.0**	**20,498.8**	**22,226.8**	**25,123.7**	**28,368.7**
Expenditure (excluding arrears provision)	**21,873.6**	**23,966.9**	**23,867.5**	**25,189.2**	**26,397.8**	**27,961.7**
Net Lending/Borrowing (Cash Deficit)	*-4,484.5*	*-4,385.0*	*-3,368.7*	*-2,962.4*	*-1,274.1*	*407.0*
%GDP	*-4.2%*	*-3.9%*	*-2.8%*	*-2.3%*	*-0.9%*	*0.3%*
Expenditure (including arrears provision)*	**23,373.6**	**24,566.9**	**24,467.5**	**25,689.2**	**26,897.8**	**28,261.7**
Net Lending/Borrowing (Cash Deficit)	*-5,984.5*	*-4,984.9*	*-3,968.7*	*-3,462.4*	*-1,774.1*	*107.0*
%GDP	*-5.6%*	*-4.4%*	*-3.3%*	*-2.7%*	*-1.3%*	*0.1%*
Debt/GDP	**50.2%**	**52.3%**	**52.2%**	**51.3%**	**49.2%**	**46.8%**

Source: Department of Treasury.
**Arrears: K600.0m (2023); K600.0m (2024); K500.0m (2025); K500.0m (2026); and K300.0m (2027)*

Revenue is expected to increase by 44.9 per cent by 2027 from the 2023 Budget estimate. Expenditure in contrast will increase by a much lower rate of 15.0 per cent over the same period out to 2027. The deficit level is targeted to be reduced over the medium term. With the current medium-term projections, the fiscal balance is expected to improve to a surplus of around K107.0 million (or 0.1 per cent of GDP) with a debt to GDP target of 46.8 per cent by 2027.

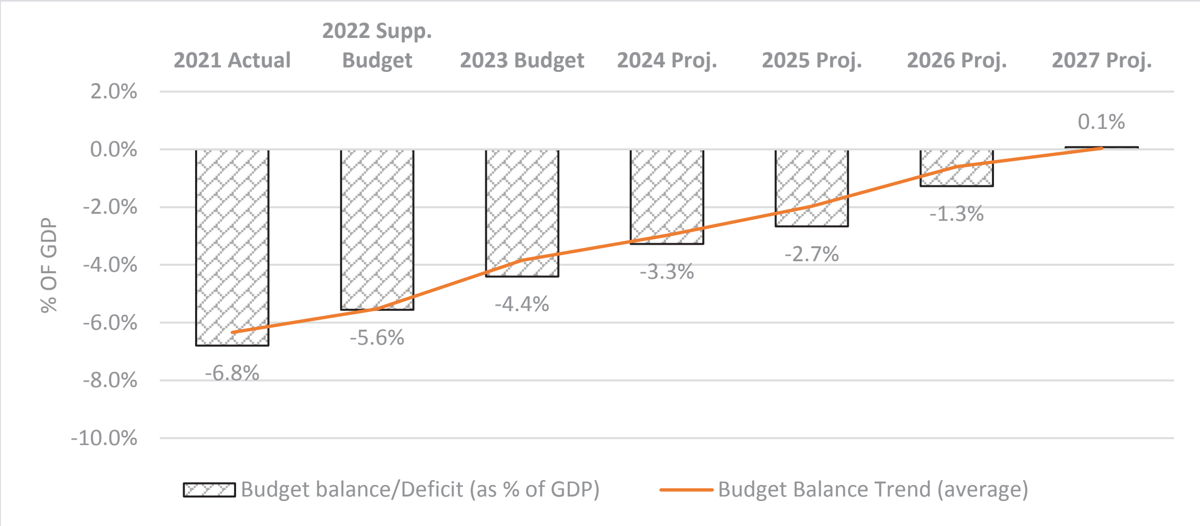
Table 9: Key Anchors of the MTFS 2022-2027 (% of GDP)

	2022 Supp. Budget	2023 Budget	2024	2025	2026	2027
Budget Balance (% of GDP)	-5.6%	-4.4%	-3.3%	-2.7%	-1.3%	0.1%
Expenditure Rule (Operating Budget as % of Non-resource GDP)	16.9%	17.2%	16.4%	15.9%	15.3%	14.6%
Non-resource primary balance (% of Non-resource GDP)	-10.0%	-6.3%	-4.5%	-3.2%	-1.9%	-0.7%
FRA deficit (ex. Concessional loan exp.)	-8.3%	-5.0%	-3.2%	-2.0%	-0.7%	0.4%
Debt ex. arrears (% of GDP)	50.2%	52.3%	52.2%	51.3%	49.2%	46.8%
Debt incl. arrears (% of GDP)	51.2%	52.8%	52.7%	51.7%	49.6%	47.0%

Source: Department of Treasury

Over the projection horizon, with revenue to GDP increasing at a faster pace than expenditure to GDP, the debt stock will decline steadily over the medium term to 46.8 per cent of GDP by 2027. The Government remains optimistic that policy actions undertaken in this budget and in subsequent budgets will set the debt stock on track to reach 40.0 per cent of GDP by 2030 as required under the *FRA (amended 2020)*.

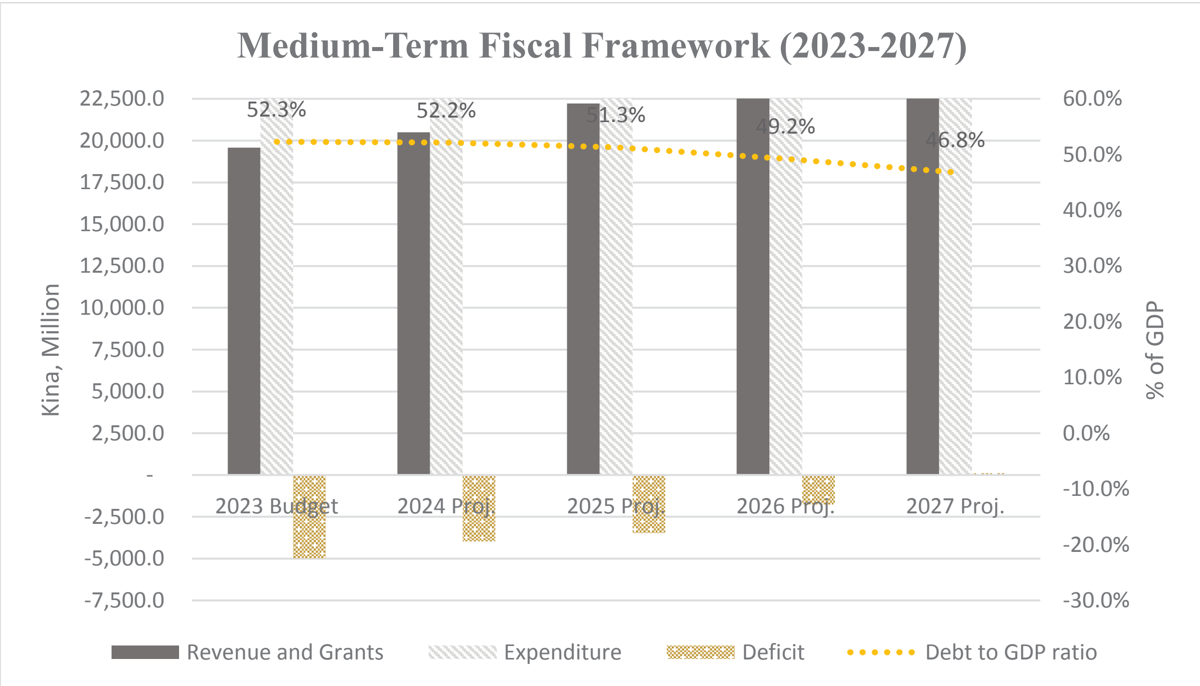
Chart 35: Net Borrowing as a percentage of GDP over the Medium Term



Source: Department of Treasury

The non-resource primary balance as percentage of non-resource GDP is projected to be -0.7 per cent by 2027 and will subsequently move into surplus, in line with the target of a zero average balance over the medium term. Importantly, if there is stronger growth in the resources sector than projected in the baseline, this will mean that targeting a zero-average annual non-resource primary balance will result in the build-up of financial resources in the Sovereign Wealth Fund (SWF) much earlier than anticipated.

Chart 36: Medium Term Fiscal Outlook 2023-2027



Source: Department of Treasury

CHAPTER 4: REVENUE

4.1 REVENUE DEVELOPMENTS AND OUTLOOK 2022 AND 2023

The geopolitical tensions, global supply chain disruptions and inflationary pressures have adversely impacted economies around the world in 2022. PNG has also been affected albeit at a lesser extent. As a commodity-exporting country, the ensuing higher commodity prices has benefitted PNG through higher export receipts. Notwithstanding, PNG still urgently needs to develop a more balanced revenue structure by reducing the reliance on non-tax and commodity-based revenues, since non-resource revenue as a share of GDP has declined from 13.6 per cent in 2018 to 12.0 per cent in 2022. To address these challenges, a sustainable revenue collection framework anchored by more predictable, equitable and efficient revenue policies is needed to finance the current and future socioeconomic measures.

In this regard, PNG is entering a new Medium-Term Fiscal Strategy (2023-2027) phase. The new Medium Term Revenue Strategy will aim to improve PNG's revenue framework through strengthening the existing tax policies, updating tax legislations and improving administrative capacity. This will contribute towards the improvement in the country's investment climate and enhance private sector development as well as ensuring greater equity, fairness and efficiency in the tax system.

Revenue in 2022

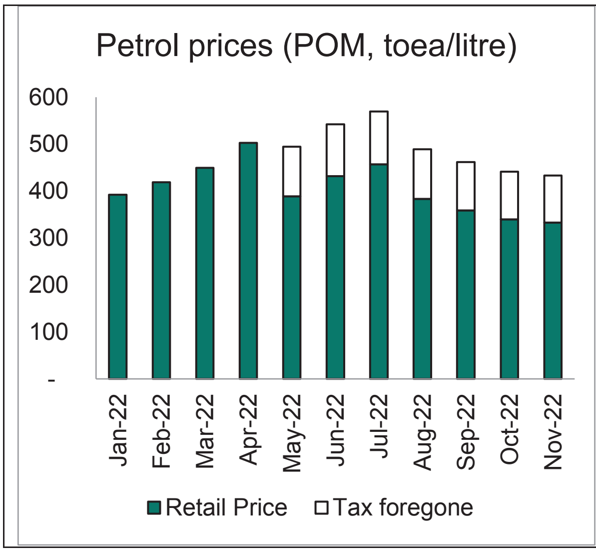
Total Revenue and Grants for 2022 is projected to grow by 25.5 per cent to K17,389.1 million (16.1 per cent of GDP), from 2021. Tax revenue remains the major contributor at 79.5 per cent of total revenue, or 12.8 per cent of GDP, driven by favorable commodity prices and strong domestic economic recovery. Non-tax revenue collection is expected to increase its share of total revenue from 4.6 per cent in 2021 to 10.0 per cent in 2022 on account of higher mining and petroleum dividends.

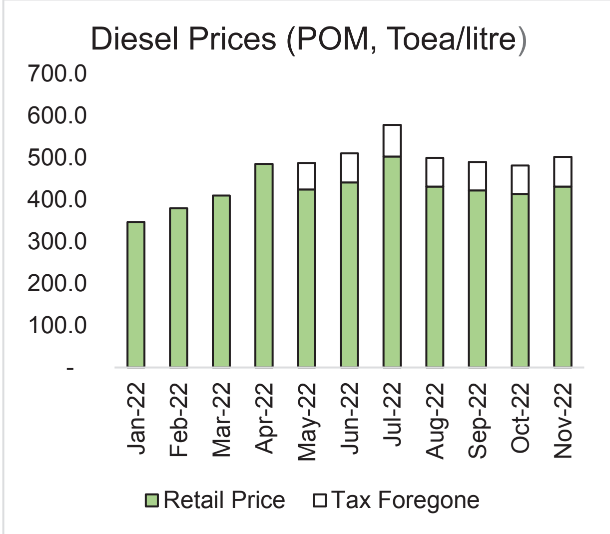
Tax revenue is projected to grow by 24.3 per cent to K13,831.5 million, with both direct and indirect tax on track to grow strongly. Taxes on Income and Profits collection is forecast to grow by 39.1 per cent to K8,841.9 million, primarily driven by the surge in Mineral and Petroleum Taxes (MPT). The MPT is expected to increase by almost four times to K3,000.0 million, in tandem with favorable global crude oil prices averaging USD100 per barrel in 2022 (2021: USD71 per barrel). In addition, Company Income Tax (CIT) collection grew by 4.3 per cent to K1,763.2 million, resulting from higher corporate earnings supported by strong economic recovery. A one-off gain in Dividend Withholding Tax (DWT) is expected to bring K621.1 million to the government coffers, 70.0 per cent higher than its 2021 outcome. Together, the increase in major direct tax heads will offset the lower-than-expected Personal Income Tax (PIT) collection resulting from the raising of the income tax free threshold as part of the fiscal relief package introduced in June 2022. PIT is expected to drop by 4.4 per cent to K3,316.6 million.

Taxes on Goods and Services is projected to grow modestly by 3.4 per cent to K4,130.2 million. The lower growth in this category was due to the fiscal relief package introduced by the Government to address rising cost of living which included excluding fuels from GST. Growth in the indirect tax is supported by the increase in total Goods and Services Tax (GST) collection of K2,699.6 million, 9.9 per cent up from 2021, reflecting an uptick in private consumption and elevated consumer prices. Both the domestic and import excise recorded a contraction of 24.7 per cent and 8.0 per cent respectively. The decline in domestic excise is attributed to the excise exemption on fuel products and the reduction of excise indexation rate on tobacco and alcohol as introduced in the 2022 Budget. Both export and import duty are expected to grow by

10.1 per cent and 10.6 per cent respectively, indicating an improvement in the demand for PNG's round logs and the broad trade activities.

The fuel measures represented a significant forgoing of revenue in 2022. The charts below show the tax foregone per litre of fuel (using prices as set by the ICCC for Port Moresby).





Non-tax revenue is expected to surge by almost two times, 169.5 per cent to K1,732.7 million, largely contributed by higher dividend payments from Kumul Minerals (Ok Tedi) and Kumul Petroleum (PNG LNG) totaling K450.0 million and K700.0 million respectively as a result of favourable commodity prices (although K300 million of the expected KPH dividends are expected to shift into 2023) . Meanwhile, revenue from Statutory Authorities and agencies is projected lower at K70.0 million reflecting the delay in tabling of the NTRA Bill in Parliament.

Table 10: Total Revenue and Grants 2022-2023 (Kina, million)

	2021 Outcome	2022 Supp Budget	2023 Budget	Variation
Tax Revenue	**11,129.4**	**13,831.5**	**14,899.6**	**1,068.1**
Per cent of GDP	*10.9%*	*12.8%*	*13.2%*	**0.0**
Grants	**2,088.0**	**1,824.9**	**2,024.9**	**200.0**
Per cent of GDP	*2.1%*	*1.7%*	*1.8%*	**0.0**
Other Revenue	**643.0**	**1,732.7**	**2,657.4**	**924.7**
Per cent of GDP	*0.6%*	*1.6%*	*2.3%*	**0.0**
Total Revenue & Grants	**13,860.4**	**17,389.1**	**19,582.0**	**2,192.9**
Per cent of GDP	*13.6%*	*16.1%*	*17.3%*	**0.0**

Source: Department of Treasury

Revenue in 2023

PNG's tax revenue is expected to increase by 7.7 per cent amounting to K14,899.6 million (13.2 per cent of GDP) in 2023 on the back of the anticipation of global commodity price moderation and dissipation of pent-up global demand. The non-tax revenue is expected to increase strongly by 53.4 per cent to K2,657.4 million (2.3 per cent of GDP). Consequently, the

Total Revenue and Grants is projected to increase by K2,192.9 million or 12.6 per cent to K19,582.0 million (17.3 per cent of GDP).

4.2 TAX REVENUE

4.2.1 Taxes on Income and Profits (Direct Tax)

Taxes on Income and Profits is projected to grow by 1.1 per cent to K8,935.0 million in 2023, representing 60.0 per cent of total tax revenue. The moderate increase is attributed to a sharp contraction in the MPT due to the anticipated moderation in commodity prices, while the PIT and CIT collection is expected to increase, supported by continued economic recovery.

Personal Income Tax (PIT) is expected to increase by 6.1 per cent to K3,518.2 million in 2023. While the Government is expected to forgo K280.0 million in collection due to the raising of the income tax free threshold to K20,000.0 per annum as announced in the 2023 Budget. The foregoing of this revenue is expected to be offset by a robust employment and nominal wage growth underpinned by economic recovery. Furthermore, compliance-strengthening efforts undertaken by the IRC in prohibiting the offsetting of GST credit against PIT liabilities would improve collections.

Company Income Tax (CIT) is expected to grow by 35.8 per cent to K2,394.5 million, representing 16.1 per cent of tax revenue, underpinned by continuous strong corporate earnings on the back of robust non-resource sector growth and the new tax rate levied on the commercial banking sector. In 2023, the Government seeks to impose a new corporate tax rate of 45.0 per cent on all commercially licensed Banks given the industry's high profitability compared to other countries. The new tax measure is expected to bring in an additional K240.0 million in base revenue. The collections from previous Additional Profit Tax (ACT) are currently parked in an escrow account with the Central Bank pending court decisions.

Mineral and Petroleum Tax (MPT) is expected to decline by 21.9 per cent, from K3,000.0 million in 2022 to K2,341.8 million in 2023, representing 15.7 per cent of total tax revenue. The sharp contraction is driven by the anticipated moderation in oil price in 2023 and the tax credit arising from the overassessment of MPT in 2022.

According to the IMF's 2022 October WEO, oil price is projected to moderate and average at US$98.9 per barrel by the end of 2022. In 2022, the IRC has collected K3,800.0 million worth of MPT in three instalments, first in April, second in July and third in October. Each of which was assessed at an average oil price of US$110.0 per barrel (K1.6 billion), US$112.0 per barrel (K1.2 billion) and US$95.0 per barrel (K1.0 billion) respectively. Hence, the Treasury is of the view that the 2022's MPT is likely to be over assessed and any MPT paid in excess would be treated as an income tax credit with the IRC in the following years. This excess of up to K800.0 million has been debited to this year's collections and moved forward to 2023.

The Treasury estimates that for every dollar increase in the oil price, MPT is expected to increase by about US$44.0 million given a certain level of production volume. After capturing the income tax credit estimated for 2023, MPT is projected to be K2,341.8 million at a price assumption of US$89.0 per barrel.

Table 11: Taxes on Income and Profits 2022-2023 (Kina, million)

	2021 Outcome	2022 Supp Budget	2023 Budget	Variation
Taxes on Income and Profits (Direct Tax)	**6,356.1**	**8,841.1**	**8,935.0**	**939.0**
Personal Income Tax	3,467.9	3,316.6	3,518.2	201.6

Company Tax	1,690.3	1,763.2	2,394.5	621.1
Mining and Petroleum Taxes	635.4	3,000.0	2,341.8	658.2
Royalties & Management Tax	49.3	67.9	75.5	7.6
Dividend Withholding Tax	366.0	621.2	426.9	-194.3
Interest Withholding Tax	127.0	63.0	167.4	104.4
Non-Resident Insurers Withholding Tax	20.2	9.5	10.2	0.7
Tax Related Court Fines	0.0	0.0	0.0	0.0
Sundry IRC Taxes & Income	0.0	0.4	0.4	0.0

Source: Department of Treasury

In 2023, DWT is expected to decline by 31.3 per cent to K426.9 million. The decline is attributed to the removal of the one-off K328.0 million DWT paid by the ANZ Bank in 2022. DWT, along with other minor direct taxes such as the Interest Withholding Tax (IWT) and Non-Resident Insurer Withholding Tax (NRIWT) is expected to return to its long-run trend level.

4.2.2 Taxes on Payroll and Workforce

Collections on Payroll and Workforce are from the Training Levy, and amounts to K1.3 million by end September due to the continued incoming streams of delayed filings from 2019 after the tax was repealed in the 2018 Budget.

Table 12: Taxes on Payroll and Workforce 2021-2023 (Kina, million)

	2021 Outcome	2022 Supp Budget	2023 Budget	Variation
Training Levy	0.8	0.0	0.0	0.0
Total	**0.8**	**0.0**	**0.0**	**0.0**

Source: Department of Treasury

4.2.3 Taxes on Goods and Services (Indirect Tax)

Taxes on Goods and Services (Indirect tax) is estimated to increase by 21.4 per cent to K5,015.3 million in tandem with steady consumption and trade growth.

Total GST collection is projected to increase by 23.0 per cent to K3,321.7 million, representing 22.3 per cent of total tax revenue. The boost is attributed to the Government's decision to not further continue the GST relief provided to retail fuel, resulting in the recoup of forgone GST collections from last year. Higher GST collection in 2023 is backed by the IRC's ongoing efforts in compliance and the extension of Section 65A to suppliers/service providers to Government Departments and State-Owned Enterprises to address revenue leakages. In addition, strong consumption stemming from economic growth is expected to support the gain in overall GST collection.

In 2023, Inland Excise is projected to increase by 47.1 per cent to K1,105.7 million, representing 7.4 per cent of total tax revenue. Domestic excise will be driven by increasing consumption and spending pattern on excisable items. In 2023, the Government will introduce tougher excise regime on anti-social drinking, with an increase in the excise tariff rate on alcohol and mixed drinks in previous budget. In the 2020 Budget, the Government increased the excise rates of anti-social drinks (ready-to-drink) by 400.0 per cent. In the 2023 Budget, the Government seeks to impose an additional one-off increase of 493.0 per cent excise duty on anti-social drinks, which is expected to raise K30.0 million in revenue.

While the Government will discontinue the GST relief on fuel imports, it is extending the existing excise exemption on fuel products until June 2023. It is balancing between providing relief to alleviate the rising cost of living stemming from elevated fuel price and at the same time not forgoing too much revenue at the expense of fiscal sustainability.

Table 13: Taxes on Goods and Services 2022-2023 (Kina, million)

	2021 Outcome	2022 Supp Budget	2023 Budget	Variation
Taxes on Goods and Services	**3,993.3**	**4,130.5**	**5,015.3**	**884.8**
GST[1]	2,457.2	2,699.5	3,321.7	622.2
Sales taxes	0.0	0.0	0.0	0.0
Bank Account Debit Fees	0.0	0.0	0.0	0.0
Stamp Duties	1.4	51.8	61.6	9.8
Excise Duty	998.3	729.7	1,105.7	376.0
Import Excise	282.8	283.9	154.8	-129.1
Bookmakers' Turnover Tax	6.6	22.9	24.0	1.1
Gaming Machine Turnover Tax	228.1	315.7	334.6	18.9
Departure Tax	1.3	3.8	5.3	1.5
Motor Vehicle Tax	11.4	15.0	3.5	-11.5
Other taxes on use of goods and on permission to use goods or perform activities	0.2	1.5	1.2	-0.3
Other taxes on goods and services	6.5	7.0	3.0	-4.0

Source: Department of Treasury
1. GST represents the total of collections by Provinces, PNG Ports and Refunds.

The collection of import excise is projected to decline by 40.5 per cent to K154.8 million, representing 1.1 per cent of total tax revenue. Since most petroleum products are refined overseas and imported to PNG, the revenue forgone associated with the extension of excise exemption on fuel products is captured in import excise. A further six months of fuel excise relief to combat inflation is expected to cost the Government K150.0 million in forgone revenue.

In 2023, the Gaming Machine Tax (GMT) collection is projected to increase by 6.0 per cent to K334.6 million. The improvement in GMT collection is expected to continue to be driven by resumption of normal operations for gaming venues with new gaming and betting methods that would attract more participants to gamble.

Other minor indirect taxes such as Departure Tax and Stamp Duties are expected to improve on the back of border reopening and stronger economic growth.

4.2.4 Taxes on International Trade and Transactions

Taxes on International Trade and Transactions is projected to increase by 10.5 per cent to K949.9 million supported by higher export duty levied on round log exports and stronger compliance efforts.

In 2023, Import Duty is projected to increase by 4.8 per cent to K440.2 million, representing 3.1 per cent of total tax revenue. Growth in import duty will be driven by stronger Customs compliance effort in accordance with the 20:80 inspection ratio and further easing of import restrictions.

Export Duty is expected to grow by 15.9 per cent to K509.2 million, representing 3.8 per cent of total tax revenue. Export duty is solely levied on round log export. However, the collection could edge lower as the Government plans to introduce a 20.0 per cent increase in export duty on round log exports across all log grades and is expected to raise K30.0 million in revenue. The revenue gain is to be directed to a newly established PNG Biodiversity and Climate Trust Fund through a United Nations Development Program (UNDP) to address growing challenges of biodiversity loss and climate change in PNG.

Table 14: Taxes on International Trade and Transactions 2021-2022 (Kina, million)

	2021 Outcome	2022 Supp Budget	2023 Budget	Variation
Taxes on International Trade & Transactions	**778.8**	**859.4**	**949.9**	**90.5**
Import Duty	379.7	419.9	440.2	20.3
Other Import Taxes	0.0	0.0	0.0	0.0
Export Tax	399.1	439.5	509.2	69.7

Source: Department of Treasury

4.3 NON-TAX REVENUE

Non-tax revenue is estimated to increase by 53.4 per cent to K2,657.4 million or 2.3 per cent of GDP. The higher collection is due to expected higher dividend payments from state-owned resource companies and the passing of the Non-Tax Revenue Administration Bill (NTRA).

In light of the high commodity prices in 2022, the Government is expecting Kumul Petroleum Holdings (KPH) and Ok Tedi through Kumul Mineral Holdings (KMH) to pay K1,300.0 million (2022: K400.0 million) and K382.5 million (2022: K450.0 million) dividends respectively. Meanwhile, the Government is also expecting to receive K100.0 million dividend from the BPNG and K150.0 million from Kumul Consolidated Holdings (KCH).

For 2023, K459.3 million is projected from the implementation of the NTRA bill, which is expected to be tabled along with the 2023 Budget. This amount comprises of K249.8 million from National Fisheries Authority, K107.1 million from Department of Labour and Industrial Relations, K45.2 million from Immigration & Citizenship Service Authority (ICSA), K20.0 million from the National Gaming Board, K19.4 million from National Maritime and Safety Authority (NMSA), K12.9 million from Mineral Resource Authority (MRA) and K5.0 million from NAQIA.

Table 15: Other Revenue 2021-2023 (Kina, million)

	2021 Outcome	2022 Supp Budget	2023 Budget	Variation
OTHER REVENUE	**643.0**	**1,732.7**	**2,657.4**	**924.7**
Property Income	**51.8**	**1,478.5**	**2,024.1**	**545.6**
Interest	-	0.7	0.7	0.0
Dividends	530.5	1,470.0	1,932.5	462.5
Mining Petroleum and Gas Dividends	380.5	1150.0	*1,682.5*	532.5
Dividends from Statutory Authorities	150.0	300.0	*100.0*	-200.0
Dividends from State Owned Enterprises	-	20.0	*150.0*	130.0
Withdrawals from income of quasi-corporations	-	-	0.0	0.0
Property income from investment income disbursements	-	-	0.0	0.0
Rent	21.3	7.8	90.9	83.1
Sales of goods and services	**11.4**	**14.0**	**156.7**	**142.7**
Sales by market establishments	-	-	0.0	0.0
Administrative fees	4.9	5.8	*122.0*	116.2
Incidental sales by nonmarket establishments	6.5	8.2	*34.7*	26.5
Imputed sales of goods and services	-	-	0.0	0.0
Fines, penalties, and forfeits	**1.2**	**1.1**	**1.9**	0.8
Transfers not elsewhere classified	**78.6**	**239.2**	**474.7**	**235.5**
State Services & Statutory Authority (NTRA)	50.0	209.6	459.3	249.7

Source: Department of Treasury

4.4 GRANTS

Total Donor Grants is estimated to increase by 11.0 per cent to K2,024.9 million in 2023. Donor support grant is expected to be higher, driven by further support from PNG's major donor partners towards government's investment expenditure priority areas over the medium-term. These support grants are mainly from major development support partners including Asian Development Bank (ADB), European Union (EU), Australian Aid and United Nations with additional support coming from others. The Government will continue to work closely with donor partners to ensure funds are utilised for their intended purposes. Based on the 2022 FBO outcome for international support grants, revisions will be made in the 2023 MYEFO to decide on the expected level of grants.

Table 16: Donor Grants 2022- 2023 (Kina, million)

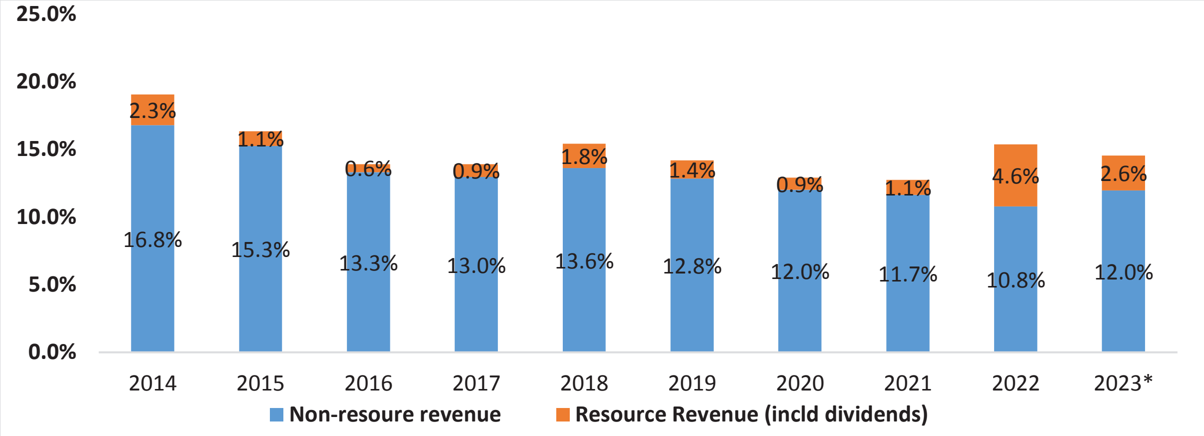
	2022 Outcome	2022 Supp Budget	2023 Budget	Variation
GRANTS	**2,088.0**	**1,824.9**	**2,024.9**	**200.0**
From Foreign Governments	1,630.6	1,498.4	1,714.6	216.2
Current	1,349.6	1,345.2	1,561.3	216.1
Cash	225.6	250.0	0.0	-250.0
In-Kind	1,124.0	1,095.2	1,561.3	466.1
Capital	281.0	153.2	153.2	0.0
Cash	0.0	0.0	0.0	0.0
In-Kind	281.0	153.2	153.2	0.0
From International Organizations	457.4	326.5	310.4	-16.1
Current	365.9	293.3	277.2	-16.1
Cash	0.0	0.0	0.0	0.0
In-Kind	365.9	293.3	277.2	-16.1
Capital	91.5	33.2	33.2	0.0
Cash	0.0	0.0	0.0	0.0
In-Kind	91.5	33.2	33.2	0.0

Source: Department of Treasury

4.5 MEDIUM TERM REVENUE OUTLOOK

In 2023, resource-related revenue (including dividends) is expected to decline by almost 40.0 per cent to K2,924.3 million or 2.6 per cent of total revenue in line with the assumption of lower global crude oil prices averaging at US$89.0 per barrel. However, non-petroleum revenue is projected to increase by 16.4 per cent to K13,531.1 million, supported largely by CIT, PIT and GST, in tandem with sustained trade and economic activities. As a percentage of GDP, non-resource revenue is expected to remain at 12.0 per cent in 2023.

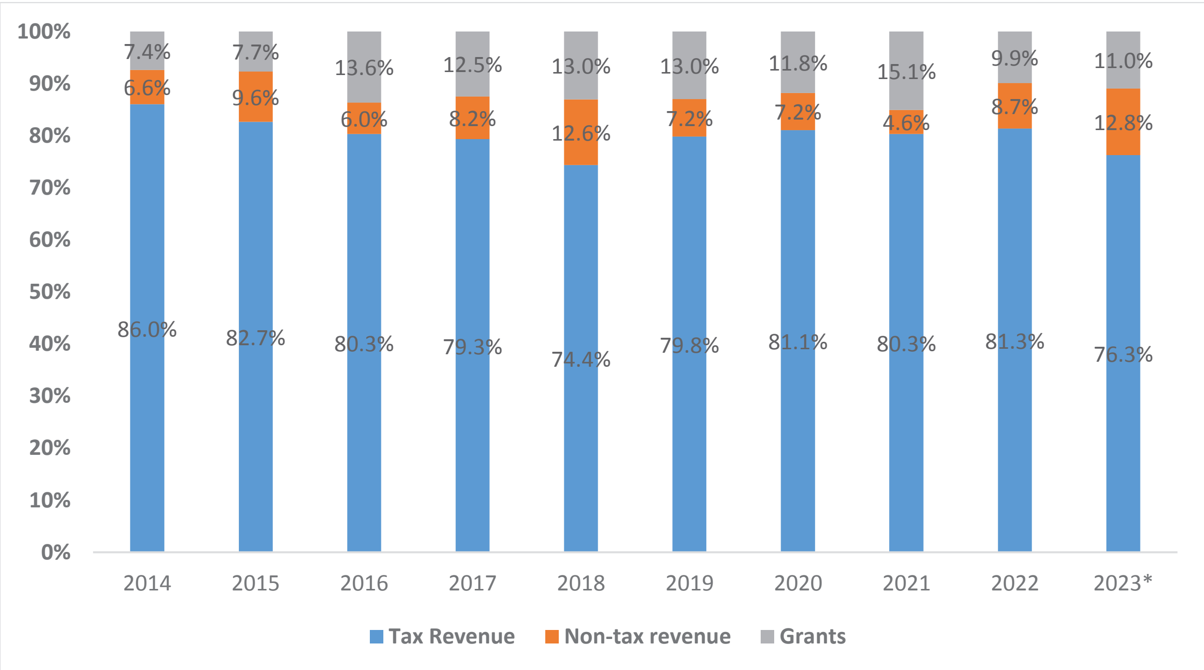
Chart 37: PNG Resource Revenue (including dividends) and Non-Resource Revenue to GDP (%)..



Source: Department of Treasury.

The share of non-tax revenue to total revenue has decreased from 12.6 per cent in 2018 to 4.6 per cent in 2021, before rising to 8.7 per cent in 2022. Based on 2023 Budget, the share of non-tax to total revenue is expected to return to historic high. Non-tax revenue is mostly made up of dividends from State-Owned Enterprises (SOEs) and statutory bodies and administrative fees and charges. It is volatile in nature due to sporadic payments from SOEs and statutory bodies unrelated to tax collections or performance. Many agencies in PNG retain revenue, operate large trust account balances and invest in projects that, at times, are unrelated to their primary mandate. As a percentage of GDP, NTR has fluctuated between 1.7 per cent in 2018 and 2.3 per cent in 2022.

Chart 38: Revenue breakdown to GDP (%)



Source: Department of Treasury

CHAPTER 5: TAX AND NON-TAX MEASURES AND DEVELOPMENTS

5.1 OVERVIEW

The revenue policy measures in the 2023 Budget include:

I. implementation of the revised Dividend Policy to increase revenue from State Owned Enterprises (SOEs);
II. imposing a 45.0 per cent Corporate Income Tax on Commercially Licensed Banks;
III. establishing a tougher excise regime on anti-social drinks;
IV. increasing the round log duty rates to generate extra revenue to support the United Nations' Biodiversity and Climate Trust Fund for PNG;
V. increasing the Personal Income Tax free threshold from K12,500.0 to K20,000.0;
VI. continuing the suspension of the excise duties on retail fuel for a further six (6) months;
VII. updating the PNG Customs Harmonised System from (HS) 2017 to HS 2022; and
VIII. introducing the Non-Tax Revenue Administration Act.

5.2 MAJOR REVENUE POLICY MEASURES

5.2.1 REVISED DIVIDEND POLICY TO INCREASE REVENUE FROM STATE OWNED ENTERPRISES

Government revenues collected by the State-Owned Enterprises (SOEs) represent a large share of total revenue. Given expenditure pressures, coupled with elevated commodity prices and high global interest rates, the Government is re-evaluating its policy on Dividends for the SOEs. A revised Dividend Policy will reflect the Government's priority on revenue consolidation. The revised Dividend Policy will be submitted for NEC's deliberation once it is finalised.

In approving the Revenue Measures for the 2023 Budget, the NEC approved for the state Dividend Policy to be amended such that 85.0 per cent of planned dividends from Ok Tedi Mining Limited (OTML) to be remitted into the Consolidated Revenue Fund (CRF), with the balance of 15.0 per cent diverted to Kumul Minerals Holdings Ltd. The dividend to the CRF from OTML is expected to increase from K90.0 million to K382.5 million in 2023.

In addition, the NEC also approved for Kumul Petroleum Holding's 2023 Annual Operating Plan to be amended to increase its dividend to Government from K300.0 million to K1,300.0 million including K300.0 million held over from 2022.

5.2.2 APPLY 45.0 PER CENT CORPORATE INCOME TAX ON THE LICENSED BANKS

The Additional Company Tax was introduced in 2022 and was to be collected at a baseline value of K190.0 million per year for all banks holding more than a 40.0 per cent market share.

Following public feedback, we have decided to change the form of the tax introduced on the banking sector in 2022. The initial tax was focused on the dominant player in PNG's banking sector. Having a very large market share provides scope for monopolistic pricing and excessive profits. There is a broad view that the dominant player in the banking sector, BSP, has done a wonderful job for our country. However, their low deposit rates and high lending rates meant they earnt a return on equity of over 30.0 per cent, more than double other banks in the sector. However, in the face of calls for the tax to be spread more evenly across all four commercial banks, the government has decided to make changes. Noting the very high profitability levels in the domestic banking sector compared to international norms and continued record profits posted this year, it is considered appropriate to seek to expand this revenue measure at this time.

From 01st January 2023, the rate of company tax payable by all commercial banks licensed to operate as a commercial bank under the *Banks and Financial Institutions Act 2000* will increase from 30 .0 per cent to 45.0 per cent. This is expected to raise K240.0 million in 2023, funding vital to support the increased spending on law and order and infrastructure and for more teachers and nurses. The government will consult closely with the banking industry in the first half of 2023, and consider if a different type of tax, such as an additional profits tax, may be more appropriate from 2024 onwards while still raising the required revenues.

As part of this amendment, a sunset clause has been introduced to the Additional Company Tax, while enabling the government to continue to pursue the assessed funds from the earlier iteration of this tax that are still outstanding.

5.2.3 INTRODUCE TOUGHER EXCISE DUTY ON ANTI-SOCIAL DRINKS

The Government has prioritised combating the social and health issues caused by anti-social drinking by increasing the excise duty on alcohol and mixed drinks over a number of Budgets.

In the 2020 Budget, the Government increased the excise rates of anti-social drinks (Ready To Drink) by 400.0 per cent. The policy intention was to discourage consumption of anti-social drinks with high alcohol content to address its adverse impacts on local communities.

In the 2023 Budget, the Government is imposing an additional one-off increase of 493.0 per cent excise duty on anti-social drinks. This measure is to continue the good work of the Government to address the negative social and health issues associated with the consumption of anti-social alcohol products.

This measure is particularly targeted to high alcohol and mixed drinks and is expected to raise an additional K30.0 million in revenue in 2023 and will come into effect on 01st December 2022.

