



**THE INDEPENDENT STATE OF PAPUA NEW GUINEA**

**2016 BUDGET SPEECH**

***“Supporting Economic Growth through Fiscal Discipline”***

**DELIVERED BY**

**HON. PATRICK PRUITCH, CMG, MP  
TREASURER**

**On the Occasion of the Presentation of the 2016 National Budget to Parliament**

**Tuesday, 3<sup>rd</sup> November 2015**



**HON. PATRICK PRUAITCH, CMG, MP  
TREASURER**

**Mr. Speaker,**

I move that the Bill now be read a second time.

Mr Speaker, Honourable Members, and fellow citizens of Papua New Guinea, it is a great honour for me to present to this House and the people of PNG, the 2015 Supplementary Budget and the 2016 National Budget.

Honourable Members, throughout most of this year, the global economy has remained relatively weak. Advanced and developing economies have been grappling with risks associated with slower growth and a sharp drop in commodity prices. Growth prospects have reduced for China, Japan, Russia, the Euro Zone and major oil exporting economies. The United States is the only major economy where growth has improved but there are signs even this may be faltering.

In 2016, the global economy is anticipated to pick up slightly, growing by 3.6 per cent but the latest forecasts by the International Monetary Fund and others may prove optimistic. Weakness is showing among many emerging economies, including Brazil, Russia and some Latin American countries.

China, the world's second largest economy after the United States, is also slowing down with large capital outflows occurring in recent months. Although the global economy is projected to pick up, significant uncertainties continue to persist.

Mr Speaker, sharply lower commodity prices has made the O'Neill-Dion Government adopt prudent fiscal policies to safeguard PNG's 14-year growth record and medium term prospects.

PNG's economic growth remained robust at 9.9 per cent in 2015. The policies of the O' Neill-Dion Government will continue to address PNG's development agenda, as well as insulate PNG from declining government revenues.

In 2016, PNG's economic growth is projected to return to grow at 4.3 per cent, with some stimulus expected from agriculture, forestry and fisheries. A rebound will occur in the mining sector when Ok-Tedi resumes operations when the drought ends in 2016.

Mr Speaker, depreciation of the kina exchange rate and drought-impacted production of food crops is projected to increase inflation to 5.7 per cent in 2016. Over the medium term, inflation is projected to be stable at 5.0 per cent.

Mr Speaker, Honourable Members, in response to risks associated with the significant fall in commodity prices and Government revenues, the Government prepared the 2015 Supplementary Budget. These measures were endorsed by the National Executive Council two months ago, in preparation for this sitting of Parliament.

## **2015 SUPPLEMENTARY BUDGET**

Mr Speaker, Honourable Members, with those introductory remarks I would like to explain why the 2015 Supplementary Budget has been necessary.

Many of you will recall the controversy generated with the release in July of Treasury's Mid-Year Economic and Fiscal Outlook Report. It forecast that National Government revenues this year would drop by an estimated K2.5 billion.

Much has been said about the risks of a blowout of the budget deficit. I must inform this house and the people of PNG that the O'Neill-Dion Government has been assessing the situation since early this year. We avoided panic measures that would have adversely impacted on current policies and programs.

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

The 2015 Supplementary budget is comprised of reductions in expenditures and additional revenue measures. This has prevented the much feared budget blowout and brings the Government budget deficit in line with the original budget forecast.

Expenditure cuts of K1,376.9 million are being implemented. Cuts were made to projects that are behind schedule in terms of implementation and idle funds that had not been used. Key policy platform priorities such as tuition fee free education and free primary health care remain unaffected.

The main expenditure cuts by sector are:

- Social Sector K123.6 million;
- Economic and Infrastructure sector K285.4 million;
- Law and Justice sector K165.4 million;
- Administrative sector K756.1 million; and
- Provincial expenditure K46.4 million.

With the expenditure reduction of K1,376.9 million, the revised 2015 Total Expenditure and Net Lending now amounts to K14,822.2 million.

Mr Speaker, the Government has also raised additional revenue totalling K1,101.6 million for the 2015 budget. This comprised:

- K250 million from IRC;
- K150 million from PNG Customs Services;
- K240 million from IPBC;
- K110 million from other State Owned Enterprises;
- K201.6 million from National Petroleum Company;
- K50 million from National Fisheries Authority;
- K70 million from the Bank of Papua New Guinea; and
- K30 million from the National Gaming Board.

This brings the revised 2015 Revenue and Grants to K12,471.7 million.

These actions will keep deficit close to the original Budget projections of 4.5 per cent of GDP. Debt to GDP will remain within the Fiscal Responsibility Act Limit of 35 per cent, a significant achievement under difficult circumstances.

