



# 2019 BUDGET STRATEGY PAPER

**Department of Treasury**

30 August 2018



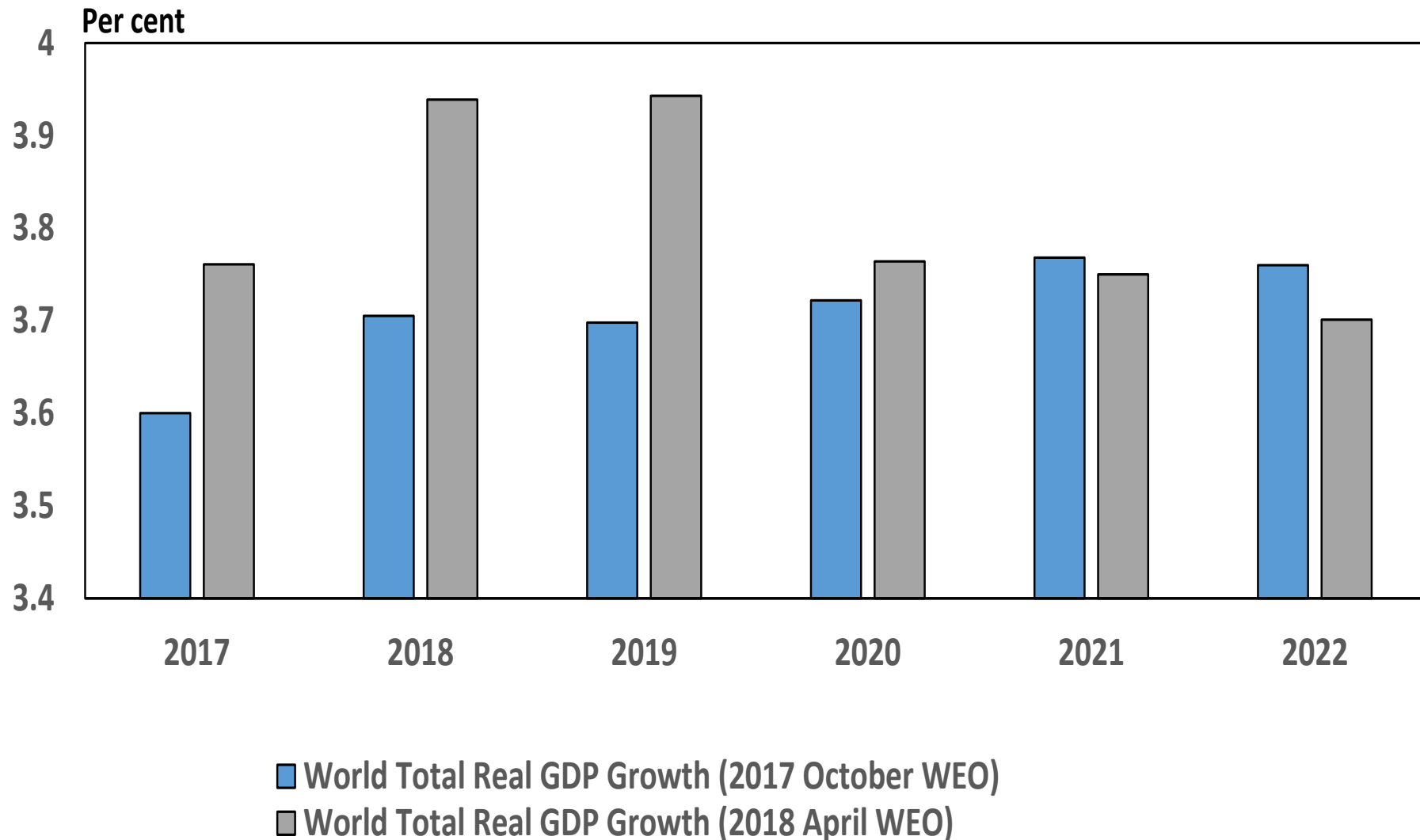
# Outline



- Update on State of the Economy
- Fiscal Outlook 2019 to 2022
  - Revenue
  - Expenditure
  - Financing
- Government Reforms
- Economic and Fiscal Risks



# Global Economy continues to Strengthen



- Global economy grew at 3.8% in 2017 and to continue strengthen to 3.9% in 2018 and 2019.
- Global growth strengthening to support prices of PNG's exports.
- Leads to increase farmers' income, company profits, increase tax collections and supports PNG's economic growth.