5.2.4 INCREASE ROUND LOG DUTY RATES TO GENERATE EXTRA REVENUE TO SUPPORT BIODIVERSITY AND CLIMATE TRUST FUND

The Government is committed to moving to downstream processing of our natural resources to improve jobs and incomes. A key element of this is the planned and gradual ending of round logs exports by 2025. This objective can be assisted by further increases in taxes on the round log exports.

The Government decided in the 2020 Budget for a 50.0 per cent increase (average) in taxes on unprocessed round log exports. More needs to be done to reinforce the policy objective through further increases in export taxes on round logs.

In the 2023 Budget, the log export duty regime is proposed to increase by another 20.0 per cent in taxes on all of the progressive tax rates. The proposal is expected to generate an additional K30.0 million in 2023.

The expected increase of K30.0 million will be earmarked to support the newly established United Nations' Biodiversity and Climate Trust Fund. The aim is to establish PNG's credibility in financing for Protected Areas. The earmarked revenue demonstrates PNG's commitment to the fund.

This combined measure of forestry tax increases and allocation to Protected Areas will be a concrete example of PNG's commitment as stated by the Prime Minister to helping make PNG's forests the "lungs of the world". The international community will be asked to also step up and support this domestic commitment. This is part of the government's "Targeted Grants Policy". PNG has considerable scope to lift the level of grants receipts from new sources of funding for "global public goods" including the environment and public health. There is great scope for "win-win" outcomes.

This tax measure also demonstrates the Government's ongoing commitment to promote effective conservation of biodiversity and ecosystem services in our forests. It aligns with the intentions of the Climate Compatibility Development Policy 2014 that underpins PNG's Nationally Determined Contributions and proposed actions on the Paris Agreement on climate change.

The measure will come into effect on 01st January 2023.

5.2.5 INCREASE THE PERSONAL INCOME TAX FREE THRESHOLD FROM K12,500.0 TO K20,000.0

In April 2022, the Government increased the personal income tax free threshold from K12,500.0 to K17,500.0 as part of the relief package to assist with the high cost of living associated with the Ukraine-Russian war. The relief commenced on 01st June 2022 and will end on the 31st December 2022.

As part of the measures taken by the Government to continue mitigating the increasing cost of living resulting from global inflation, the Government is further increasing the Personal Income Tax Free Threshold from K12,500.0 to K20,000.0. Doing so will mean abolishing the 22.0 per cent PIT rate for the year, resulting in an increase in take-home pay of approximately K63.0 per fortnight for all workers earning K20,000.0 a year or more.

This is a temporary relief measure that coincides with the rise in worldwide inflation and costs of living. It is expected to reduce the Government's revenue by K280.0 million.

This measure will come into effect on 01st January 2023 and ends on 31st December 2023.

5.2.6 REMOVE EXCISE DUTIES ON RETAIL FUEL PRODUCTS FOR A FURTHER SIX (6) MONTHS

In April 2022, the Government introduced a temporary exemption of excise duties on Diesel, Petrol, and Zoom products purchased by the public at retail outlets. The reform was aimed at providing relief from the high price of fuel products and the inflated cost of goods and services absorbed by individuals, families, and businesses. The reform came into effect on 01st May 2022 and ended on 31st October 2022. The Government extended this relief for another two months, from 01st November 2022 and will end on 31st December 2022. This measure will be further extended for 6 months in 2023, from 01st January to 30th June.

As such, the Government will temporarily remove the excise duty on Petrol, Diesel and Zoom products. This will reduce the retail prices of Petrol by 61 toea per litre, Diesel by

23 toea per litre, and Zoom by 2 toea per litre. This measure will cost the Government K150.0 million in reduced revenue for the first six months of 2023.

This measure will come into effect on 01st January 2023 and end on 30th June 2023.

5.2.7 UPDATE PNG CUSTOMS HARMONISED SYSTEM (HS) 2017 TO HS 2022

The Harmonised System (HS) is a general term used for Commodity Description and Coding System. The HS contains classification of tariff items, tariff codes and descriptions and tariff rates of all goods and services that are imported and exported globally. It is used by the World Customs Organisation (WCO) to facilitate the work of Customs authorities around the world to assist in identifying and updating of product description and coding to be on par with the world customs. Further, it assists in assessing the duties and taxes and gathering statistics.

The WCO is responsible for managing, reviewing and updating the HS every five years. This is done through the Harmonised System Committee (representing the Contracting Parties to the HS Convention) which PNG is Party to this Convention. The last HS update was made in 2017.

In 2019, WCO reviewed the HS 2017 and recommended for more than 300 sets of updates relating to a wide variety of products and product groups from Agriculture, Machinery, Chemical, Wood, Base Metal, Transport, Textile and other Sectors.

The key factors that drives the HS 2022 amendments include: advancement in technology; new product streams; changing trade patterns; environmental considerations; health and safety concerns; the fight against terrorism; and facilitating implementation of various International Conventions.

PNG as a contracting Party to the HS Convention is required to adopt the WCO HS 2022 through an amendment to the *Customs Tariff Act 1990*. This will give legal clearance for PNG Customs Service (PNGCS) to update and implement the changes recommended to be on par with the WCO standards.

This measure will be revenue neutral and is expected to be effective retrospective to 01st January 2022 to enhance trade facilitation.

5.3 NON-TAX REVENUE MEASURE

5.3.1 INTRODUCTION OF THE NON-TAX REVENUE ADMINISTRATION ACT

The Government introduced the *Public Money Management Regularisation (PMMR) Act 2017* in the 2018 Budget. The purpose of the PMMR Act was to bring all non-tax revenue collections into the Consolidated Revenue Fund (CRF) to support the Budget and allow all government agencies to be funded through the normal budget process. During the implementation of PMMR Act, non-tax revenue collections (transfers) were about K600.0 million in 2018 and K404.5 million in 2019.

However, the Supreme Court declared the PMMR Act unconstitutional and nullified the implementation of this Act in May 2020. As a result, non-tax revenue was not remitted to the CRF but withheld by the State Agencies and Statutory Bodies, hence reducing government revenue collections.

The new Non-Tax Revenue Administration (NTRA) Act will mobilise non-tax revenue. The NTRA will also rectify the technical errors of the PMMR Act that the court ruled as unconstitutional.

The implementation of this Act is expected to collect K550.0 million in 2023 and forms a crucial pillar in the revenue mobilisation plan for 2023. A new appropriation of K100.0 million will be created under the vote 207 to be allocated directly to NTRA authorities for their projects or activities.

CHAPTER 6: EXPENDITURE

6.1 OVERVIEW

The 2023 Budget is the first annual budget under the Marape-Rosso Government since taking office after the 2022 National General Elections. The budget is guided by the Government's updated 13-year fiscal plan.

Total expenditure for 2023 is set at K24,567.0 million, consisting of K21,386.0 million in GoPNG-funded expenditure and K3,180.9 million in expenditure supported by development partners, which comprises K2,025.0 million in donor grants and K1,156.0 million in concessional loans. The 2023 expenditure target is K1,180.7 million or 5.0 per cent higher than the 2022 Supplementary Budget estimate, and 10.8 per cent higher than the original 2022 Budget estimate.

The 2023 Budget is framed within a fiscal environment where revenue are growing much faster than expenditures leading to a decline in the fiscal deficit by K1,000.0 million in 2023. The key expenditure priorities for the 2023 Budget are:

- funding development priorities of the Marape-Rosso Government towards economic independence, equity across the nation and looking after the rural sector;
- funding a continued major expansion in the capital budget in ways that are anticipated to have a positive return on investment and improve people's lives including in rural areas, especially through the expanded Connect PNG and the District & Provincial Roads programs;
- investing in the programs and projects that will promote sustainable economic growth;
- ensuring that GoPNG provides the required counterpart funding to secure loan funding in a timely manner to avoid cost associated with delays in loan drawdowns;
- funding a household assistance package to provide relief to cost of living pressures; and
- re-prioritising the operational budget, which means significant increases for key priority agencies including police, the judiciary, funding for teachers and nurses and doctors, and supporting international engagement, while also making some tough reductions in other agencies, especially the non-central agencies based in Waigani.

Details on the expenditures are provided under the sector expenditure section below.

The 2023 Budget supports the Government's budget repair strategy by adopting the key principles of *'spending the money we have more wisely'*, *'raise the revenue more fairly'*, and *'finance debt more cheaply'*. In order to realise these principles, there is a greater need for good governance, expenditure control, and efficiency in the public sector. The Government will promote expenditure efficiency measures through:

- the Organisational Staffing Personal Emoluments Audit Committee (OSPEAC) to manage and control the personnel and wage bill;
- continue the retirement exercise and reduce government liabilities;
- the identification and payment of arrears and liabilities by the Arears Verification Committee (AVC);
- the issuance and implementation of Non-Financial Instructions (NFI); and
- implementing a Public Expenditure Review.

The Government is aware of the uncertainties in the global economy. Aggregate levels of expenditure will be kept under review to ensure that they do not add to inflationary pressures and provide fiscal stability in the medium-term. In addition, if there is a more dramatic drop in oil prices than expected, and key resource revenues are unlikely to be realised, then aggregate expenditure levels will also be reviewed.

6.2 2023 AGGREGATE EXPENDITURE

The 2023 expenditure budget is set at K24,566.9 million. The higher expenditure envelope ensures the Government will continue to deliver critical education, health, and law & order services. This includes the continuation of key household inflation relief announced in April 2022 and extended in the 2022 Supplementary Budget. Table 17 shows 2023 aggregate expenditure.

Table 17: 2023 Aggregate Expenditure (Kina, million)

Budget Components	2022 Budget	2022 Supp Budget	2023 Budget	As % of Total Budget
Operational Component	**13,423.2**	**14,388.6**	**14,771.1**	**60.1**
Compensation of Employees*	6,050.2	6,345.6	6,942.0	28.3
Goods and Services	3,732.8	4,402.8	3,860.0	15.7
Debt Interest Payment	2,324.4	2,324.4	2,511.0	10.2
Provincial Functional grants	593.9	593.9	642.1	2.6
GST & Book Makers Transfers	721.9	721.9	816.0	3.3
Capital Investment Component	**8,751.6**	**8,985.1**	**9,795.9**	**39.9**
GoPNG	5,858.3	6,091.7	6,615.0	26.9
Concessional Loans	1,574.9	1,318.4	1,156.0	4.7
Donor Grants	1,318.4	1,574.9	2,024.9	8.2
Grand Total	**22,174.8**	**23,373.6**	**24,566.9**	**100.0**

Source: Department of Treasury.

Operational Expenditure

The Operational expenditure is higher by K382.5 million or 2.7 per cent than the 2022 Supplementary Budget.

Compensation of Employees (CoE) is the largest component with a budget of K6,942.0 million, representing 47.0 per cent of the Operational Budget and 28.3 per cent of total 2023 expenditure. CoE includes salaries and allowances and other benefits such as retirement, retrenchment, gratuities, and superannuation.

The CoE figure for 2023 factors in 10.0 per cent increases for core services including the police, the judiciary, and increased funding for teachers and nurses and doctors. This large committed increase is to cover for increased pay and ensure key delivery ratios (i.e. number of police per population) improve. At the same time, the 2023 Budget makes tough reductions in non-core services.

The 9.4 per cent increase in CoE compared to the 2022 Supplementary Budget estimate is to cover for short falls across Provincial Health Authorities; funding of critical positions especially in the Health Sector; recruitment of new officers in the Law & Order Sector; and a general increase in salaries as per public service salaries fixation and industrial agreements.

Goods & Services (G&S) accounts for 15.7 per cent of total expenditure and 26.1 per cent of the operational budget. G&S budget includes fixed costs such as utility bills, rentals, and liabilities such as arrears.

Interest costs amount to K2,511.0 million or 10.2 per cent of total expenditure, which is an increase of K186.6 million or 8.0 per cent compared to the 2022 Supplementary Budget estimate.

Funding for provinces in the form of Provincial Functional Grants and GST & BTT amounts to K1,458.0 million or 5.9 per cent of total expenditure representing an increase of K142.2 million or 10.8 per cent than the 2022 Supplementary Budget.

Capital Expenditure

The 2023 Capital Investment Budget is set at K9,795.9 million and comprises K6,615.0 million in GoPNG funding (PIP), K2,024.9 million in Donor Support Grants, and K1,156.0 million in Concessional Loans. The 2023 Capital Budget is higher by K810.9 million or 9 per cent than the 2022 Supplementary Budget.

The Public Investment Program (GoPNG PIP) comprises Fixed Commitments and Policy Priorities. Fixed commitments include K1,180.0 million for Provincial and District Support Improvement Programs (PSIP and DSIP). DSIP allocates K10.0 million to each of the 96 districts while PSIP provides K10.0 million to each of the 22 provinces. The 2023 SIPs budget also captures the seven new districts established in 2022.

6.3 SECTOR EXPENDITURE

Government agencies are categorised into nine (9) sectors, however, for budgeting and accounting purposes, interest payments and miscellaneous items are included to show total expenditure as depicted in Table 18 below.

Table 18: 2023 Expenditure by Sector (Kina, million)

Sector	Operational (K 'M)			Capital (K 'M)				2023 Total (K'M)	As a % of total Bud.
	CoE	GS	Total Op Bud	GoPNG	Grants	Loans	Total Cap Bud	Total Expend.	
Admin	708.8	259.1	967.9	1,775.5	888.2	35.5	2,699.2	3,667.1	14.9
Com & Culture	48.8	19.8	68.6	74.00	44.7	-	118.7	187.3	0.8
Economic	226.4	47.5	273.9	651.00	37.6	26.8	715.4	989.3	4.0
Education	429.1	953.7	1,382.8	184.0	51.1	31.6	266.7	1,649.5	6.7
Health	1,095.9	577.8	1,673.7	312.0	283.1	66.5	661.6	2,335.3	9.5
Law and Just	1,034.6	350.0	1,384.6	323.0	55.0	24.2	402.2	1,786.7	7.3
Miscell	952.0	1,608.8	2,560.8	-	-	-	-	2,560.7	10.4
Provinces	2,284.9	642.1	2,927.0	2,147.5	41.6	22.5	2,211.6	5,138.6	20.9
Transport	127.5	39.4	166.9	881.0	332.0	846.3	2,059.3	2,226.2	9.1
Utilities	34.1	3.5	37.6	267.0	291.8	102.5	661.3	698.9	2.8
Total (excl. Int payments)	**6,942.1**	**4,501.7**	**11,443.8**	6,615.0	**2,025.1**	**1,155.9**	**9,795.9**	**21,239.6**	**86.5**
Int. Payments		**2,511.0**	**2,511.0**					**2,511.0**	**10.2**
GST & BMT*	**-**	**816.0**	**816.0**	**-**	**-**	**-**	**-**	**816.0**	**3.3**
Grand Total	**6,942.1**	**7,828.6**	**14,770.6**	**6,615.0**	**2,025.1**	**1,155.9**	**9,795.9**	**24,566.9**	**100.0**

Source: Departments of Treasury and National Planning and Monitoring
*Goods and Services and Book Makers Transfers

Table 19 shows the 2023 Budget in comparison to the 2022 Supplementary Budget.

Table 19: 2022 and 2023 Budget Comparison

Sector	2022 Budget.	2022 Supp Budget.	2023 Budget	Vari. of 2022.Supp & 2023 Bud	% change
Administration	3,882.30	4,140.9	3,667.1	(473.70)	-11.4
Community & Culture	175.04	180.8	187.3	6.50	3.6
Economic	917.66	906.1	989.3	83.20	9.2
Education	1,403.52	815.8	1,649.5	833.70	102.2
Health	2,554.61	2,512.7	2,335.3	(177.40)	-7.1
Law & Justice	1,385.68	1,728.6	1,786.7	58.10	3.4
Miscellaneous	2,604.47	3,268.8	2,560.7	(708.10)	-21.7
Provinces	4,249.96	4,790.1	5,138.6	348.50	7.3
Transport	1,438.93	1,456.7	2,226.2	769.50	52.8
Utilities	516.76	523.8	698.9	175.10	33.4
Debt Services	2,324.36	2,339.8	2,511.0	171.20	7.3
GST Book makers	721.10	721.9	816.0	94.10	13.0
Total	**22,174.40**	**23,386.0**	**24,566.9**	**1,180.74**	**5.0**

Source: Department of Treasury

6.3.1 Administration Sector

This Administration sector is relatively large comprising thirty-one (31) Government agencies, of which eight (8) are Central Agencies, seven (7) are Statutory Authorities and fourteen (14) are Line Agencies. The two (2) key revenue raising agencies; the Internal Revenue Commission (IRC) and PNG Customs Service (PNGCS) are part of this sector.

The Administration sector is responsible for coordinating and facilitating policy development in the public sector with a focus on: governance; administrative system reforms; wealth creation; public sector management; national statistical and population data systems; foreign policy; immigration; and development cooperation. The sector also aims to coordinate and create mechanisms to promote public service ethics, enforce legislation, and promote transparency through best financial management and accountability practices.

A total of K3.667.1 million has been allocated to the Administration Sector in 2023 or 14.9 per cent of the total budget. This is 11.4 per cent reduction from its 2022 supplementary budget. Of the total Budget, K967.9 million is for Operational expenditure (K708.8 million in CoE and K259.1 million in G&S) and K2,699.2 million is for Capital expenditure of which K1,775.5 million is GoPNG direct financing, K882.2 million is grants and K35.5 million is loans.

In 2023, funding allocated to the Administration sector will support key Central policy Agencies (CACC) to perform their roles more effectively and efficiently in order to better support the operations of key agencies across all sectors. This includes: improving the compliance efforts of IRC and PNGCS to raise revenue collection; supporting OSPEAC to strengthen payroll controls and manage the wage bill; supporting the National Economic Fiscal Commission (NEFC) to conduct the Inter-Governmental Financial Arrangement review for the efficient flow of funds from the national to the sub-national level; and supporting the Electoral Commissions to adopt a systemized way of updating the common roll.

Efforts to increase internal revenue generation include the ASYCUDA World Project, implemented by PNGCS. This project will link all ports, freighting services, and stakeholders to use real-time data to collect and receive appropriate fees and charges electronically. This will be supported by the Integrated Tax Administration System (ITAS) for electronic tax collection and reporting, which will be linked to the ASYCUDA World Project, commercial banks, and the Investment Promotion Authority (IPA).

Other significant investments in 2023 include; Public Private Partnership Program (K5.0 million), Population Census Preparation (K50.0 million), Integrated Tax Administration System (K20.0 million) and Financial Management Information Project (K5.0 million). These activities are expected to contribute significantly to increase returns in good governance, efficiency in public spending, donor funding maximization, and revenue generation.

Funding for big-ticket items classified under the Administration sector, as well as other sectors are captured under the Finance and Treasury Miscellaneous vote. The budget for Miscellaneous expenditures for 2023 totals K2,560.7 million, a 21.7 per cent reduction compared to the 2022 Supplementary Budget. The Miscellaneous budget caters for items such as Arrears (K300.0 million), Retirement Program (K300.0 million), Utilities (K200 million) Contingency (K140.0 million) and Rentals (K200.0 million).

6.3.2 Community and Culture Sector

The Community and Culture Sector comprises nine (9) agencies led by the Department for Community Development and Religion. The sector plays a key role in: safeguarding cultural heritage; supporting, protecting, and empowering children, youth, women and elderly persons living with disabilities, other vulnerable groups; and promoting sports.

The sector has made significant progress in undertaking structural reforms and developing legislation and enabling policies to strengthen delivery of Government priorities. Key policies include: the *Lukautim Pikinini Act 2015*; the Gender Equity and Social Inclusion Policy (GESI); the National Identify and National Volunteer Policies; as well as interventions to safeguard cultural relics and heritage; promote sports; address Gender Based Violence; and address the special needs of children and persons with disabilities.

A total of K187.3 million has been allocated for the Community and Culture sector in the 2023 Budget, which is 0.8 per cent of the total budget. This is an increase of 3.6 per cent from the 2022 supplementary Budget. Of this, K68.6 million is for operational and K118.7 million is for capital investment expenditure. The total operational budget for this sector consists of K48.8 million for COE and K19.8 million for GS while the capital component consists of GoPNG direct financing worth K74.0 million and K44.7 million in grants.

In 2023, the Government will continue to fund the following major programs and projects: Child Protection (K3.0 million); Provincial Sports Infrastructure Development Program (K10.0 million); National Youth Development Program (K5.0 million); National Volunteers Intervention (K10.0 million); Censorship Information and Intervention (K4.0 million); National Museum and Art Gallery Rehabilitation (K5.0 million); and Gender Equality/Gender Based Violence (K40.7 million).

6.3.3 Economic and Infrastructure Sector

The Economic Sector consists of twenty-five (25) agencies including Mining and Petroleum, Forestry, Fisheries, Tourism, and Agriculture. It is responsible for and aims to stimulate broad-based economic growth that is sustainable and inclusive. The sector aim can be achieved by addressing impediments in accessing markets and land development; empowering SMEs; supporting innovative activities in the agriculture sector to increase production; securing critical investments that will create more jobs; increasing exports and reducing imports; and supporting new mining and petroleum projects

In 2023, a total of K989.3 million is allocated for the Economic sector which is 4.0 per cent of the total budget. The sector's budget has increased by 9.2 per cent from its 2022 Supplementary Budget. Of the total sector budget, K273.9 million is for Operational (K226.4 million for CoE and K47.5 million for GS) and K715.4 million for Capital. The total Capital Budget consists of direct financing from GoPNG worth K651.0 million, K37.6 million in grants, and K26.8 million in loans.

6.3.4 Renewable sector

The primary aim of the Renewable Resource Sector is to support increased exports of major commodities, substitute imports, and promote downstream processing of key export commodities, especially in the fisheries and forestry sectors.

The sector's development and contribution towards the economy has been hindered by insufficient investment, ambiguous land policies, major infrastructure gaps, and a lack of access to credit at the smallholder level. However, the Government has made a strong commitment to address these fundamental issues through amicable development policies and fiscal measures. These measures include programs and projects such as: coffee, cocoa and palm oil road rehabilitation program (K23.0 million); National Land Partnership Program (K150.0 million); National Government SME Funding (K200.0 million); Special Economic Zones (SEZ) Development Program (K20.0 million); and Tourism Development Program (K20.0 million).

Major emphasis has been placed on the agriculture sector in the medium term to improve agricultural commodities exports, promote import substitution, and support the extractive industry. These will be realized through programs such as National Agriculture Development Programming (K20.0 million) and the Agriculture Commercialization and Diversification Project (K13.3 million). The establishment of the new Ministries (Coffee, Oil Palm and Livestock) under the sector is a clear indication from the Government's strong commitment to grow and support the sector.

6.3.5 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 comprise of Department of Mineral Policy and Geo-Hazard Management (DMPG), Department of Petroleum and Energy (DPE) and Mineral Resource Authority (MRA).

Like the Mining Sector, the Petroleum and Energy also contributed immensely to revenue, employment, GDP, exports and foreign exchange. However, with the current struggle in global economy to meet the energy demand, the energy industry requires long lead times for new projects. PNG has the potential to become one of the suppliers in this sector given its significant advantage in terms of potential unidentified oil and gas fields. Hence under the program of Development of New Petroleum Projects, unidentified gas and oil fields can be tapped into for economic gain and development for the country.

The sector projects aim to meet outstanding State Commitments in the various Oil and Gas Project Agreements, mitigating natural disasters and formulating mining related policies. The government is committed to revive this sector in 2023 through the development of new petroleum projects such as Papua LNG, P'nyang LNG Gas, Stanley project and PASCA.

6.3.6 Education Sector

Education plays an important role in fostering growth, reducing poverty, and ensuring sustainable improved livelihood through the provision of early childhood, primary, secondary and post-secondary education or an optional formal learning after secondary education. The sector is comprised of ten (10) agencies which include: four (4) universities; Maritime college; Office of Library and Archives; and two leading agencies, that is, the Department of Education (DoE) and the Department of Higher Education Research Science and Technology (DHERST). The DoE is responsible for primary to secondary education while DHERST is responsible for tertiary education.

Considerable progress has been made in the last decade on improving student enrolment. However, this has compromised the quality of education. Challenges faced in the delivery of education are: inadequate existing learning facilities to cater for the increase in the number of students; shortage of learning resources; ineffective quality assurance policies and practices; limited research capacity; and inadequate ICT infrastructure and systems.

The Government, through the MTDP IV, will focus on improving the quality and affordability of, and access to, education[3] at all levels. Furthermore, increased support for alternate pathways such as FODE and TVET will provide better opportunities for students leaving school.

Total funding for the Education Sector in the 2023 Budget is K1,649.5 million or 6.7 per cent of the total budget. This is an increase of 102.2 per cent from the 2022 Supplementary Budget. The sector's budget consists of K1,382.8 million in operational and K266.7 million in capital expenditure. For the capital component, K184.0 million comes from GoPNG direct financing, K31.6 million from loans and K51.1 million from grants. Of the total operational expenditure, K429.1 million is allocated for CoE and K953.7 million for GS. It should be noted that Teachers Salary Grants are administered through the Provinces and are not directly captured under the Education sector. There is a commitment to grow key agencies in the education sector's CoE by 10.0 per cent a year over the medium term.

The Government's ambition to achieve universal education and increase accessibility and retention rates to more than 80.0 per cent by year 2030 will be realised through the Government Tuition Fee Subsidy policy (K766.0 million) in Primary and Secondary education; the Higher Education Loan (HELP) program (K65.1 million) and TESA Program (K47.0 million).

Furthermore, the Government aims to increase quality of skilled manpower graduating from higher education institute through improvements in infrastructure facilities; building the absorptive capacity of TVET[4] institutions and Teachers and Nursing colleges to address the bottleneck in the education system and high drop-out rate. These objectives will be realised through programs such as Western Pacific University (K20.0 million); Nursing College Rehabilitation (K20.0 million); Teachers College Rehabilitation (K20.0 million); Schools of Excellence Infrastructure Program (K10.0 million); and Improved TVET for Employment (K36.6 million).

6.3.7 Health Sector

The Health sector is responsible for building an effective and efficient health system that delivers quality health services to an international standard for all citizens. The sector comprises

[3] 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

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

Provincial Health Authorities (PHA); Hospital Management Services (HMS); National Aids Council Secretariat (NACS); the PNG Institute of Medical Research (PNG IMR); and the National Department of Health (NDoH) as the lead agency. The sector is guided by Government policies, the National Health Plan 2021-2030, and other relevant sector policies, strategies, and plans.

In recent years, the Health sector has made improvements toward achieving its goals. However, over the years, there has been a steady decline in the proportion of operational health institutions in some regions. Bottlenecks are caused by a lack of basic supplies, such as critical medicines, as well as a shortage of qualified and sufficient number of health workers.

The performance of the Health sector in terms of coverage, effectiveness, equity, and outcomes can be improved through the successful implementation of critical projects and programs. Strengthening primary healthcare and improving access to the rural majority will remain the focus for new National Health Plan 2021-2030 but with more emphasis to increase specialist care and community participation.

The 2023 Budget will continue the ongoing significant initiatives carried out in 2022. The Government aims to: improve maternal and child survival rates; strengthen preparedness for disease outbreaks and emerging population issues; decrease communicable diseases; promote healthy lifestyles; strengthen partnerships and coordination with stakeholders; decrease the rate of malaria, tuberculosis, and cancer; and increase immunization rates.

The Health sector’s total 2023 Budget is K2,335.3 million which is 9.5 per cent of the total budget and has decreased by 7.1 per cent from the 2022 supplementary budget, in line with capital investments being spread out on a more realistic medium term framework. The sector’s operational budget is K1,673.7 million which comprises of K1,095.9 million for CoE and K577.8 million in GS. The Capital expenditure is K661.6 million, which consists of GoPNG direct financing worth K312.0 million, K66.5 million in loans and K283.1 million in grants. There is a commitment to grow key agencies in the health sector’s CoE by 10.0 per cent a year over the medium term.

Operational funding in 2023 aims to address the sector challenges by: ensuring critical positions across health facilities are fully funded, especially for the Port Moresby General Hospital (PMGH); cover CoE shortfalls; support development and construction of Specialist Health Care Facilities; ensure the efficient and effective procurement and distribution of medical supplies(K206.9 million); fully fund St John’s Ambulance operations (K3.0 million), Malaria Drugs and Test Kits (K10.0 million),Health Functional Grants to Provinces (K101.0 million) and Mental Health (K17.9 million).

Furthermore, significant projects in the 2023 Budget under the health sector include; District Hospital Infrastructure Development Program (K70.0 million); Provincial Hospitals Development Program (K100.0 million); Angau Memorial Hospital Redevelopment (K160.0 million); and New Enga Hospital Development (K30.0 million).

6.3.8 Law, Justice and National Security Sector

6.3.8.1 Law & Justice Sector

The Law and Justice sector consists of thirteen (13) agencies with the main agencies being the Royal PNG Constabulary, Department of Defence, National Judiciary Services, Correctional Institute Services, and Department of Justice & Attorney General.

Reducing crime and corrupt practices and promoting good corporate governance across all sectors is the objective of the Law & Justice sector. Hence, improving access to justice at the sub-national level and modernizing the police force are key areas of focus. The sector-wide approach taken in the MTDP III has shown some improvement in the overall performance of the sector. However, current data shows that the rise in crime level since 2018 is due to a number of factors including a reduction in police personnel relative to an increasing population and an insufficient number of magistrates. In light of this, the Government and donors, especially the Australian Government, are investing significantly in the sector through the Justice Service and Stability for Development (JSS4D) program. The sector aims to reduce all forms of violence and enable all citizens to access justice.

In the 2023 Budget the Law, Justice and National Security sector receives K1,786.7 million which is an increase of 3.4 per cent from the 2022 Supplementary Budget. The sector's budget comprises 7.3 per cent of the total budget, of which K1,384.5 million is Operational and K402.2 million is capital expenditure. Operational budget consists of K1,034.6 million for CoE and K350.0 million for GS. The capital budget consists of GoPNG direct financing worth K323.0 million, K55.0 million in grants and K24.2 million in loans. There is a commitment to grow key agencies in the law and justice sector's CoE by 10.0 per cent a year over the medium term.

The major operational expenditures for the sector in 2023 are: Village Court Officials and Land Mediators Allowances (K58.5 million); Lawyers pay increase (K18 million); PNG Defence Force (PNGDF) soldiers' rations (K38.0 million); K17.2 million for CASA's Routine Maintenance and training for PNGDF pilots; K33.6 million for all court circuiting agencies to reduce the backlog of court cases and the number of remandees; and a further K25.0 million for prisoners' rations.

In 2023, the critical investments in Law and Justice Sector include: Special Police Assistance Program (K150.0 million), Air Capability Program (K20 million), District Court Infrastructure Program (K15.0 million), National Jail Infrastructure Program (K10.0 million) among others.

6.3.8.2 National Security and Defence

National Security is a focus of the Government due to the current geopolitical conditions and is one of the key strategic priority areas (SPA 6) of the MTDP IV. The sector focuses on six (6) priorities:

i. National Surveillance & Immigration
ii. National Intelligence
iii. Bio-Security
iv. Cyber Security
v. Business Protection
vi. Social Identity & Security

The sector has had a fair share of investments in the past years which was focussed on improving military capacity, such as improving defence infrastructure and facilities, recruitment of defence force personnel, and military engagement in national building projects, civil emergencies, and international obligations.

For 2023 and beyond, the Government will invest in strategic areas to build a vibrant national security sector. The focus will be to build the land, air and sea capabilities and appropriate border security infrastructure. Strengthening the existing bilateral and security arrangements that aim to promote PNG sovereignty is also crucial. Partnership and cooperation between agencies performing national security roles will be enhanced. Further, there will be improvements made to policies and legislation covering all aspects of national security.

6.3.9 Provincial Sector

The Provincial sector is an important sector in terms of delivering government services to rural and remote communities. The sector consists of 354 Local Level Governments (LLGs), 96 Districts (DDAs), 20 Provincial Government Administrations, 1 Autonomous Government (Autonomous Bougainville Government) and 1 City Commission (National Capital District Commission). The number of LLGs increased by 23 from 331 to 354, while the number of Districts increased by 7 from 89 to 96 in 2023. The increase in LLGs and Districts requires additional funds for establishment and operations.

The goal of the Provinces sector is to improve service delivery at the sub-national level. To realize this goal, the Government focused on optimizing the use of District Development Authorities (DDAs) as the frontline service delivery vehicle to provide strategic investments, such as: district hospitals; court houses; police stations; market district communities; and other social and economic activities. The Government continues to resource the Provinces sector through the Support Improvement Programs (SIPs) for both districts and provincial administrations.

The total budget appropriation for provinces in 2023 is K5,138.6 million (K2,927.0 million for Operational and K2,211.6 million in Capital expenditure) which equates to 20.9 per cent of the total budget. This is an increase of 7.3 per cent from the 2022 Supplementary Budget. The increase is to make up for the low revenue (GST and royalties) collected by certain provincial government and to cater for the inclusion of New Ireland and Morobe Provincial Functional Grants. The total operational budget is K2,927.0 million which comprises of K2,284.9 million in CoE (inclusive of teachers' salaries allowances and leave fares worth K1,862.4 million) and K642.1 million in GS .

The capital budget consists of GoPNG direct financing worth K2,147.5 million, K41.6 million in grants and K22.5 million in loans. Each provincial administration receives K10.0 million from the total allocation of K222.0 million whilst each district administration receives K10.0 million from the total allocation of K960.0 million.

In 2023, allocation of funds is directed towards maintaining developments at the provincial, district and LLG through the SIPs, Salaries and allowances for Teachers and Public servants, the ABG, and the new constituencies. The Special Support Grants (SSG) K32.5 million, Infrastructure Development Grant (IDG) K370.0 million and Infrastructure Tax Credit Scheme (ITCS) will continue in 2023 as alternate funding sources for the provinces to complement the SIPs.

6.3.10 Transport Sector

The Transport Sector is responsible for providing the enabling environment for development across all sectors. The Sector consists of nine (9) agencies with Department of Transport (DOT) as the lead agency.

The Government is committed to connect and open up PNG through building strong transport infrastructure in three (3) subsectors; (i) roads (ii) air and (iii) maritime that is resilient to climate change issues and natural disasters. This can be achieved if priority is given to improving the assessment process of major projects to enhance socioeconomic returns, encouraging a quality-based focus on new construction, encouraging industry standards to ensure durability, and developing relevant policies. Apart from investing in major key national infrastructure, the Government plans to invest in sub-national infrastructure, especially in areas where there is economic potential. Development partners have played a critical role in this sector through loan and grant funded projects that are of national significance.

The major policies that guide the transport sector in achieving its goals are: 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)* and *National Maritime Act*.

So far a significant amount of a funding has been expended on the transport sector to unlock potential economic corridors. In 2023, the Transport sector receives a total budget of K2,226.2 million of which K166.9 million is for operational and K2,059.3 million for capital expenditure. The transport sector takes up 9.1 percent of the total budget and has increased by 52.8 per cent from its 2022 Supplementary Budget. The total Operational Budget of K166.9 million consists of K127.5 million in CoE and K39.4 million in G&S. The total Capital Budget of K2,059.3 million consists of GoPNG direct financing worth K881.0 million, K332.0 million in grants and K846.3 million in loans from development partners.

The Connect PNG Agenda packages construction and maintenance of roads/missing links, wharfs with electricity and telecommunications lines supported by conducive policy reforms of the state-owned enterprises. The Government will proceed to lock in certain strategic high impact programmes and projects in partnership with development partners. The key priority programs/projects for 2023 include the major Connect PNG – roads, bridges, ICT, Ports, Electricity (K450.0 million), CADIP Program Phase 2 Project 1 (K60. 0 million), Nadzab Airport Terminal Redevelopment (K352.7 million), PNG Ports Infrastructure Investment Program and other significant projects including rollout of district and provincial roads, jetties and airstrips.

6.3.11 Utilities Sector

This sector is responsible for providing households and businesses with essential services such as reliable electricity, safe and clean water, sanitation, and modernized information and communications infrastructure. The sector is comprised of nine (9) agencies that implement their plans in collaboration with State Owned Enterprises (SOEs) and the private sector. The sector strategically aligns their plans through the implementation of the National Energy Policy 2017-2027, Information and Communication Policy 2008, WaSH Policy 2015-2030, and other key infrastructure policies to achieve the PNGDSP 2030 and MTDP targets.

The Government is currently faced with a huge challenge of meeting the demands of a growing population, causing it to shift focus to providing accessible, reliable, and affordable municipal services like water, electricity, and telecommunication services at the provincial and district levels. Quality utility services are a prerequisite for effective poverty reduction. A number of structural reforms have been implemented in the utility sector such as the ICT subsector reform which saw the creation of the technical regulator (NICTA) to manage spectrum and licensing issues.

The regulatory function was removed from Telikom PNG (which retained the service delivery function) and placed under NICTA. The introduction of competition among service providers saw the costs of voice and data communication services fall. As a result, close to 90% of the population now have access to those services nation-wide. The similar reforms are taking place in the energy and water subsectors whereby the National Energy and WaSH Authorities will be created to manage licensing and service standards, while the two national utilities (PNG Power & Water PNG) will oversee service delivery functions.

Currently, only 17.0 per cent of the households have access to electricity, 41.0 per cent safe drinking water, and 13.0 per cent improved sanitation. About 50.0 per cent of Health and Education facilities have access to potable water and improved sanitation facilities. The communication coverage 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.

In 2023, the Government, in collaboration with development partners and the private sector will continue to invest in renewable energy generation, rehabilitating main power grids and extending household connectivity. Other areas of investment include telecommunications, affordable land and housing programs, and safe drinking water & sanitation. Through the implementation of the National Energy Policy 2017-2027, the Government will establish an effective administrative mechanism to coordinate and promote investments in the subsector.

The Utilities sector has been allocated K698.9 million in the 2023 budget or 2.8 per cent of the total budget which is an increase of 7.3 per cent from the 2022 Supplementary Budget. The total budget is comprised of K37.6 million for operational expenditure and K661.3 million for capital expenditure. The operational budget consists of K34.1 million in CoE and K3.5 million in GS. Total capital budget comprises of GoPNG direct financing worth K267.0 million, K291.8 million in grants and K102.5 million in loans from development partners.

The 2023 Budget will continue to fund major ongoing impact programs and projects for the sector. These includes critical infrastructure for Digital Government – Blockchain (K10.0 million), E-Government Roll-Out Program (K4.0 million), National Broadcasting Corporation Rehabilitation and Modernisation Program (K5.0 million), Provincial and District Water Supply Project (K4.0 million) and others.

6.4 EXPENDITURE EFFICIENCY MEASURES

Expenditure has grown by 8.4 per cent on average annually over the last 5 years. However, the Government continues to encounter expenditure inefficiencies meaning that funds are not fully translated into tangible service delivery. Some glaring inefficiencies identified during the 2023 Budget process include high levels of non-compliance by agencies with the Public *Financial Management Act (PFMA) 1995*, particularly failing to provide quarterly expenditure reports, lack of project monitoring and evaluation, delays in submission of work and procurement plans, high volume of requests for vehicle purchases, non-payment of legal obligations such as taxes and superannuation, low levels of funding for fixed costs, and delays in payroll systems upgrades.

Expenditure efficiency measures will continue to be implemented in the 2023 Budget through the issuance and implementation of Non-Financial Instructions (NFIs), and the activities undertaken by OSPEAC and AVC.