Mr. Speaker, Honourable Members, the 2015 Supplementary Budget demonstrates that PNG can continue to enjoy a robust climate for private sector investment and growth. During the recent IMF and World Bank annual meeting our development partners were impressed by the actions we have taken to cope with falling revenues.

## **THE 2016 NATIONAL BUDGET**

Mr Speaker, I now turn to the 2016 National Budget, and its theme, “Supporting Economic Growth through Fiscal Discipline.”

These are challenging times not only for PNG but for many economies around the world. The 2016 Budget has been framed amidst a weak global economy, relatively slower economic growth that has been constrained by the current El Nino drought and low commodity prices. Despite this, the Government remains committed to ongoing priority expenditure programs that are important for future growth.

The 2016 Budget is set at K14,208.8 million against a revenue envelope of K12,179.1million.

This translates into deficit of K2,029.7 million, or 3.7 per cent of GDP, and will bring total debt in 2016 to 35.8 per cent of GDP.

Mr. Speaker, the 2016 Budget demonstrates the O'Neill-Dion Government's bold commitment to fiscal discipline. This is reflected through:

- enhanced opportunities for our people through an improved investment climate with macroeconomic stability assured with a progressive return to a balanced budget in 2020;
- expenditure prioritization and improved quality of spending;
- structural reforms among State Owned Enterprises and the size and efficiency of the public sector;
- the effective implementation of major projects through improved design, scoping, and implementation processes as well as open and competitive tenders;
- support for key policy priorities in education, health, infrastructure, agriculture, law and order, and small to medium enterprises and
- management of the Government debt profile through capital markets, structural reforms and the issuance of a Sovereign Bond.

Mr. Speaker, funding is maintained for priority programs through improved efficiency measures in public services; expanding sources of finance and adjusting the Government's Debt to GDP ratio to return to a balanced budget by 2020.

### **2016 Budget Revenue**

Mr. Speaker, Total Revenue and Grants for 2016 Budget are projected at K12,179.1 million.

This is K292.7 million lower than the 2015 revised estimate. The major revenue components for 2016 are expected from tax receipts of K9,976.6 million, K1,134.1 million in donor grants and K1,068.4 million in other revenues.

### **Tax Review and Revenue Reforms**

Mr. Speaker, it is worth noting that the Government has delivered on its commitment to undertake a comprehensive review of PNG's tax system.

Last week I was pleased to take delivery of the final report from the Tax Review Committee. I would like to publicly record my thanks to the Tax Review Committee Chairman, Sir Nagora Bogan KBE, the Deputy Chair, Lady Aivu Tauvasa and Committee Member Sir John Luke Crittin. They were ably assisted by the Tax Review Secretariat.

The Tax Review Committee has undertaken an extensive review of PNG's tax system with the overarching aim of improving the lives of the people of PNG through a more effective tax system. These reforms will assist the Government to deliver on its commitment to return to a balanced budget by 2020.



Being an independent review, recommendations from the Tax Review Committee are not Government policy. The Government will study the Committee's recommendations with a view to implementing reforms in the 2017 Budget and beyond.

The Government is committed to reforms that will ensure taxpayers pay their fair share of tax and that PNG receives a fair return for all its natural resources. The move to a fairer and more broad-based tax system should help capture all forms of income, including capital gains which is presently not taxed.

A fairer tax system also ensures that any incentives or concessions are achieving their intended outcome. One particular example, the Infrastructure Tax Credit, is one form of incentive that has expanded from its original application and requires assessing the public value of the benefits it provides.

Critical in any tax system is an effective tax administration. The Government will continue to invest in the Internal Revenue Commission and PNG Customs to enable improvements in their revenue collection systems.

Proposed recommendations from the Tax Review report included in the 2016 Budget are:

- introduction of a GST deferral scheme for Imports;
- removal of discretionary exemptions of GST by the Head of State acting on advice from the NEC; and

- suspension of negotiations on new Double Tax Agreements and existing Double Tax Agreements until consideration is given to the recently completed Base Erosion Profit Shifting report by the O-E-C-D and Group of 20 countries.

## **2016 Budget Expenditure**

Mr Speaker, 2016 Total Expenditure and Net Lending is K14,208.8 million. This is comprised of K9,112.9 million in operational expenditure and K5,095.9 million in capital expenditure.

Although the 2016 Budget is K613.0 million lower than 2015 revised budget, key Government priorities are not affected with improved outcomes likely to flow from better management and expenditure controls.

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

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

Mr Speaker, let me elaborate on allocations by Sector.