# O'Neill-Abel Government Plans



## 1. Alotau Accord 2 Priorities

Economic Growth

Infrastructure

Law and Order

Free and Quality Education

Free and Quality Health

## 2. The 25 Point (100 Day) Plan

Maintain Fiscal Discipline and boost foreign exchange

Grow our revenues

Strengthen our economic base

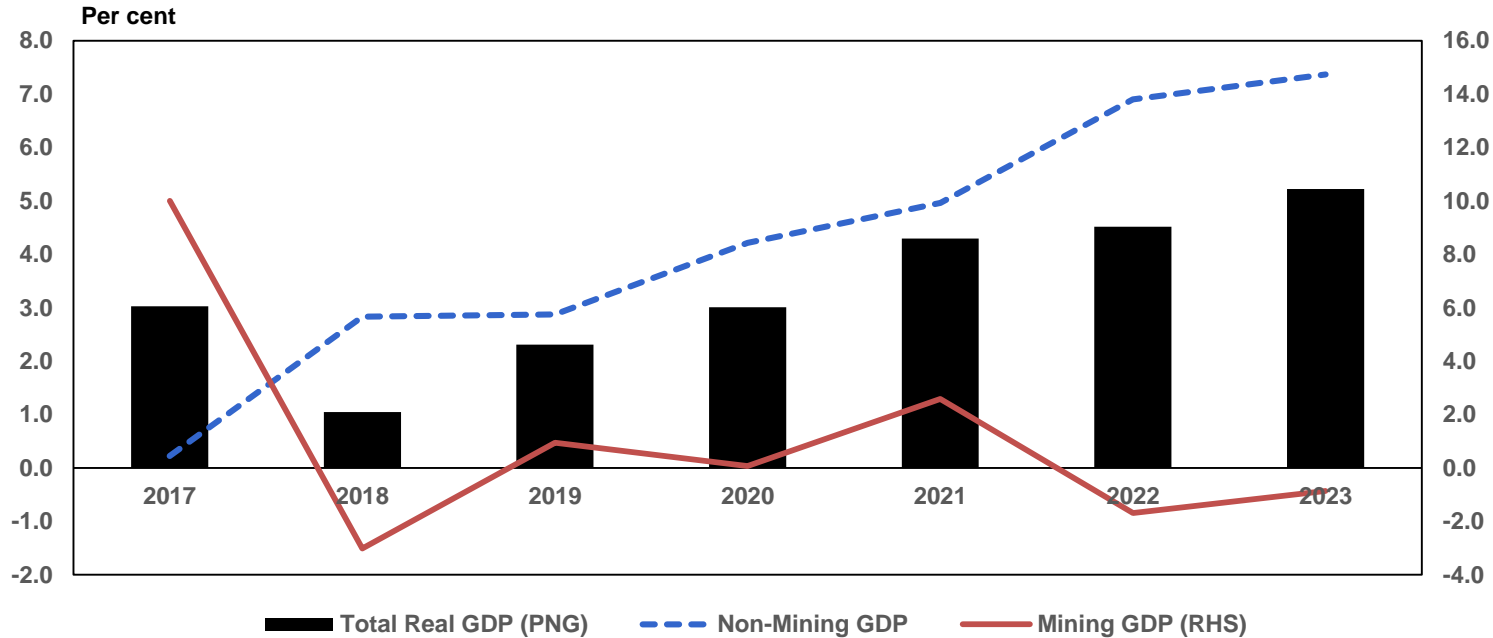
Improve our governance record

Act strategically



# Domestic Economy

## Growth Picking up in 2019



- Volatility in mining growth reflecting varying and at times uncertain mine plans of mature mines.

- Domestic economy to grow by 2.3% in 2019, up from 1.0% in 2018,
  - Growth to be driven by return to normal gas production, early works associated with the Wafi-Golpu and related spin-off benefits in non-mining sectors.
  - Growth projected to average around 5% from 2020-2024 driven by the construction phase of the Wafi-Golpu project and onset of LNG Train 3 in 2024.
  - Spin-Off activities from the Wafi-Golpu construction phase to boost non-mining sector over the medium term.