6.4.1 Greater Governance in Expenditure

The level of financial compliance has reduced over the years, for both quarterly reports and Budget submissions. Failing to submit quarterly expenditure reports means that the Department of Treasury (DoT) and National Planning and Monitoring (DNPM) cannot track the progress of service and project delivery, which then affects the release of warrants for the next quarter. Furthermore, 15 per cent of agencies did not provide budget submissions for the 2023 Budget process. This includes 73 per cent of the provincial administrations, 8 per cent of the Law and Order agencies, 7 per cent of Administration Sector agencies and 9 per cent of Economic Sector agencies. In 2023, those agency heads who do not comply with the PFMA, 1995 and the Constitution will be notified and dealt with accordingly.

Weak monitoring and evaluation (M&E) reporting is a particular concern. In 2023, the DNPM and DoT must co-ordinate with agencies and provide reports on the outcomes of funding increases during the 2024 Budget process. A total of K0.5 million was allocated for the M&E exercise in the 2023 Budget and a report must be provided to NEC in the third quarter of 2023.

With regard to submission of work and procurement plans, late provision of this information to DoT and DNPM means that projects are delayed and carried out in April to November (eight months) as government accounts are closed in December. As the Budget is passed in November, any adjustments to approved projects and programs should be planned and submitted in December. All work programs should commence no later than the last week of January or immediately after the accounts are opened in the new financial year. In 2023, the Strategic Budget Committee will be guided by this requirement before awarding further funding to on-going projects and programs.

Another area of inefficiency is the high volume of vehicle purchases and car rentals. The 2023 Budget process noted a total of 148 vehicle purchase requests from 40 agencies at a cost of K106.1 million. While all these requests were genuine, none were approved given tight fiscal space. As such, in most cases, agencies resort to hiring vehicles for operations. This is an expensive exercise when costs include both hiring and fuel.

In terms of inefficiencies related to the personnel emoluments (PE), some agencies have not paid employee taxes, superannuation, salaries, gratuities, and leave fares. A total of K507.9 million worth of PE liabilities were identified during the 2023 Budget process. The National Parliament, National Housing Corporation, Department of Police, and Auditor General are some critical offenders. Agency heads must take ownership of these liabilities and eliminate them.

Going forward, strong measures must be in place for agency heads to be accountable. In 2023, the Department of Personnel Management (DPM) will conduct Human Resource (HR) Business Process awareness to HR sections within government agencies to address PE liabilities. In addition, the Department of Finance (DoF), DPM, and DoT are required to upgrade the Ascender payroll immediately as part of systems control measures to minimise the PE liability.

6.4.2 Organisational Staffing Personnel Emoluments Audit Committee (OSPEAC)

As highlighted under the Greater Governance in Expenditure section, the inefficiencies identified in the CoE component of the budget is concerning. In recognising this, the Government has tasked the OSPEAC to scrutinize the public service pay bill, determine the causes of over expenditure and recommend and implement corrective measures. To initiate this process, the OSPEAC has undertaken the Whole of Government Staffing and Establishment Review, Retirement exercise, and Retrenchment Exercise in 2021. These activities have progressed well in 2022.

The 2022 Staffing and Establishment (S&E) reviews were undertaken to identify and reconcile the staffing numbers for agencies against the Ascender payroll system. The review provided a report on the correct staffing numbers, the appropriate costing for budgeting, and recommended corrective measures. Some of these recommendations will form part of the 2023 OSPEAC work-plan including to conduct the Public Sector Human Resource Awareness workshop for agencies.

Maintaining aging and medically unfit officers on the payroll contributes immensely to the annual PE overruns and lack of productivity in the public sector. To address this, the OSPEAC had centralized the payout of final entitlements for retirees since 2021. OSPEAC initiated the process with reforms to the systems such as:

- Processing all final entitlements through the payroll;
- Making available the Government component of 8.4% to the Superfunds; and
- Indicating the repatriation cost as a separate component in the payroll.

The whole of government retirement exercise was undertaken in batches and all final entitlements were processed through the payroll. In the past, payments were made by cheque which resulted in issues such as retirees not receiving the correct final entitlement. The reform has promoted transparency and accountability in the payment process. Furthermore, timely reports are provided to the management and appropriate clients upon request. Table 20 summarises payment since 2021.

Table 20: Whole of Government Retirement Exercise 2021-2022

2021 Retirement Payment				
Batch (s)	**Count**	**Gross Entitlement (K)**	**Superannuation (K)**	**Total (K)**
Batch 1	37	3,663,766.66	4,427,495.45	8,091,262.11
Batch 2	447	32,787,176.47	32,793,033.27	65,610,209.74
Batch 3	341	16,936,766.45	17,723,196.80	34,659,963.25
Batch 4	647	40,946,202.11	43,975,130.47	84,921,332.72
Total	**1,472**	**94,333,911.69**	**98,918,855.99**	**193,282,767.82**
2022 Retirement Payment				
Batch 1	94	5,899,559.11	6,648,910.84	12,548,469.95
Batch 2	484	43,489,053.79	In progress	43,489,053.79
Batch 3	270	18,124,746.29	In progress	18,124,746.29
Batch 4	In progress			
Total	**848**	**67,513,359.19**	**6,648,910.84**	**74,162,288.03**
Grand Total	**2,320**	**161,847,270.88**	**105,567,766.83**	**267,445,055.85**

Source: Department of Treasury & Department of Personnel Management.

Although over 2,000 public servants were identified to retire in 2021, only 1,472 were retired after verification by DPM. From the 2021 retirement appropriation of K430.0 million, K193.3 million was utilized. This comprises K94.3 million for final entitlements and K98.9 million for the State's component of superannuation liabilities.

In 2022, a total of K200.0 million was allocated for the retirement program. So far, 848 retirees have been paid under three batches at a cost of K74.2 million. This comprises K67.5 million for final entitlement and K6.6 million Batch One of the State's superannuation component. The remaining two batches of the superannuation component are in progress. Overall, K267.4 million has been utilised to pay 2,320 public servant retirees since 2021

In terms of the superannuation component reform, a total of K105.6 million has been paid since 2021. This comprises K82.6 million to the Nambawan Super Limited (NSCL) and K23.0 million to the Comrade Trustee Service Limited (CTSL) for the PNGDF retirees. Table 21 shows the summary by batches since 2021.

Table 21: States Component of 8.4 per cent to the Superfunds (2021 – 2022)

Retirement Batches	NSL	CTSL	Total
Batch 1	4,427,495.45		4,427,495.45
Batch 2	17,542,978.22	15,250,055.05	32,793,033.27
Batch 3	17,723,196.80		17,723,196.80
Batch 4	36,225,665.14	7,749,465.47	43,975,130.47
2021 Totals	**75,919,335.61**	**22,999,520.52**	**98,918,855.99**
Batch 1/ 2022	6,648,910.84		6,648,910.84
Batch 2/ 2022	In Progress		
2022 totals	**In Progress**		
Grand Total	**82,568,246.45**	**22,999,520.52**	**105,567,766.83**

Source: Department of Treasury

The third reform on separation of the repatriation component of the payroll greatly assisted in vacating officers that occupy institutional homes. The repatriation cost for individual retirees are captured in the payroll and clearly displayed on payslips.

With regard to payroll cleansing, the activities on S&E reviews and the Retirement exercise will directly assist this initiative. Cleaning the payroll is of paramount importance as all ghost names will be cleared and implementation of one person, one pay, and one position can be implemented before progressing to upgrading the payroll software. The latest version of the payroll software is expected to assist in minimizing the delays in calculating and processing gratuities and retirement calculation. OSPEAC is in the initial stages of this exercise.

Another key activity to be undertaken in 2023 is the understanding of the teachers' business process. A leading cause of PE over-runs is due to the teachers CoE component, therefore this area must be reviewed. Initial discussions between OSPEAC and TSC have commenced in 2022 and will be further progressed in 2023.

6.4.3 Arrears Verification Program

The Arrears Verification Program (AVP) is one of the initiatives of the Marape Government and was one of the reform programs monitored by the International Monetary Fund (IMF) Staff Monitored Program (SMP).

The Marape Government re-introduced this program in 2020 and it has received considerable funding over the years 2020 – 2022. Table 22 below shows the original and revised budget for the AVP from 2020 to 2022 (as at 31st October).

Table 22: Arrears Program Budget for the years 2020-2022

Years	Original Budget	Revised Budget	Warrant	Expenditure
2020	647,116,000	290,083,468	285,098,760	255,077,009
2021	770,000,000	419,418,686	419,418,686	419,069,439
2022	300,000,000	425,361,900	291,039,019	289,142,403
TOTAL	**1,717,116,000**	**1,134,864,054**	**995,556,465**	**963,288,851**

Source: IFMS 2161 expenditure report

In 2022, K300.0 million was initially budgeted for the program, however, this was further revised to K442.4 million in the 2022 supplementary budget in September. This is an increase of K142.4 million from the original budget.

The total estimated stock of arrears initially recorded was K5.2 billion. Of this total stock, the Arrears Verification Committee (AVC) has verified, cleared and paid a total of K963.3 million or 18.5% of the total stock as at the 31st of October 2022. The stock is reducing but at a gradual pace primarily due to compliance issues encountered during the verification process.

To address these compliance issues, the AVC is raising awareness through meeting forums, quarterly budget reviews, information sessions and financial circulars. The aim is to raise the awareness of compliance with procurement processes.

The 2022 National General Election prompted the AVC to continue conducting awareness to foster the message of compliance to both major and minor procurements across agencies. Emphasis was placed on engaging suppliers with contracts/agreements for goods and services above the departmental head threshold and engaging into contracts or agreements with budget and departmental officers with financial powers to authorise expenditures. This awareness was translated to the Financial Instructions No. 01/2022 and 02/2022 dated 07th March 2022 and 08th March 2022, respectively, and issued through the DoF. In response, a number of agencies participating in the election (such as PNG Electoral Commission, Police, PNGDF) took the procurement message seriously and further issued instructional circulars.

Aside from awareness and public presentations, the AVC also progressed work on other efficiency measures to control and minimize the buildup in major arrear categories such as hire cars, legal bills, rentals, and utilities.

In 2023, the AVP will continue with emphasis on compliance to minimize and stop arrears being incurred and or accumulated.

6.4.4 Non-Financial Instructions

Non-Financial Instructions (NFIs) are issued to agencies to implement in order to address inefficiencies identified during the annual budget process. NFIs serve the purpose of promoting compliance, accountability, and transparency in agency operations. Agencies that have been issued with NFIs in 2023 are expected to implement them and report to DoT in the Quarterly Budget reviews.

The following specific NFIs are issued to individual agencies while generic NFIs are issued to whole categories of agencies or to all agencies. Below are the generic and specific NFIs issued in 2023.

Generic NFIs

1. Note that in cases where the 2023 National Budget has not funded an item to the full extent set out in a past NEC decision, that the previous NEC decisions can be considered as amended to the level of appropriation set in the 2023 National Budget reflecting the NEC's decision when evaluating all expenditure priorities at the same time.
2. All Short-Term Contract Officers serving an agency for more than 6 months be put on payroll against funded vacant positions in 2023. This will improve efficiency and PE expenditure tracking.
3. Agencies with revenue generating capacity to review their Acts and report on the level of revenue they are generating.
4. Agencies with a capital budget are to establish project management units and have project steering committee (PSC) meetings before funds are released for project implementation. All agencies with a capital budget are required to hold 4 PSC meetings

in a fiscal year in addition to submitting 4 quarterly budget reports and participating in a M&E exercise.

5. All State Agencies receiving funding from the National Budget must comply with the *Public Financial Management Act (PFMA), 1995* and submit quarterly budget reports.
6. All State Agencies receiving funding from the National Budget who have yet to remit all outstanding superannuation for Short-Term Contract Officers to Nambawan Super and Salary & Wages Tax Liabilities to Internal Revenue Commission to do so immediately.
7. All infrastructure must be completed to local quality standards before certification and handing of projects to the Government.

<u>NFIs Specific to Agencies or a Sector</u>

8. **National Department of Health** to implement the Public Accounts Committee (PAC) Report including drafting a policy submission for establishment of a new entity for procurement of medical drugs and supplies.
9. **All Provincial Health Authorities (PHA)** to develop health service plans and provide to the National Department of Health (NDoH) and DNPM. This is to identify the critical needs area in PHAs and assist with formulating accurate budgets.
10. **Department of Higher Education, Research, Science and Technology (DHERST)** to draw up strategy for Higher Education Loan Program (HELP) repayment from students who have participated in this program and have commenced employment. DHERST to also concentrate on its core mandate and subcontract to private financial institutions to run the loan program for a small fee annually.
11. **Independent Consumer Competition Commission (ICCC)** to undertake a review into the housing sector and rental rates market with a view to inform Government on appropriate interventions to assist in low cost housing.
12. **Department of Lands and Physical Planning (DLPP)** to draw up a Strategy on the Lease acquisition of customary land with a view to clearing outstanding Land Claims.
13. Furthermore, **DLPP** to coordinate efforts with Defence, PNGCS, and DFAT on the Border Development Project and Border Survey. This is to ensure that our current border line is maintained.
14. **Department of National Planning & Monitoring and Department of Agriculture & Livestock** to develop an Agriculture and Livestock policy articulating the priorities of the Agriculture sector.
15. **Department of Commerce and Industry** to draw up guidelines and criteria for accessing SME Funding for agriculture.
16. Progress wider stakeholder consultations between impacted parties, **Industrial Centres Development Corporation (ICDC) and Special Economic Zone Authority (SEZA)** to address the legal, fiscal, structural and administrative issues.
17. **National Housing Corporation (NHC)** is required a number of instructions:
    a. To provide an Asset Registry report on their nationwide assets by the second quarter of 2023.
    b. In consultation with DoF, NHC is to provide reconciled payroll rental deductions report for all their properties occupied by public servants by second quarter of 2023.
    c. NHC to provide a separate report on properties rented out to the private sector and how much these properties are generating in revenue by end of second quarter of 2023.
18. **Department of Police & Defence** to cease the ‘Hire Car Retainer Arrangements’ and procure via NPC. There is no provision on law for retainer arrangements.
19. **All disciplinary forces** (Department of Police, PNGDF and Correctional Services) to install water and easy pay meters on institutional houses to cut back on utility bills.

20. **Department of Justice and Attorney General (DJAG)** to report on the number of legal firms paid from the legal brief-out on quarterly basis to assist with forward budgeting and monitoring of arrears.
21. **DJAG** to conduct M&E and/or review of Village Court & Land Mediation officials (headcount) with a view to cleansing their payroll. This will involve conducting actual checks to confirm names of officers, confirming IDs, and reconciling with headquarters' payroll data.
22. **Departments of Finance and Personnel Management** to upgrade the payroll system by end of second quarter 2023.
23. **The Department of Finance and Treasury** to link the payroll system to IFMS by end of 2023.
24. **The Department of Finance** to ensure all agencies not connected to IFMS yet to be connected by end of 2023.
25. **OSPEAC** to propose relevant penalties for Department Heads and HR practitioners that continue defy Public Service Rules for payments related to PE which result in PE blow outs.
26. **Department of National Planning** to conduct audit on the District Towns Improvement Program funds over the years as well as assessing the outcomes in each districts and an audit report to be submitted to NEC in the third quarter of 2023.
27. **Department of Finance** to withdraw and limit financial powers of National Statistics Office (NSO) and define the powers of NSO to prevent it from incurring liabilities when it conducts the National Census in 2024.

6.5 DONOR FUNDING FROM DEVELOPMENT PARTNERS

Development cooperation support comes from PNG's bilateral and multilateral partners, Non-Government Organisations (NGOs), Regional Organizations, Private Sector Foundations, and Climate Financing. Grants and loans are significant sources of revenue that support the operational and capital investment budget. With the formulation of the Development Cooperation Policy 2018-2022, most development partners have aligned their country strategies to the priorities of the Government.

The Marape-Rosso Government will continue to work closely with its development partners to pursue concessional financing to support its key investment initiatives such as Connect PNG, and the National Electrification Program, as well as the various programs undertaken in the social sector.

Total development partner assistance in 2023 (Grants and Loans) is K3,181.0 million, which makes up 32.0 per cent of the total 2023 capital budget, and represents an increase of K 287.7million or 9.9 per cent compared with the 2022 Supplementary Budget.

The Australian Government, through the Department of Foreign Affairs & Trade (DFAT), and the United Nations (UN) continue to play a significant role in supporting development in PNG through various aid/grant funded programs. The Government of Japan (JICA), Work Bank, and Asian Development Bank (ADB) also play a large role in supporting the Government's development initiatives through various loan-funded programs.

An overview of likely funding support from PNG's Development Partners in 2023 is shown in Table 23.

Table 23: 2023 Summary by Development Partners

Development Partners	Grants	Loans	Counterpart	2022 Total (G+L+CP)
Australia	1,326.2	60.7	28.5	1,415.3
EU	146.6	0.0	9.0	155.5
UN	220.2	0.0	0.0	220.2
NZ	15.0	0.0	0.0	15.0
China	36.0	15.0	40.0	91.0
ADB	206.0	532.2	123.0	861.2
World Bank	2.0	192.9	28.0	222.9
Japan	66.3	355.2	5.0	426.5
IFAD	1.8	0.0	1.0	2.8
GPE	5.0	0.0	1.0	6.0
Total	**2,024.9**	**1,156.0**	**235.5**	**3,416.5**

Source: Department of National Planning & Monitoring

6.6 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 National Department, Statutory Authority or Provincial Government, to establish and operate trust accounts. The trust accounts can be funded through the National Budget, Donors or counter funded by GoPNG. *Section 16 (6) of the PFMA*, requires that all trust accounts must be operated in accordance with the requirements of the relevant trust instruments.

A total of **K17,169.8 million** (K14,033.6 million from 2021 FBO + K3,136.2 million in 2022), up to and including the 2022 Budget appropriations, has been expended through the budget-funded trust accounts since 2005 for the implementation of Government's various priority programs. The main purpose of holding funds in Trust Accounts is to spread spending overtime to help manage inflationary pressures on the economy and to give Government agencies sufficient time to properly plan and implement their priority programs/projects.

The following is the expenditure report for all the budget funded trust accounts from 1st January to 30th September 2022. A total of **K3,136.2 million** has been expended from various trust accounts between January to September 2022.

Table 24: Movement of Funds in Budget Funded Trust Accounts from 1st January – 30th September 2022 (Kina, million)

Trust Account Name	Balance as at 1-Jan-022	Debit (Receipts)	Credit (Payments)	Balance as at 30-Sept-2022
Flexible, Open and Distance Education (FODE) Rehabilitation - GoPNG	0.7	0.1	0.3	0.5
Government Tuition Fee Subsidy Education Trust Account	211.1	442.0	457.2	195.9
Tuition Fee Subsidy Education - Commodity Component Trust	143.3	127.9	68.0	203.2
Govt's Funding of Rehab. Of Higher Ecucation Sector TA	16.5	18.4	6.4	28.5
PNG Rural Communications Project GOPNG	0.1	0.0	0.0	0.1

Trust Account Name	Balance as at 1-Jan-022	Debit (Receipts)	Credit (Payments)	Balance as at 30-Sept-2022
PNG Fire Service Infrastructure Rehabilitation Program - (PIP) T/A	0.0	0.0	0.0	0.0
National Road Maintenance Policy TA	0.0	0.0	0.0	0.0
Highlands Highway Rehabilitation T/A Subsidiary	0.0	0.0	0.0	0.0
Port Moresby Roads Trust Account	0.4	0.0	0.0	0.4
Small Medium Enterprise (SME) Risk Sharing Facility (GoPNG)	1.0	2.5	2.0	1.5
Central City Trust Account	26.9	0.0	0.0	26.9
Restoration and Development Grant Trust	0.0	0.0	0.0	0.0
Special Intervention Funds (Established on 28 Feb 2014)	0.0	0.0	0.0	0.0
LNG Pipeline Infrastructure Dev Grant (IDG) (Kikori Area)	0.0	0.0	0.0	0.0
LNG Plant Infrastructure Development Grant (IDG) (Papa/Lealea) TA	0.5	0.0	0.0	0.5
Financial Management Improvement Programme (FMIP) - GoPNG	1.2	19.2	9.4	11.0
FMIP Provincial Capacity Building Imprest Trust Account	1.5	2.8	2.3	2.0
Infrastructure Development (UBSA) Grant (IDG) Account - Main	7.9	0.0	0.0	7.9
Infrastructure Development (UBSA) Grant Account (IDG) Sub	1.4	0.0	0.0	1.4
PNG High Impact Infrastructure Projects	0.0	0.0	0.0	0.0
PNG High Impact Infrastructure Projects Sub	0.7	0.0	0.7	0.0
Public Service Audit Program	0.6	0.0	0.0	0.6
2017 PNG National General Election - Finance, Procurement, Personnel and Logistic Trust	0.0	0.0	0.0	0.0
NAOSPIII GoPNG Counterpart Funds (European Union)	0.5	1.2	1.0	0.7
Department of Prime Minister & NEC APEC Operations (OP) Plan 2018 TA	0.0	0.0	0.0	0.0
Highlands Region Roads Improv Invest Prog ADB - GoPNG Counterpart	4.9	1.7	6.1	0.5
HRRIP GoPNG Counterpart	1.0	0.0	0.0	1.0
Comm.Water Transport Proj. GoPNG C/Fund	18.6	16.1	32.1	2.6
Comm.Water Transportation Fund - GoPNG (ADB 2079)	0.0	0.0	0.0	0.0
PNG LNG Additional State Equity Financing	0.7	0.0	0.0	0.7
Highlands Region Road Improvement Investment Program (HRRIP) Project 2 - GoPNG Counterpart Funding TA (Inc	0.3	0.0	0.3	0.0
SHHIP- Tranche 1 - GoPNG Counterpart Fund	1.1	7.5	2.9	5.7

Trust Account Name	Balance as at 1-Jan-022	Debit (Receipts)	Credit (Payments)	Balance as at 30-Sept-2022
Multiple LNG Development Trust Account	0.5	3.0	2.0	1.5
Coastal Vessels Account	0.1	0.0	0.0	0.1
Water Supply & Sanitation Development Project – GoPNG	1.9	0.0	0.1	1.8
Bougainville Referendum Non-electoral Support Funds	1.0	0.0	0.1	0.9
Land Reform Trust Account	0.0	0.0	0.0	0.0
Mukurumanda Jail Project Trust Account	3.8	0.0	1.1	2.7
Jiwaka Provincial Headquarter Project Trust Account	0.0	0.0	0.0	0.0
Tsak Valley Electrification Project - GoPNG Counterpart Fund	3.5	0.0	3.5	0.0
2020 National Population and Housing Census Trust Account	4.7	1.1	5.3	0.5
Kokopau to Arawa Road	0.0	0.0	0.0	0.0
COVID-19 Emergency Trust Account	786.8	1,582.0	1,888.2	480.6
Health Service Sector Development Budget Support Trust Account	0.7	0.0	0.0	0.7
PNG's First Economic and Fiscal Resilience Development Policy TA	0.3	0.0	0.0	0.3
Connect PNG Economic Road Transport Infrastructure Dev. Prog. TA	29.5	0.4	28.6	1.3
Higher Education Loan Program Trust Account	1.1	10.0	11.1	0.0
Ihu Special Economic Zone	0.1	10.0	5.7	4.4
Government Commitment Trust Accounts	0.0	344.8	321.3	23.5
2022 National General Election - Finance Procurement, Personnel and Logistics Trust Account	0.0	320.0	280.5	39.5
Total	**1,274.9**	**2,910.7**	**3,136.2**	**1,049.4**

Source: Department of Finance.

It should be noted that the Government Tuition Fee Subsidy (GTFS) Education and COVID-19 trust accounts receipts, and expenses are inclusive of all its subsidiary accounts.

The opening balance of the budget funded trust accounts as at 1st January 2022 was K1,274.9 million. Expenditure incurred in this period totalled K3,136.2 million with K2,910.7 million as receipts within the same period and; the closing balance as at 30th June 2022 was K1,049.4 million.

Following is a summary of expenditures above **K5.0 million** from budget funded trust accounts for the period 1st January to 30th June 2022

- **K457.2 million** was expended on the Government's Tuition Fee Subsidy (GTFS) program;

- **K68.0 million** was expended on the Tuition Fee Subsidy Education – Commodity Component Trust.
- **K6.4 million** was expended on the Government's Funding of Rehabilitation of Higher Education Sector TA.
- **K9.4 million** was on the Financial Management Improvement Program (FMIP) project.
- **K6.1 million** was expanded on the Highlands Region Roads Improv Invest Prog ADB - GoPNG Counterpart.

- **K32.1 million** was expanded on the Community Water Transport Project -. GoPNG Counterpart Funding.
- **K5.3 million** was expanded on the 2020 National Population and Housing Census Trust Account.
- **K1,888.2 million** was expended from the COVID-19 Emergency Trust Account to facilitate payments of operational funds allowed under Finance Instruction 11/2021 dated 04th November, 2021 IFSM System Outage.
- **K28.6 million** was expended on the Connect PNG Economic Road Transport Infrastructure Trust to fund the Connect PNG project.
- **K11.1 million** was expended on the Higher Education Loan Program Trust Account.
- **K321.3 million** was expended on the Government Commitment Trust Accounts to cater to the outstanding commitments of the Government.
- **K280.5 million** was expended on the 2022 National General Election - Finance Procurement, Personnel and Logistics Trust Account to fund the current 2022 National General Election.

Many trust accounts did not incur expenses as most of them were restricted by the banks as per instructed by the Reform Team due to expired trust instruments or the bank accounts are dormant.

Table 25 and 26 below shows movement of funds in the COVID-19 Emergency Trust Accounts for the 89 District and 22 Provincial Trust accounts respectively for the period of 1st January to 30th September, 2022. From these accounts, a total of K1,888.2 million was expended as at end of September 2022. This Ending COVID-19 balances consist of operational funds allowed under Finance Instruction 11/2021 dated 04th November, 2021.

Table 25: Movement of Funds in the COVID Emergency Trust Accounts for Provinces from 1st January – 30 Sept 2022 (Kina, million)

Provincial Subsidiary Account	Bal as at 01 Jan 2022	Receipts	Payments	Bal as at 30 Sept 2022
COVID -19 Emergency Trust Account – Enga	0.5	-	0.3	0.3
COVID -19 Emergency Trust Account – Hela	0.3	-	-	0.3
COVID -19 Emergency Trust Account – SHP	0.4	4.2	4.7	-0.1
COVID -19 Emergency Trust Account – Western	1.5	-	-	1.5
COVID -19 Emergency Trust Account – WHP	2.1	38.1	37.7	2.5
COVID -19 Emergency Trust Account – EHP	60.9	30.8	73.3	18.4
COVID -19 Emergency Trust Account – Morobe	25.7	102.6	76.5	51.7
COVID -19 Emergency Trust Account – Madang	18.7	41.7	53.1	7.3
COVID -19 Emergency Trust Account – ESP	52.0	6.0	53.3	4.7
COVID -19 Emergency Trust Account – WSP	0.1	-	-	0.1
COVID -19 Emergency Trust Account – Milne Bay	7.9	24.5	12.4	20.1
COVID -19 Emergency Trust Account – Oro	32.7	29.8	77.9	-15.5
COVID -19 Emergency Trust Account – NCD	0.8	-	-	0.8
COVID -19 Emergency Trust Account – Central	13.8	61.5	51.2	24.1
COVID -19 Emergency Trust Account – ENB	17.0	85.0	31.9	70.1

COVID -19 Emergency Trust Account – WNB	68.0	47.6	100.0	15.6
COVID -19 Emergency Trust Account – New Ireland	1.0	3.8	3.7	1.1
COVID -19 Emergency Trust Account – Jiwaka	1.0	41.7	40.3	2.4
COVID -19 Emergency Trust Account – Simbu	11.1	46.1	53.8	3.3
COVID -19 Emergency Trust Account – Manus	30.7	30.8	27.0	34.5
COVID -19 Emergency Trust Account – Gulf	14.4	26.8	36.4	4.8
COVID -19 Emergency Trust Account – ABG	2.0	4.4	5.5	0.9
TOTAL OF COVID-19 PROVINCIAL TRUSTS	**362.7**	**625.2**	**739.0**	**428.8**

Source: Department of Finance.

Table 26: Movement of Funds in the COVID Emergency Trust Accounts for Districts from 1st January – 30th Sept 2022 (Kina, million)

District Subsidiary Accounts	Bal as at 01 Jan 2022	Receipts	Payments	Bal as at 30 Sept 2022
COVID -19 Emergency Trust Account – Middle Fly District	1.7	-	0.5	1.3
COVID -19 Emergency Trust Account – North Fly District	0.1	-	0.1	0.0
COVID -19 Emergency Trust Account – South Fly District	0.1	-	0.0	0.1
COVID -19 Emergency Trust Account – Kerema District	8.4	-	4.3	4.1
COVID -19 Emergency Trust Account – Kikori District	13.8	39.5	51.9	1.3
COVID -19 Emergency Trust Account – Goilala District	1.7	12.0	10.5	3.2
COVID -19 Emergency Trust Account – Rigo District	1.2	23.1	23.4	0.9
COVID -19 Emergency Trust Account – Abau District	1.3	10.2	11.5	0.0
COVID -19 Emergency Trust Account – Kairuku Hiri District	3.7	11.4	15.1	0.0
COVID -19 Emergency Trust Account – Moresby South District	0.0	-	-	0.0
COVID - 19 Emergency Trust Account – Moresby North East	0.1	2.5	0.6	1.9
COVID -19 Emergency Trust Account – Moresby North West	1.6	-	-	1.6
COVID -19 Emergency Trust Account – Kiriwina Goodenough District	0.0	-	-	0.0
COVID -19 Emergency Trust Account – Central Bougainville District	0.4	-	0.1	0.2
COVID -19 Emergency Trust Account – Esa’ala District	0.3	-	-	0.3
COVID -19 Emergency Trust Account – Samarai Murua District	0.0	-	-	0.0
COVID -19 Emergency Trust Account – Ijivitari District	6.1	17.2	21.1	2.2
COVID -19 Emergency Trust Account – Kagua Erave District	0.7	0.0	0.6	0.1
COVID -19 Emergency Trust Account – Imbongu District	0.4	-	-	0.4

District Subsidiary Accounts	Bal as at 01 Jan 2022	Receipts	Payments	Bal as at 30 Sept 2022
COVID -19 Emergency Trust Account – Mendi District	0.2	-	0.2	0.0
COVID -19 Emergency Trust Account – Ialibu Pangia District	1.3	-	0.3	1.0
COVID -19 Emergency Trust Account – Nipa Kutubu District	0.1	-	0.1	0.0
COVID -19 Emergency Trust Account – Tari Pori District	1.5	2.0	-	3.5
COVID -19 Emergency Trust Account – Komo Magarima District	0.0	-	-	0.0
COVID -19 Emergency Trust Account – Koroba Kopiago District	1.3	-	0.8	0.5
COVID -19 Emergency Trust Account – South Bougainville District	0.0	-	-	0.0
COVID -19 Emergency Trust Account – Wabag District	7.5	-	2.2	5.3
COVID -19 Emergency Trust Account – Kandep District	2.8	0.5	3.7	-0.4
COVID -19 Emergency Trust Account – Laiagap Pogera District	2.5	2.5	4.9	0.0
COVID -19 Emergency Trust Account – Wapenamanda District	0.0	0.3	0.2	0.2
COVID -19 Emergency Trust Account – Kompiam Ambum District	1.5	-	1.2	0.3
COVID -19 Emergency Trust Account – Tambul Nebilyer District	8.0	14.6	21.3	1.3
COVID -19 Emergency Trust Account – Mul Baiyer District	1.3	12.8	13.9	0.2
COVID -19 Emergency Trust Account – Dei District	3.5	29.2	32.5	0.1
COVID -19 Emergency Trust Account - Hagen District	6.7	19.4	22.0	4.1
COVID -19 Emergency Trust Account - North Waghi District	5.4	20.2	24.9	0.7
COVID -19 Emergency Trust Account – Anglip South Waghi District	0.2	29.5	29.7	0.1
COVID -19 Emergency Trust Account – Jimi District	1.9	18.2	19.3	0.8
COVID -19 Emergency Trust Account – Kerawagi District	4.8	12.8	12.6	5.1
COVID -19 Emergency Trust Account – Kundiawa/ Gembogle District	8.2	12.2	19.2	1.2
COVID -19 Emergency Trust Account – Sinesine Yongomul District	4.7	12.3	13.5	3.5
COVID -19 Emergency Trust Account – Karamui Nomane District	14.5	20.9	25.4	10.0
COVID -19 Emergency Trust Account – Gumini District	0.3	51.8	45.8	6.2
COVID -19 Emergency Trust Account – Chuave District	5.2	17.5	11.5	11.2
COVID -19 Emergency Trust Account – Daulo District	10.2	13.4	21.6	2.0
COVID -19 Emergency Trust Account – Goroka District	0.8	31.2	31.3	0.7

District Subsidiary Accounts	Bal as at 01 Jan 2022	Receipts	Payments	Bal as at 30 Sept 2022
COVID -19 Emergency Trust Account – Ungai Bena District	5.3	-	0.8	4.5
COVID -19 Emergency Trust Account – Henganofi District	2.1	14.2	15.2	1.1
COVID -19 Emergency Trust Account – Lufa District	10.5	13.6	23.4	0.7
COVID -19 Emergency Trust Account – Okapa District	10.0	16.0	25.5	0.4
COVID -19 Emergency Trust Account – Kainantu District	2.2	16.0	9.9	8.4
COVID -19 Emergency Trust Account – Obura Wonenara District	2.4	7.7	7.9	2.2
COVID -19 Emergency Trust Account – Tewai Siasi District	25.0	17.5	29.9	12.6
COVID -19 Emergency Trust Account – Markham District	7.8	14.1	20.8	1.2
COVID -19 Emergency Trust Account – Huon Gulf District	2.9	12.8	12.7	3.1
COVID -19 Emergency Trust Account – Lae District	23.2	11.5	26.6	8.1
COVID -19 Emergency Trust Account – Kabwum District	8.1	6.9	10.7	4.3
COVID -19 Emergency Trust Account – Bulolo District	3.9	14.5	17.9	0.5
COVID -19 Emergency Trust Account - Minyamya District	4.5	15.4	19.7	0.2
COVID -19 Emergency Trust Account – Finchafen District	8.5	17.2	22.4	3.2
COVID -19 Emergency Trust Account – Nawaeb District	4.3	17.8	19.7	2.4
COVID -19 Emergency Trust Account – Middle Ramu District	3.3	4.4	3.5	4.2
COVID -19 Emergency Trust Account – Rai Coast District	2.4	13.6	6.8	9.2
COVID -19 Emergency Trust Account – Madang District	2.4	10.0	9.9	2.5
COVID -19 Emergency Trust Account – Bogia District	3.7	12.3	15.3	0.7
COVID -19 Emergency Trust Account – Usino Bundi District	3.8	12.3	13.8	2.2
COVID -19 Emergency Trust Account – Sumkar District	2.7	12.1	10.5	4.3
COVID -19 Emergency Trust Account – Yangoru Saussia District	10.0	9.4	18.1	1.3
COVID -19 Emergency Trust Account – Wewak District	12.9	14.7	23.9	3.7
COVID -19 Emergency Trust Account – Wosera Gawi District	4.3	8.6	10.5	2.4
COVID -19 Emergency Trust Account - Ambunti Drekikir District	9.9	11.8	12.7	9.0
COVID -19 Emergency Trust Account – Maprik District	0.0	18.9	18.3	0.7
COVID -19 Emergency Trust Account – Angoram District	3.6	25.0	26.6	1.9

District Subsidiary Accounts	Bal as at 01 Jan 2022	Receipts	Payments	Bal as at 30 Sept 2022
COVID -19 Emergency Trust Account – Telefomin District	0.2	-	-	0.2
COVID -19 Emergency Trust Account – Vanimo Green District	0.0	-	-	0.0
COVID -19 Emergency Trust Account – Nuku District	0.3	-	0.0	0.2
COVID -19 Emergency Trust Account – Aitape Lumi District	0.3	0.0	0.0	0.3
COVID -19 Emergency Trust Account – Manus District	11.0	18.4	27.6	1.8
COVID -19 Emergency Trust Account – Kavieng District	28.0	24.2	44.3	7.8
COVID -19 Emergency Trust Account – Namatanai District	0.8	32.5	33.1	0.2
COVID -19 Emergency Trust Account – Pomio District	5.9	8.0	9.9	4.0
COVID -19 Emergency Trust Account – Rabaul District	13.6	2.5	6.8	9.2
COVID -19 Emergency Trust Account – Gazelle District	4.4	25.0	12.5	16.9
COVID -19 Emergency Trust Account – Kokopo District	5.6	22.7	24.9	3.4
COVID -19 Emergency Trust Account – Talasea District	18.0	14.7	23.2	9.5
COVID -19 Emergency Trust Account – Kandrian Gloucester District	10.2	7.3	10.0	7.5
COVID -19 Emergency Trust Account – North Bougainville District	0.0	-	-	0.0
COVID-19 Emergency Trust Account – Sohe District	10.1	16.1	25.8	0.5
COVID-19 Emergency Trust Account – Alotau District	0.3	-	0.2	0.1
TOTAL OF COVID-19 DISTRICT TRUSTS	**424.1**	**882.0**	**972.2**	**333.9**

Source: Department of Finance.

CHAPTER 7: TAX EXPENDITURE

7.1 OVERVIEW

A tax expenditure arises where the actual tax treatment of an activity or class of taxpayer differs from the benchmark tax treatment. Benchmarks represent a standard taxation treatment that applies to similar taxpayers or types of activity.

Tax expenditures typically involve tax exemptions, deductions or offsets, concessional tax rates and deferrals of tax liability. A positive tax expenditure reduces tax payable relative to the benchmark. A negative tax expenditure increases tax payable relative to the benchmark.

The Government provides a number of tax incentives to taxpayers to achieve certain policy objectives and this results in 'revenue foregone to the Government. This in fact an expenditure operating outside of the annual normal budget thus not subject to budget scrutiny and are not accounted for and transparent. The reporting of the tax incentives as the Government tax expenditure provides the visibility to the policy makers to make better decisions on the granting of the tax incentives.

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.

The 2023 Budget coverage of the Tax Expenditure captures tax incentives provided in the *Income Tax Act 1959*, *Customs Tariff Act 1990* and *Excise Tariff Act 1956.* The tax expenditure statement is divided into two (2) sections – non-resource and resource sector.

7.2 TAX INCENTIVES IN THE INCOME TAX ACT (ITA) 1959

7.2.1 Interest

Revenue Forgone (Kina, million)

	2019	2020	2021
Non- Resource	3.2	4.4	0.2
Resource	11.8	N/A	N/A
Legislative Reference	*Section 35 of ITA 1959*		

Note: Data for resource sector is not available at the time of reporting. This will be reported in the proceeding Budget.

This incentive allows certain interest earning entities and assets to be exempted from the interest withholding tax (IWT) of 15.0 per cent. This includes interest earned on long term bonds, Central Bank authorized foreign currency deposits and the participants and lender of the PNG LNG project.

7.2.2 Dividends

Revenue Forgone (Kina, million)

	2019	2020	2021
Non- Resource	0.0	0.5	0.2
Resource	0.0	N/A	N/A
Legislative Reference	*Section 42(3) of ITA 1959*		

Income from petroleum or gas operations earned by shareholders paid as dividends are exempt from income tax. In other words, such income does not form part of the assessable income of the taxpayers if the income was paid as dividends which originated from a petroleum or gas operation.

7.2.3 Rural Development Incentive

Revenue Forgone (Kina, million)

	2019	2020	2021
Non- Resource	0.1	0.0	0.0
Resource	0.0	N/A	N/A
Legislative Reference	*Section 45I of ITA 1959*		

This incentive provides a 10-year tax holiday to new businesses set up in designated under-developed districts prescribed in the ITA, that are not dependent on the exploitation of natural resources. Income earned by those businesses are exempted from income tax for ten (10) years upon the date of commencement to the last day of the tenth year. Losses arising from the exempted activities may be deducted against taxable income from other activities.