- The Provinces receive K3,662.0 million, or 26 per cent of the total budget, which is the largest share of the total Budget. Major

appropriations include: DSIP K890 million, PSIP K220 million, LLGSIP K31.4 million, District Support Grants K55.5 million and Special Support Grants K13.3 million.

- The Administration sector receives K2,545.8 million, or 18 per cent of the total Budget, the second largest share of the Budget. Major projects include the Lands and Housing Program K20 million, the General Election K10.0 million, APEC Authority K80 million of which K35.0 million will be for both the national elections and APEC Security preparation, Drought/Disaster Relief Program K50 million and Agriculture Commercialisation Equity Fund K100 million.

Administration also includes large cross-agency items such as Multi-Departmental Payments of K8.1 million, Government Office Accommodation K200 million, Employer's Superannuation contributions K200 million, and Retrenchment K30 million which are allocated under Finance/Treasury-Miscellaneous.

- The Health sector receives the third largest share with a total of K1,565.9, million or 11 per cent. Key expenses include: Drugs and Medical Supplies K151 million; Church Health Grants K26 million, Free Health Care K20 million, HIV/AIDS Treatment Drugs K14.1 million and Medical equipment K5.6 million.

New projects under the Health sector include Angau Memorial Hospital Redevelopment K40.3 million, Port Moresby Specialised Referral Hospital Rehabilitation K20 million, and PSIP for Provincial hospital Infrastructure K225 million.

- The Education sector has received the fourth largest share of K1,312.5 million, or 9 per cent of the total budget. This includes Government's Tuition Fee Free Education K602 million, Nursing College Rehabilitation, Teachers College Rehabilitation, and Trade Skill Scholarship all receiving K10 million each.
- The Transport sector receives the fifth largest share of K1,254.1 million or 8.8 per cent. This comprises Government funded Highlands Highway (K200 million), Lae Nazab Road K45.0 million, East/West New Britain Highway (upgrading) K20.0 million, National Highways (K70 million), Lae City Roads and Port Moresby International Terminal Upgrade both K10 million each.

The Transport sector includes counterpart funded projects. These are Port Moresby City Roads, Highlands Region Roads Improvement Investment Program and Transport Support Sector Program Phase 2.

- The Law and Order sector has received the sixth largest share of K1,240.9 million or 8.7 per cent. This includes Police Modernization K37.6 million, the Defence Rebuild Program K22.1 million and the National Judiciary Waigani Court Complex Redevelopment K80 million.
- The Economic sector is allocated K610.6 million; the Utilities sector K378 million, and debt servicing K1479.6 million while the Community and Culture sector has been allocated K156.4 million.

Mr. Speaker, these appropriations reflect the Government's commitment for policy priorities and broad-based economic growth. With these appropriations, the onus is now on the nation's political leaders and public

servants to ensure efficient service delivery and improved livelihoods for people throughout PNG.

## **2016 Budget Financing**

Mr Speaker, I now turn to the financing of the 2016 Budget. The Government intends to move the country's Debt to GDP ratio onto a downward trajectory while supporting medium term development. The reduced 2016 deficit of K2,029.7 million equates to 3.7 per cent of GDP. The Government Debt profile will be managed by expanding sources of finance, including issuance of a Sovereign Bond to ease pressure on the domestic debt market.

A significant proportion of proceeds from issuance of PNG's first Sovereign Bond will be used to reposition the Government's debt portfolio in accordance with prudent guidelines.

In addition the Government, in conjunction with an IMF Technical Assistance team, will be undertaking a debt sustainability review. New debt benchmarks for 2017 and subsequent years will be determined following the outcome of this review and included in an updated Medium-Term Public Debt Management Strategy.

## **COMPLEMENTARY POLICIES**

### **Sovereign Wealth Fund**

Mr. Speaker, I am pleased to confirm that revenue will start to flow to PNG's Sovereign Wealth Fund in the first quarter of next year. In 2016, revenues flowing into the Stabilization Fund will be drawn down into the Budget to fund key priority policy areas.

This landmark legislation was passed in July. I thank all members for their bipartisan support of the PNG Sovereign Wealth Fund.

Designed as a long-term investment vehicle, the Sovereign Wealth Fund will serve PNG for decades to come, reducing PNG's vulnerability to external shocks, such as the current fall in commodity prices.

The Sovereign Wealth Fund has been designed to provide the highest standards of accountability and good governance.

Funding has been allocated in 2016 for appointment of an experienced and well-qualified Board and a SWF Secretariat. In 2016, the Government will issue the Board with its investment mandate and Government expectations on management of funds.

### **Public Sector Reform**

Mr. Speaker, as you know, this is a reforming Government. It is not a Government that thinks that the economy and the institutions that support it should run on autopilot. We need to make sure our public service is meeting the needs of the population and operating as efficiently and effectively as possible.

The Prime Minister told Cadets graduating recently from the Defence Academy that this Government is reforming the Defence Force superannuation scheme to ensure that servicemen and women have retirement incomes that reflect their years of service.

In 2016, members of the Defence Force Retirement Benefits Fund will be given the choice of moving from a defined benefit scheme to an accumulation scheme. The Government will consider further reforms in 2016 once this change to the fund has been achieved.

## **Extractive Industries Transparency Initiative (EITI)**

Mr. Speaker, PNG became an Extractive Industries Transparency Initiative (EITI) candidate country in 2014. The implementation of EITI will show the direct and indirect contributions of resource companies in PNG; improve public understanding of revenue flows in the extractive industry; strengthen revenue generation and collection and provide a platform for effective engagement between various stakeholders.

Work on the first EITI report has commenced. The international accounting firm, Ernst and Young, have been engaged by the PNGEITI Multi Stakeholder Group (MSG) as the Independent Administrator (reconciler) to produce a report which is scheduled to be launched in December 2015.

## **Microeconomic Reforms**

Mr Speaker, the importance of micro-economic reform as an engine for sustainable growth has led the O'Neill-Dion Government to endorse key reviews into the financial services sector and a competition policy framework for the economy. These are expected to be completed in 2016.

The review is covering ways to improve the integrity of financial flows between levels of Government and its citizens and encourage growth and expansion of a sound debt market (financial capital market).

Mr. Speaker, the competition policy review will consider how we can enhance consumer protection, and address barriers and impediments to competition, including those faced by women.

## **SOE Reforms**

The Government is about to undertake the largest restructure of State assets since the establishment of the Independent Public Business

Corporation in 2002. The Kumul Consolidation Agenda (KCA) will manage all State assets, including State Owned Enterprises (SOEs) and mining and petroleum interests.

The Government will continue to promote more efficient State Owned Enterprises through policies that require them to operate in accordance with commercial principles. These principles include responding to shareholders expectations to receive dividends as a return on their investment. In the case of SOEs the shareholders are the people of Papua New Guinea.

### **Public Private Partnerships (PPPs).**

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

### **Dividend Policy**

Mr Speaker, the Kumul legislation has put in place a new framework for management of State assets, while enhancing governance arrangements.

Mr, Speaker, I'm pleased to announce that the Government has recently endorsed a dividend policy that will apply to SOEs and Statutory Authorities going forward. The policy provides enhanced transparency and predictability around the State's expectations as shareholder. It sets out what relevant boards need to consider in managing State investments and in declaring dividends.

### **Government Finance Statistics**

Mr. Speaker, I am pleased to inform this house and people of PNG that this Government has adopted the International Monetary Fund Government



Financial Statistics 2014 reporting standards. The 2016 National Budget Volume 1 is the first document presented using this new reporting standard while Volumes 2 and 3 will be adopted in the 2017 Budget. The intention to improve the reporting was announced in the 2013 Budget.

The coverage under GFS 2014 is of all institutional units that materially affect fiscal policy. This includes budgetary and extra-budgetary units as well as activities of public corporations. This will ensure international comparability and improve fiscal analysis, government policy decision making, transparency and accountability and improve economic analysis. It provides consistency with other macroeconomic accounts – Balance of Payments, National Accounts, Monetary Accounts and other Financial Accounts.

Expenditure under this reporting standard is K14,762.6 million as reported in Budget Volume 1 and it includes estimates for GST and Bookmakers tax transfers to provinces. Excluding these items, the Expenditure appropriation for the 2016 National Budget remains at K14,208.8 million of which K9,112.9 million is operational expenditure and K5,095.9 million is capital expenditure as mentioned earlier.

## **CONCLUSION**

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

While we continue to face challenges, this country is now in a position where all children have access to tuition free education. Basic health services are

free and record levels of investment is being made in hospitals and aid posts.

We face teething problems in education because in recent decades very little has been spent on schools. However, funding is now being made at the national, provincial and district levels. The wherewithal is there for a massive turnaround that should capture the public imagination.

We still have a lot to do to improve the institutional framework to support agricultural development. Record spending is occurring but much more needs to be done to improve private investment in agriculture.

Mr Speaker, Honourable Members, I commend the 2015 Supplementary Budget and the 2016 National Budget to the House.

Thank you Mr. Speaker