This incentive is meant to encourage investment in those least developed prescribed Districts. Rural Development Incentives will be reviewed to determine its relevance in some of the prescribed districts.

7.2.4 Gifts

Revenue Forgone (Kina, million)

	2019	2020	2021
Non- Resource	1.7	0.2	0.3
Resource	10.2	N/A	N/A
Legislative Reference	*Section 69 of ITA 1959*		

Note: Data for resource sector is not available at the time of reporting. This will be reported in the proceeding Budget.

Expenditures to charitable organizations and other humanitarian foundations, including political parties are allowed as a direct deduction or in some cases a double deduction. Some of these organizations include political parties; sporting bodies; South Pacific Games 1991 (repealed); foundations for law, order and justice; charitable bodies; national day celebrations; Pacific Games 2015; relief aid for natural disasters; and national day celebrations.

7.2.5 Double Deduction – Export Market Development

Revenue Forgone (Kina, million)

	2019	2020	2021
Non- Resource	0.0	0.0	0.5
Resource	0.0	N/A	N/A
Legislative Reference	*Section 72(C) of ITA 1959*		

This incentive is to encourage and promote export of goods manufactured in PNG and is subject to Commissioner General’s (CG) determination. This is an expenditure incurred by a taxpayer on export market development (i.e. expenditure incurred in the production or manufacture of goods and services for export) and 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 encourage PNG's products to be exported.

7.2.6 Double Deduction – Tourism

Revenue Forgone (Kina, million)

	2019	2020	2021
Non- Resource	0.1	0.0	0.0
Resource	0.0	N/A	N/A
Legislative Reference	*Section 72(C) of ITA 1959*		

This incentive is to encourage and promote development of tourism in PNG.

Subject to the CG's determination, an expenditure incurred by a tax payer for the development of tourism (i.e. 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.

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

Revenue Forgone (Kina, million)

	2019	2020	2021
Non- Resource	0.2	0.0	0.0
Resource	0.0	N/A	N/A
Legislative Reference	*Section 73(6) of ITA 1959*		

This deduction allows for an 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.

7.2.8 Additional Depreciation –Industrial Development

Revenue Forgone (Kina, million)

	2019	2020	2021
Non- Resource	23.8	21.2	20.5
Resource	0.0	N/A	N/A
Legislative Reference	*Section 73(7) of ITA 1959*		

This incentive allows for a depreciation deduction. When a taxpayer 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.

The depreciation deductions arose from business activities relating to forestry, fishery, agriculture especially oil palm, manufacturing (bakery products, food products and wood and products of wood), real estate, non-specialized stores (e.g., supermarkets and department stores) and printing, publishing, and reproduction of recorded media.

7.2.9 Additional Depreciation –Primary Production

Revenue Forgone (Kina, million)

	2019	**2020**	**2021**
Non- Resource	5.5	6.0	3.4
Resource	0.0	N/A	N/A
Legislative Reference	*Section 73(9) of ITA 1959*		

A 100.0 per cent deduction is provided to capital expenditure incurred by a taxpayer on acquiring the following types of new plant or article: (a) property used directly for agricultural 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.

7.2.10 Primary Production Development Expenditure

Revenue Forgone (Kina, million)

	2019	**2020**	**2021**
Non- Resource	0.6	3.9	0.0
Resource	0.0	N/A	N/A
Legislative Reference	*Section 97A of ITA 1959*		

This incentive is to encourage primary production such as agricultural 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 of a taxpayer engaged in primary production (definition of primary production provided in the ITA regulation).

7.2.11 Primary Production 150.0 per cent extension services

Revenue Forgone (Kina, million)

	2019	**2020**	**2021**
Non- Resource	0.1	0.2	0.3
Resource	0.0	N/A	N/A
Legislative Reference	*Section 97B (1) of ITA 1959*		

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 (DAL).

7.2.12 Double Deduction – Unit of Property

Revenue Forgone (Kina, million)

	2019	2020	2021
Non- Resource	0.1	0.0	0.0
Resource	0.0	N/A	N/A
Legislative Reference	*Section 155J of ITA 1959*		

Property unit trusts are taxed at the rate of 30.0 per cent on the income of the trust. The tax is payable by the trustee.

7.2.13 Amortization – Exploration Expenditure

Revenue Forgone (Kina, million)

	2019	2020	2021
Non- Resource	0.0	0.0	N/A
Resource	62.1	N/A	47.6
Legislative Reference	*Section 155N of ITA 1959*		

Note: Data for resource sector is not available at the time of reporting. This will be reported in the proceeding Budget.

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.

7.2.14 Additional Deduction for PNG LNG project participants

Revenue Forgone (Kina, million)

	2019	2020	2021
Non- Resource	0.0	0.0	0.0
Resource	0.0	N/A	0.0
Legislative Reference	*Section 158J of ITA 1959*		

Note: Data for resource sector is not available at the time of reporting. This will be reported in the proceeding Budget.

This is an additional deduction provided to PNG LNG Project participants. If the project has not reached an R-factor of between 1.91 and 2.36 at the end of year 10 of production, additional deductions of between 10.0 per cent and 50.0 per cent of original capital expenditures can be allowed.

In addition, a small category of sales is exempt from applying GST. As opposed to zero rating, the exempted sales are not eligible to reclaim input tax paid at the time of purchase. These include the supply of financial services; supply of educational services; supply of medical services; and supply of housing or a motor vehicle to an employee as part of an employment contract.

7.3 TAX INCENTIVES IN THE CUSTOMS TARIFF ACT 1990

7.3.1 Import Duty

Revenue Forgone (Kina, million)

	2019	2020	2021
Estimate	50.6	22.5	27.4
Legislative Reference	*Part IV, section 9 of the Import Tariff Act 1990*		

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

7.4 TAX INCENTIVES IN THE EXCISE TARIFF ACT 1956

7.4.1 Import Excise

Revenue Forgone (Kina, million)

	2019	2020	2021
Estimate	7.1	5.5	7.1
Legislative Reference	*Section 3 of the Excise Tariff Act 1956*		

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

CHAPTER 8: FINANCING AND DEBT MANAGEMENT STRATEGY

8.1 FINANCING BACKGROUND TO THE 2022 BUDGET

The Government's financing and debt management strategy in 2022 and over the medium term will be focused on debt sustainability amid challenging circumstances brought about by the COVID-19 pandemic coupled with other economic turmoils. The Government will continue to explore cheaper concessional sources of external financing and using domestic debt instruments to maintain the domestic market.

The 2022 Budget deficit was K5,984.7 million and proposed to be financed through a net external borrowing of K3,744.7 million and net domestic borrowing of K2,240.0 million. The external financing was mainly through budget support loans and project loan disbursements from PNG's multilateral and bilateral partners.

For the first three (3) quarters of 2022 there was no external financing support, and all financing was from the issuance of domestic securities and through normal revenue collections. External financing budget support from the final tranche of the ADB SOE Reform Program loan of USD250.0 million (K880.3 million) and the Australian Government's AUD750.0 million (K1,773.5 million) is anticipated to come in towards the end of the year.

The issuance of K2,709.3 million in Treasury Bonds was spread over eight (8) months to ensure even market participation over the course of the year. This assisted in funding most of the priority expenditures over the first three (3) quarters of 2022.

The 2022 Budget financing sources comprised:

(a) the final tranche of ADB SOE Reform Program loan of USD250.0 million (K880.3 million);
(b) the International Financing support from the Australian Government of AUD750.0 million (K1,773.5 million); and
(c) net issuance of K2,240.0 million in domestic debt securities comprising K260.1 million in new net Treasury Bill issuances, a new net Treasury Bonds issuance of K1,750.0 million , and a net issuance of K229.9 million in domestic loans.

Of the total net financing requirement (K5,984.7 million) for the 2022 Budget, the Government is expected to receive K880.3 million from ADB SOE Link Reform Budget Support loan and K1,773.5 million from the International Financing support from Australia. Treasury Bonds raised K2,709.3 million over this year from the domestic market. It is anticipated that the financing requirement for 2022 will be fully covered when the budget support loans are received at the end of the year.

The 2022 net financing profile also includes the amortisation of K70.1 million in domestic loans, K41.9 million in commercial loans, K610.3 million in external concessional loans and K232.6 million external extraordinary loans[5].

[5] Extraordinary loans include budget support facilities and program (on-project) facilities from bilateral and multilateral development partners.

8.2 FINANCING REQUIREMENTS FOR 2023 BUDGET

The total net financing requirement for 2023 is set at K4,984.9 million and will be financed through a similar strategy employed in the last two (2) years. External financing will comprise budget support loans from our multilateral and bilateral creditors, drawdowns from concessional loans, and a new commercial loan for project implementation. The domestic financing will include Treasury Bonds and Treasury Bills issuances, including a recently approved new commercial borrowing from local commercial bank earmarked for infrastructure development such as the Regional Road program.

The Government will continue to utilise cheap and concessional sources of financing by engaging actively with our multilateral and bilateral partners. A number of new concessional project loans have already been signed and drawdowns will commence in 2023. The Australian Infrastructure Financing Facility for Pacific (AIFFP) will continue to roll out its infrastructure development loan projects over the medium term.

The Government is in discussion with World Bank with a new Development Policy Operation (DPO) for an expected USD100.0 million (K352.1 million) Bilateral Budget Support Finance is planned to be K1,418.8 million a finance through an IMF program is expected to be SDR263.2 million (K1,213.5 million). The Government will continue to discuss with other bilateral and multilateral partners for additional budget support to cover the balance.

The Government plans to drawdown K1,156.0 million from concessional loans earmarked for planned projects and K20.0 million from commercial financing for other infrastructure projects. The concessional financing makes up 26.0 per cent of the total Government's external financing requirement for 2023.

Amortisation commitments for 2023 include: K125.0 million for domestic commercial loans and K295.9 million for extraordinary loans. The Government also plans to amortise K640.3 million in external concessional liabilities to reduce interest obligations and exposure to expensive debt. With the amortisation and concessional financing planned for 2023, the Government is anticipating to reduce some interest costs over the medium term on these loans.

Together with the amortisation, the Government's exposure to the domestic securities market for 2023 is estimated to be a net addition of K1,465.7 million which includes net issuance of K945.0 million in Treasury Bonds and K525.7 million in Treasury Bills, with a net repayment of K5.0 million on domestic loans.

Table 27: Composition of Financing by Instrument for 2023 (Kina, million)

Financing Instrument	2023	
External Loans	**FX = USD 'million**	**PGK 'million**
Disbursements		**4,490.7**
World Bank (Fiscal) DPO	**100.0**	**352.1**
IMF	345.0	1,213.5
Bilateral Support		1,418.8
Concessional Project Loans		1,156.0
Commercial Loans		20.0
Other Possible External		330.3
Domestic Disbursements		**15,911.4**
Repayments		**-971.5**
Concessional Project Loans		-640.3
Other External Repayments		-331.2
Domestic Repayments		-14,445.7
External Net		**3,519.2**

Domestic Net		**1,465.7**
Total Financing Gap		**4,984.9**

Source: Department of Treasury

The financing requirement for the 2023 Budget will result in total Government debt reaching K59,142.6 million by end of the year, equivalent to 52.3 per cent of GDP. This is within the current band of 45-60.0 per cent of GDP as per the *FRA (amended 2020)*. Moreover, the planned debt portfolio maintains the domestic share of financing at 49.8 per cent of the total debt stock. The external financing mix is planned to increase in 2023, and concessional sources of financing will account for at least 23.2 per cent of the total debt stock.

Table 28: Debt Outstanding Debt Instruments 2021-2027 (Kina, million)

Debt Instruments	2021 Actual	2022 Supp. Budget	2023 Budget	2024	2025	2026	2027
Domestic Debt	**25,257.6**	**27,497.6**	**28,963.3**	**29,490.2**	**29,038.3**	**28,747.6**	**27,567.1**
Treasury Bills	13,296.6	13,556.7	14,082.4	13,575.1	12,748.2	12,059.0	10,865.3
Treasury Bond	10,833.3	12,583.4	13,528.4	14,587.5	15,087.5	15,611.1	15,749.3
Loans	1,127.6	1,357.5	1,352.5	1,327.5	1,202.5	1,077.5	952.5
External Debt	**21,671.4**	**26,660.1**	**30,179.4**	**33,621.2**	**37,535.5**	**39,600.2**	**40,673.8**
Monetary Gold & SDRs	**0.0**	1,244.1	1,244.1	1,244.1	1,244.1	1,244.1	1,244.1
Debt securities	1,750.0	1,750.0	1,750.0	1,750.0	1,750.0	1,750.2	1,750.2
Concessional	10,939.9	11,648.0	12,163.7	12,703.1	13,291.4	13,870.9	14,440.7
Commercial	231.4	211.7	196.4	181.0	165.7	150.4	135.1
Extraordinary	8,750.1	11,806.3	14,825.1	17,742.8	21,084.1	22,584.7	23,103.8
Gross Debt* (ex. Arrears)	**46,929.0**	**54,157.7**	**59,142.6**	**63,111.4**	**66,573.8**	**68,347.9**	**68,240.9**
% of GDP (without Arrears)	**51.5%**	**51.5%**	**52.3%**	**52.2%**	**51.3%**	**49.2%**	**46.8%**

Source: Department of Treasury.

Table 29: Deficit Financing Projections by Instrument 2021-2027 (Kina, million)

Debt Instruments	2021 Actuals	2022 Supp. Budget	2023 Budget	2024 Est	2025 Est	2026 Est	2027 Est
Net Acquisition of Financial Assets	-						
Net Incurrence of Liabilities	**6,712.5**	**5,984.7**	**4,984.9**	**3,968.7**	**3,462.4**	**1,774.1**	**-107.0**
Domestic Net Financing	**3,042.1**	**2,240.0**	**1,465.7**	**526.9**	**-451.9**	**-290.6**	**-1,180.5**
Treasury Bills	**1,394.8**	**260.1**	**525.7**	**-507.2**	**-826.9**	**-689.2**	**-1,193.7**
Treasury Bond	**1600.6**	**1750.0**	**645.0**	**1,059.1**	**500.0**	**523.6**	**138.2**
Loans	**46.7**	**229.9**	**-5.0**	**-25.0**	**-125.0**	**-125.0**	**-125.0**
Borrowing	107.9-	300.0	120.0	100	-	-	-
Amortization	-61.2	-70.1	-125.0	-125.0	-125	-125.0	-125.0
External Net Financing	**3,670.4**	**3,744.7**	**3,519.2**	**3,441.8**	**3,914.3**	**2,064.7**	**1,073.5**
Debt securities	-	-					
Sovereign Bond	-	-					
Concessional	**1,108.3**	**708.1**	**515.8**	**539.4**	**588.3**	**579.5**	**569.8**
Borrowing	1,493.5	1,318.4	1,156.0	1,213.9	1,274.5	1,338.3	1,405.1
Amortization	-385.2	-610.3	-640.3	-674.4	-686.2	-758.7	-835.3
Commercial	**-862.7**	**-19.7**	**15.3**	**-15.3**	**-15.3**	**-15.3**	**-15.3**
Borrowing	59.7	22.2	20	20.0	20.0	20.0	20.0
Amortization	-922.4	-41.9	-35.3	-35.3	-35.3	-35.3	-35.3
Extraordinary	**3,423.7**	**3,056.2**	**3,018.7**	**2,917.7**	**3,341.4**	**1,500.5**	**519.1**
Borrowing	3,438.6	3,288.8	3,314.6	3,370.7	3,934.1	2,171.2	1,194.9
Amortization	-14.9	-232.6	-295.9	-453.0	-592.7	-670.7	-675.8

Source: Department of Treasury

1. The 2021-2027 debt flow provided above is the best approximation of the financing profile as expected at the time of drafting the volume 1.

The projected deficit profile as illustrated in Table 29 above, depicts the Government's efforts to curb debt at sustainable levels. Over the medium term, the deficit levels are expected to decline by about 16.0 per cent on average yearly. The nominal debt stock as a share of GDP is expected to peak in 2023, then gradually decline to well under 50.0 per cent as the budget moves towards surplus, while remaining within the FRA band over the medium term. Refer to Table 30.

Table 30: Debt stock as a share of GDP 2021-2027 (Kina, million)

Debt Instruments	2021 Actuals	2022 Supp. Budget	2023 Budget	2024 Est	2025 Est	2026 Est	2027 Est
Gross Government Debt	**48,173.1**	**54,157.7**	**59,142.9**	**63,111.5**	**66,573.9**	**68,348.0**	**68,241.0**
Debt to GDP %	***51.6%***	***50.2%***	***52.3%***	***52.2%***	***51.3%***	***49.2%***	***46.8%***
Domestic	25,257.6	27,497.6	28,963.3	29,490.2	29,038.3	28,747.6	27,567.1
% of gross	*52.4%*	*50.8%*	*49.0%*	*46.7%*	*43.6%*	*42.1%*	*40.4%*
External	22.915.5	26,660.1	30,179.4	33,621.2	37,535.5	39,600.2	40,673.8
% of gross	*47.6%*	*49.2%*	*51.0%*	*53.3%*	*56.4%*	*57.9%*	*59.6%*

Source: Department of Treasury

8.3 UPDATE ON DOMESTIC MARKET CONDITIONS FOR FINANCING DEFICIT

Overall, there was an increase in net borrowing from both Treasury Bills and Treasury Bonds in 2022. The increase in the domestic net financing is attributed to the need to raise funds weekly to finance cash flow, and the need to raise funds to settle large coupons and maturity payments during the year. Uncertain timing in accessing proposed budgetary support loans is another reason for the increased issuance of Government Securities.

Domestic market participants, continue to have limits on lending to the Government. The main players in the Government's securities market are the four major commercial banks and the two superfunds including few corporate and individual investors in the weekly auctions.

Appetite for shorter-term Treasury Bills increased in the first quarter of the year whilst the subsequent quarters experienced a decline attributed to the issuance of a large volume of longer-term Treasury Bonds over a three-month period, which commenced in April. Most retail investors, however, redeemed their debt, particularly in the first half of the year.

Longer-term Treasury Bonds continue to be active and have attracted most of the major market players to the monthly auctions. Treasury Bond issuance commenced in the second quarter and was spread over an eight-month period (April - November). Like Treasury Bills, the Treasury Bond coupon rates steadily declined over the same period.

Overall, the increased appetite in the total net issuance of Government securities is mainly attributed to the high liquidity level in the market. Investors tend to increase their investments in Government securities thereby causing the interest rates to fall. The interest rates for Treasury Bills dropped steadily over the year, with the yield on the 182-days tenor decreasing from around 4.25 per cent at the beginning of the year to 1.21 per cent towards year-end. Similarly, the 273-days tenor decreased from 5.90 per cent to 2.70 per cent and the 364-days tenor decreased from 7.20 per cent to 4.30 per cent over the same period. In sustaining the short-term domestic borrowing, the Government opted to refinance its maturities with shorter-term Treasury Bills. There were also major reductions in interest rates paid on Treasury Bonds. In the last auction of the year, interest costs dropped below 6.0 per cent even for 10 year Bonds.

As at the end of September 2022, the longer tenor of the Treasury Bills (364-days) accounted for 93.0 per cent of the total issuance. Under the Treasury Bond portfolio, the short-term tenors (2 & 4 year-bonds) accounted for approximately 40.0 per cent of the total Treasury Bond issuance. Refer to Table 31.

Large net issuance (higher borrowing than repayments), periodic rolling, over and partial retiring of Government Securities are an ongoing feature of the Government Securities auctions in the 2022 fiscal year.

Table 31: Government Securities Issuance - End of September 2022

Treasury Bills		
Tenor	**Volume (K, Millions)**	**%**
182-days	185.4	1.3%
273-days	798.7	5.8%
364-days	12,847.8	92.9%
	13,831.9	100.0%
Treasury Bonds		
Tenor	**Volume**	**%**
2 years	602.9	22.3%
4 years	470.0	17.4%
5 years	283.0	10.5%
7 years	226.5	8.4%
8 years	202.5	7.5%
9 years	146.5	5.4%
10 years	162.0	6.0%
	2,093.4	77.3%

Source: Department of Treasury

8.4 MEDIUM TERM DEBT STRATEGY AND OPERATIONAL PLAN 2023-2027

Overall Objective of 2023-2027 Medium Term Debt Strategy

The next Medium Term Debt Strategy (MTdS) 2023-2027, has been formulated against the revenue and expenditure assumptions presented in the 2023-2027 Medium Term Fiscal Strategy (MTFS), which focuses on maintaining fiscal support for economic recovery from the COVID-19 pandemic as well as fostering fiscal consolidation over the medium term. The MTdS is aligned with the *FRA*, with the goals of maintaining debt at sustainable levels, maintaining financial risks at prudent levels and developing the domestic debt market. The strategy has a strong focus on managing the risk exposure embedded in the debt portfolio, that is, the potential variations in the cost of debt servicing and its impact on the budget over the medium term by identifying how cost and risk vary with the composition of the debt.

Cost and Risk of Current Debt Portfolio

PNG remains at high risk of debt distress according to the recent IMF and World Bank's Debt Sustainability Analysis, although this analysis indicates that the overall and external debt position is sustainable, conditional on the implementation of the Government's plan for further fiscal consolidation and conservative financing strategies.

The level of Central Government Debt has been increasing in recent years to around 52.2 per cent of GDP at the end of 2021, from 47.0 per cent in 2020, reflecting the need for Government to cover additional health-related expenditures and the slowdown in economic activity during that period. The debt-to-GDP ratio is expected to be 50.2 per cent by the end of 2022, a slight increase of 1.9 per cent from 52.2 per cent in 2021.

The current debt portfolio reflects risks resulting from the large share of domestic debt and concessional external loans. Based on the recent history of stable exchange rate movements and overall exposure to foreign currency debt, foreign exchange risk in the Government debt portfolio remains relatively high. Foreign currency debt amounted to 24.7 per cent of GDP and its short-term debt component represented 7.0 per cent of international reserves. Refinancing risk is high, with the share of debt maturing in one year amounting to 14.6 per cent of GDP or 29.1 percent of total debt. When measured by debt refixing in 1 year, 50.0 per cent of the portfolio is exposed to interest rate changes owing to the share of the external debt portfolio exposed to variable interest rates.

In terms of borrowing costs, a predominance of domestic debt instruments with an average cost of 6.9 per cent makes the portfolio's borrowing cost relatively high at 4.9 per cent. The domestic market is currently a major source of financing for the Government. Marketable securities are issued in the form of Treasury Bills and Treasury Bonds. An additional source of domestic financing is loans from domestic banks. In recent years, the Government has also increased its reliance on domestic loans as domestic bank financing terms match the timeline of projects. However, to mitigate the risk of variable rate exposure and hefty costs associated with domestic borrowing, the Government has to be cautious. Refer to Table 32 below.

Table 32: Cost and Risk Indicators for existing debt as at end of 2022

Risk Indicators		External debt	Domestic debt	Total debt
Amount (in millions of PGK)		26,660.1	27,497.6	54,157.7
Amount (in millions of USD)		7,571.5	7,809.3	15,380.8
Nominal debt as percent of GDP		24.7	25.5	50.3
PV as percent of GDP1		22.4	25.6	48.0
Cost of debt2	Interest payment as percent of GDP3	0.7	1.8	2.4
	Weighted Av. IR (percent)	2.7	6.9	4.9
Refinancing risk2	ATM (years)	9.6	2.4	5.9
	Debt maturing in 1yr (percent of total)	3.7	53.8	29.1
	Debt maturing in 1yr (percent of GDP)	0.9	13.7	14.6
Interest rate risk2	ATR (years)	5.7	2.4	4.1
	Debt refixing in 1yr (percent of total)	46.2	53.8	50.0
	Fixed rate debt incl T-bills (percent of tot	55.5	100.0	78.1
	T-bills (percent of total)	0.0	49.3	25.0
FX risk	FX debt (percent of total debt)			49.2
	ST FX debt (percent of reserves)			7.0

Source: Department of Treasury

Debt Strategy Operations

In line with the Government's overall objectives of cost minimisation with prudent levels of risk and the development of the domestic debt market, the following strategies are set out to operationalise the new debt policy:

- lessen reliance on Treasury Bills to mitigate risk of refinancing or rollover risk;
- reduce variable interest rate borrowing to increase the Average Time to Refixing;
- reduce commercial borrowing to help reduce annual interest cost bills;
- prioritise concessional financing from external sources in order to secure the necessary financing for development objectives;and
- develop the domestic debt market to improve its depth, liquidity and efficiency. As part of this effort, the Government will develop closer engagement with the existing domestic investor base and aim to expand it in order to reduce dependency on a few investors.

Debt Strategy Targets

To minimize the impact of costs and risks to the Government, the following indicators shall be used as a guideline to provide measurable and quantifiable targets for monitoring purposes:

Table 33: Key targets 2022-2027

	Current	Target
Domestic debt Average Time To Maturity (years)	2.3	Above 2 years
Domestic Debt refixing in one year (%)	46.2	Below 40.0 per cent
FX debt as percentage of total debt	49.2	below 60.0 per cent
Debt to GDP (%)	50.3	Below 60.0 per cent

Source: Department of Treasury

A detailed version of the 2023-27 MTdS should be produced and approved before the end of 2022.

The development of the 2023-2027 MTdS is a culmination of the efforts of the Treasury's Debt Management staff; the invaluable guidance and contributions of the ADB's Debt Management Advisor to the Treasury; the update and refinement of the preliminary Debt Strategy conducted for PNG by the Pacific Islands Financial and Technical Assistance Centre (PFTAC) in July 2022; and the adoption of the debt strategy spreadsheet-based framework developed by the IMF and World Bank.

CHAPTER 9: NATIONAL REFORM AGENDA

9.1 OVERVIEW

The continuation of crucial structural reform options to support a strong, sustainable, balanced and inclusive economic recovery from the COVID- 19 pandemic are crucial. While the virus continues to spread in many regions of the world, and many countries are experiencing a resurgence of cases, countries need to plan for the recovery while coexisting with the pandemic.

This involves maintaining fiscal and monetary support while adapting short-term crisis-related measures, introducing some new policies and targeting policies where they would be most effective. The Marape-Rosso Government's structural policies focus broadly on three main fronts for an inclusive, and sustainable economic recovery:

- Allowing the reallocation of resources and boosting productivity and growth by removing barriers to worker mobility and firm entry and increasing competition (e.g. adapting competition law to the digital age);
- Supporting people to find new jobs via re-skilling and job placement policies. There should be a strong emphasis on building digital skills – especially for the low skilled and other vulnerable groups
- Reinforcing sustainability and resilience through increasing public and private investments, especially in health systems, digitalisation, education and training, and lowering emissions; while improving the robustness of fiscal positions by reviewing public spending and shifting towards broader, more diverse revenue sources.

The Government will reflect on the lessons of the past and to improve the future through ongoing reforms of policy and governance to meet the expectations of the people. Under the slogan of *'taking back PNG,'* the Government will continue with its plan to connect PNG through better transport infrastructure such as roads, wharves-jetties, and airstrips, to boost economic activity, and ensure that the key development aspirations of PNG are achieved. These reforms are guided by the objectives of the Government strategies such as Vision 2050 and PNG's *Development Strategic Plan 2010 – 2030 (DSP).*

The Government will continue to focus on accomplishing new service delivery standards by trimming excessive spending, minimising 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.

In support and recognition of its public servants, the Government has signed a New Wage Fixation Agreement with the Public Employees' Association (PEA) which involves an annual three percent (3%) general salary increase over three (3) years which will commence in 2022 and end in 2024.

Under the Labour Mobility Program, employment opportunities in Australia and New Zealand are growing rapidly and the Government will continue to support this program. This program provides opportunities for our people to build capacity and skills, send remittances back home and at the same time save to sustain their livelihood or invest in small businesses in the future.

In addition to the recently completed review of the Superannuation and Life Insurance industries, the review of the *Central Banking Act 2000* is another key reform undertaken by the Government. This reform is important to modernise and strengthen the combined independence, governance, accountability, and transparency of the Central Bank of PNG. Phase I of this review dealing primarily with the governance of the Central Bank was completed in 2021 and Phase II focusing on the financial sector regulation and competition commenced this year.

With the prospects of new resource projects coming on stream, the Government is committed to establishing the Sovereign Wealth Fund (SWF). An inter-agency team will be established to advise and guide the Government on the processes and steps involved in the establishment of the SWF, consistent with the Organic Law on the SWF.

9.2 KEY REFORMS

9.2.1 Increasing employment opportunity from labour mobility

The objective of Enhancing Labour Mobility Project is to strengthen government systems that support workers and their households to benefit from overseas employment opportunities. The labour mobility program is a key initiative of the Marape-Rosso Government that aims to strengthen government systems to enable Papua New Guineans, especially women and disadvantaged groups take advantage of employment opportunities overseas, especially Australia and New Zealand.

The primary beneficiaries of this project are current and prospective workers and their families. The scope and responsibility of the project is not limited to placement of PNG workers overseas. It also supports the design and operation of labour mobility initiatives across the labour mobility cycle, including: worker selection, recruitment, and mobilisation; support whilst undertaking overseas employment; and return/reintegration.

The Government, through the Labour Mobility Unit (LMU), will continue to raise awareness of Australian and New Zealand employers of the depth of skills and availability of employment-ready workers in PNG and promote PNG workers through Business-to-Business connections between Australian and PNG companies.

Mobilisation recommenced in March 2022 after COVID-19 travel restrictions were lifted. The LMU has mobilised 903 workers to Australia and 11 to New Zealand as of October 2022. A total of around 1400-1600 workers are expected to be deployed to Australia and New Zealand by the end of 2022. This is a 1000% increase compared to previous annual figures of 126 workers .In line with its stated goals, the Government has requested the World Bank for financing to assist with the current efforts to expand PNG's participation in international labour mobility schemes.

The LMU is currently working with the Department of Treasury and the World Bank to implement this project over a 5-year period.

Meetings are being held between senior Ministers in PNG and Australia to advance this program. Subject to adequate safeguards being in place to protect workers, while also recognizing access to these schemes is a privileged and not a right, it is expected that this program will rapidly expand to at least 10,000 workers in the medium term.

9.3 PUBLIC SECTOR REFORM

9.3.1 Equitable Resource Allocations to Provincial Governments

Provinces are expected to receive a minimum level of funding annually. The amount that is allocated to provinces is known as the “Equalization” amount. This forms the pool of funding for Function & Administration Grants. The revenue-sharing formula is embedded in Section 19 of the *Intergovernmental Relations (Functions and Funding) Act 2009.* Further, the equalization amount is then divided between individual provinces and Local Level Governments (LLGs). For the 2023 Fiscal Budget, the Equalization amount is calculated to be K642.1 million.

The *Intergovernmental Relations (Functions and Funding) Act 2009* sets out the formula for calculating the Equalization Amount. This forms the funding pool to be distributed on an equitable basis between provincial and local level governments. The Net National Revenues (NNR) is calculated using actual data from the second preceding fiscal year. Accordingly, the 2023 NNR was calculated using data published by the Department of Treasury in the 2021 Final Budget Outcome.

Since the transitional period, the prescribed percentage has been fixed at 6.57 per cent of the NNR. Accordingly, the funding available for provincial and LLGs increases or decreases as a proportion of the NNR by the prescribed percentage. The NNR amount is the total tax revenue received by the national government excluding mining and petroleum tax revenue. The intergovernmental financing arrangements emphasize the revenue-s haring arrangements between the National and Provincial and Local Level Governments. If NNR is high in one particular year, Provincial governments and LLGs will receive more funding. If NNR in a particular year is low, they will receive less funding.

The Equalization Amount for the 2023 Fiscal year is K642.1 million, an increase of K48.2 million from K593.9 million in 2022 reflecting higher total tax revenue collections in 2021 compared with 2020. The equalization amount is determined based on the prior year’s GoPNG revenue outcome. Hence, the 2023 Equalization amount is based on the 2021 FBO as shown in the table below.

Table 34: Calculation of the NNR Amount for the 2023 Budget (Kina, million)

Act Definition	2020 FBO	2021 FBO	Variance
General tax revenue*	9,223.7	10,408.2	*1,184.5*
Less: Mining and petroleum tax revenue	183.4	635.4	*452.03*
Net National Revenue	**9,040.3**	**9,772.8**	**732.5**
	2022 Budget	**2023 Budget**	**Variance**
Net National Revenue (NNR)	9,040.3	9,772.8	*732.5*
Multiplied by (*) 6.57%	6.57%	6.57%	
Equalization Amount (NNR X 6.5%)	**593.9**	**642.1**	***48.2***

Source: NEFC 2023 Annual Budget Fiscal Report.

9.3.2 Superannuation Reforms

Review of the Superannuation and Life Insurance Industries

The superannuation industry has grown significantly over the last decade and is now the second largest segment of the overall financial sector, after the banking industry. While this growth is reflective of the well-established policy framework for the superannuation industry, there is still room for improvement. Some emerging issues to be addressed include: employers not contributing on behalf of their employees; fund members withdrawing lump sums on their savings; taxation issues; protection of contributors through the compulsory life insurance component of the funds; and other challenges posed by COVID-19.

Meanwhile, PNG's insurance industry is underdeveloped. Having multiple regulators[6] in the industry, makes it more challenging to provide effective and efficient coordination and information sharing between the two regulators.

In the 2020 National Budget, the Minister for Treasury approved and commissioned an independent review into the Superannuation and Life Insurance sectors to be undertaken by an independent Committee referred to as Superannuation and Life Insurance Review Committee (SLIRC). This committee was tasked to take a holistic approach when reviewing the Superannuation and Life Insurance industries' legislative and regulatory frameworks, the business environment in which they operate, and the tax implications of changes recommended for Review.

The review commenced in February 2021 with the SLIRC releasing a Discussion Paper inviting stakeholders to provide feedback. The Regional stakeholder consultations where also held in Southern and Islands regions in September to October 2021. The SLIRC completed the remaining regional consultations for the Momase and the Highlands regions in mid-2022.

The final report is expected to be presented to the Government in the first of 2023.

9.3.3 Public Service Wage Fixation Agreement

The previous 2017-2019 Industrial Awards of three per cent (3%) for the general public service (teachers, disciplinary forces and the different cadres of health workers) expired in 2019. The Government signed a new three-year (2022-2024) Wage Fixation Agreement with the Public Employees' Association in September 2022 awarding a general three per cent pay rise for the estimated 129,000 public servants.

The Government allocated K42 million in the 2022 Supplementary Budget for this purpose and up to similar amount is being provisioned for 2023 Budget.

9.4 A COMPETITIVE AND DYNAMIC PRIVATE SECTOR

9.4.1 OVERVIEW

Government's reforms initiatives can be critical enablers at micro level to enhance private sector growth and development which focus on improving access to markets; improving access to credit; expanding and improving financial services; removing regulatory barriers to competition; and more importantly, improving the policy, legislative, and regulatory environment to enable the private sector to thrive, especially Micro-Small-Medium Enterprises.

The Government's policy agenda will include the following:

[6] That is PNG Insurance Commission (PNGIC) regulating general insurance while BPNG regulates life insurance.

i. reducing the cost of doing business by removing regulatory impediments to private sector growth and facilitating the development of small and medium-sized enterprises (SMEs);
ii. increasing efficiency and competition for State Owned Enterprises (SOEs) to deliver high standard telecommunication, electricity and transport sectors services;
iii. ensuring strong regulatory enforcement of the competition and consumer protection law so that markets operate competitively and ethically to safeguard small businesses and consumers against unfair treatment;
iv. improving the productivity of tourism and agriculture sectors in the remote areas; and
v. encouraging the transition of informal economy participants to the formal economy.

9.4.2 Consumer and Competition Framework Reform

A Consumer and Competition Framework Review (CCFR) was sanctioned in 2014 to assess and examine whether existing consumer and competition frameworks were reliable and met the market's needs and trends going into the future. The review was undertaken from 2015-2017 and a final report containing 192 reform recommendations was proposed and approved by the Government for full implementation. These reform recommendations were grouped into policy, legislative, and administrative reforms to update and improve existing consumer and competition frameworks.

Under the policy reforms workstream, a new *'National Competition Policy'* was approved in 2020. The policy features pro-competitive policy objectives, principles, and elements that seek to facilitate effective competition to promote efficient economic growth with social objective considerations. It is being implemented partially because other reforms will need to be completed before it can be fully effective and enforced through a new Competition Law.

Under the legislative reforms workstream the modernization and simplification of the current fragmented laws of consumer protection and competition will be key deliverable. The Department of Treasury is currently reviewing this reform and it is expected to be completed by 2023.

Under the administrative reforms workstream the institutional framework and the capacity of the regulator will be the main focus. This includes regulator operational changes or improvements, regulator capacity development and coordination, and government policy coordination. This is planned to be undertaken after the legislative reforms are completed.

Competitive Neutrality of SOEs has been a recent focus, supported by the Asian Development Bank. The four Competitive Neutrality Principles are to:

a) Achieve a commercial rate of return on assets;
b) Be tax neutral – i.e. pay all relevant taxes and duties;
c) Be regulation neutral – i.e. comply with all relevant laws and regulations; and
d) Be debt neutral – i.e. borrow at commercial rates or include charges to account for implicit and explicit government guarantees. (Due to Government's role in ensuring it plays a key part in providing essential goods and services to the public, this will be applied as appropriate in future).

In 2022, the NEC endorsed amendments to the ICCC Act to implement the following elements of the National Competition Policy:

a) receipt and reporting on the Competitive Neutrality Principles by SOEs;

b) receipt and investigation of matters raised by the National Working Group;
c) the provision of advice by ICCC to the Treasurer on competition matters; and
d) the monitoring of the participation and success of women's businesses and SMEs in public procurement processes.

In 2023, the Department of Treasury will work in collaboration with relevant government agencies and stakeholders to create awareness of the policy and apply and implement appropriately.

9.4.3 Competition Regulation and Consumer Protection Operations

The ICCC is responsible for the enforcement of the competition and consumer law to ensure markets are competitive and consumers' interests are protected. The ICCC will continue to provide regulatory oversight to markets where there is limited competition in the market of basic goods and services critical for individuals and businesses. This will enable ICCC the opportunity to assess and introduce new regulations, if required.

This oversight includes continuation of current regulatory oversight concerning the supply of 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.

ICCC will continue to implement these reforms in 2023.

9.4.4 Information and Communications Technology (ICT) Industry

The National Information and Communications Technology Authority (NICTA) is the agency responsible for the technical regulation of the Information and Communication Technology (ICT) industry. This requirement is specified under the *National Information and Communications Technology Act 2009*.

Its primary objective is to ensure that the ICT industry contributes to the greatest extent possible to the long-term economic and social development of PNG. NICTA will continue to ensure ICT industry remains competitive in 2023 and into future.

9.4.5 PNG Securities Commission (PNGSC)

Development of PNG's capital market and the strengthening of the PNG Securities Commission (PNGSC) are key deliverables under the Financial Sector Development Strategy (FSDS) 2018-2030.The PNGSC aims to become a fully established standalone regulatory body that is mandated to administer three Acts (Securities Commission Act, Capital Markets Act, and Central Depository Act). A recently signed MoU between the PNGSC and the ADB Pacific Private Sector Development Initiative outlines technical, operational, and policy cooperation with key workstreams that include strengthening PNGSC's role as PNG's capital market regulator through capacity-building measures, and developing a robust capital market strategy (including policy, legal, regulatory, and technology reforms) to support a vibrant PNG capital market. This work is expected to continue on in 2023.

9.4.6 National Financial Inclusion Policy and Strategy

Financial inclusion remains a priority for the government in its development agenda. Much of the financial inclusion initiatives are being driven by the Centre for Excellence in Financial Inclusion (CEFI). Financial inclusion programs have continued in 2022 and are to continue in 2023 as per the second National Financial Inclusion Strategy (NFIS) (while awaiting finalization and launching of the third Financial Inclusion Strategy in 2022) and the National Financial Inclusion Policy (NFIP). The main focus area going forward includes: engagement with provincial and LLGs; development of the financial education curriculum; and implementation of the NFIP and NFIS.

9.4.7 Financial Consumer Protection framework

The Financial Consumer Protection Framework Review identified several issues with financial products, such as a lack of openness in the disclosure of rates, fees, and terms and conditions, as well as substantial gaps in financial consumer protection when compared to global best practices. It also suggested that PNG create a regulatory framework for financial consumer protection.

After the evaluation, BPNG, with assistance from the International Finance Corporation (IFC), drafted the Financial Consumer Protection (FCP) Bill. The bill incorporates financial consumer protection framework ensuring principles of fairness and equitability for customers who use financial services. The Bill is currently undergoing consultation process to incorporate feedback from relevant stakeholders.

9.4.8 Commodity Price Support

The Government is now re-focussing on the renewable resources sector, such as the agriculture sector, to sustain the economy into the future and requires a whole of a government approach to grow the sector. The demonstration of this commitment was backed up the establishment of three new Ministries by the Marape-Rosso Government under agriculture sector, (i) Ministry for Coffee, (ii) Ministry for Oil Palm and Ministry for Livestock.

Most commodities exported by PNG are price dependent and driven by external market forces. In addition, a majority of our population depends on these commodities for their income and low commodity prices have a discouraging effect on production. A team of specialists will be mobilised to work on an initial concept note with a view to generate discussions with relevant partners to develop a comprehensive commodity price support policy for the Government to consider.

The Government through newly established ministries of the agricultural sector will continue to explore a commodity price support program for the agriculture sector. In 2023, the program will assess this in conjunction with the concept note to advise the Government on its sustainability and implementation.

9.4.9 Minimum Wages

The minimum wage plays a vital role in the economy by protecting low-skilled workers from exploitation and providing certainty to firms' business decisions, particularly regarding the mobilization of labor inputs which constitute substantial costs to a firm. Minimum wages target employment and is set through the Minimum Wages Board. It is set after consulting all players such as the workers unions, the Government, and employers' associations.

The last minimum wage was set in 2016 and is due for review. Over the last two years, the Department of Treasury had been supporting the Department of Labor and Industrial Relations (DLIR) in developing the National Employment Policy (NEP) and a sub-set policy the Labor Market Information Policy. The NEP is an overarching labor policy and its key recommendations are improving minimum wages setting and developing a labor data information system. The proposed policy provides the mandate to commence work on improving minimum wages setting. Currently minimum wages are set on an ad-hoc basis.

A working committee is now established and will work towards reforming how minimum wages are set and also assess the current minimum wages for determinations going forward. A key issue going forward is that there is considerable feedback than many employers are not even paying the existing minimum wage. This may become the priority reform action before further increases are granted as one does not want to penalise law-abiding employers if they are being undermined by employers not following the law.

9.5 ASIA-PACIFIC ECONOMIC COOPERATION (APEC)

The Government developed a PNG Foreign Policy on APEC (PNGFPA) which was endorsed by NEC in February 2020. This is a roadmap to pursue the implementation and domestication of the 2018 APEC Chair's Statement and realign PNG's participation in the APEC process to achieve more tangible outcomes for PNG.

The PNGFPA has positioned PNG to leverage from APEC by aligning key domestic deliverables identified in our development goals under the PNG Vision 2050, Medium Term Development Plan III 2018-2022, and the Domestic Strategic Plan 2010-2030 with the broader APEC pillars. This will assist PNG to tap into the wealth of expertise, experiences, and capacity building initiatives within the APEC forum.

Domestically, a Committee on APEC Policy Issues (CAPI) comprising all the relevant government agencies and institutions that had worked together to deliver the 2018 PNG APEC continues to advance the policy initiatives under the domestication 'Roadmap' and APEC 2018 Leaders' Chair's Era Kone Statement to drive the PNGFPA.

In 2023, PNG as an APEC member will continue to participate in relevant APEC meetings that are scheduled to be hosted by the United States of America. The Government remains committed to achieving and aligning its development goals through APEC.

9.6 IMPLEMENTATION OF THE SOVEREIGN WEALTH FUND OF PAPUA NEW GUINEA

The main objectives of the SWF are to support macroeconomic stabilisation, intergenerational equity through the saving of extractive resources revenues for the current and future generations, and asset management in relation to assets accrued from mineral and petroleum receipts.

The enactment of the Organic Law on the Sovereign Wealth Fund (OLSWF) by the National Parliament in July 2015 and its subsequent certification by the Speaker of Parliament in January 2016 provide the legal basis for the establishment of the PNG SWF. The OLSWF provides for its provisions to come into operation in two phases. Under the first phase, the parts of the OSLWF which came into effect upon its certification include those dealing with the establishment of the SWF Board. In the second stage, the remainder of the provisions of the legislation will come into operation after the publication of a notice in the National Gazette by the Head of State in accordance with advice from NEC.

Following the certification of the OLSWF, a number of tasks undertaken have been completed or ongoing in preparation for the establishment of the SWF. Key outcomes include: the conduct of an executive search domestically and internationally for candidates to fill the positions of members and chairman of the SWF Board; development of the remuneration framework for the SWF Board chairman and members; development of an investment mandate and investment strategies; development of SWF fiscal and profit maximization models; and development of SWF corporate governance principles and SWF organisational structure.

The appointment of the SWF Board has been slower than expected as it became clear that the expected large revenues from the PNG LNG Project had not started flowing to the State. This was due to the fall in commodity prices commencing in late 2014, the provisions in the PNG LNG Project Agreements giving priority to the project loan repayments, and tax concessions including accelerated depreciation arrangements.

The Government was concerned that, if the Board was established, there would not be any significant buildup of funds in the short to medium term for the Board to manage and invest. The Government recognizes the importance of proper funding of the SWF in order for it to effectively carry out its core business as well as sustaining its operations.

The OLSWF provides for SWF funding through its two sub-funds, the Stabilisation Fund and the Savings Fund, from a number of sources including: proceeds of sale of the State's assets or interest in mining and petroleum projects; dividends from the State's holding companies and non-holding companies holding interest in mining or petroleum projects; withdrawals from the Savings Fund into the Stabilisation Fund; receipt by the Savings Fund of the surplus of the Stabilisation Fund after its balance reaches US$1 billion; proceeds of sale of non-mineral or non-petroleum assets; and any other amount allocated under the National Budget.

As the Government has identified the immediate source of funding for the SWF, a decision has been made to expedite the establishment of the SWF. During the the inaugural sitting of the Eleventh National Parliament in 2022, and in his subsequent meeting with the business community, the Prime Minister, Hon. James Marape, announced that the SWF will be established with initial dedicated funding of seven per cent (7%) of dividends from the State-Owned Enterprises in the resource sector, particularly Kumul Petroleum Holdings Limited. An initial payment of K5.6 million has been made under this arrangement from Kumul Consolidated Holdings Limited.

The Government will establish an inter-agency team to collaborate on a road map for the establishment of the SWF. This team of officials will advise the Government on the next steps towards the establishment of the SWF in line with the requirements of the Organic Law on the Sovereign Wealth Fund.

9.7 CENTRAL BANKING ACT 2000 REVIEW

In 2021, the Government established the Independent Advisory Group (IAG) to review the Central Banking Act 2000 (CBA 2000). The IAG completed its review and subsequently presented its Phase I Final Report to Treasurer in November 2021.

The IAG's review found that while BPNG has done well in some regards, there exists significant problems that must be addressed to prevent re-occurrence in the future. The Phase I review Final Report has thirty-one (31) recommendations. However, after evaluating the recommendations, the Government accepted twenty-one (21) recommendations in whole or in part with a further eight (8) recommendations deferred for further work in Phase II of the review. The report and the amendments to the Central Banking Act 2000 were tabled and passed in the December 2021 sitting of Parliament.

The Central Banking (Amendment) Act 2021 was certified on 22 December 2021.

The IAG's review has continued into a more detailed second phase (Phase II) in 2022. Critical strategic issues requiring in-depth analysis and development has formed the basis of the Terms of Reference (TOR) for the second stage of the review and covers broader issues such as regulation of the financial system, actions to encourage competition, and follow-on work in light of the recent Financial Sector Reform review.

The Phase II TOR was approved by the Treasurer on 7 April 2022. The TOR also agreed to the engagement of a Technical Group/Secretariat from the Department of Treasury and BPNG to support the work of the IAG. Following the approval of the TOR, the work on the Issues Paper commenced with various consultations held before the finalization of the Paper, especially within Treasury and BPNG.

The Phase II Issues Paper was finalized on 10 August,2022 and published in the IAG website, as well as being disseminated to the major stakeholders, including Treasury, BPNG, the commercial banks, super funds, NDB and SMEs. The purpose of the Issues Paper was to stimulate discussions around the topics covered in the Phase II TOR on financial sector and related issues as well as the outstanding issues from the Phase I review, including:

- Competition and regulation in the banking and financial sector
- Impact of new technologies on the financial sector
- The reduction of interest rates on government debt
- Crisis and lender-of-last resort provisions
- Financial sector regulatory arrangements
- Review of the Anti-Money Laundering & Counter Tourism Financing Act governance and impact on the informal economy
- Cash shortages
- Other issues

The review will continue into 2023

9.8 DIGITAL SECTOR TRANSFORMATION

Digital transformation is an emerging trend in the digital era and it plays a critical role in accelerating growth in other sectors. Government Policy, through the Digital Government Act 2022, now establishes a 'digital sector' to coordinate and enable PNG to harness and benefit from digital transformation.

Digitalization of governments through use of ICT contributes directly to positive revenue growth for the government and improved public service delivery to citizens and businesses and among government departments and agencies and employees. The 'Digital Sector' and the various programs within each sub-sector will be aligned towards realizing the outcomes of the Development Strategic Plan 2010-2030 (DSP 2030) and enable the government to not only achieve the Vision 2050, but also meet and exceed its commitments under UN Sustainable Development Goals, specifically its work on health, education, gender, connectivity, and smart cities.

Spearheaded by the Department of Information and Communication Technology (DICT), the government recently published the Digital Government Plan 2023-2027 (the "Plan"). The Plan;

- captures and promotes effective use of modern and resilient infrastructure with sufficient capacity as an enabler in the adoption and delivery of online services in three main components; government to citizen service, government to business services and government to government services; and
- Provides a strategic direction for a safe and secure digital environment for effective delivery of digital services that aims to build trust, prevent fraud and data protection.

The Sector comprises: Department of Information and Communication Technology as the lead agency to coordinate the delivery of digital transformation with government departments and agencies including National Broadcasting Corporation (NBC); National Information Communication Technology Authority (NICTA); the ICT service providers and the industry including State-Owned Enterprises such as Telikom Limited; PNG DataCo Limited; Kumul Consolidated Holdings Limited; and Kumul Telikom Holdings Limited.

The major ongoing impact programs and projects for the sector are: Digitization of key government services as captured in the Digital Government Plan 2023-2027 with immediate priority on e-passport and e-Police Clearance Report; maintaining of Cyber Security Operational Centre (CSOC) and provisioning of cyber security services for critical government infrastructures and services; provisioning of private Government Cloud to enable service delivery between Government to Government, Government to Citizens and Government to Business and establishment of a e-Government Portal government systems integration, interoperability and sharing of information.

CHAPTER 10: ENHANCING STATE'S INVESTMENTS

10.1 OVERVIEW

All Government investments are managed by the three (3) Kumul Holding Entities (KHE). These entities have specific enabling legislations and are expected to operate as commercial entities under the *Companies Act* 1997. The Kumul Consolidated Holdings Limited (KCHL) manages Governments' non-mining and oil and gas investments through the General Business Trust (GBT). The GBT owns Government shares in nine (9) majority owned State-Owned Enterprises (SOEs) as well as shares in other investments.

The SOEs investments are mainly in the infrastructures and utilities sectors which include ports, airports, electricity, telecommunications, water and sanitation while other Government investments are in the banking and agriculture sectors. Government's mining and oil and gas investments are managed by the Kumul Mineral Holdings Limited (KMHL) and Kumul Petroleum Holdings Limited (KPHL).

The Government expects Holding Entities and SOEs to generate positive investment returns and pay dividends to support the national budget. As such, the Government continues to develop policies to set parameters for the Kumul Entities and SOEs boards to make sound commercial decisions for prudent management of investments and declare dividends, promote transparency and good governance and add value and enhance competition in their roles to deliver public goods and services.

10.2 STATE'S INVESTMENT PERFORMANCE

The three (3) KHEs focus on industry expertise to reinforce viable commercial investment decision for higher returns. While KMHL and KPHL are performing to commercial expectations, the SOEs under KCHL are struggling to perform to same expectations. The annual performance reports of the SOEs over the recent years indicated that some SOEs performed financially well while others continued to perform below expectations. This has called for reform of KCHL and SOEs to be accountable, financially sustainable and make dividend payments.

Government set out a blueprint for the reforms in 2019 to be undertaken from 2020 – 2022 to strengthen overarching corporate governance and policies and tackle SOE specific challenges. The Government has undertaken the reforms with the support from the Asian Development Bank through the Programmatic Policy-Based Loan of US$500 million with three subprograms implemented in 2020, 2021 and 2022.

The reforms mainly focused on strengthening legislative and policy framework through the amendment of the *KCHL Authorisation Act*. The amendments passed in 2021 included:

- to reduce political influence on commercial decision making and focusing KCHL role on monitoring SOE's performance;
- reinforce timely preparation and public release of corporate plans and audited annual financial statements;
- transparent and skills-based appointment of SOEs directors;

- introduction of provision to include one woman on shortlisting for appointment of board directorship; and
- require community services obligations (CSOs) to be identified and costed.

Other reforms considered important to improve the performance of the SOEs included the amendment of the *Public Private Partnership Act* 2014 which was passed by Parliament in 2022 and the National Competition Policy, especially removal of barriers to encourage women and small to medium sized businesses to participate in public procurement process.

Government expects these legislative and policy reforms to improve and transform the commercial performance of the KCHL and SOEs and support them to make reasonable, consistent and timely dividend payments.

10.2.1 General Business Trust (GBT) Assets

KCHL is the trustee of the General Business Trust (GBT) assets and holds this in trust on behalf of the Government. KCHL maintains oversight of the management and financial performance of the nine (9) majority owned SOEs including other listed and unlisted shareholdings vested through the *Kumul Consolidated Authorisation Act* 2015 *(as amended)*.

The valuation of GBT Assets as at 31st December 2019 and 31st December 2020 were K4.4 billion and K4.0 billion respectively. The total GBT value as at 31st December 2021 was K3.8 billion indicating consistent decreases in GBT assets value from fiscal years 2020 to 2021. The decrease in total asset value is attributed to various factors including declining investment activities, Kumul Telikom Holding (KTHL) restructure, and consistently deteriorating financial performances from Air Niugini, PNG Power Limited and Kumul Agriculture Limited. Table 35 shows the GBT performance for fiscal years 2020 and 2021.

Table 35: General Business Trust (GBT Assets) as at 31st December 2021

Particulars of GBT(Million)Assets 100% owned unless indicated	2020 (K,m)				2021 (K,m)			
Entity	**Valuations**	**Gross Revenue**	**Net Profit Before Tax**	**Dividends Paid to KCH**	**Valuations**	**Gross Revenue**	**Net Profit Before Tax**	**Dividends Paid to KCH**
Telikom Ltd(merger of Telikom PNG Ltd&Bemoblie Ltd)	485.0	389.9	-2.2		246.00	420.1	28.2	-
PNG DataCo Ltd	0.0	133.5	9.0		37.00	142.8	-33.6	-
Air Niugini Ltd	0.0	620.7	-285.6	_	-	798.8	- 4.0	-
Eda Ranu(Merger with Water PNG as @12th April 2021)	270.00	150.4.	17.5	5.6	-	0.0	0.0	-
Moto Vehicle Insurance Ltd	623.00	123.3	84.3	84.3	621.00	90.7	73.7	42.13
National Development Bank Ltd	442.00	44.7	-16.6	-	482.00	42.2	-36.2	-
PNG Ports Corporation Ltd	530.00	304.1	83.7	15.27	632.00	349.5	102.7	32.33
PNG Power Ltd	32.00	952.2	-8.0	-	4.00	933.1		-
Water PNG Ltd	136.00	118	13.6	2.7	393.00	200.1	-79.8	20.00
Post PNG Ltd	154.00	38.3	-1.3	1.5	111.00	42.3	-11.0	-
PNG Dams Ltd	288.50	-	0.0	-	283.9	0.0	-1.3	
Kumul Technology Development Corp(Formerly POM Private Hospital	21.00	0.0	0.0	0.0	24.00	0.0	0.0	-
Other including working Progress	52.40				50.0		0.0	-
Allowance for impairments	- 9.50				-9.50			
Total Unquoted Equities	***3,024.4***	***2,875.2***	***2.2***	***95.1***	***2,829.40***	***3,019.6***		***94.46***
Bank of South Pacific	1,017.7			102.6	1,038.90			122.1
Highlands Pacific Ltd	-	-		_	-	-	-	-
Total Quoted Equities	1,017.7	-		102.6	1,038.90			122.1
TOTAL(K)Million	***4,042.10***	***2,875.2***	***- 89.7***	***197.7***	***3,868.3***	***3,019.6***	***38.7***	***216.6***

Source: KCH Audited Financial Statements as at 31st December 2021

10.2.2 Kumul Agriculture Holdings Limited (KAHL)

KAHL was established by the National Executive Council to oversee all Government investments in the agriculture sector. KAHL oversees Government investments and holds shares in the Sepik Agro Industries Investment, Central Dairy (Ilimo Dairy Farm), National Plantation Management Agency Limited as well as others. KAHL will be responsible for future Government investment in the agriculture sector.

10.2.3 SOE Dividend Payment Projections

Table 36 below shows dividends paid by KCHL, KMHL (OTML) and KPHL in 2019, 2020, 2021 and 2022 with projections for the 2023 Budget.

Table 36: Dividends Paid to State (Kina, million)

Entity	2019 Budget	2020 Budget	2021 Budget	2022 Budget	2023 Budget
KPHL	800	500	300	400	1300
Ok Tedi	200	300	200	200	383
KCHL	80	80	-	20	150
TOTAL	**1080**	**880**	**500**	**620**	**1833**
Entity	**2019 Sup Budget**	**2020 Sup Budget**	**2021 Sup Budget**	**2022 Sup Budget**	
KPHL	720	250	400	700	
Ok Tedi	200	100	200	450	
KCHL	-	-	-	20	
TOTAL	**920**	**350**	**600**	**1170**	
Entity	**2019 Actual**	**2020 Actual**	**2021 Actual**	**2022 YTD**	
KPHL	250	200	300	200	
Ok Tedi	131	369	81	-	
KCHL	-	-	-	80	
TOTAL	**381**	**569**	**381**	**280**	

Source: Department of Treasury (31st October 2021)

Government expected KPHL and Ok Tedi Mining Limited (OTML) to pay K400.0 million and K200.0 million respectively in the 2021 Supplementary Budget. However, the final dividends received were K300.0 million from KPHL, a shortfall of K100.0 million from Budget estimate and K81.0 million from OTML below the Supplementary Budget estimation by K119.0 million. OTML also exceeded Budget estimations in 2020 by K269.0 million with the dividend payment of K369.0 million.

KCHL on the other hand has not declared nor paid any Dividends to the State from 2019- 2021. Even though, KCHL has received a total income dividend of K216.6 million in 2021, it did not pay any dividends to the state. The two (2) main factors impacting KCHL's financial capacity to pay dividends are: consistently declining financial performance by some major SOEs and expenditure pressures such that KCHL has used dividend payments from SOEs to implement projects. There was a larger than budgeted dividend of K80.0 million declared by KCHL in November 2022.

The recent reforms undertaken are intended to improve KCHL's ability to pay dividends and improve performance of SOEs from 2023 going forward. The Government also intends to make smarter use of PPP arrangements.

10.2.4 SOE Dividend Policy and Payment Strategy

Government is also reviewing its 2015 Dividend Policy for the KHE. The revised Dividend Policy will outline the Government's expectation of dividend payments and sets out guidance for revenue estimations of the National Budget.

The revised Dividend Policy will reflect the Government's priority on revenue consolidation. The revised Dividend Policy will be submitted for NEC deliberation once finalised by Department of Treasury in consultation with the SOEs.

10.3 BROADER REFORMS

10.3.1 Sectoral Policy Reforms

The Government's sectoral reform programs aim to enhance and add value to its investments in all sectors of the economy. There is a need for the Government policy intervention to review the performance of its current investment portfolio, take stock and assess the value of these investments to fully understand their potential for growing the economy and to ensure proper and timely reporting to assist the Government make informed decisions.

In 2021, the Government through the Department of Treasury, initiated the following policy reform initiatives:

- State Investment Review;
- Development of an Investment Registry Reporting Framework;
- Development of a medium-term Sectoral Investment Plan; and
- Development of a Resource Project Benefits Management Policy.

The policy directive to review all State's investments aims to capture and maintain a robust and consolidated reporting framework at the National Government level for all State investments.

This initiative will provide the State oversight on all fiscal operations of its investment. The Department of Treasury, in collaboration with other Government agencies, will lead these reform initiatives to promote transparency, accountability, and good governance practices for all Government investments.

10.3.2 Non-Tax Revenue Administration (NTRA) Bill 2022

The *NTRA Bill 2022* is part of the broader Public Finance Management (PFM) reform activities intended to address the declining non-tax revenue base of the State by bringing all State agencies' financial dealings and getting them tied into the National Budget process. The Bill also intends to bring greater level of transparency and accountability in the management of public funds collected by Statutory Authorities.

10.3.3. Review of the Board (Fees & Allowances) Act 1955

The Minister for Treasury approved the revised 2021 Determination of Board Fees and Allowance and was subsequently Gazetted after considering recommendations of the review of the 2006 Determination of Board Fees and Allowance.

The review also recommended for the amendments of the principal Act (*Board (Fees and Allowance) Act* 1955). As a result, a State Working Group (SWG) was established to progress the review and amendments starting in 2022.

Furthermore, given the absence of a policy or regulatory framework for the Board Act 1955, the review proposed for the Government to formulate a Directors Remuneration Policy to guide all Government agencies. These reform activities were initiated in 2021 and will continue going forward.

10.4 PUBLIC PRIVATE PARTNERSHIPS (PPP)

There are number of models to procure public infrastructures and basic services. One of these models is the Public Private Partnership (PPP). PPP arrangements aim to increase value and maximise the quality and competitiveness of the provision of public services/infrastructure. It involves the participation of both non-government organisations, individuals and private firms who assist the government through partnerships to share cost and risk to deliver basic infrastructure and service. This mode of delivery supplements limited public sector capacities.

PNG’s *Public Private Partnership Act* 2014 was passed by Parliament in 2014 and Gazetted in 2018. The PPP implementation started off slowly since its gazettal due to changes in administration responsibilities between Treasury, Finance and National Planning & Monitoring departments. In 2019, Government’s effort to operationalize PPP picked-up pace with the support from the Asian Development Bank (ADB) through the Programmatic Policy-Based Approach Loan. A Taskforce (TF) was therefore established to undertake the review, amendment and drafting of the regulations of the *PPP Act*, drafting of the PPP Centre guidelines, business plan and budget assumptions, and convene the first PPP Steering Group (PSG) meeting to endorse the PPP Centre documents.

In January 2022, the *Public Private Partnership (Amendment) Act* 2022 was passed by Parliament and subsequently Gazetted in March 2022. PSG has been formalized and have convened two (2) meetings in 2022. In its meetings, PSG has endorsed the PPP Centre’s documents prepared by TF. The PPP Regulations were endorsed by NEC and are awaiting drafting by the First Legislative Council (FLC) before being Gazetted.

The next steps towards fully formalizing the implementation of PPP is the appointment of the PPP Centre Acting Chief Executive Officer (CEO). The Acting CEO will be appointed for a term of twelve (12) months and will be responsible for initial set-up of the PPP Centre and the recruitment of the inaugural CEO.

10.5 MANAGING THE NON-RENEWABLE RESOURCE SECTOR

10.5.1 Sustainable Benefits Management Policy

Effectively managing the Mining and Petroleum Sector is crucial to the economy and this has been a major challenge faced over the years. Government has undertaken major reforms to effectively manage the mining and petroleum sector. These include the reforms for KPHL and KMHL, review of the mining legislation and the intention of reviewing the *Oil and Gas Act 1998.*

Under recent project negotiations, the State has focused on negotiating for additional revenue including new production levy for Papua LNG, equity participation in Porgera and position on State's take in any resource project to be no less than 50 percent.

Government has also focused on the benefits of the resource project to flow directly to the impacted landowners and provincial governments by reviewing a number of Memorandum of Agreements (MOA) with the intention to improve equitable benefit sharing between the impacted stakeholders. The Treasury is currently focusing on delivering the following major policies to become part of the efficient management of the non-renewal resources in the country.

10.5.2 State Equity Participation

Work on a State Equity Participation Policy was initiated and progressed by Treasury since 2018. The Policy aims to provide a framework to guide State Investment Decision in relation to equity acquisition in extractive resource projects. The policy further aims to make the equity participation decision more transparent and ensure good governance. Treasury expects to have the draft policy finalized and commence stakeholder consultations in 2023 and implemented in 2024.

10.5.2 Napa Napa Project Agreement

In 1997, State entered into a Project Agreement (PA) with the developer of the Napa Napa oil refinery to encourage downstream processing of petroleum products, making available cheaper petroleum products for local consumption.

The agreement provided fiscal incentives including the consideration for the refinery to have monopoly market on the importation and supply of petroleum productions in the local economy. The State and the developer agreed on an 'Import Parity Pricing' (IPP) formula that sets the benchmark price for which the wholesale price of the landed cost and the locally produced petroleum products pricing mechanism were set.

In 2007 the IPP was changed without the consensus of the State which lead to NEC agreeing to a three months temporary reprieve so the State and the developer could review and agree on a permanent IPP formula. However, since then, the State and the developer have not agreed to a permanent IPP formula.

It has become evident to the State, that there is an apparent need to review the temporary pricing formula currently in use, and thus, the review of the PA in its entirety. Preliminary work for the review process was started in 2021. Review of the Napa Napa Project Agreement will commence in 2023.

10.6 EXTRACTIVE SECTOR PROJECT UPDATES

10.6.1 MINING PROJECTS

Papua New Guinea currently has six (6) operating mines of which three are large-scale or world-class, two medium scale and one small scale mining projects. The Government also encourages alluvial mining operations whose gold production (in most years) exceed those produced by medium scale mining projects. Two advanced exploration license projects are in advance exploration stage which have applied for Special Mining Lease (SML) and are awaiting deliberations by the State. Three (3) mines are currently under care and maintenance. The details are discussed hereunder.

10.6.2 Operating Mines

Ok Tedi (Gold, Copper and Silver) mining project

The OK Tedi Mining Project is one of the world class mining projects. It's Special Mining Lease (SML) expired in May 2022. The operator applied for another 20-year mine life extension and is pending review and approval by the State. The mine is 100% owned by the State.

Over the last 31 years, it has produced over 1.7 million ounces of gold bullion and 187,000 ounces of silver. It is a major revenue earner for PNG. The declared remaining mineral reserves as at 31st December 2018 are 244mt @ 0.59% copper and 0.68g/tons gold. This will require another decade of mining until 2032.

Lihir Gold and Silver mining project

Lihir gold mine is also a world-class mining project in PNG producing over one million ounces of gold per annum. It is also a major export revenue earner from the sale of gold and silver. Since commencement of its operations in 1997, it has produced over 14.4 million ounces of gold. The estimated remaining mineral reserves is 50 million ounces (690mt@2.3g/t) and is expected to operate until 2051. It is ranked one of the top five gold mining projects by world standards.

Lihir mining project is operating under an SML license. The project also signed a *Mining Development Contract* (MDC) with the State. This agreement was never reviewed since it was first signed. It is therefore due for review to accommodate changed circumstances.

Ramu Nickel Project

This project is another world-class mining project that produces nickel, cobalt and chromite. It generates significant export revenues each year. It integrates mining, beneficiation and refining and operates an open pit mine at Kurumbukari, Madang Province. It has an existing MDC which grants the operator 10 years tax holiday, commencing in 2016 and expires in 2026 after which date the Government anticipates the operator to start paying taxes.

The project was closed for some time due to unresolved environmental issues. This issue was resolved and the project resumed full operation.

Hidden Valley Project

This project is a medium scale mining project and operates an open-pit, gold-silver with oxide ore processing facility that produces gold dori product in Morobe Province. It is designed to treat 4.1mtpa of gold/silver bearing ore. Its mining license was due for review and extension by the State. This was granted in 2020 for another five years to 2026.

Construction of the mine started in 2007 and commercial production began in September 2010. The landowner benefit sharing agreement was signed in 2021.

Kainantu Mining project

The Kainantu mining project is a medium scale project and has a life span of about 10 years. It is into its fourth year of production. It is an underground gold-silver-copper mining project and utilises floatation processing plant to produce saleable concentrates and gold dori. The operator declared the mine profitable and recently paid corporate tax to the State. Its anticipated mine life is over 15 years. In 2020, the operator commissioned stage 2 of its plant expansion project which doubled its throughput to 400,000 tons per annum (tpa). Stage 3 plant expansion is expected to commence in quarter 4 of 2023 targeting 1 million throughput per annum.

Simberi Mining Project

Simberi mining project is a medium scale open-cut mining project located on Simberi Island, New Ireland Province. The project operates oxide ore processing facilities which produce gold dori. It is anticipated to convert its oxide plant to sulphide ore processing facilities in 2022 after obtaining extension of mining lease term from the State for another ten years commencing from 2018.

10.6.3 MINING PROJECTS IN THE PIPELINE

Woodlark Gold Mining Project

Woodlark Gold mining project is a small to medium-scale project which was granted approval (Mining License) by the State in 2014. It will be an open-cut project utilizing bulk mining method with a mine life of 13 years. Mineral resource estimates as at end of March 2018 is 47mt @1.04g/t gold for 1.57 million ounces of gold.

Its primary product is gold dori through processing of ore via a 2.4mtpa carbon in leach (CIL) treatment facility. The project's capex estimates as of 2020 was A$243 million. Apart from carrying out housing developments for impacted communities, there are no actual construction of the project thus far. The long delay in project construction was attributed to low commodity prices and the operator's inability to raise funds needed to operate the project.

The construction phase for the project commenced in quarter one (1) of 2021. However, it is currently suspended due to inflated capital cost induced by the COVID-19 pandemic.

Central Cement and Lime (CCL) Project

This project is an integrated project that falls within the mining industry regime. The project resources comprise of high-grade limestone deposits situated in Kido and Rea Rea in the Central Province. The operator is Mayur Industrial PNG Limited, which was granted 20 years mining license (ML 526) in 2020 to mine, process, manufacture and supply clinker, cement and limestone. Construction for the project was expected to commence in 2021. However, due to the COVID-19 pandemic, the project operator has applied for variation in its mining development plan, consequently delaying the construction by one year. The State has no participating interest in this project.

The project operator also applied and obtained Special Economic Zone (SEZ) licence from Special Economic Zone Authority to relieve itself of taxation obligations. As there are different terms and conditions between the two licenses (ML and SEZ), discussions are ongoing to resolve this amicably to ensure its smooth implementation and to avoid any adverse impacts on its implementation in future.

Construction phase will take two (2) years and expected to commence in 2023. Final Investment Decision (FID) is expected to be reached in 2023.

10.6.4 MINES UNDER CARE AND MAINTENANCE

New Porgera Gold Mine Project

The Porgera mining project is a world scale mining project producing gold and silver since 1990. It is an open pit project and also utilises underground mining method to extract ore to its processing plant that includes crushing, grinding, gravity recovery, floatation, oxidation, carbon In Pulp circuits to produce gold dori products. These are shipped offshore for further refining and smelting.

Its SML term expired in 2019. The operator submitted application for its renewal however, this was refused and its currently under care and maintenance status. As a result of State's refusal to grant extension, several court injunctions were obtained which are pending resolution between the State and the operator (Barrick Niugini Ltd or BNL).

These litigations have been ceased after the State and BNL signed the *Framework Agreement* in June 2021. The Framework Agreement covers nine (9) conditions to be achieved before the mine is reopened. As part of the nine (9) conditions, the *Commencement Agreement* including the *Project Commencement Agreement* were signed between BNL and the State.

Further, the Shareholders Agreement was also signed in early 2022. This resulted in the State together with the SML Landowners and Enga Provincial Government owning 51% of the project's shareholdings while BNL owns 49% shares.

It is in the interest of all parties for the project to be re-opened soon. All relevant stakeholders are working to ensure this project is up and operating as soon as possible.

Tolukuma Gold Mine Project

The Tolukuma gold mine was auctioned by the State (via Mineral Resources Authority) in 2020. A PNG owned company called Lole Mining Limited acquired the project. In October 2022, Lole Mining Limited paid K20 million to a liquidator for settlement of all outstanding liabilities. Reopening of the mine is expected in 2023. It is currently under care and maintenance status.

Sinivit Gold Mine Project

The developer for Sinivit gold mining project left the project site after landowners expressed dissatisfaction over benefits distribution from the mine in 2014. The mine is now under care and maintenances status. The revival of the mining project is awaiting a new developer to express interest to develop it.

10.6.5 New Mining Projects Update

Wafi Golpu Gold-Copper Project

This Wafi-Golpu gold-copper Project is ranked as one of the world class gold-copper projects. Its gold-copper ore bodies will be mined using block cave mining method from three block caves, using conventional floatation to produce concentrate products. It has 32 years of mine life.

Total mineral resource estimates as at June 2017 are 688mt @ 1.09% Cu (7.5mt copper) and 0.71g/t Au (15.8mt ounces of gold). Assessment of its Special Mining Lease (SML) application is ongoing. Also, negotiation on the terms of *Mining Development Contract* (MDC) is at an advance stage.

The negotiation of the project MDC and assessment of SML application are expected to be completed with results released soon. These outcomes will decide the next phase of the project which include Development Forum and MOA negotiations.

Environmental permit for the project was granted in January 2021, permitting Deep-Sea Tailings Placement (DSTP) as the waste management system for the project. The Project's Construction is for a period of five (5) years and will commence soon following the grant of the SML.

Frieda River Project

This is a proposed copper-gold mining project located in the East Sepik Province. It is expected to be mined using open cut bulk mining method utilizing floatation to produce gold-copper concentrate products. Its mineral resource estimates as at September 2018 are 1,490mt @ 0.45% Cu (5.7mt copper) and 0.24g/t Au (7.65 million ounces gold). These resources are expected to be mined in the 33 years of its mine life commencing right after project construction.

The project developer, PanAust, submitted its amended SML application to the State on 12 December 2018. Amendments to the application include changes to its mine development plan which deviates from using the Sepik River to an access road through Vanimo in the West Sepik Province. The SML application is pending review and approval by the State.

10.7 PETROLEUM PROJECTS

10.7.1 Existing Petroleum Projects

The only operating petroleum project is the PNG LNG Project operated by ExxonMobil PNG Ltd. It has gas fields in Hides and Angore in the Hela Province. Its other gas fields are yet to be developed after being issued petroleum licenses by the State.

Other petroleum projects are not up and running despite having signed Project Gas Agreements with the State. These projects include Papua LNG, Stanley Gas Project and Pasca A Gas project. These are discussed below.

10.7.2 Proposed Petroleum Projects

Papua LNG

For the Papua LNG Project, the Project's *Gas Agreement* was signed in 2019 and the *Fiscal Stability Agreement* (FSA) signed in February 2021. The Gas Agreement allows the project partners to carry out Front-End Engineering Design (FEED) studies that will lead to making the *Final Investment Decision* (FID). The FEED studies are expected to be completed in early 2023 and Application for Petroleum Development Licence (APDL) and Final Investment

Decision (FID) are expected to fall into place thereafter. Construction phase will take four (4) years and is expected to commence in 2024 with first production expected to commence in 2028 if all goes well as scheduled. Project proponents are Total and ExxonMobil. The project is located in the Gulf Province with a proposed operation life of 25 years.

P'nyang Gas Project

The P'nyang Gas Project is licensed under PRL 3 and is located in the Western Province of PNG. The gas field was discovered in 1990s. Net reservoir thickness ranges from 182-2020 meters with an estimated 2C recoverable hydrocarbon resource of 4.3 tcf. The current operator is ExxonMobil Ltd, with JV partners namely Ampolex (PNG) Pty Ltd, Oil Search (PNG) Ltd, Merlin Petroleum Company and Oil Search Ltd.

A Heads of Agreement (HOA) between the Developer and the State was signed in October 2021. The Project *Gas Agreement* was signed recently in February 2022. The gas agreement captures 34.5% shareholdings as belonging to the State, which is significantly more than the 22.5% equity take up for the State as stipulated in the *Oil and Gas Act 1998*. The State expects maximum total benefits from the project to accrue to PNG consistent with its Petroleum National Content Policy.

Construction phase for the project is anticipated to follow after the delivery of the Papua LNG Project and will also take four years.

Pasca A Gas Project

This project is a liquid rich gas condensate field located 95km from shore in Gulf Province of PNG. Its certified resource is 69.1MMstb of liquids (condensate and LPG) and 326.7 Bscf of lean gas for development. The project is expected to be developed in two phases: first phase includes production of LPG and condensate and, the second phase includes production of gas from gas reinjection in phase 1. The second phase production also envisages aggregation of other gas fields especially from Pandora and other small stranded fields from the project's vicinity.

Pasca A gas field is 100 per cent owned and will be operated by Twinza Oil (PNG) Ltd. The State is reviewing APDL and anticipates making a decision soon with Gas Agreement negotiation to be initiated shortly.

When developed, the Pasca A project will be the first off-shore gas project for PNG. Application for a Petroleum Development License has been lodged with the State. The project negotiations have stalled due to the State reviewing the initial fiscal term sheet agreed to in 2020 by the project developer and the State. Negotiations are anticipated to recommence soon.

Stanley Gas Project

This is a gas project and is located in Western Province of PNG. It has total recoverable gas of 355 Bcf and condensate volume of 11.3 MMbbl (P50). The State and Horizon Oil signed the *Gas Agreement* in 2014. In the same year, the *Stanley Development Agreement* was signed between the State and project impacted stakeholders. This agreement details benefit distribution between different project impacted beneficiaries. The project was granted Petroleum Development License (PDL10) by the State in 2014. However, the project did not start construction and production yet due to many circumstances –some beyond everyone's control such as unfavourable oil price which rendered the economics of the project commercially unviable.

This was further complicated by changes in project operatorship after signing the Gas Agreement. That is, the project operatorship changed from Horizon Oil to Talisman, then to RepSol and finally to Arran Energy. The long delay to start project construction prompted the State to issue a "Show Case letter" to the developer. The Developer is yet to provide a response to the State's queries. Currently, the project operator has submitted a variation to its Field Development Plan. In order to progress this project to actual construction and operation, it is important that all relevant parties work together.

10.8 PNG EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE (PNGEITI)

10.8.1 PNGEITI on-going Reforms to Improve Sector Governance

The progressive implementation of EITI in PNG has so far highlighted the need to adopt critical reforms in the sector so as to improve prevalent governance issues. These reforms were identified in recommendations from previously published PNGEITI Reports and the 2018 PNG Validation Assessment Report. The current 2019 EITI Standard introduced additional provisions building from the 2016 Standard. These ongoing reform-oriented programs and activities are outlined below and include;

10.8.2. Disclosure of Beneficial Ownership (BO) Information

Disclosure of Beneficial Ownership (BO) Information

A beneficial owner in respect of a company means the natural person or persons who directly or indirectly ultimately own or control the corporate entity. The EITI Standard 2019 (#2.5) required all subsequent EITI reports from 2020 to include BO information on ownership of corporate entities that bid for, operate or invest in extractive assets in the country.

The PNGEITI National Secretariat commissioned a scoping study on Beneficial Ownership in November 2016 and a Beneficial Ownership Roadmap report in 2017. The Roadmap was implemented from 2017 to 2019 and resulted in the first BO report in 2020. The PNGEITI Multi-Stakeholder Group contextualized the following BO criteria for implementation in PNG:

- Beneficial Ownership definition criteria;
- Politically exposed person(s) in line with the *PNG Anti-Money Laundering and Counter Terrorist Financing Act 2015;*
- The materiality threshold for beneficial ownership (set at 5%), but which also considered the corporate structure of the companies operating in the country, an individual's full aggregated interest as well as different means of exercising ownership and control.

A reporting template was developed to capture beneficial ownership information at the point at which companies are registered with the Investment Promotion Authority (IPA), and this will be piloted with future company registrations. Additionally, a pilot project was undertaken to make beneficial ownership maps searchable on an online portal open to the public.

The first PNGEITI beneficial ownership report was published in 2020, which included a description of the approach, definitions and scope of the BO data collection and provided recommendations on issues that needed to be addressed. The PNGEITI will continue to work with the IPA, BPNG and other relevant entities in 2022 to consider proposing amendments to the Companies Act and other associated legislations for a mandatory BO disclosure regime and the creation of a BO data registry at the IPA office.

10.8.3 Transparency in the operations of Extractives State-Owned Enterprises

State-Owned Enterprises (SOEs) and Trustees play a key role in managing and distributing PNG's wealth from extractive activities**.** Transparent disclosure of their processes for managing and transferring funds to beneficiaries (landowners, sub-national governments, national governments, etc) is therefore critical for a comprehensive EITI report. Material SOEs and trustees are those with interests in (or responsibility for managing State interests) extractive projects that are producing saleable commodities during the production period.

State participation in the extractive industries contributes to government revenues through equity distribution receipts, dividends and tax payments to the Department of Treasury and the Internal Revenue Commission (IRC) respectively. Where the SOE is also the operator of the project (as in the case with Ok Tedi), the SOE pays a production levy to the Mineral Resources Authority (MRA). Royalty payments are also distributed to local governments and landowners through the Mineral Resources Development Company (MRDC).

Each SOE and associated subsidiary companies is considered material for reporting purposes regardless of whether the qualitative thresholds are met. This is due to the requirement of the EITI Standard to transparently report the management of funds through these entities. Each SOE, its structure, subsidiaries and its contribution to extractive industry revenues are discussed in more detail in the 2019 PNGEITI Report and the SOE Scoping Study Report that were published in 2021.

The SOE Scoping Study Report proposes definitions for 'state owned enterprises' and 'quasi-fiscal expenditures' which are consistent with the definitions in the EITI 2019 Standard. Extractive sector SOEs are governed by laws that are specific to the sector, to each of the government's holding companies and to general legislation covering commercial activities. This legal framework makes it clear that SOEs are subject to an independent board and management and their operations must be conducted on a commercial basis and they are subject to external audit under international accounting standards.

The SOEs Scoping Study Report contains information describing the relationship between each SOE holding company and its subsidiaries. These include legal structures showing SOEs and their subsidiaries as well as functional diagrams showing flow of taxes and dividends. The key findings highlighted the lack of readily available information in the public domain despite SOEs producing annual reports and financial statements. In most cases, it was found that this information is available internally in each of these entities but there is general reluctance to disclose the information. The study recommends increasing the availability of information, including a recommendation that the PNGEITI advocates for a legislative amendment to facilitate public disclosure of annual reports and audited financial statements.

The key recommendations focus on the need for extractive sector SOEs to adopt a more proactive approach to information disclosure and transparency. There is also a recommendation for specific matters affecting the operations of the extractive sector and also for PNGEITI to undertake a pilot project on commodity trading transparency for SOEs.

The Scoping Study documents the operations of the SOEs in the extractive sector, their challenges and other structural issues that needed to be addressed for greater transparency and accountability. These entities have been operating under opaque environments and therefore critical recommendations were made in this study to undertake policy and legislative reforms to improve corporate governance and increase transparency within these entities.

10.8.4 Disclosure of Contracts (Contracts Transparency)

The details of contracts (resources project agreements) and licences are protected by confidentiality provisions in Section 163 of the Mining Act, Section 52 of the MRA Act, and Section 149 of the Oil and Gas Act. Contracts or agreements (MoAs, MoUs, UBSAs, LBSAs, etc) are held and maintained by the Office of the Solicitor General. Without legislative amendments, agreements could only be made public with the approval of both the company and the Department of Petroleum and Energy (DPE) or MRA (as appropriate). To date no contracts have been made publicly available, not even a list of all current contracts or project agreements. Broader benefit sharing agreements related to mining and oil and gas projects are also currently not publicly disclosed.

Despite these challenges, the PNGEITI had continued to make progress with responsible stakeholder entities. The MRA is seeking legal advice on making all mining project Memorandum of Agreements (MoAs) publicly available. The PNGEITI has been engaging with the State Solicitor and other government entities to explore solutions to non-disclosure of contracts.

It is now a requirement since 2021 for EITI member countries to disclose details of contracts or project agreements, consistent with the 2019 EITI Standard. To support the PNGEITI in pursuing this matter, a scoping study was undertaken to describe the legal framework for contracts disclosure in PNG, and evaluating the risks and challenges as well as the opportunities and benefits associated with disclosing extractive sector contracts. The outcome of this study is expected to enhance stakeholders’ understanding on potential risks and offer practical solutions on how to address such risks and reap the benefits of public disclosure.

10.8.5 Sub-National Payments and Transfers in Extractives Sector

Through the EITI reporting process, much progress has been made on the reporting of extractive revenues to the national government. Yet payment data at the sub-national level is almost non-existent, too aggregated to be meaningful, inconsistent across projects, or difficult to obtain. The lack of clear, reliable, timely and useful reporting on sub-national payments and transfers is particularly problematic in PNG where landowners, affected communities and subnational government entities receive a broad range of payments and transfers. There is a ‘closeness’ about sub-national extractive payments in PNG’s extractive provinces – they connect to peoples’ land, their families and their communities in a way that is meaningfully different to payments at the national level.

More effective reporting of sub-national payments and transfers through the EITI reporting process can provide local stakeholders access to relevant and timely information on the extractive revenue flows that affect them most. Strengthening PNGEITI sub-national reporting can also drive transparency and accountability in PNG’s extractive provinces, contribute to decentralisation efforts, and potentially improve social licence to operate for extractive companies.

A scoping study on sub-national payments and transfers in PNG’s mining, oil and gas sector was undertaken in 2018 by the PNGEITI. The purpose of the study was to:

- identify and map the sub-national payments and transfers in PNG’s extractive sector;

- document stakeholder views on enhanced sub-national reporting through PNGEITI; and
- develop a reporting framework and roadmap for PNGEITI sub-national reporting.

Piloting sub-national reporting in extractive provinces was shelved in 2020 due to the onset of the COVID-19 Pandemic and the project has been pending since. The PNGEITI had prioritized this project in its Annual Work Plan to be continued in 2022 and 2023 in partnership with the Australian - PNG Economic Partnership (APEP) Program.

10.8.6 Improvement in Resource Related Revenue Management

This project commenced in January 2018. The primary goal of the project is to promote resource related revenue management and reporting in accordance with the EITI Standard. The project aims to achieve a number of outputs including:

- improving management of relevant data and information at the Department of Petroleum and Energy;
- enhancing reporting mechanisms among extractive sector companies and government agencies; and
- enhancing awareness and implementation structure for PNGEITI in the country.

The project was to have been concluded in December 2020, however due to COVID-19 pandemic disruptions it was extended to end in December 2021. The project was funded under the JICA Technical Cooperation Programme and the PNGEITI is currently liaising with JICA to secure Phase II of the project going forward with a submission for implementation in 2023.

10.8.7 Scoping Studies on Education Mainstreaming, Electronic Data Reporting Platform and CSO Capacity Assessment Projects

The PNGEITI in partnership with the World Bank jointly commissioned the publication of three scoping studies in 2020. These studies are aimed at enhancing implementation of the 2019 EITI Standard and subsequent revisions of this standard in PNG.

These reports were conducted on:

- mainstreaming the PNGEITI reports and standards in the formal education sector;
- digitizing the PNGEITI reporting process through an Electronic Reporting Platform; and
- conducting Capacity Assessment of Civil Society Organisations (CSOs) participation in the EITI implementation process.

The three reports were reviewed and assessed on both their relevance to PNGEITI policy priority areas and also the EITI Standard. The PNGEITI acknowledges the first drafts of the reports and appreciated the need for continual improvement of the reports to make informed decisions for the benefit of implementing the EITI Standard. The PNGEITI had provided inputs to the World Bank to consider prior to progressing to the piloting phase of the projects.

10.8.8 Proposed PNG Extractives Industry Transparency Commission (PNGEITC) Bill

With the introduction of new EITI Requirements in the 2019 Standard and increased participation of stakeholders since the programs in 2013, the PNGEITI Multi-Stakeholder Group (MSG) have encountered various challenges in sustaining implementation of the EITI

Standards. The need to align the evolving scope of EITI Standards with that of PNG's National Sovereign and Development aspirations remain the cornerstone of the establishment of this project.

With increased participation by sectoral regulatory departments and state-owned entities, provincial authorities, industry companies and civil society organisations, the sustainability and compatibility of implementing EITI is now dependent on having it legally established so as to guide its evolution in alignment with relevant PNG Laws regulating the non-renewable extractives sector. EITI implementation in PNG is currently directed through NEC Decision 90/2013, essentially presenting no legal obligation for reporting entities to ensure compliance, especially providing financial data and information for the industry required for EITI reporting purpose. Current reporting by all stakeholders are done on a voluntary basis.

The stakeholders have been making efforts in moving towards sustaining EITI implementation with a mandatory disclosure regime. These efforts are consistent with the NEC Decision No. 90/2013 for the National Secretariat to be established as an independent statutory body.

The regional consultations on a proposed PNGEITI Commission Bill were completed in 2021. The Bill is anticipated for presentation to Parliament in 2023 for enactment.

10.9 REFORMING THE RENEWABLE RESOURCE SECTOR

10.9.1 AGRICULTURE SECTOR

Papua New Guinea is an agriculture-based country with an estimated 85 per cent of its people depending on the sector for their livelihoods. This is the sector that provides food security, creates employment, brings family income and contributes to the national coffers (approx. 16 per cent of GDP). The sector plays a key role in the socio- economic development of the country and is the second largest foreign exchange revenue earner after mining and petroleum.

The Department of Agriculture & Livestock (DAL) is the lead government agency responsible for policy and management of the agriculture sector in PNG. Its mandate is to promote improvement and expansion of food crops and livestock programmes and projects in a bid to assist the people of PNG meet their local nutritional requirements and household food security.

The Government's focus is investing more into promoting sustainable economic growth in agriculture, fisheries, and forestry sectors through creation of income generating opportunities, encouraging effective landowner participation, and promoting climate change resilience.

10.9.2 Commodities and Livestock

The agriculture commodities of significant economic value, in terms of gross income in Papua New Guinea are coffee, cocoa and palm oil. The responsible agencies for facilitating development of these commodities are Oil Palm Industry Corporation (OPIC), Coffee Industry Corporation (CIC), PNG Cocoa Board (PNGCB). In addition there are also the, Kokonas Indastri Koporesen (KIK), Rubber Board, Spice Board, and Livestock Development Corporation (LDC). These agencies and commodity boards are mandated to provide extension services, facilitate, manage and/or regulate each commercial crop and livestock in PNG.

The other agencies in the agriculture sector are Fresh Produce Development Agency (FPDA), National Agriculture Quarantine & Inspection Authority (NAQIA), and National Agricultural Research Institute (NARI).

There are policy and development plans to improve performance of DAL to effectively coordinate operations of these agencies and commodity boards, at the national, provincial and district levels. Effective sector coordination is important to drive policy initiatives and sector programs to see tangible results within the sector.

In addition, in order to improve people's livelihoods and encourage more production, the Government is planning to undertake reforms in the agricultural commodities, with more emphasis on supporting commodity prices such as price support policy, agricultural framework for investment and expansion, amongst others.

Oil Palm

The Oil Palm Industry Corporation (OPIC) currently is responsible for providing extension services to the smallholders, out-growers and settlers within the precincts of nuclear estates of oil palm growing provinces. OPIC's key role is to provide efficient delivery programs and develop market infrastructure for its smallholders and out-growers. Oil Palm generates on average about K1.2 billion in export revenues per year which is equivalent to approximately 47 per cent of PNG's total agriculture exports.

The Government will continue to support OPIC through the Smallholder Agriculture Development Projects (SADP), and Research and Development Program (R&DP).

The SADP project facilitates rehabilitation and maintenance of oil palm smallholder roads and road networks in oil palm growing provinces. On the other hand, the R&DP promotes the growth and development of oil palm industry through appropriate research and development techniques.

Review of PNG OPIC Act 1992

PNG's *OPIC Act 1992* which established PNG OPIC is outdated and does not conform to current market dynamics of the oil palm industry, hence yielding negative implications to OPIC operations and small holder farmers. Furthermore, the current legislation only allows for extension services and not regulations. Hence, the oil palm industry is unregulated. Due to this loophole, the industry players are taking advantage of the oil palm market industry.

The current OPIC Act review aims to promote expansion and sustainable management of Oil Palm industry in PNG through the establishment of a new oil palm authority to manage and regulate the industry. The new legislation will be completed and implemented in 2023.

Coffee

Coffee is the second most important agriculture cash crop to PNG after palm oil and it is cultivated by over half a million households around the country. Almost three million Papua New Guineans rely on coffee for their livelihoods.

The Government will continue to support Coffee Industry Corporation (CIC) to address on-going issues such as decline in production and coffee quality, and climate change intensifying the incidence of pests and diseases such as coffee berry borer are major obstacles to on-going or new investments in the industry.

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 generate income through cocoa production. About 80 per cent of cocoa production is carried out by smallholders on customary land. The PNGCB is focusing on three (3) key strategic programs and these are: Nursery Program; Freight Subsidy Program; and Cocoa Quality and Market Promotion Program.

Under the Nursery program, the Cocoa Board is facilitating the propagation of the recently released 10 Cocoa Pod Borer tolerant cocoa clone planting materials to rehabilitate village cocoa farms in provinces and introducing Cocoa Pod Borer tolerant seedlings due to declining production volume. The Cocoa Board has established agreements with provinces to initiate this program, which will continue into 2023 and beyond.

Coconut

The Government through Kokonas Indastri Koporesen (KIK) has ventured into downstream processing of High Value Coconut products through the development of Micro Small and Medium Enterprises (MSME) and creating market access. KIK is also developing bio-security measures against pest and disease and coconut replanting program.

The Government will continue to fund programs that KIK has been progressing over the recent years. These programs are Coconut Research Program, Market Development and Trade Program, Coconut Disease Containment and International Coconut Genebank Relocation, and Coconut Nurseries Establishment and Seed Distribution Program. These programs are more research-based programs and aim to improve soil systems, address coconut disease syndromes, and improve copra quality and quantity.

Review of KIK Act 2002

The review of *KIK Act 2002* is currently in progress. The aim of the review is to address loopholes in the governance and operations of the KIK and to encourage effective participation of landowners and farmers in the industry. This legislative review will be completed in 2023.

Fresh Produce

The Fresh Produce Development Agency is responsible for facilitating the development of fresh produce industry in PNG to build capacity, enhance food security and promote healthy living and to enable smallholders to venture from subsistence farming into commercial operations.

The Government has supported FPDA in implementing several projects that aim to increase revenue and wealth creation and provide quality infrastructure and utilities. These projects include: The National Seed Potato Multiplication project; the Market Supply Value Chain; the Citrus project, and the Bulb Onion project.

The Market for Village farmers Project is supported through counterpart funding from the National Government since 2018 and will end in 2024. It targets fresh food produce sectors

(94% of village farmers) to transition from semi-subsistence agriculture to market oriented farming as a business.

The Government initiated Freight Subsidy Scheme has resulted in more produce being freighted from Lae to Port Moresby however, with mixed results. The Government will continue to fund this scheme.

Government through FPDA will continue the partnership arrangements with GoPNG (Provincial and District levels); institutions; donor partners and other stakeholders to deliver on the various projects and endeavors on generating revenues from these existing projects in 2023.

Rubber

The Rubber Board of PNG established under *Rubber Industry Act 1975* is responsible for rubber industry development and is currently operating under the DAL. The Rubber Board manages different types of rubber licenses such as special license, and planting and replanting license. Special license specifies certain areas where rubber should be planted and the period of license. This also covers planting of rubber and the possession of rubber plantations by persons (natural persons/company/corporation) that the Board recognizes under the Act.

The Government, through the DAL, will continue to support the PNG Rubber Board's efforts to increase the factories' volumes of production from 600 - 800 thousand tons every month by 2030.

The Government will review the *Rubber Industry Act 1975*. This legislation has not been reviewed since its inception in 1975. The industry has expanded and licencing systems and processes in ensuring sustainable management and oversight in the industry have changed worldwide as far as the rubber industry is concerned. In addition, there has been very little enforcement of the Act over the last 40 years.

The review of this Act will focus on promotion of sustainable development of the rubber industry whilst at the same time strengthen regulation, investment, and landowner participation in the industry.

Livestock Development Corporation

Meat consumption in PNG has increased steadily over the last two decades, and is predicted to increase at a rate of 5.0 per cent per annum. Increased demand for meat is currently met by meat imports costing around K140.0 million per year. The current target, as established under the PNG Development Strategic Plan (PNGDSP) 2010-2030, is to increase domestic production to four million metric tonnes by 2030. However, current production is about 400,000 tonnes which is only 10 percent of the meat target set by the PNGDSP.

The Government will continue to support the Livestock Development Corporation's plans on reviving the cattle industry in the short to medium term as poultry and piggery already have established private sector investments.

There is great potential for livestock farmers and farming groups to raise their productivity and output to match future demand for meat.

10.9.3 FORESTRY SECTOR

Review of the Forestry Act 1991 (as amended)

The Government, through the PNG Forest Authority (PNGFA) is embarking on several initiatives in 2023 under the capital expenditure program as well as generating income from its internal sources to supplement the National Government's grant.

The initiatives include implementation of the Forestry Revenue Generation Strategy, reviewing expired project agreements of current logging operations, and implementing the afforestation pilot project.

The Government will continue to support the following programmes that PNGFA is currently implementing. The programmes are reforestation project and resource owner's capacity development project. These are important programs as far as climate change and landowners' benefits are concerned in the forestry sector. This is the current Government's focus in as far as the sustainable investment in the long term development of forest resources in the country.

In 2020, the PNGFA undertook the review of the *Forestry Act 1991*. The purpose of the review is to ensure that the Act harmonises with the Government's forest policies, programs, and international best practises of forest management and development. PNGFA aims to complete the new revised Act in 2022 and commence implementation in 2023. This revised Act will ensure PNGFA has effective and well-structured governance and operations which promotes landowner participation and strengthens forest revenues and charges collection processes.

The Government supports this review as its outcome will see increases in revenue generation from the forestry sector.

Timber Rights Purchase (TRP)

The Government through the Department of Treasury and the National Forest Authority has initiated processes to establish policy guideline and processes that will assist in addressing outstanding claims under the Timber Rights Purchases matters. There will be a team set up similar to the Arrears Verification Committee to specifically deal with TRP and Land Acquisition issues.

The purpose of this Guideline is to ensure there is an established process to be used in address the long outstanding TRP issues. This Guideline is necessary to determine appropriate process and procedures to settle these accruing investment claims. The Guideline will be competed in 2022.

Review of Project Agreements

Currently there are about 209 logging operations in PNG. The operations commenced following signing of the project agreements through the then Timber Rights Purchases (TRP) agreements and current Forest Management Agreements (FMA) between the PNGFA (on-behalf of the Government) and operators. About 22 of these project agreements have expired already but logging operations under these agreements are still continuing.

The Government, through Treasury Department, PNG Forest Authority, and Department of Agriculture & Livestock (DAL) shall review these expired agreements to ensure compliance and maximum benefits are given back to the State and landowners.

10.9.4 FISHERIES SECTOR

PNG has an extensive and valuable fisheries sector ranging from inland river fisheries, aquaculture, coastal beche-de-mer and reef fisheries to the prawn trawl and large-scale deep-water tuna fisheries. The range of participants cover artisanal community to medium-sized domestic prawn and tuna longline operators to large international purse seine fleets in the deep-water tuna fishery.

Under the *Fisheries Management Act 1998*, the National Fisheries Authority (NFA) is responsible for the management and development of the fisheries sector. In 2020 the NFA officially launched its 10-year national fisheries strategic plan 2021 – 2030 which provides the road map and vision for a broad-based fisheries sector and industry that is inclusive, environmentally sustainable, globally competitive and promotes food security.

As a maritime nation with the maritime zone spanning over 2.4 million square kilometers, the ocean agenda is of immense importance to PNG, not only for the living and non-living resources but for the value-added they bring to our national assets and more importantly for the country's own identity and own way of life as a people of this nation. The government therefore, is also prioritizing the strengthening of management, governance and security of PNG's maritime zones by adapting 10-year National Ocean Policy 2020 - 2030 in July 2020.

Through conservation and protection measures, the government has adopted and launched the country's maritime protected areas policy and the national action plan for stingrays, skates and sharks in June 2021. This policy will strengthen the country's efforts to better protect its marine resources because we are an epi-center for global marine resource and biodiversity. Implementing this policy will enable PNG to reach the biodiversity target level of 17 per cent of its terrestrial and inland water areas and 10 per cent of coastal and marine areas protected.

Focus is also on domestic downstream processing that will enable Papua New Guineans as resource owners to be meaningfully involved in the economic opportunities from sea resources. The Government will continue to support programs under the fisheries sector in 2022.

10.9.5 TOURISM PROMOTION AUTHORITY

The Tourism sector has been hit hard by the Covid-19 pandemic crisis since 2020. This has resulted in huge losses of revenue for the Government as well as job losses and reduced earnings for those businesses who rely on tourism for their income and survival.

The PNG Tourism Promotion Authority has been working closely with participants in the travel and leisure industry under the public-private-partnership arrangement to ensure Covid -19 quarantine programs are in place to support the tourism industry to continue operating under this alternate arrangement in 2023.

10.9.6 NATIONAL ENERGY AUTHORITY

The Government established the National Energy Authority (NEA) in 2021 to oversee the expansion and management of the energy sector in PNG. The NEA takes over the economic and technical regulatory functions of energy from ICCC and PNG Power Limited respectively.

In 2023 the Government will support the NEA to establish renewable energy policies that promote cheaper, cleaner energy for more people improves livelihoods and protect vulnerable communities and fragile ecosystems from the impacts of global warming and climate change.

Increasing access to reliable electricity or energy services in villages can improve livelihoods by creating economic opportunities.

PNG Biomass Project

The PNG Biomass Project is a renewable energy project owned by Oil Search Limited and established in the Markham Valley in the Morobe Province. The project consists of a tree farming plantation which will be harvested and turned into wood chips for burning to produce steam to generate electricity, and construction of the biomass plant to generate electricity to be fed into the Ramu Grid.

The commencement of this project is subject to final investment decision from the Government to support PNG Power Limited in the event of default. The due diligence process will require the Government through Treasury Department to commit to the Put Call Option Arrangement (PCOA). Currently, Treasury with technical assistance from the International Finance Corporation is progressing the PCOA.

10.9.7 ENVIRONMENT AND CLIMATE CHANGE

The Government through CCDA has launched the Green Climate Fund Country Program 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 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. This project 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.

10.10 STATE PARTICIPATION AND INVESTMENTS IN AGRICULTURE SECTOR

The Government aims to transform the agriculture sector into a reliable commercial and sustainable food system that addresses food security and climate resilience as well as conservation and management of our vast biodiversity.

The Government has prioritised in investing in the agriculture sector as an engine of economic growth and prosperity for the country. The strategic interventions undertaken are a combination of credit scheme, freight and price subsidy for our rural farmers which haves helped broaden the scope of agriculture production sites in the country. These interventions will not only help broaden the tax base and generate additional revenue the country needs for development but also more importantly improve rural communities and their livelihoods enabling them to be proactive nation builders.

To support in transforming the agriculture sector, the government has set targets to increase cash crop production and livestock production by 30 per cent in 2025 with efforts to also increase downstream processing by 30 per cent and develop taxation incentives to local farmers. Additionally, this will include a formulation of an agriculture and livestock diversification plan in 2025 and ensure local landowners and provincial governments participate in the equity sharing and downstream business and associated spin offs.

10.10.1 Price Support Programme

The Price Support Program (PSP) is an initiative of the Marape Government which aimed to give good price to the growers or farmers. This means growers or farmers get a better price on their produce to increase in both production and exports.

The PSP started in 2020 with K50.0 million from the National Budget appropriation followed by K24.0 million in 2021 parked under DAL for administration of funds. The DAL under a tripartite Memorandum of Understanding (MOU) arrangement between the DAL, farmers and commodity boards have released the PSP funds to farmers under the terms and conditions stipulated in the MoU.

The Government, through Treasury Department and DAL, shall develop price stabilisation and intervention policy to drive this initiative. The policy aims to ensure sustainable inventions to local farmers that yield high returns through increased production.

10.10.2 Mobilising Land for Renewable Resource Projects

The Government is focused on increasing 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 recognise their rights over customary landownership before committing State to participate in customary land lease arrangements.

The Government through the Department of Lands and Physical Planning will utilise the Incorporated Land Group (ILG) and the Voluntary Customary Land Registration (VCLR) processes to mobilize customary land to allow potential developments to take place.

The program “Accessing Secured Land for Coffee Development” is piloted in EHP with the establishment of MOUs signed between landowners and CIC representing the Government. This pilot was initiated in 2018 by Department of Treasury and is led and funded under the Treasury and Finance Miscellaneous vote from 2018 – 2021. It will continue into 2023.

10.10.3 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 sectors in cropping (food, fruits, vegetables, and tree crops), 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 utilisation.

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 growth in the agriculture sector over 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 economic base. This program is at the concept stage.

APPENDIX 1: GRANTS AND TRANSFERS TO PROVINCES

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																
	PS Salaries	Teachers Salaries	PS leave fares	Teachers leave fares	Village Court Allowances	Land Mediation 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)***	
Western	15,970,150	57,349,000	2,169,000	2,974,000	1,561,480	253,525	80,277,155	5,687,827	4,215,777	6,413,775	1,755,435	187,298	131,862	790,998	394,023	**19,576,995**	901,797	4,578,373	**5,480,171**	**25,057,165**	105,334,320
Gulf	14,487,980	25,752,000	309,000	701,000	1,892,110	125,660	43,267,750	6,127,955	5,264,527	7,550,556	2,790,179	611,302	112,028	1,882,675	2,800,211	**27,139,434**	351,446	1,400,521	**1,751,967**	**28,891,401**	72,159,151
Central	23,873,340	77,026,000	691,000	3,001,000	2,623,410	248,375	107,463,125	7,801,276	7,990,814	13,114,981	3,483,881	689,891	110,433	3,066,029	2,501,803	**38,759,109**	-	2,838,007	**2,838,007**	**41,597,116**	149,060,241
NCD*					1,102,100	37,080	1,139,180										-		**-**		1,139,180
Milne Bay	10,974,880	85,467,000	330,000	1,410,000	3,065,280	201,880	101,449,040	7,138,340	7,495,061	7,409,911	3,106,036	435,580	93,034	3,328,730	2,240,849	**31,247,542**	350,382	2,455,300	**2,805,682**	**34,053,224**	135,502,264
Oro	12,317,770	35,168,000	516,000	1,379,000	1,677,870	113,300	51,171,940	4,797,415	4,249,239	4,310,564	2,187,713	345,129	76,578	2,027,037	1,332,699	**19,326,374**	870,385	2,829,985	**3,700,370**	**23,026,744**	74,198,684
Southern Highlands	27,902,700	130,525,000	382,000	1,056,000	3,437,110	286,804	163,589,614	4,665,308	7,229,375	5,455,084	1,320,823	441,918	53,492	1,650,356	1,409,474	**22,225,830**	828,866	2,570,357	**3,399,224**	**25,625,054**	189,214,668
Hela	11,381,500	44,130,000	154,000	435,000	1,738,640	176,130	58,015,270	7,400,707	5,567,211	5,522,054	2,155,843	576,010	91,287	2,081,395	2,895,777	**26,290,283**	1,257,321	2,183,417	**3,440,738**	**29,731,021**	87,746,291
Enga	12,017,010	93,102,000	206,000	1,287,000	6,004,900	14,590	112,631,500	6,288,675	10,627,019	12,540,505	5,298,754	1,258,882	263,633	2,068,189	2,857,281	**41,202,938**	288,946	3,755,994	**4,044,940**	**45,247,878**	157,879,378
Western Highlands	15,753,850	129,576,000	392,000	1,724,000	2,649,160	158,693	150,253,703	2,361,870	897,659	1,176,547	798,984	319,075	33,101	155,170	689,322	**6,431,727**	970,148	2,113,376	**3,083,524**	**9,515,250**	159,768,953
Jiwaka	12,224,040	77,815,000	129,000	681,000	1,752,030	116,463	92,717,533	5,628,320	8,298,187	12,506,751	1,372,719	418,333	100,026	2,295,846	2,351,890	**32,972,071**	-	1,422,227	**1,422,227**	**34,394,298**	127,111,831
Simbu	20,821,450	93,193,000	206,000	1,158,000	3,485,520	252,350	119,116,320	5,672,094	10,255,979	11,192,077	1,437,354	738,806	97,815	3,113,484	3,688,425	**36,196,034**	459,424	1,570,695	**2,030,119**	**38,226,153**	157,342,473
Eastern Highlands	16,124,430	139,923,000	723,000	2,701,000	3,908,850	277,070	163,657,350	7,300,163	10,662,943	17,430,260	2,700,719	638,296	94,828	3,671,405	2,912,798	**45,411,412**	903,186	2,852,889	**3,756,075**	**49,167,487**	212,824,837
Morobe	35,683,320	187,646,000	1,239,000	7,728,000	3,178,580	418,120	235,893,020	-	-	-	-	-	-	-	-	**-**	2,704,269	5,810,503	**8,514,771**	**8,514,771**	244,407,791
Madang	27,767,770	121,343,000	723,000	2,617,000	3,179,610	226,600	155,856,980	9,309,442	8,779,603	12,343,976	3,608,410	534,861	26,683	3,686,185	3,459,579	**41,748,739**	1,033,416	3,936,910	**4,970,326**	**46,719,065**	202,576,045
East Sepik	19,884,150	117,961,000	1,032,000	3,101,000	3,822,330	311,060	146,111,540	9,857,829	12,854,529	21,104,640	3,731,993	712,374	107,245	3,015,627	3,895,504	**55,279,742**	795,326	4,337,002	**5,132,329**	**60,412,070**	206,523,610
Sandaun	12,764,790	65,601,000	723,000	1,312,000	1,740,700	203,880	82,345,370	10,650,142	10,152,178	9,093,533	3,985,700	533,635	88,637	2,526,662	3,952,959	**40,983,446**	596,894	3,879,637	**4,476,531**	**45,459,977**	127,805,347
Manus	9,003,230	29,012,000	516,000	785,000	1,778,810	151,410	41,246,450	2,332,630	3,627,108	5,976,235	1,876,564	526,629	90,753	1,885,651	2,423,009	**18,738,579**	262,469	523,515	**785,984**	**19,524,562**	60,771,012
New Ireland	16,563,430	58,093,000	2,427,000	1,010,000	1,538,820	125,660	79,757,910	1,309,980	1,278,029	1,469,734	543,162	447,310	319,507	383,409	639,015	**6,390,146**	494,235	1,202,835	**1,697,069**	**8,087,215**	87,845,125
East New Britain	23,422,200	100,473,000	309,000	1,665,000	1,614,010	214,240	127,697,450	5,964,751	5,349,165	5,094,432	5,350,765	564,351	107,294	1,307,758	762,714	**24,501,230**	1,085,986	2,757,022	**3,843,009**	**28,344,239**	156,041,689
West New Britain	17,689,220	74,480,000	1,032,000	3,657,000	1,714,950	151,410	98,724,580	6,358,587	10,076,290	10,590,306	3,671,690	682,474	204,559	2,930,385	2,509,014	**37,023,305**	677,390	2,777,575	**3,454,965**	**40,478,270**	139,202,850
Bougainville*	50,629,000	80,327,000	998,000	8,752,000	2,261,880	442,980	143,410,860														
TOTAL	**407,256,210**	**1,823,962,000**	**15,206,000**	**49,134,000**	**55,728,150**	**4,507,280**	**2,355,793,640**	**116,653,312**	**134,870,694**	**170,295,921**	**51,176,725**	**10,662,155**	**2,202,794**	**41,866,990**	**43,716,344**	**571,444,934**	**14,831,885**	**55,796,140**	**70,628,026**	**642,072,960**	**2,854,455,740**

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)

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	105,334,320	18,317,503	11,483	38,462,667	1,437,539	**163,563,512**
Gulf	72,159,151	503,261	0	0	400,255	**73,062,667**
Central	149,060,241	3,141,058	0	0	14,703,591	**166,904,890**
NCD*	1,139,180	373,221,606	1,688,728	0	0	**376,049,514**
Milne Bay	135,502,264	8,830,928	0	0	1,907,567	**146,240,759**
Oro	74,198,684	5,698,490	0	0	1,319,606	**81,216,781**
Southern Highlands	189,214,668	9,251,407	0	19,352,526	8,465,596	**226,284,198**
Hela	87,746,291	2,308,946	0	0	0	**90,055,237**
Enga	157,879,378	3,963,260	0	0	18,677,948	**180,520,586**
Western Highlands	159,768,953	52,482,231	93,478	0	10,590,037	**222,934,699**
Jiwaka	127,111,831	1,683,660	0	0	0	**128,795,491**
Simbu	157,342,473	8,618,133	29,259	0	999,040	**166,988,904**
Eastern Highlands	212,824,837	25,067,294	152,032	1,677	2,249,093	**240,294,933**
Morobe	244,407,791	191,204,360	525,388	3,769,927	9,019,727	**448,927,194**
Madang	202,576,045	23,933,388	663,629	2,804	2,210,134	**229,385,999**
East Sepik	206,523,610	15,649,692	0	0	3,013,237	**225,186,540**
Sandaun	127,805,347	3,958,553	0	0	3,030,511	**134,794,411**
Manus	60,771,012	2,842,554	0	0	533,036	**64,146,602**
New Ireland	87,845,125	25,924,306	0	11,644,566	1,021,968	**126,435,965**
East New Britain	156,041,689	32,444,756	10,653	0	5,006,871	**193,503,969**
West New Britain	139,202,850	14,555,693	84,528	0	4,306,377	**158,149,448**
Bougainville*	0		0	0	0	**0**
TOTAL	**2,854,455,740**	**823,601,078**	**3,259,178**	**73,234,167**	**88,892,134**	**3,843,442,297**

Notes

1) GST is based on 60% of the 2021 net inland GST collections, to be distributed to each province in 2023

2) Bookmakers is 40% of 2021 net collections

3) NEFC estimate based on 2021 actual collections which includes dividends from equity shares of mining and petroleum resource projects

4) NEFC estimate based on 2021 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

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

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Table 13B: General Government Expense by Agency Type and Economic Classification

Table 14: Transactions in Assets and Liabilities for the General Government

Table 15: Stocks of General Government Debt

Table 1: Gross Domestic Product by Economic Activity at Current and Constant Prices (Kina Million)

	2019 Actual	2020 Actual	2021 Est	2022 Est	2023 Proj	2024 Proj	2025 Proj	2026 Proj	2027 Proj
Agriculture, Forestry and Fishing									
nominal	14234.5	15476.0	17963.8	19683.0	20752.5	22248.2	23784.8	25519.5	27261.0
deflator	136.9	146.2	166.6	178.8	182.8	189.8	197.3	205.4	214.2
real	10394.4	10588.1	10781.2	11009.1	11352.5	11720.8	12056.3	12425.8	12727.3
rate of real growth	2.3	1.9	1.8	2.1	3.1	3.2	2.9	3.1	2.4
Oil and Gas Extraction									
nominal	14719.8	11663.3	14636.3	20671.4	16889.2	15859.8	14981.6	14429.1	14000.3
deflator	112.7	90.0	121.4	169.2	148.9	140.0	132.8	127.9	124.1
real	13056.7	12960.5	12055.1	12217.9	11339.7	11325.2	11282.7	11282.7	11282.7
rate of real growth	15.1	-0.7	-7.0	1.4	-7.2	-0.1	-0.4	0.0	0.0
Mining and Quarrying									
nominal	9038.7	8377.9	7871.7	9318.3	10938.3	11537.9	11929.9	11453.5	7630.0
deflator	115.4	139.3	162.8	169.7	161.5	164.9	168.2	161.4	137.5
real	7832.4	6016.2	4836.3	5491.3	6773.7	6998.2	7093.5	7096.3	7099.2
rate of real growth	5.3	-23.2	-19.6	13.5	23.4	3.3	1.4	0.0	0.0
Manufacturing									
nominal	1418.2	1390.6	1540.1	1724.0	1895.4	2104.5	2332.9	2579.2	2856.3
deflator	141.4	148.1	154.8	165.0	174.4	184.1	193.6	203.3	213.4
rate of deflator growth	4.2	4.8	4.5	6.6	5.7	5.5	5.2	5.0	5.0
real	1003.1	938.7	995.1	1044.8	1086.6	1143.1	1204.8	1268.7	1338.5
rate of real growth	-0.6	-6.4	6.0	5.0	4.0	5.2	5.4	5.3	5.5
Electricity Gas & Airconditioning									
nominal	685.8	722.3	807.5	912.5	1012.9	1133.2	1263.3	1405.9	1564.4
deflator	117.9	118.7	124.1	132.3	139.8	147.6	155.2	162.9	171.0
rate of deflator growth	3.4	0.7	4.5	6.6	5.7	5.5	5.2	5.0	5.0
real	581.5	608.3	650.9	690.0	724.5	767.9	814.0	862.9	914.6
rate of real growth	4.0	4.6	7.0	6.0	5.0	6.0	6.0	6.0	6.0
Water Supply & Waste Management									
nominal	158.2	176.5	193.6	214.7	238.3	265.4	295.3	328.6	365.6
deflator	144.8	151.9	158.8	169.2	178.9	188.8	198.6	208.5	218.9
rate of deflator growth	0.0	4.9	4.5	6.6	5.7	5.5	5.2	5.0	5.0
real	109.3	116.2	122.0	126.8	133.2	140.5	148.7	157.6	167.0
rate of real growth	4.1	6.3	5.0	4.0	5.0	5.5	5.8	6.0	6.0
Construction									
nominal	4759.5	4938.2	5211.3	5611.1	6109.9	6706.6	7406.2	8164.6	9084.9
deflator	140.5	146.1	152.6	162.7	172.0	181.5	190.9	200.4	210.4
rate of deflator growth	3.4	3.9	4.5	6.6	5.7	5.5	5.2	5.0	5.0
real	3387.0	3381.0	3414.8	3449.0	3552.4	3694.5	3879.3	4073.2	4317.6
rate of real growth	-8.6	-0.2	1.0	1.0	3.0	4.0	5.0	5.0	6.0
Wholesale and retail trade									
nominal	7750.1	8106.7	9232.7	10531.6	11690.4	12955.5	14375.0	15922.6	17717.3
deflator	138.0	144.5	151.0	161.0	170.2	179.6	188.9	198.3	208.2
rate of deflator growth	3.6	4.7	4.5	6.6	5.7	5.5	5.2	5.0	5.0
real	5616.3	5610.2	6115.1	6543.2	6870.4	7213.9	7610.6	8029.2	8511.0
rate of real growth	1.5	-0.1	9.0	7.0	5.0	5.0	5.5	5.5	6.0
Transport and Storage									
nominal	2013.4	1667.5	1759.7	2026.0	2291.8	2539.8	2807.3	3094.8	3427.4
deflator	138.1	143.4	149.8	159.7	168.8	178.2	187.4	196.7	206.5
rate of deflator growth	9.6	3.8	4.5	6.6	5.7	5.5	5.2	5.0	5.0
real	1458.2	1163.2	1174.8	1268.8	1357.6	1425.5	1498.2	1573.1	1659.6
rate of real growth	3.6	-20.2	1.0	8.0	7.0	5.0	5.1	5.0	5.5
Accomodation and Food Services									
nominal	1416.2	1352.0	1483.3	1660.3	1807.9	1965.4	2129.1	2313.6	2525.8
deflator	128.2	133.6	139.6	148.8	157.3	166.1	174.6	183.4	192.5
rate of deflator growth	-0.3	4.2	4.5	6.6	5.7	5.5	5.2	5.0	5.0
real	1104.4	1011.9	1062.5	1115.7	1149.1	1183.6	1219.1	1261.8	1312.3
rate of real growth	-1.3	-8.4	5.0	5.0	3.0	3.0	3.0	3.5	4.0
Information and Communication									
nominal	1334.6	1406.0	1601.3	1843.6	2085.5	2364.0	2670.2	3010.9	3394.6
deflator	95.2	94.1	98.4	104.9	110.9	117.0	123.1	129.2	135.6
rate of deflator growth	-1.4	-1.1	4.5	6.6	5.7	5.5	5.2	5.0	5.0
real	1402.1	1493.5	1627.9	1758.1	1881.2	2020.4	2169.9	2330.5	2502.9
rate of real growth	15.9	6.5	9.0	8.0	7.0	7.4	7.4	7.4	7.4
Financial and Insurance Activities									
nominal	2055.4	1919.5	1965.4	2141.4	2320.4	2559.3	2812.8	3086.0	3385.3
deflator	136.1	142.7	149.1	159.0	168.0	177.4	186.5	195.8	205.6
rate of deflator growth	3.8	4.8	4.5	6.6	5.7	5.5	5.2	5.0	5.0
real	1510.0	1345.1	1318.2	1347.2	1380.8	1443.0	1507.9	1575.8	1646.7
rate of real growth	-4.6	-10.9	-2.0	2.2	2.5	4.5	4.5	4.5	4.5
Real Estate Activities									
nominal	5054.9	5435.9	5793.3	6330.4	6946.7	7610.4	8308.2	9054.3	9865.8
deflator	137.4	144.0	150.5	160.4	169.6	179.0	188.2	197.6	207.4
rate of deflator growth	3.8	4.8	4.5	6.6	5.7	5.5	5.2	5.0	5.0
real	3679.6	3774.9	3850.4	3946.7	4096.7	4252.4	4413.9	4581.7	4755.8
rate of real growth	2.7	2.6	2.0	2.5	3.8	3.8	3.8	3.8	3.8
Professional and Scientific									
nominal	793.1	833.4	896.9	984.9	1082.8	1194.3	1312.6	1440.1	1579.8
deflator	128.9	135.2	141.2	150.5	159.2	168.0	176.7	185.5	194.7
rate of deflator growth	9.8	4.8	4.5	6.6	5.7	5.5	5.2	5.0	5.0
real	615.2	616.6	635.1	654.2	680.4	711.0	743.0	776.4	811.4
rate of real growth	11.6	0.2	3.0	3.0	4.0	4.5	4.5	4.5	4.5
Administrative and Support Services									
nominal	6430.8	6686.7	7405.8	8092.4	8811.8	9690.9	10620.2	11640.9	12892.0
deflator	137.7	144.3	150.8	160.8	170.0	179.4	188.7	198.1	207.9
rate of deflator growth	4.2	4.8	4.5	6.6	5.7	5.5	5.2	5.0	5.0
real	4670.8	4632.7	4910.6	5033.4	5184.4	5402.1	5629.0	5876.7	6199.9
rate of real growth	4.1	-0.8	6.0	2.5	3.0	4.2	4.2	4.4	5.5
Public Administration and Defence									
nominal	3928.9	4390.3	4862.4	5494.7	6099.3	6823.7	7535.4	8307.1	9243.5
deflator	126.9	130.3	136.1	145.1	153.4	161.9	170.3	178.8	187.7
rate of deflator growth	2.8	2.6	4.5	6.6	5.7	5.5	5.2	5.0	5.0
real	3095.1	3370.1	3572.3	3786.7	3976.0	4214.5	4425.3	4646.5	4925.3
rate of real growth	0.5	8.9	6.0	6.0	5.0	6.0	5.0	5.0	6.0
Education									
nominal	2187.4	2275.6	2472.8	2767.9	3057.9	3388.8	3735.1	4109.8	4573.0
deflator	125.8	129.2	135.0	143.9	152.1	160.5	168.8	177.3	186.1
rate of deflator growth	2.8	2.6	4.5	6.6	5.7	5.5	5.2	5.0	5.0
real	1738.3	1761.9	1832.4	1924.0	2010.6	2111.1	2212.4	2318.6	2457.7
rate of real growth	0.7	1.4	4.0	5.0	4.5	5.0	4.8	4.8	6.0
Health and Social Work Activities									
nominal	1573.5	1771.3	1998.8	2258.7	2507.2	2778.5	3068.3	3382.6	3763.8
deflator	128.6	131.9	137.8	146.9	155.3	163.9	172.4	181.0	190.0
rate of deflator growth	3.1	2.5	4.5	6.6	5.7	5.5	5.2	5.0	5.0
real	1223.3	1343.3	1450.8	1537.8	1614.7	1695.5	1780.2	1869.2	1981.4
rate of real growth	0.7	9.8	8.0	6.0	5.0	5.0	5.0	5.0	6.0
Other Service Activities									
nominal	540.0	487.5	534.8	595.8	661.4	726.0	794.1	872.9	959.4
deflator	133.4	140.0	146.3	156.0	164.9	174.1	183.1	192.2	201.8
rate of deflator growth	3.8	5.0	4.5	6.6	5.7	5.5	5.2	5.0	5.0
real	404.7	348.1	365.5	381.9	401.0	417.1	433.8	454.1	475.5
rate of real growth	3.4	-14.0	5.0	4.5	5.0	4.0	4.0	4.7	4.7
Total GDP									
nominal	83846.0	82515.0	92321.6	107807.3	113108.2	120993.7	129799.5	138858.3	145828.8
rate of nominal growth	5.6	-1.6	11.9	16.8	4.9	7.0	7.3	7.0	5.0
deflator	127.6	129.7	145.0	161.8	163.2	168.5	174.3	179.9	182.0
real	65714.3	63632.9	63677.2	66622.0	69290.7	71787.9	74460.4	77190.1	80105.0
rate of real growth	4.5	-3.2	0.1	4.6	4.0	3.6	3.7	3.7	3.8
Total non-mining GDP									
nominal	60087.6	62473.7	69813.6	77817.5	85280.8	93596.0	102888.0	112975.6	124198.4
rate of nominal growth	4.9	4.0	11.7	11.5	9.6	9.8	9.9	9.8	9.9
deflator	134.0	139.9	149.2	159.1	166.6	175.1	183.5	192.1	201.2
real	44825.3	44656.2	46785.8	48912.9	51177.3	53464.5	56084.1	58811.0	61723.0
rate of real growth	1.6	-0.4	4.8	4.5	4.6	4.5	4.9	4.9	5.0

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

Source: Actual data for 2008-2020: National Statistical Office. Estimates and projections: Department of Treasury

Table 2: Contributions to Growth in Real Gross Domestic Product (Percentage points)

	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Est	2022 Est	2023 Proj	2024 Proj	2025 Proj	2026 Proj	2027 Proj
Agriculture, Forestry and Fishing	0.4	0.4	0.7	0.4	0.3	0.3	0.4	0.5	0.5	0.5	0.5	0.4
Oil and Gas Extraction	1.4	-0.5	-3.3	2.7	-0.1	-1.4	0.3	-1.3	0.0	-0.1	0.0	0.0
Mining and Quarrying	1.6	1.6	0.3	0.6	-2.8	-1.9	1.0	1.9	0.3	0.1	0.0	0.0
Manufacturing	0.1	0.1	-0.1	0.0	-0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Electricity Gas & Airconditioning	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Water Supply & Waste Managen	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	0.1	-0.7	-0.1	-0.5	0.0	0.1	0.1	0.2	0.2	0.3	0.3	0.3
Wholesale and retail trade	0.2	0.1	0.2	0.1	0.0	0.8	0.7	0.5	0.5	0.6	0.6	0.6
Transport and Storage	0.1	0.0	0.1	0.1	-0.4	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Accomodation and Food Service	0.0	0.1	0.2	0.0	-0.1	0.1	0.1	0.1	0.0	0.0	0.1	0.1
Information and Communication	0.1	0.0	0.0	0.3	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Financial and Insurance Activities	-0.1	0.0	0.0	-0.1	-0.3	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Real Estate Activities	0.3	0.2	0.1	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Professional and Scientific	0.0	-0.1	-0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Administrative and Support Servi	0.0	0.0	0.8	0.3	-0.1	0.4	0.2	0.2	0.3	0.3	0.3	0.4
Public Administration and Defenc	0.1	0.1	0.4	0.0	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.4
Education	0.1	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Health and Social Work Activities	0.3	0.1	0.1	0.0	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Other Service Activities	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL GDP*	4.1	2.2	-0.3	4.5	-3.2	0.1	4.6	4.0	3.6	3.7	3.7	3.8
Total Non-mining GDP	1.5	1.5	4.0	1.6	-0.4	4.8	4.5	4.6	4.5	4.9	4.9	5.0

Source: Actuals from National Statistical Office (NSO). Estimates and projections from Department of Treasury.

Table 3: Prices of Main Export Commodities

	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Est	2023 Proj	2024 Proj	2025 Proj	2026 Proj	2027 Proj
AGRICULTURE												
Copra	1848	2374	1821	1803	1930	2080	2497	2498	2498	2498	2498	2498
Cocoa	9358	6329	7552	7934	8210	8518	8194	8045	7730	7730	7730	7730
Coffee	9358	10714	10128	10228	12552	17289	20427	19174	18561	18346	18346	18346
Palm Oil	1877	2155	1867	1717	2215	3505	3981	3156	3015	2992	2992	2992
Rubber	3333	4655	3997	4029	3714	4321	4063	4175	4257	4257	4257	4257
Tea	4222	4727	4070	4750	3999	3625	3587	3585	3633	3633	3633	3633
Copra Oil	3358	4519	3026	2314	2643	4850	5589	5592	5592	5592	5592	5592
Logs (K/m^3)	294	302	304	327	310	338	358	358	358	358	358	358
MINERALS												
Gold (US$/oz)	1248	1258	1270	1392	1770	1800	1816	1812	1871	1926	1956	1985
Copper (US$/ton)	4865	6166	6517	6006	6170	9308	8811	7910	7894	7877	7875	7915
Oil (Kutubu Crude: US$/barrel)	44	51	65	57	39	68	95	83	77	73	71	69
LNG (US$ per thousand cubic feet)	7.1	8.1	10.2	10.6	8.3	10.8	14.6	12.8	12.1	11.4	11.1	10.8
Condensate (US$/barrel)	44	51	65	57	39	68	95	83	77	73	71	69
Nickel (US$/tonne)	9595	10415	13109	10960	10639	17147	20929	17602	17964	18100	18491	18629
Cobalt (US$/tonne)	25639	55988	72820	22836	21483	44430	52532	43355	41968	40236	40164	40047

Source: Department of Treasury.

Table 4: Volume of Main Export Commodities

	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Est	2023 Proj	2024 Proj	2025 Proj	2026 Proj	2027 Proj
AGRICULTURE												
Copra	43.5	50.6	63.6	36.6	36.7	38.9	40.3	40.3	40.3	40.3	40.3	40.3
Cocoa	40.1	31.9	33.3	26.4	33.0	33.4	36.7	42.4	48.8	54.2	60.2	66.2
Coffee	68.0	47.8	52.1	47.2	40.7	25.0	25.0	33.1	34.3	31.9	33.2	34.1
Palm Oil	540.7	621.8	614.3	571.3	557.9	649.3	632.3	595.2	596.5	607.9	620.0	620.0
Rubber	2.4	2.9	4.9	3.4	3.1	2.8	3.1	3.0	3.0	3.1	3.3	3.4
Tea	0.9	1.1	0.5	0.4	0.2	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Copra Oil	17.9	16.2	13.7	15.6	10.4	10.7	12.7	12.9	13.8	14.0	15.1	15.8
Logs	3655.0	3260.5	4040.0	3684.0	2891.0	2724.2	2901.0	3597.2	3597.2	3597.2	3597.2	3597.2
Marine products	174.5	165.5	202.2	202.3	203.4	209.5	215.8	222.3	228.9	235.8	242.9	250.2
MINERAL												
Gold (tonnes)	59.4	63.0	63.2	74.2	54.1	44.2	44.7	60.6	62.5	64.9	65.9	66.9
Silver (tonnes)	19.08	36.14	33.68	53.57	41.65	16.72	16.74	16.8	16.8	16.8	16.8	42.0
Copper (tonnes)	71.0	100.4	87.4	111.0	82.3	36.0	40.3	58.6	65.6	65.6	65.6	65.6
Oil (million barrels)	9.5	7.3	4.1	3.6	4.9	4.4	4.8	5.4	5.0	5.0	5.0	5.0
LNG (Tbtu)	389.1	447.0	382.0	433.0	430.6	413.5	437.0	409.0	409.0	409.0	409.0	409.0
Condensate (MB)	11.3	10.9	8.9	11.0	10.6	8.4	7.0	6.0	6.0	6.0	6.0	6.0
Nickle (tonnes)	22,400.0	35,800.0	25,500.0	40,300.0	28,714.0	33,500.0	32,600.0	32600.0	32600.0	32601.9	32601.9	32601.9
Cobalt (tonnes)	2300.0	3400.0	2900.0	3600.0	2600.0	2700.0	3010.0	3010.0	3010.0	3010.0	3010.0	3010.0

Source: BPNG and Department of Treasury

Table 5: Value of Main Export Commodities (Kina, million)

	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Est	2023 Proj	2024 Proj	2025 Proj	2026 Proj	2027 Proj
AGRICULTURE, FORESTRY, FISHERIES												
Copra	80.4	120.1	115.8	66.0	70.8	80.9	100.6	100.6	100.6	100.6	100.6	100.6
Copra Oil	60.1	73.2	41.3	36.1	27.5	51.7	71.1	72.3	77.3	78.5	84.3	88.5
Cocoa	359.9	202.0	246.5	215.5	270.9	284.6	300.6	340.9	377.5	419.0	465.0	511.5
Coffee	646.9	450.1	487.9	415.1	502.1	274.8	510.1	633.9	635.9	586.1	608.9	625.3
Palm Oil	1014.7	1339.7	1146.8	980.8	1322.0	2687.2	2517.3	1878.3	1798.2	1818.9	1854.9	1854.9
Rubber	8.0	13.5	19.6	13.7	10.4	12.1	12.5	12.6	12.6	13.2	13.9	14.6
Tea	3.8	5.2	2.0	1.9	1.2	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Other Agriculture (a)	303.7	609.8	251.0	237.2	316.9	516.5	606.1	503.8	504.7	525.3	550.9	577.7
Forest Products	1083.7	999.8	1002.0	1238.9	896.0	943.0	1002.3	1002.8	1002.8	1002.8	1002.8	1002.8
Marine Products	1046.6	1316.6	1120.7	1162.0	1225.6	1318.6	1447.9	1576.6	1714.0	1856.7	2007.8	2170.9
Total Agricultural, Forestry, Fishing	**4607.8**	**5130.0**	**4433.5**	**4367.2**	**4643.5**	**6170.7**	**6570.0**	**6123.4**	**6225.1**	**6402.6**	**6690.7**	**6948.4**
MINERAL												
Gold	6976.4	7612.2	8207.2	10520.1	10551.0	8967.9	9172.8	12425.4	13246.2	14140.2	14585.8	15024.4
Copper	1114.9	1962.2	1889.7	2242.0	1706.0	1141.8	1212.8	1584.1	1771.7	1768.0	1767.7	1776.5
Silver	32.8	63.1	62.5	93.3	74.8	31.1	31.2	31.2	31.2	31.2	31.2	78.2
Oil	1253.8	1255.9	910.2	741.4	1016.8	648.6	1211.8	1918.1	1538.7	1443.0	1364.7	1325.2
LNG	8188.9	10467.5	13835.1	15600.2	12315.0	15616.7	22530.1	18482.4	17384.3	16486.4	16032.4	15559.4
Condensate	1592.3	1935.1	574.6	627.4	416.8	568.0	663.4	495.2	464.4	439.2	426.5	413.2
Nickel	668.2	1179.0	1087.0	1953.8	1056.9	1973.0	2401.1	2020.5	2062.0	2077.6	2122.6	2138.4
Cobalt	195.2	614.1	575.5	392.5	186.1	473.1	534.4	441.3	427.2	409.6	408.8	407.6
Refined Petroleum Products	862.5	1196.5	1394.5	1293.7	933.1	1660.1	2369.9	2106.5	2015.0	1943.8	1925.2	1902.6
Total Mineral Exports	**20885.0**	**26285.6**	**28536.3**	**33464.5**	**28256.5**	**31080.4**	**40127.6**	**39504.9**	**38940.8**	**38738.9**	**38664.9**	**38625.6**
TOTAL EXPORT VALUE	**25492.8**	**31415.6**	**32969.8**	**37831.7**	**32900.0**	**37251.1**	**46697.5**	**45628.2**	**45165.8**	**45141.5**	**45355.6**	**45574.1**

Source: BPNG and Department. of Treasury.
(a) Includes Oil Palm by-products, canned tuna and vanilla.

Table 6: Summary of Balance of Payments (Kina, million)

	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Est	2023 Proj	2024 Proj	2025 Proj	2026 Proj	2027 Proj
CURRENT ACCOUNT BALANCE	**16064.7**	**16732.7**	**17342.4**	**17638.3**	**17006.7**	**18485.9**	**23801.5**	**23020.4**	**22373.2**	**21741.4**	**21299.8**	**20916.3**
Trade Balance	**16052.3**	**17513.4**	**18118.4**	**20055.2**	**17153.1**	**20969.0**	**26663.6**	**26229.1**	**25959.8**	**25935.7**	**26052.2**	**26297.8**
Goods Balance	19006.2	21658.1	22134.0	24168.6	21538.1	25382.2	32137.4	31482.5	31118.7	31052.5	31129.3	31321.0
Credit (Exports)	25493	31416	33702	37832	32900	37251	46698	45628	45166	45142	45356	45574
Debit (Imports)	-6487	-9757	-11568	-13663	-11362	-11869	-14560	-14146	-14047	-14089	-14226	-14253
Services Balance	-2953.9	-4144.7	-4015.6	-4113.4	-4385.1	-4413.2	-5473.8	-5253.4	-5158.9	-5116.8	-5077.1	-5023.2
Services Credit	403	950	1426	1510	453	688	766	840	922	1013	1113	1223
Services Debit	-3357	-5095	-5442	-5624	-4838	-5101	-6240	-6093	-6081	-6130	-6190	-6246
Income Balance (RHS)	**-720.2**	**-1429.8**	**-2032.7**	**-3536.8**	**-935.2**	**-3840.7**	**-4281.0**	**-4691.6**	**-5149.0**	**-5660.2**	**-6215.2**	**-6841.2**
Income Credit	16	74	103	230	117	153	170	187	205	225	247	263
Income Debit	-736	-1504	-2136	-3767	-1053	-3994	-4451	-4878	-5354	-5886	-6463	-7105
Transfers Balance (RHS)	**732.6**	**649.1**	**1256.7**	**1119.9**	**788.8**	**1357.5**	**1418.9**	**1482.9**	**1562.5**	**1465.8**	**1462.8**	**1459.8**
Transfers Credit	1240	1394	1577	1539	952	1640	1709	1781	1868	1781	1781	1781
Transfers Debit	-508	-745	-320	-419	-163	-282	-290	-298	-306	-315	-318	-321
CAPITAL AND FINANCIAL ACCOUNT[(a)]	**-16203**	**-16697**	**-17342**	**-17638**	**-16216**	**-20250**	**-22679**	**-23046**	**-23174**	**-23125**	**-22111**	**-5410**
NET ERRORS AND OMISSIONS	138.0	-35.8	0.0	0.0	-791.0	1763.7	-1122.3	25.7	800.5	1383.5	811.5	-15506.7
Current account balance as percentage of Gross Domestic Product (GDP)	24.7	23.1	21.8	21.0	20.6	20.0	22.1	20.4	18.5	16.7	15.3	14.3

Source: Actuals from BPNG. Projections from Dept. of Treasury.
(a) Capital and Financial Account includes changes in reserves.

Source: BPNG and Dept. of Treasury.
(a) Capital and Financial Account includes changes in reserves.

Table 7: Employment Classified by Industry

Index March 2002=100

	2014 Annual	2015 Annual	2016 Annual	2017 Annual	2018 Annual	2019 Annual	2020 Annual	2021 Annual	2022 Jun Qtr*
Retail	162.4	159.6	148.6	141.7	132.7	136.3	135.5	148.8	130.4
Wholesale	215.4	207.5	204.0	193.0	198.4	194.0	163.5	156.3	151.6
Manufacturing	188.3	180.2	178.4	169.4	167.7	180.4	185.9	184.5	206.3
Building and Construction	266.6	262.5	242.3	184.7	164.4	147.5	123.0	95.6	142.5
Transportation	174.4	172.7	172.4	163.3	150.2	132.3	127.3	125.1	128.9
Agriculture, Forestry, Fisheri	170.4	168.1	165.2	165.9	157.7	158.7	160.9	155.9	158.5
Financial and Business	124.4	123.7	119.6	121.7	126.2	130.3	112.7	98.7	113.8
TOTAL NON-MINERAL	173.6	169.7	166.1	156.5	151.5	151.9	147.0	140.8	150.9
MINERAL	240.1	241.2	262.2	281.8	304.4	359.3	308.8	333.3	307.8

Source: BPNG.
* June Quarter Preliminaries

Table 8: Monetary Aggregates

(Kina Million, unless otherwise stated)

	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Jun Qtr*
Domestic Credit	11724.1	13054.7	13920.3	13794.3	14569.1	15323.8	15543.1	15133.9	15457.2
% Change	16.0	11.3	6.6	-0.9	5.6	5.2	6.7	-1.2	-0.6
Net Credit to Central Government	4163.8	5345.3	9008.7	9154.898	6810.6	7150.4	7451.1	10005.0	12072.6
% Change	51.1	28.4	68.5	1.6	-25.6	5.0	9.4	39.9	62.0
Credit to Private Sector	10263.9	10611.9	11379.1	10972.9	11757.0	12231.9	12754.4	12809.3	13152.7
% Change	3.6	3.4	7.2	-3.6	7.1	4.0	8.5	4.7	3.1
Money Supply	18716.3	20218.6	22417.1	22275.0	21377.6	22312.0	23879.7	26684.5	28722.6
% Change	3.4	8.0	10.9	-0.6	-4.0	4.4	11.7	19.6	20.3
Money Velocity (M3*) (average)	3.1	3.0	2.9	3.3	3.7	3.8	3.5	3.5	3.8

Source: BPNG
*June Quarter Preliminaries

Table 9: Major Assumptions Underlying the Budget

	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Est	2022 Est	2023 Proj	2024 Proj	2025 Proj	2026 Proj	2027 Proj
Economic Growth														
Total Real GDP (%)	13.5	9.5	4.1	2.2	-0.3	4.5	-3.2	0.1	4.6	4.0	3.6	3.7	3.7	3.8
Non-mining Real GDP (%)	4.1	-4.1	1.5	1.5	4.0	1.6	-0.4	4.8	4.5	4.6	4.5	4.9	4.9	5.0
Inflation														
Average on Average (%)	5.2	6.0	6.7	5.4	4.7	3.6	4.9	4.5	6.6	5.7	5.5	5.2	5.0	5.0
Dec on Dec (%)	6.6	6.4	6.6	4.7	4.9	2.7	5.1	5.7	6.7	5.2	5.1	5.3	5.8	4.8
Exchange rate														
Real Exchange Rate Index (2010 = 100)	124.9	131.4	122.1	124.3	123.0	125.8	128.1	123.3	128.8	133.8	133.8	133.8	133.8	133.8
Interest rate														
Kina Rate Facility (KFR)	6.25	6.25	6.25	6.25	6.25	5.50	3.00	3.00	3.25	3.25	3.25	3.25	3.25	3.25
Inscribed Stock (3 year yield)	8.0	9.7	9.7	9.7	9.0	10.5	9.0	9.0	6.0	6.0	6.0	6.0	6.0	6.0
Mineral Prices														
Gold (US$/oz)	1266	1160	1248	1258	1270	1392	1770	1800	1816	1812	1871	1926	1956	1985
Copper (US$/ton)	6864	5502	4865	6166	6517	6006	6170	9308	8811	7910	7894	7877	7875	7915
Oil (Kutubu Crude: US$/barrel)	93	49	44	51	65	57	39	68	95	83	77	73	71	69
LNG (US$ per thousand cubic feet)	14	7.9	7.1	8.1	10.2	10.6	8.3	10.8	14.6	12.8	12.1	11.4	11.1	10.8
Condensate (US$/barrel)	93	49	44	51.0	64.5	57.0	39.5	67.9	94.8	82.5	77.4	73.2	71.1	69
Nickel (US$/tonne)	16847	11831	9595	10415	13109	10960	10639	17147	20929	17602	17964	18100	18491	18629
Cobalt (US$/tonne)	30724	29255	25639	55988	72820	22836	21483	44430	52532	43355	41968	40236	40164	40047

Source: Department of Treasury.

Table 10: Statement of Operations for General Government

	Actual		Estimates		Projections			
Kina Million	2020	2021	2022 Suppl. Budget	2023 Budget	2024	2025	2026	2027
TRANSACTIONS AFFECTING NET WORTH:								
Revenue	**12,093.3**	**13,860.4**	**17,389.1**	**19,582.0**	**20,498.8**	**22,226.8**	**25,123.7**	**28,368.7**
Taxes	9,802.1	11,129.4	13,831.5	14,899.6	15,813.6	17,196.7	19,414.9	21,940.0
Taxes on Income,profits, and capital gains	5,668.6	6,356.1	8,841.9	8,935.0	8,899.9	9,008.8	9,677.4	10,816.3
Taxes on payroll and workforce	0.4	0.8	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on goods and services	3,372.7	3,993.7	4,130.2	5,015.3	5,888.1	6,796.0	7,622.3	8,613.9
Taxes on international trade and transactions	760.4	778.8	859.4	949.4	1,025.6	1,391.9	2,115.2	2,509.9
Grants	1,425.0	2,088.0	1,824.9	2,024.9	2,074.9	2,124.9	2,175.2	2,224.9
Other Revenue	866.2	643.0	1,732.7	2,657.4	2,610.2	2,905.2	3,533.6	4,203.8
Dividends	718.5	530.5	1,470.0	1,932.5	1,866.9	2,078.3	2,750.6	3,308.1
Statutory Transfers (NTRA Revenue)	85.0	50.0	209.6	459.3	587.9	678.3	640.9	748.2
Fees and Charges	62.7	62.5	52.4	264.9	154.7	147.9	141.4	146.8
SWF Inflows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest & Fees from Lending	0.0	0.0	0.7	0.7	0.7	0.7	0.7	0.7
Resource Revenue	751.9	1,015.9	4,150.0	4,024.3	2,843.0	2,511.3	3,089.0	3,701.3
Mining and Petroleum Taxes	183.4	635.4	3,000.0	2,341.8	1,326.0	840.5	948.9	1,072.3
Mining, Petroleum and Gas Dividends	568.5	380.5	1,150.0	1,682.5	1,516.9	1,670.8	2,140.1	2,629.0
Transfer from the Stabilization Fund (SWF)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Revenue as percentage of GDP	*14.8%*	*14.9%*	*16.1%*	*17.3%*	*16.9%*	*17.1%*	*18.1%*	*19.5%*
Total Expenditure and lending	**19,397.8**	**20,130.7**	**23,373.6**	**24,566.9**	**24,467.5**	**25,689.2**	**26,897.8**	**28,261.7**
Expense as percentage of GDP	*23.8%*	*21.6%*	*21.7%*	*21.7%*	*20.2%*	*19.8%*	*19.4%*	*19.4%*
Expense[2]	**15,887.1**	**16,480.4**	**18,488.8**	**19,956.8**	**17,757.8**	**19,055.3**	**19,845.4**	**20,968.3**
Compensation of employees	5,831.5	6,093.7	6,353.2	6,833.7	7,160.6	7,598.0	7,900.4	8,205.9
Use of goods and services	5,388.4	6,161.2	6,756.8	6,929.7	5,241.5	5,588.0	5,972.1	6,609.7
Interest	2,160.0	2,249.1	2,313.5	2,496.1	2,607.2	2,686.5	2,707.7	2,689.3
Grants	2,190.0	1,915.0	2,958.3	3,513.8	2,611.9	3,028.2	3,090.2	3,265.3
Social benefits	217.7	0.0	42.5	114.2	51.5	56.6	62.3	68.5
Other expense	99.4	61.3	64.4	69.4	85.2	98.0	112.7	129.6
Net Acquition of Non-Financial Assets*	**3,510.7**	**3,650.4**	**4,884.8**	**4,610.1**	**6,709.7**	**6,634.0**	**7,052.4**	**7,293.4**
Fixed Assets	3,510.7	3,650.4	4,884.8	4,610.1	6,709.7	6,634.0	7,052.4	7,293.4
Gross Operating Balance[3]	**-3,793.7**	**-2,619.9**	**-1,099.7**	**-374.8**	**2,741.0**	**3,171.6**	**5,278.4**	**7,400.4**
Net Lending (+) / Net Borrowing (–)	**-7,304.4**	**-6,270.3**	**-5,984.7**	**-4,984.9**	**-3,968.7**	**-3,462.4**	**-1,774.0**	**107.0**
Net lending/borrowing as percentage of GDP	*-8.9%*	*-6.7%*	*-5.6%*	*-4.4%*	*-3.3%*	*-2.7%*	*-1.3%*	*0.1%*
Primary Balance[4]	-5,144.4	-4,021.2	-3,671.0	-2,488.9	-1,361.5	-775.9	933.6	2,796.3
Non-resource net lending (+)/borrowing (-)	-8,056.3	-7,286.1	-10,134.5	-9,009.2	-6,811.7	-5,973.7	-4,863.1	-3,594.3
Non-resource primary balance	-5,896.3	-5,037.0	-7,821.0	-6,513.2	-4,204.5	-3,287.2	-2,155.4	-905.0
Transactions in financial assets and liabilities	**7,304.4**	**6,270.3**	**5,984.7**	**4,984.9**	**3,968.7**	**3,462.4**	**1,774.1**	**-107.0**
Net Acquisition of Financial Assets	**-802.9**	**-1,685.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Domestic	-802.9	-910.4	0.0	0.0	0.0	0.0	0.0	0.0
External		-774.8						
Net Incurrence of Liabilities	**6,501.5**	**7,955.5**	**5,984.7**	**4,984.9**	**3,968.7**	**3,462.4**	**1,774.1**	**-107.0**
Domestic	**2,882.0**	**3,042.1**	**2,240.0**	**1,465.7**	**526.9**	**-451.9**	**-290.6**	**-1,180.5**
Debt securities: Treasury bills	*1,710.5*	*1,394.8*	*260.1*	*525.7*	*-507.2*	*-826.9*	*-689.2*	*-1,193.7*
Debt securities: Treasury bonds	*1,266.2*	*1,600.6*	*1,750.0*	*945.0*	*1,059.1*	*500.0*	*523.6*	*138.2*
Loans	*-94.7*	*46.7*	*229.9*	*-5.0*	*-25.0*	*-125.0*	*-125.0*	*-125.0*
External	**3,619.5**	**4,913.4**	**3,744.7**	**3,519.2**	**3,441.8**	**3,914.3**	**2,064.7**	**1,073.5**
Monetary gold and special drawing rights (SDR's)	*0.0*	*1,244.1*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Debt securities: Sovereign bonds	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Loans	*3,619.5*	*3,669.3*	*3,744.7*	*3,519.2*	*3,441.8*	*3,914.3*	*2,064.7*	*1,073.5*
Gross Domestic Product[5]	**81,627.0**	**93,314.1**	**107,807.3**	**113,108.2**	**120,993.7**	**129,799.5**	**138,858.3**	**145,828.8**

Source: Department of Treasury

1. General government represents national and provincial governments, the Autonomous Bouganville 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 and includes in-kind related transactions.
2. Include items that may require reclassification due to interfaces from the legacy systems, (The Provincial Government Accounting System, ALESCO payroll and the Department of Public Works and Implementation, Oracle system).
3. 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

Table 11: Statement of Sources and Uses of Cash

	Actuals		Budget Estimates		Projections			
Kina Million	**2020**	**2021**	**2022 Suppl.**	**2023 Budget**	**2024**	**2025**	**2026**	**2027**
CASH FLOWS FROM OPERATING ACTIVITIES								
Revenue Cash Flows	**10,668.3**	**11,998.0**	**15,814.2**	**17,557.0**	**18,423.8**	**20,101.9**	**23,148.6**	**26,243.9**
Taxes	9,802.1	11,129.4	13,831.5	14,899.6	15,813.6	17,196.7	19,414.9	21,940.0
Grants	0.0	225.6	250.0	0.0	0.0	0.0	200.1	100.1
Other Revenue	866.2	643.0	1,732.7	2,657.4	2,610.2	2,905.2	3,533.6	4,203.8
Revenue as percentage of GDP	*13.1%*	*12.9%*	*14.7%*	*15.5%*	*15.2%*	*15.5%*	*16.7%*	*18.0%*
Expense cash flows[2]	**14,299.9**	**14,438.8**	**16,713.4**	**17,712.5**	**15,456.8**	**16,690.5**	**17,620.9**	**18,584.5**
Compensation of employees	5,669.3	5,914.5	6,152.7	6,614.4	6,934.6	7,358.2	7,651.0	7,946.9
Uses of goods and services	5,388.4	6,161.2	6,756.8	6,929.7	5,241.5	5,588.0	5,972.1	6,609.7
Interest	2,160.0	2,249.1	2,313.5	2,496.1	2,607.2	2,686.5	2,707.7	2,689.3
Grants	765.0	52.6	1,383.4	1,488.9	536.9	903.2	1,115.1	1,140.4
Other payments	317.2	61.3	107.0	183.6	136.6	154.6	175.0	198.1
Expense as percentage of GDP	*17.5%*	*15.5%*	*15.5%*	*15.7%*	*12.8%*	*12.9%*	*12.7%*	*12.7%*
Net cash inflow from operating activities	**-3,631.5**	**-2,440.7**	**-899.2**	**-155.5**	**2,967.0**	**3,411.4**	**5,527.7**	**7,659.4**
CASH FLOWS FROM TRANSACTIONS IN NONFINANCIAL ASSE								
Net cash outflow from investment in nonfinancial assets	**0.0**	**0.0**	**4,884.8**	**4,610.1**	**6,709.7**	**6,634.0**	**0.0**	**0.0**
Expenditure cash flows	**14,299.9**	**14,438.8**	**21,598.2**	**22,322.6**	**22,166.5**	**23,324.5**	**17,620.9**	**18,584.5**
Cash surplus (+) / Cash deficit (–)	**-3,631.5**	**-2,440.7**	**-5,784.0**	**-4,765.6**	**-3,742.7**	**-3,222.6**	**5,527.7**	**7,659.4**
Surplus/Deficit as percentage of GDP	*-4.4%*	*-2.6%*	*-5.4%*	*-4.2%*	*-3.1%*	*-2.5%*	*4.0%*	*5.3%*
CASH FLOWS FROM TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES (FINANCING):								
Transactions in financial assets and liabilities	6,501.5	7,955.5	5,984.7	4,984.9	3,968.7	3,462.4	1,774.1	-107.0
Net acquisition of financial assets other than cash			-	-	-	-		
Domestic	- 802.90	- 910.40	-	-	-	-	-	-
External			-	-	-	-		
Net incurrence of liabilities	**6,501.5**	**7,955.5**	**5,984.7**	**4,984.9**	**3,968.7**	**3,462.4**	**1,774.1**	**-107.0**
Domestic	2,882.0	3,042.1	2,240.0	1,465.7	526.9	-451.9	-290.6	-1,180.5
External	3,619.5	4,913.4	3,744.7	3,519.2	3,441.8	3,914.3	2,064.7	1,073.5
Net cash inflow from financing activities	**6,501.5**	**7,955.5**	**5,984.7**	**4,984.9**	**3,968.7**	**3,462.4**	**1,774.1**	**-107.0**
Net cash inflow as percentage of GDP	*8.0%*	*8.5%*	*5.6%*	*4.4%*	*3.3%*	*2.7%*	*1.3%*	*-0.1%*
Net change in the stock of cash	**2,870.0**	**5,514.8**	**200.7**	**219.3**	**226.0**	**239.8**	**7,301.8**	**7,552.5**
Gross Domestic Product[3]	**81,627.0**	**93,314.1**	**107,807.3**	**113,108.2**	**120,993.7**	**129,799.5**	**138,858.3**	**145,828.8**

Source: Department of Treasury

1. General government represents National and Provincial Governments, the Autonomous Bouganville 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
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*

Table 12: General Government Revenue 2014 GFS Economic Classification

Kina Million	Actual 2020	Actual 2021	Budget Estimates 2022 Suppl. Budget	Budget Estimates 2023 Budget	Projections 2024	Projections 2025	Projections 2026	Projections 2027
REVENUE[1]	12,093.3	13,860.4	17,389.1	19,582.0	20,498.8	22,226.8	25,123.7	28,368.7
TAXES	9,802.1	11,129.4	13,831.5	14,899.6	15,813.6	17,196.7	19,414.9	21,940.0
Taxes on Income, Profits and Capital Gains	5,668.6	6,356.1	8,841.9	8,935.0	8,899.9	9,008.8	9,677.4	10,816.3
Payable by individuals	3,517.3	3,467.9	3,316.6	3,518.2	4,195.1	4,527.8	4,899.5	5,286.5
Personal Income Tax	3,517.3	3,467.9	3,316.6	3,518.2	4,195.1	4,527.8	4,899.5	5,286.5
Salaries/Wages (Group Tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Individual Income Tax (Assessed)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payable by corporations and other enterprises	1,787.9	2,374.9	4,831.1	4,811.8	4,075.0	3,821.8	4,087.7	4,807.8
Company Tax	1,554.2	1,690.3	1,763.2	2,394.5	2,662.8	2,884.4	3,039.4	3,633.8
Mining and Petroleum Taxes	183.4	635.4	3,000.0	2,341.8	1,326.0	840.5	948.9	1,072.3
Royalties Tax	30.1	29.6	40.4	45.3	53.9	55.3	56.3	57.3
Management Tax	20.1	19.7	27.5	30.2	32.3	41.6	43.0	44.4
Other taxes on income, profits and capital gains	363.4	513.3	694.2	604.9	629.8	659.2	690.2	722.1
Dividend Withholding Tax Mining	215.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend Withholding Tax Non Mining	134.9	366.0	621.2	426.9	444.3	464.6	486.0	506.8
Interest Withholding Tax	12.6	127.0	63.0	167.4	174.3	182.2	190.6	198.8
Non-Resident Insurers Withholding Tax	0.0	20.2	9.5	10.2	10.8	11.5	12.2	14.5
Tax Related Court Fines	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sundry IRC Taxes & Income		0.0	0.4	0.4	0.4	0.9	1.4	1.9
Taxes on Payroll and Workforce	0.4	0.8	0.0	0.0	0.0	0.0	0.0	0.0
Training Levy	*0.4*	*0.8*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Taxes on Goods and Services	3,372.7	3,993.7	4,130.2	5,015.3	5,888.1	6,796.0	7,622.3	8,613.9
General taxes on goods and services	2,122.5	2,458.6	2,751.4	3,383.3	3,835.7	4,510.8	5,139.8	5,947.0
Value Added Tax	2,079.2	2,457.2	2,699.6	3,321.7	3,763.4	4,437.5	5,065.7	5,872.0
GST[2]	2,079.2	2,457.2	2,699.6	3,321.7	3,763.4	4,437.5	5,065.7	5,872.0
GST Collection at Provinces	*1,325.0*	*1,450.6*	*1,828.5*	*2,226.6*	*2,541.9*	*2,933.6*	*3,348.3*	*3,789.2*
GST Collection at Ports	*982.1*	*1,104.3*	*1,200.7*	*1,461.3*	*1,597.7*	*1,910.4*	*2,223.9*	*2,685.6*
GST Refunds	*228.0*	*97.6*	*329.6*	*366.1*	*376.3*	*406.4*	*506.5*	*602.7*
GST from IRC Trust	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Taxes on financial and capital transactions	43.3	1.4	51.8	61.6	72.4	73.3	74.1	75.0
Bank Account Debit Fees	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stamp Duties	43.3	1.4	51.8	61.6	72.4	73.3	74.1	75.0
Excise	1,074.6	1,281.2	1,011.6	1,260.5	1,653.1	1,861.3	2,048.8	2,206.7
Excise Duty	817.0	998.3	751.5	1,105.7	1,208.9	1,324.5	1,450.7	1,584.5
Import Excise	257.6	282.8	260.1	154.8	444.2	536.7	598.1	622.2
Profits of fiscal monopolies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on specific services	172.0	235.9	343.7	363.8	389.2	413.4	422.0	448.3
Bookmakers' Turnover Tax	8.9	6.6	23.0	24.0	26.3	29.0	30.5	33.5
Gaming Machine Turnover Tax	157.7	228.1	315.7	334.6	354.7	375.9	382.6	405.6
Departure Tax	5.4	1.3	5.0	5.3	8.2	8.5	8.9	9.3
Taxes on use of goods and on permission to use goods or perfo	0.4	11.6	16.5	4.7	4.7	5.2	6.2	6.2
Motor vehicles taxes	0.0	11.4	15.0	3.5	3.5	4.5	4.5	4.5
Motor Vehicle Registration	0.0	11.4	15.0	3.5	3.5	3.5	3.5	3.5
Commercial Vehicle Licenses	0.0	0.0	0.0	0.0	0.0	1.0	1.0	1.0
Other taxes on use of goods and on permission to use goods	0.4	0.2	1.5	1.2	1.2	0.7	1.7	1.7
Bookmakers' Licenses	0.0	0.0	0.0	0.0	0.0	0.0	1.0	1.0
Coastal Trading Licenses	0.3	0.2	0.5	0.5	0.5	0.0	0.0	0.0
Registration of Vessels	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inflammable Liquid	0.0	0.0	0.3	0.4	0.4	0.4	0.4	0.4
Trade Licenses	0.0	0.0	0.5	0.1	0.1	0.1	0.1	0.1
Mobile Phone Licenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Import and export trade licences	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurers' and Brokers' Licences	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Banking & Financial Institutions License	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liquor Licensing Fee	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Motor Vehicle Trade Licenses	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Other taxes on goods and services	3.2	6.5	7.0	3.0	5.3	5.4	5.5	5.7
Sundry Taxes (Customs)	3.2	6.5	7.0	3.0	5.3	5.4	5.5	5.7
Taxes on International Trade and Transactions	760.4	778.8	859.4	949.4	1,025.6	1,391.9	2,115.2	2,509.9
Customs and other import duties	359.5	379.7	419.9	440.2	558.1	743.3	1,139.6	1,279.7
Import Duty	359.5	379.7	419.9	440.2	558.1	743.3	1,139.6	1,279.7
Taxes on exports	400.9	399.1	439.5	509.2	467.5	648.6	975.5	1,230.1
Export Tax	400.9	399.1	439.5	509.2	467.5	648.6	975.5	1,230.1
GRANTS	1,425.0	2,088.0	1,824.9	2,024.9	2,074.9	2,124.9	2,175.2	2,224.9
From Foreign Governments	908.1	1,630.6	1,498.4	1,714.6	1,645.3	1,594.3	1,694.4	1,744.1
Current	726.5	1,349.6	1,345.2	1,561.3	1,492.1	1,441.0	1,541.1	1,590.9
Cash	0.0	225.6	250.0	0.0	0.0	0.0	200.1	100.1
In-Kind	726.5	1,124.0	1,095.2	1,561.3	1,492.1	1,441.0	1,341.0	1,490.8
Capital	181.6	281.0	153.2	153.2	153.2	153.2	153.2	153.2
Cash	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
In-Kind	181.6	281.0	153.2	153.2	153.2	153.2	153.2	153.2
From International Organizations	516.9	457.4	326.5	310.4	429.6	530.7	480.8	480.8
Current	413.5	365.9	293.3	277.2	396.4	497.5	447.6	447.6
Cash	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
In-Kind	413.5	365.9	293.3	277.2	396.4	497.5	447.6	447.6
Capital	103.4	91.5	33.2	33.2	33.2	33.2	33.2	33.2
Cash	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
In-Kind	103.4	91.5	33.2	33.2	33.2	33.2	33.2	33.2
OTHER REVENUE	866.2	643.0	1,732.7	2,657.4	2,610.2	2,905.2	3,533.6	4,203.8
Property Income	741.1	551.8	1,478.5	2,024.1	1,962.7	2,167.0	2,832.8	3,395.5
Interest	0.0	0.0	0.7	0.7	0.7	0.7	0.7	0.7
Interest from non-residents	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest from Loans Abroad	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest from residents other than general government	0.0	0.0	0.7	0.7	0.7	0.7	0.7	0.7
Interest from On Lending	0.0	0.0	0.7	0.7	0.7	0.7	0.7	0.7
Dividends	718.5	530.5	1,470.0	1,932.5	1,866.9	2,078.3	2,750.6	3,308.1
Mining Petroleum and Gas Dividends	568.5	380.5	1,150.0	1,682.5	1,516.9	1,670.8	2,140.1	2,629.0
Dividends from Statutory Authorites	150.0	150.0	300.0	100.0	200.0	232.4	360.9	406.1
Shares in Private Enterprise	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends from State Owned Enterprises	0.0	0.0	20.0	150.0	150.0	175.0	249.6	273.0
Other Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Withdrawals from income of quasi-corporations	0.0	0.0	0.0	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	0.0	0.0	0.0
Rent	22.6	21.3	7.8	90.9	95.0	88.1	81.5	86.8
Land Lease Rental	17.6	17.9	6.0	87.3	91.1	83.8	76.8	81.5
License Fees and Royalty Payments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Petroleum Prospecting Licenses	4.9	3.4	1.7	3.5	3.9	4.3	4.7	5.2
Mineral Prospecting Leases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Small-Scale Mining Fees	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reinvested earnings on foreign direct investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sales of goods and services	9.4	11.5	14.0	156.7	42.5	42.6	42.7	42.8
Sales by market establishments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Administrative fees	4.5	4.9	5.8	122.0	10.2	10.3	10.4	10.5
Incidental sales by nonmarket establishments	4.8	6.6	8.2	34.7	32.3	32.3	32.3	32.3
Imputed sales of goods and services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fines, penalties, and forfeits	2.8	1.2	1.1	1.9	1.8	1.8	1.8	1.8
Sheriff's Fees and Poundage	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Judicial Fines	0.0	0.0	0.1	1.8	1.8	1.8	1.8	1.8
Fines - Criminal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
District Courts Fines	0.9	0.3	1.0	0.0	0.0	0.0	0.0	0.0
Forfeitures & Court Bails	1.9	0.9	0.0	0.1	0.0	0.0	0.0	0.0
Transfers not elsewhere classified	113.0	78.6	239.2	474.7	603.3	693.7	656.3	763.6
Current transfers not elsewhere classified	113.0	78.6	239.2	474.7	603.3	693.7	656.3	763.6
Subsidies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other current transfers	113.0	78.6	239.2	474.7	603.3	693.7	656.3	763.6
Recovery of Roads and Bridges Design	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recovery of Land Acquisition Charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recovery of Utility Charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payroll Commission	28.0	28.2	29.0	15.0	15.0	15.0	15.0	15.0
Recovery of Design Service Charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
State Services and Statutory Authority	85.0	50.0	209.6	459.3	587.9	678.3	640.9	748.2
Recoveries from Former Years" Appropriation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unclaimed Monies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit Guarantee Scheme	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sundry/(Other) Income	0.0	0.4	0.6	0.4	0.4	0.4	0.4	0.4
Unacquited Travel	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SWF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital transfers not elsewhere classified	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Premiums, fees and claims related to nonlife insurance and stanc	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Department of Treasury

1. Under the GFS 2014 methodology, non-paybale infrastructure tax credits, revenue c

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

Table 13A: General Government Expense by Economic Classification

Kina Million	Actuals 2020	Actuals 2021	Budget Estimates 2022 Suppl. Budget	Budget Estimates 2023 Budget	Projections 2024	Projections 2025	Projections 2026	Projections 2027
Compensation of Employees	**5,831.5**	**6,093.7**	**6,353.2**	**6,833.7**	**7,160.6**	**7,598.0**	**7,900.4**	**8,205.9**
Wages and salaries	**5,221.0**	**5,374.4**	**5,512.9**	**5,880.6**	**6,213.6**	**6,593.1**	**6,855.5**	**7,120.6**
Wages and salaries in cash	5,058.8	5,195.2	5,312.4	5,661.3	5,987.5	6,353.3	6,606.1	6,861.6
Wages and salaries in kind	162.2	179.2	200.5	219.3	226.0	239.8	249.4	259.0
Employers' social contributions	**610.4**	**719.3**	**840.3**	**953.1**	**947.1**	**1,004.9**	**1,044.9**	**1,085.3**
Actual social contributions	610.4	719.3	840.3	953.1	947.1	1,004.9	1,044.9	1,085.3
Use of goods and services*	**5,388.4**	**6,161.2**	**6,756.8**	**6,929.7**	**5,241.5**	**5,588.0**	**5,972.1**	**6,609.7**
Use of goods and services	**5,388.4**	**6,161.2**	**6,756.8**	**6,929.7**	**5,241.5**	**5,588.0**	**5,972.1**	**6,609.7**
Interest**	**2,160.0**	**2,249.1**	**2,313.5**	**2,496.1**	**2,607.2**	**2,686.5**	**2,707.7**	**2,689.3**
To nonresidents	**468.1**	**328.2**	**476.9**	**707.6**	**627.9**	**604.0**	**665.2**	**654.6**
Interest to Non residents	468.1	328.2	476.9	707.6	627.9	604.0	665.2	654.6
To residents other than general government	**1,691.9**	**1,920.9**	**1,836.6**	**1,788.5**	**1,979.4**	**2,082.5**	**2,042.5**	**2,034.7**
Interest to residents other than general governments	1,691.9	1,920.9	1,836.6	1,788.5	1,979.4	2,082.5	2,042.5	2,034.7
Grants***	**2,190.0**	**1,915.0**	**2,958.3**	**3,513.8**	**2,611.9**	**3,028.2**	**3,090.2**	**3,265.3**
Grants to other general government units	**2,190.0**	**1,915.0**	**2,958.3**	**3,513.8**	**2,611.9**	**3,028.2**	**3,090.2**	**3,265.3**
Grants to other general governments current	1,732.1	1,483.2	1,896.3	3,041.8	1,674.2	1,941.1	1,980.9	2,093.1
Grants to other general governments capital	457.9	431.8	1,062.0	472.0	937.6	1,087.1	1,109.4	1,172.2
Social Benefits	**217.7**	**0.0**	**42.5**	**114.2**	**51.5**	**56.6**	**62.3**	**68.5**
Social assistance benefits	217.7	0.0	42.5	114.2	51.5	56.6	62.3	68.5
Other expenses	**99.4**	**61.3**	**64.4**	**69.4**	**85.2**	**98.0**	**112.7**	**129.6**
Transfers not elsewhere classified	99.4	61.3	64.4	69.4	85.2	98.0	112.7	129.6
Other expense - Current transfers not elsewhere classified	99.4	61.3	64.4	69.4	85.2	98.0	112.7	129.6
Net Aquisition Nonfinancial assets******	**3,510.7**	**3,650.4**	**4,884.8**	**4,610.1**	**6,709.7**	**6,634.0**	**7,052.4**	**7,293.4**
Nonproduced assets	0.0	0.0	7.8	7.8	12.0	11.7	12.8	13.5
NFA:Intangible nonproduced assets	0.0	0.0	7.8	7.8	12.0	11.7	12.8	13.5
NFA:Land	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Aquisition of Fixed assets	3,510.7	3,650.4	4,877.0	4,602.3	6,697.7	6,622.3	7,039.6	7,279.9
NFA:Buildings and structures	1,050.5	989.1	914.1	771.0	993.5	991.8	997.8	1,001.1
NFA: Dwellings	0.0	0.0	25.1	46.6	38.7	37.6	41.3	43.3
NFA:Fixed assets	1,711.8	1,726.8	3,108.5	2,773.9	4,578.6	4,487.0	4,863.3	5,071.5
NFA:Information, computer, & telecommunications equipment	60.6	59.3	61.0	56.2	73.2	72.5	75.0	76.4
NFA:Machinery & equipment other than transport equipment	19.2	25.5	29.0	26.0	44.7	43.5	47.7	50.0
NFA:Other structures	0.2	0.0	14.3	11.8	22.0	21.4	23.5	24.7
NFA:Transport equipment	6.7	1.3	5.9	7.7	9.1	8.9	9.7	10.2
Other expense - Current transfers not elsewhere classified	661.8	848.4	719.0	909.1	937.9	959.5	981.1	1,002.8
Total expenditure	**19,397.8**	**20,130.7**	**23,373.6**	**24,566.9**	**24,467.5**	**25,689.2**	**26,897.8**	**28,261.7**
as % of GDP	*23.8%*	*21.6%*	*21.7%*	*21.7%*	*20.2%*	*19.8%*	*19.4%*	*19.4%*

Source: Department of Treasury

* Use of goods and services includes operational cost like maintenance and repair of fixed assets.

** Excluding 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

	Actuals		Budget Estimates		Projections			
Kina Million	2020	2021	2022 Suppl. Budget	2023 Budget	2024	2025	2026	2027
National Departments	**7,855.1**	**7,860.3**	**10,946.4**	**9,815.4**	**11,066.3**	**11,604.3**	**12,376.1**	**13,244.3**
Compensation of Employees	**2,671.5**	**2,987.0**	**3,145.0**	**2,838.1**	**3,544.7**	**3,761.2**	**3,910.9**	**4,062.1**
Wages and salaries	**2,131.7**	**2,337.4**	**2,358.4**	**1,913.4**	**2,658.2**	**2,820.5**	**2,932.8**	**3,046.2**
Wages and salaries in cash	2,044.9	2,242.2	2,252.0	1,815.8	2,538.2	2,693.2	2,800.4	2,908.7
Wages and salaries in kind	86.8	95.2	106.4	97.6	120.0	127.3	132.4	137.5
Employers' social contributions	**539.8**	**649.6**	**786.6**	**924.7**	**886.5**	**940.7**	**978.1**	**1,015.9**
Actual social contributions	539.8	649.6	786.6	924.7	886.5	940.7	978.1	1,015.9
Use of goods and services	**3,489.4**	**3,802.2**	**4,691.7**	**4,407.5**	**3,395.8**	**3,650.6**	**3,934.1**	**4,411.8**
Use of goods and services	**3,489.4**	**3,802.2**	**4,691.7**	**4,407.5**	**3,395.8**	**3,650.6**	**3,934.1**	**4,411.8**
Grants	**607.2**	**523.0**	**972.9**	**1,035.6**	**859.0**	**995.9**	**1,016.3**	**1,073.9**
Grants to other general government units	**607.2**	**523.0**	**972.9**	**1,035.6**	**859.0**	**995.9**	**1,016.3**	**1,073.9**
Grants to other general governments current	607.2	523.0	972.9	1,035.6	859.0	995.9	1,016.3	1,073.9
Grants to other general governments capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other expenses	**97.7**	**59.2**	**59.7**	**64.4**	**78.3**	**90.8**	**104.4**	**120.1**
Transfers not elsewhere classified	**97.7**	**59.2**	**59.7**	**64.4**	**78.3**	**90.8**	**104.4**	**120.1**
Other expense - Current transfers not elsewhere classified	97.7	59.2	59.7	64.4	78.3	90.8	104.4	120.1
Net Aquisition Nonfinancial assets	**819.5**	**488.9**	**2,053.2**	**1,423.8**	**3,159.1**	**3,074.0**	**3,375.4**	**3,537.9**
Nonproduced assets	**0.0**	**0.0**	**7.8**	**7.8**	**12.0**	**11.7**	**12.8**	**13.5**
NFA:Intangible nonproduced assets	0.0	0.0	7.8	7.8	12.0	11.7	12.8	13.5
NFA:Land	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Aquisition of Fixed assets	**819.5**	**488.9**	**2,045.4**	**1,416.0**	**3,147.0**	**3,062.3**	**3,362.5**	**3,524.5**
NFA:Buildings and structures	0.0	0.0	13.0	2.6	20.0	19.5	21.4	22.5
NFA:Dwellings	0.0	0.0	1.7	1.1	2.6	2.5	2.7	2.9
NFA:Fixed assets	800.5	467.5	1,983.1	1,376.7	3,051.1	2,968.9	3,260.1	3,417.1
NFA:Information, computer, & telecommunications equipment	7.7	9.5	17.3	14.1	26.6	25.9	28.4	29.8
NFA:Machinery & equipment other than transport equipment	6.4	11.0	14.5	10.8	22.3	21.7	23.9	25.0
NFA:Other structures	0.2	0.0	12.3	5.6	18.9	18.4	20.2	21.1
NFA:Transport equipment	4.8	1.0	3.6	5.0	5.5	5.3	5.9	6.1
Social Benefits	**169.8**	**0.0**	**23.9**	**45.6**	**28.9**	**31.8**	**35.0**	**38.5**
Social assistance benefits	169.8	0.0	23.9	45.6	28.9	31.8	35.0	38.5
Provincial Governments	**4,579.8**	**4,880.6**	**5,117.5**	**5,386.0**	**5,058.1**	**5,513.4**	**5,738.2**	**6,056.7**
Compensation of Employees	**2,135.1**	**2,043.7**	**2,128.3**	**2,144.2**	**2,398.8**	**2,545.3**	**2,646.6**	**2,749.0**
Wages and salaries	**2,135.1**	**2,042.8**	**2,128.3**	**2,144.2**	**2,398.8**	**2,545.3**	**2,646.6**	**2,749.0**
Wages and salaries in cash	2,089.6	1,993.7	2,073.7	2,089.6	2,337.3	2,480.0	2,578.7	2,678.4
Wages and salaries in kind	45.5	49.1	54.6	54.6	61.5	65.29	67.88	70.51
Employers' social contributions	**0.0**	**0.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Actual social contributions	0.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0
Use of goods and services	**840.6**	**1,132.4**	**813.9**	**914.4**	**589.1**	**633.3**	**682.5**	**765.3**
Use of goods and services	**840.6**	**1,132.4**	**813.9**	**914.4**	**589.1**	**633.3**	**682.5**	**765.3**
Grants	**1,546.7**	**1,378.6**	**1,947.0**	**2,300.5**	**1,719.0**	**1,993.0**	**2,033.8**	**2,149.0**
Grants to other general government units	**1,546.7**	**1,378.6**	**1,947.0**	**2,300.5**	**1,719.0**	**1,993.0**	**2,033.8**	**2,149.0**
Grants to other general governments current*	1,110.8	956.8	917.0	1,868.5	809.6	938.7	957.9	1,012.2
Grants to other general governments capital	435.9	421.8	1,030.0	432.0	909.4	1,054.3	1,075.9	1,136.9
Net Aquisition Nonfinancial assets	**57.4**	**325.9**	**228.3**	**26.8**	**351.3**	**341.8**	**375.3**	**393.4**
Aquisition of Fixed assets	**57.4**	**325.9**	**228.3**	**26.8**	**351.3**	**341.8**	**375.3**	**393.4**
NFA:Fixed assets	57.4	325.9	217.3	26.8	334.3	325.3	357.2	374.4
NFA:Buildings and structures	0.0	0.0	11.0	0.0	16.9	16.5	18.1	19.0
Autonomous Bougainville Government	**240.4**	**328.9**	**426.8**	**440.1**	**460.7**	**477.6**	**510.3**	**542.7**
Compensation of Employees	**142.4**	**141.5**	**132.0**	**140.7**	**148.8**	**157.8**	**164.1**	**170.5**
Wages and salaries	**142.4**	**141.5**	**132.0**	**140.7**	**148.8**	**157.8**	**164.1**	**170.5**
Wages and salaries in cash	133.4	132.5	122.2	131.0	137.8	146.2	152.0	157.9
Wages and salaries in kind	9.0	9.0	9.8	9.8	11.0	11.7	12.1	12.6
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	**69.9**	**163.8**	**148.1**	**134.4**	**107.2**	**115.3**	**124.2**	**139.3**
Use of goods and services	**69.9**	**163.8**	**148.1**	**134.4**	**107.2**	**115.3**	**124.2**	**139.3**
Grants	**28.1**	**10.0**	**32.0**	**65.0**	**28.3**	**32.8**	**33.4**	**35.3**
Grants to other general government units	**28.1**	**10.0**	**32.0**	**65.0**	**28.3**	**32.8**	**33.4**	**35.3**
Grants to other general governments current	6.1	0.0	0.0	25.0	0.0	0.0	0.0	0.0
Grants to other general governments capital	22.0	10.0	32.0	40.0	28.3	32.8	33.4	35.3
Net Aquisition Nonfinancial assets	**0.0**	**13.5**	**114.7**	**100.0**	**176.5**	**171.7**	**188.6**	**197.6**
Fixed Assets	0.0	13.5	114.7	100.0	176.5	171.7	188.6	197.6
Commercial & Statutory Authorities	**1,564.7**	**1,450.4**	**1,665.2**	**3,233.4**	**1,787.3**	**1,872.0**	**1,982.1**	**2,096.8**
Compensation of Employees	**882.4**	**921.5**	**948.0**	**1,710.6**	**1,068.4**	**1,133.7**	**1,178.8**	**1,224.4**
Wages and salaries	**811.8**	**852.7**	**894.2**	**1,682.2**	**1,007.9**	**1,069.4**	**1,112.0**	**1,155.0**
Wages and salaries in cash	790.9	826.8	864.5	1,624.9	974.3	1,033.8	1,075.0	1,116.6
Wages and salaries in kind	20.9	25.9	29.8	57.4	33.5	35.6	37.0	38.4
Employers' social contributions	**70.6**	**68.9**	**53.7**	**28.4**	**60.6**	**64.3**	**66.8**	**69.4**
Actual social contributions	70.6	68.9	53.7	28.4	60.6	64.3	66.8	69.4
Use of goods and services	**398.2**	**312.6**	**458.2**	**684.5**	**331.6**	**356.5**	**384.2**	**430.8**
Use of goods and services	**398.2**	**312.6**	**458.2**	**684.5**	**331.6**	**356.5**	**384.2**	**430.8**
Grants	**8.0**	**3.4**	**6.4**	**112.7**	**5.7**	**6.6**	**6.7**	**7.1**
Grants to other general government units	**8.0**	**3.4**	**6.4**	**112.7**	**5.7**	**6.6**	**6.7**	**7.1**
Grants to other general governments current	8.0	3.4	6.4	112.7	5.7	6.6	6.7	7.1
Other expenses	**1.8**	**2.1**	**4.8**	**4.5**	**6.3**	**7.2**	**8.3**	**9.6**
Transfers not elsewhere classified	**1.8**	**2.1**	**4.8**	**4.5**	**6.3**	**7.2**	**8.3**	**9.6**
Other expense - Current transfers not elsewhere classified	1.8	2.1	4.8	4.5	6.3	7.2	8.3	9.6
Net Aquisition Nonfinancial assets	**226.3**	**210.8**	**229.3**	**652.5**	**352.7**	**343.2**	**376.9**	**395.0**
Aquisition of Fixed assets	**226.3**	**210.8**	**229.3**	**652.5**	**352.7**	**343.2**	**376.9**	**395.0**
NFA:Buildings and structures	0.0	0.0	16.9	2.8	26.0	25.3	27.7	29.1
NFA:Dwellings	0.0	0.0	23.5	45.1	36.1	35.1	38.6	40.5
NFA:Buildings other than dwellings	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0
NFA:Fixed assets	211.3	195.7	170.0	576.4	261.5	254.5	279.4	292.9
NFA:Machinery & equipment other than transport equipment	12.9	14.6	14.5	15.2	22.3	21.7	23.9	25.0
NFA:Other structures	0.0	0.0	2.1	6.2	3.2	3.1	3.4	3.5
NFA:Transport equipment	1.8	0.3	2.4	2.7	3.6	3.5	3.9	4.0
NFA: Information, computer, and telecommunications (ICT) equipmer	0.3	0.2	0.0	3.7	0.0	0.0	0.0	0.0
Social Benefits	**48.0**	**0.0**	**18.6**	**68.6**	**22.5**	**24.8**	**27.2**	**30.0**
Social assistance benefits	48.0	0.0	18.6	68.6	22.5	24.8	27.2	30.0
Debt Service (Interest Payment)	**2,165.1**	**2,254.7**	**2,324.4**	**2,511.0**	**2,615.0**	**2,692.0**	**2,711.0**	**2,691.0**
Use of goods and services	**5.1**	**5.6**	**10.9**	**14.9**	**7.8**	**5.5**	**3.3**	**1.7**
Use of goods and services	**5.1**	**5.6**	**10.9**	**14.9**	**7.8**	**5.5**	**3.3**	**1.7**
Interest	**2,160.0**	**2,249.1**	**2,313.5**	**2,496.1**	**2,607.2**	**2,686.5**	**2,707.7**	**2,689.3**
To nonresidents	**468.1**	**328.2**	**476.9**	**707.6**	**627.9**	**604.0**	**665.2**	**654.6**
Interest to Non residents	468.1	328.2	476.9	707.6	627.9	604.0	665.2	654.6
To residents other than general government	**1,691.9**	**1,920.9**	**1,836.6**	**1,788.5**	**1,979.4**	**2,082.5**	**2,042.5**	**2,034.7**
Interest to residents other than general governments	1,691.9	1,920.9	1,836.6	1,788.5	1,979.4	2,082.5	2,042.5	2,034.7
Expenditure supported by donor grants	**1,424.9**	**1,862.4**	**1,574.9**	**2,024.9**	**2,074.9**	**2,124.9**	**2,174.9**	**2,224.9**
Use of goods and services	**482.5**	**630.6**	**533.2**	**685.6**	**702.6**	**719.5**	**736.4**	**753.3**
Use of goods and services	**482.5**	**630.6**	**533.2**	**685.6**	**702.6**	**719.5**	**736.4**	**753.3**
Net Aquisition Nonfinancial assets	**942.4**	**1,231.8**	**1,041.7**	**1,339.3**	**1,372.4**	**1,405.5**	**1,438.5**	**1,471.6**
Aquisition of Fixed assets (Buildings and Structures)	**942.4**	**1,231.8**	**1,041.7**	**1,339.3**	**1,372.4**	**1,405.5**	**1,438.5**	**1,471.6**
NFA:Fixed assets	325.9	426.0	360.2	463.2	474.6	486.0	497.5	508.9
Other expense - Current transfers not elsewhere classified	616.5	805.8	681.4	876.1	897.8	919.4	941.0	962.7
Expenditure financed by concessional loans	**1,567.8**	**1,493.5**	**1,318.4**	**1,156.0**	**1,405.1**	**1,405.1**	**1,405.1**	**1,405.1**
Use of goods and services	**102.8**	**114.1**	**100.7**	**88.3**	**107.3**	**107.3**	**107.3**	**107.3**
Use of goods and services	**102.8**	**114.1**	**100.7**	**88.3**	**107.3**	**107.3**	**107.3**	**107.3**
Net Aquisition Nonfinancial assets	**1,465.0**	**1,379.4**	**1,217.7**	**1,067.7**	**1,297.8**	**1,297.8**	**1,297.8**	**1,297.8**
Aquisition of Fixed assets (Buildings and Structures)	**1,465.0**	**1,379.4**	**1,217.7**	**1,067.7**	**1,297.8**	**1,297.8**	**1,297.8**	**1,297.8**
NFA:Buildings and structures	1,050.5	989.1	873.1	765.6	930.6	930.6	930.6	930.6
NFA:Fixed assets	316.7	298.2	263.2	230.8	280.5	280.5	280.5	280.5
NFA:Information, computer, & telecommunications equipment	52.6	49.5	43.7	38.3	46.6	46.6	46.6	46.6
Other expense - Current transfers not elsewhere classified	45.3	42.6	37.6	33.0	40.1	40.1	40.1	40.1
Total expenditure	**19,397.8**	**20,130.7**	**23,373.6**	**24,566.9**	**24,467.5**	**25,689.2**	**26,897.8**	**28,261.7**
as % of GDP	*23.8%*	*21.6%*	*21.7%*	*21.7%*	*20.2%*	*19.8%*	*19.4%*	*19.4%*

* 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 14: Transactions in Assets and Liabilities for General Government

	Actuals		Estimates			Projections			
Kina Million	2020	2021	2022 Budget	2022 Suppl. Budget	2023 Budget	2024	2025	2026	2027
Net Acquisition of Financial Assets	**-802.9**	**-1,685.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Domestic	**-802.9**	**-1,685.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Currency and deposits	-802.9	-910.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.0	-774.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Net Incurrence of Liabilities	**6,501.5**	**7,955.5**	**5,984.7**	**5,984.7**	**4,984.9**	**3,968.7**	**3,462.4**	**1,774.1**	**-107.0**
Net Incurrence of Liabilities as a % of GDP	*8.0%*	*8.5%*	*5.9%*	*5.6%*	*4.4%*	*3.3%*	*2.7%*	*1.3%*	*-0.1%*
Domestic	**2,882.0**	**3,042.1**	**2,240.0**	**2,240.0**	**1,465.7**	**526.9**	**-451.9**	**-290.6**	**-1,180.5**
Debt securities	**2,976.7**	**2,995.4**	**2,010.1**	**2,010.1**	**1,470.7**	**551.9**	**-326.9**	**-165.6**	**-1,055.5**
New instruments	15,715.2	16,794.6	15,371.2	15,371.2	15,791.4	17,129.1	15,794.8	14,910.3	13,425.9
Amortisation	-12,738.5	-13,799.2	-13,361.1	-13,361.1	-14,320.7	-16,577.2	-16,121.7	-15,075.9	-14,481.4
Treasury Bills	***1,710.5***	***1,394.8***	***260.1***	***260.1***	***525.7***	***-507.2***	***-826.9***	***-689.2***	***-1,193.7***
New instruments	*13,147.7*	*14,147.9*	*12,661.9*	*12,661.9*	*13,713.3*	*14,384.3*	*13,557.4*	*12,868.2*	*11,674.5*
Amortisation	*-11,437.2*	*-12,753.1*	*-12,401.8*	*-12,401.8*	*-13,187.6*	*-14,891.5*	*-14,384.3*	*-13,557.4*	*-12,868.2*
Treasury Bonds	***1,266.2***	***1,600.6***	***1,750.0***	***1,750.0***	***945.0***	***1,059.1***	***500.0***	***523.6***	***138.2***
New instruments	*2,567.5*	*2,646.7*	*2,709.3*	*2,709.3*	*2,078.1*	*2,744.8*	*2,237.4*	*2,042.1*	*1,751.4*
Amortisation	*-1,301.3*	*-1,046.1*	*-959.3*	*-959.3*	*-1,133.1*	*-1,685.7*	*-1,737.5*	*-1,518.5*	*-1,613.2*
Loans	**-94.7**	**46.7**	**229.9**	**229.9**	**-5.0**	**-25.0**	**-125.0**	**-125.0**	**-125.0**
New borrowing	0.0	107.9	300.0	300.0	120.0	100.0	0.0	0.0	0.0
Amortisation	-94.7	-61.2	-70.1	-70.1	-125.0	-125.0	-125.0	-125.0	-125.0
Insurance, pension, and standardized guarantee scheme	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External	**3,619.5**	**4,913.4**	**3,744.7**	**3,744.7**	**3,519.2**	**3,441.8**	**3,914.3**	**2,064.7**	**1,073.5**
Monetary gold and special drawing rights (SDR's)	0.0	1,244.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
New instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Concessional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Extraordinary financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	***3,619.5***	***3,669.3***	***3,744.7***	***3,744.7***	***3,519.2***	***3,441.8***	***3,914.3***	***2,064.7***	***1,073.5***
New borrowing	5,982.0	4,991.8	4,629.4	4,629.4	4,490.7	4,604.6	5,228.6	3,529.5	2,620.0
Amortisation	-2,362.6	-1,322.4	-884.8	-884.8	-971.5	-1,162.7	-1,314.2	-1,464.7	-1,546.5
Concessional financing	***1,154.9***	***1,108.3***	***708.1***	***708.1***	***515.8***	***539.4***	***588.3***	***579.5***	***569.8***
New borrowing	*1,567.8*	*1,493.5*	*1,318.4*	*1,318.4*	*1,156.0*	*1,213.9*	*1,274.5*	*1,338.3*	*1,405.1*
Amortisation	*-412.9*	*-385.2*	*-610.3*	*-610.3*	*-640.3*	*-674.4*	*-686.2*	*-758.7*	*-835.3*
Commercial financing	***-876.3***	***-862.7***	***-19.7***	***-19.7***	***-15.3***	***-15.3***	***-15.3***	***-15.3***	***-15.3***
New borrowing	*18.1*	*59.7*	*22.2*	*22.2*	*20.0*	*20.0*	*20.0*	*20.0*	*20.0*
Amortisation	*-894.4*	*-922.4*	*-41.9*	*-41.9*	*-35.3*	*-35.3*	*-35.3*	*-35.3*	*-35.3*
Extraordinary financing	***3,340.8***	***3,423.7***	***3,056.2***	***3,056.2***	***3,018.7***	***2,917.7***	***3,341.4***	***1,500.5***	***519.1***
New borrowing	*4,396.1*	*3,438.6*	*3,288.8*	*3,288.8*	*3,314.6*	*3,370.7*	*3,934.1*	*2,171.2*	*1,194.9*
Amortisation	*-1,055.3*	*-14.9*	*-232.6*	*-232.6*	*-295.9*	*-453.0*	*-592.7*	*-670.7*	*-675.8*
Insurance, pension, and standardized guarantee scheme	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

1. General government represents national and provincial governments, the Autonomous Bougainville government and commercial and statutory authorities.

Table 15: Stocks of General Government Debt

Kina Million	Actuals 2020	Actuals 2021	Estimates 2022 Suppl. Budget	Estimates 2023 Budget	Projections 2024	Projections 2025	Projections 2026	Projections 2027
Domestic	**22,215.4**	**25,257.6**	**27,497.6**	**28,963.3**	**29,490.2**	**29,038.3**	**28,747.6**	**27,567.1**
Debt securities	**21,134.5**	**24,129.9**	**26,140.0**	**27,610.7**	**28,162.6**	**27,835.7**	**27,670.1**	**26,614.6**
Treasury Bills	*11,901.8*	*13,296.6*	*13,556.7*	*14,082.4*	*13,575.1*	*12,748.2*	*12,059.0*	*10,865.3*
Treasury Bonds	*9,232.8*	*10,833.4*	*12,583.4*	*13,528.4*	*14,587.5*	*15,087.5*	*15,611.1*	*15,749.3*
Loans	**1,080.9**	**1,127.6**	**1,357.6**	**1,352.5**	**1,327.5**	**1,202.5**	**1,077.5**	**952.5**
Guarantees	1,080.9	1,127.6	1,357.6	1,352.5	1,327.5	1,202.5	1,077.5	952.5
External	**17,952.9**	**22,915.6**	**26,660.2**	**30,179.4**	**33,621.2**	**37,535.5**	**39,600.2**	**40,673.8**
Monetary Gold & SDRs	**0.0**	**1,244.1**	**1,244.1**	**1,244.1**	**1,244.1**	**1,244.1**	**1,244.1**	**1,244.1**
Debt securities	**1,700.7**	**1,750.0**	**1,750.0**	**1,750.0**	**1,750.0**	**1,750.0**	**1,750.0**	**1,750.0**
Concessional financing	*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*
Extraordinary financing	*1,700.7*	*1,750.0*	*1,750.0*	*1,750.0*	*1,750.0*	*1,750.0*	*1,750.0*	*1,750.0*
Loans	**16,252.2**	**19,921.5**	**23,666.1**	**27,185.3**	**30,627.1**	**34,541.4**	**36,606.1**	**37,679.7**
Concessional financing	*9,831.6*	*10,939.9*	*11,648.0*	*12,163.8*	*12,703.2*	*13,291.5*	*13,871.0*	*14,440.8*
Commercial financing	*1,094.1*	*231.4*	*211.8*	*196.4*	*181.1*	*165.8*	*150.4*	*135.1*
Extraordinary financing	*5,326.4*	*8,750.1*	*11,806.3*	*14,825.1*	*17,742.8*	*21,084.1*	*22,584.7*	*23,103.8*
Total Central Government Debt	**40,168.4**	**48,173.1**	**54,157.7**	**59,142.6**	**63,111.4**	**66,573.8**	**68,347.9**	**68,240.9**
Total debt as percentage of GDP	*49.2%*	*51.6%*	*50.2%*	*52.3%*	*52.2%*	*51.3%*	*49.2%*	*46.8%*
Gross Domestic Product[2]	**81,627.0**	**93,314.1**	**107,807.3**	**113,108.2**	**120,993.7**	**129,799.5**	**138,858.3**	**145,828.8**

1. General government represents national and provincial governments, the Autonomous Bouganville government and commercial and
2. Total nominal GDP by economic activity, Actual: *National Statistics Office* and Projections: *Treasury Department.*