# 2018-2022 Medium Term Fiscal Strategy (MTFS)



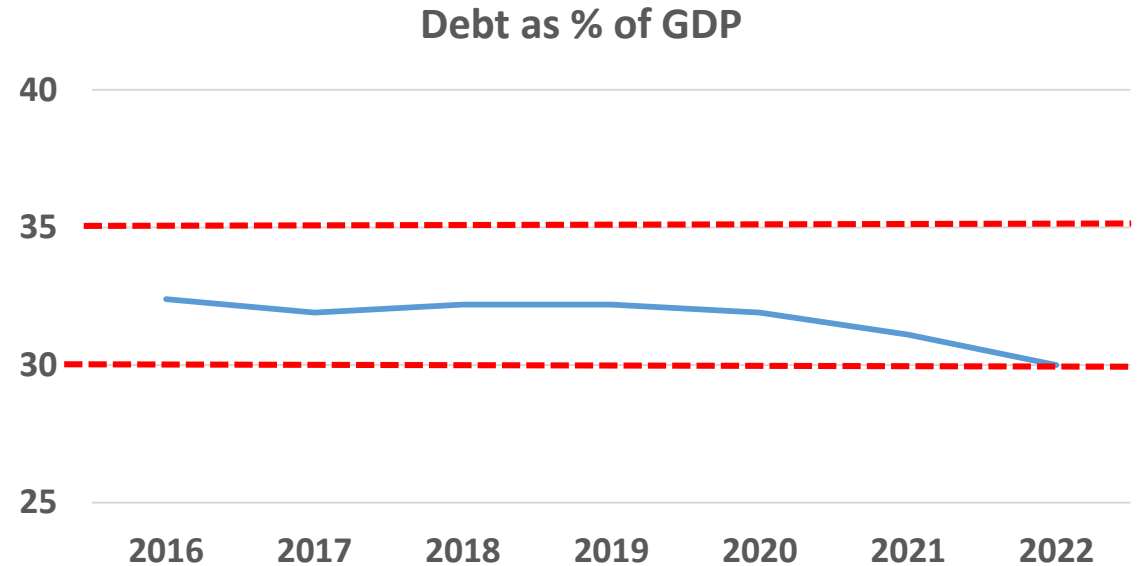
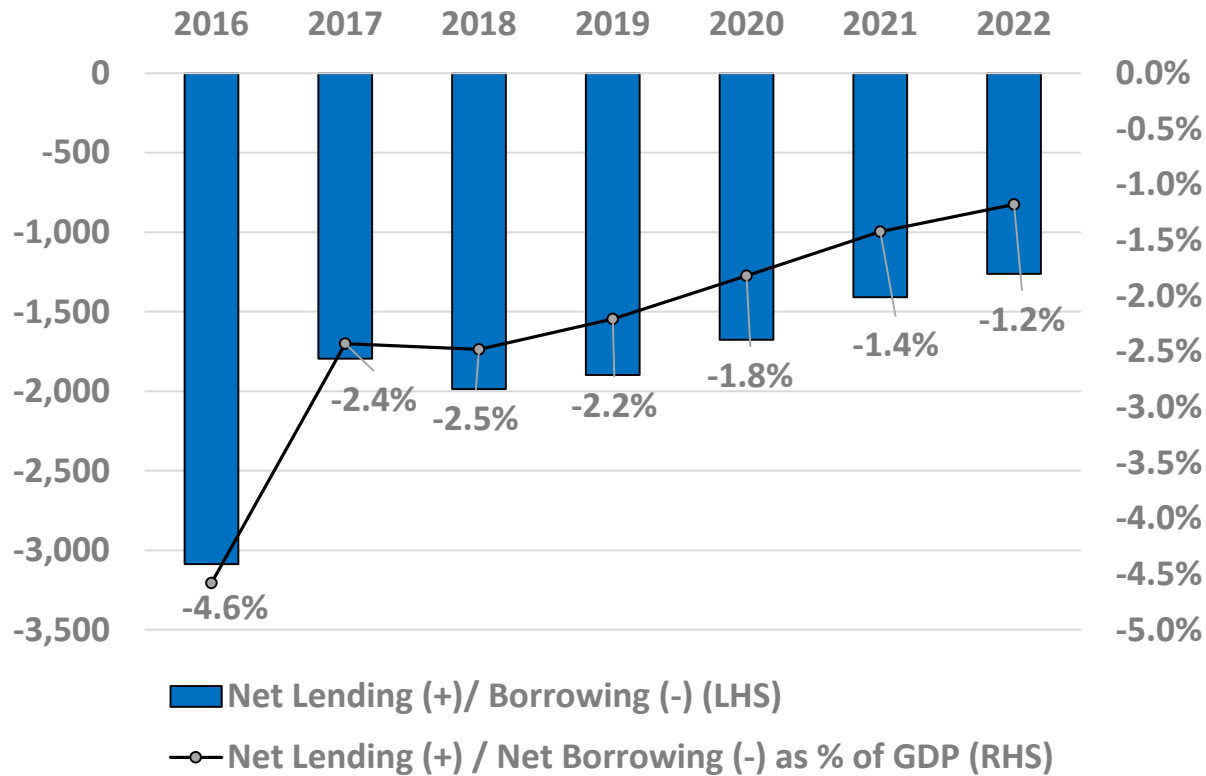
- The 2018 Budget guided by the Alotau 2 Accord and 25 Point Plan.
- The new Medium Term Fiscal Strategy (MTFS 2018-2022), a five year fiscal framework.

The MTFS consists of a MTRS and MTDS.

- **Revenue Strategy-Lift** revenue as a percentage of GDP by improving tax administration, tax policy and tax law reforms.
- **Expenditure Strategy** -Reduce operational and increase capital Budget as a share of GDP and stick to the Budget.
- **Debt Management Strategy-Looking** at reducing our deficit and shift from expensive short-term debt to cheaper long term external debt.



# Fiscal Trend based on MTFS 2018-2022



- Budget Deficit remains stable in 2018
- MTFS on Track!

- Our Debt is well within sustainable limits.
- Dinau bilong yumi e stap long gutpla mark !

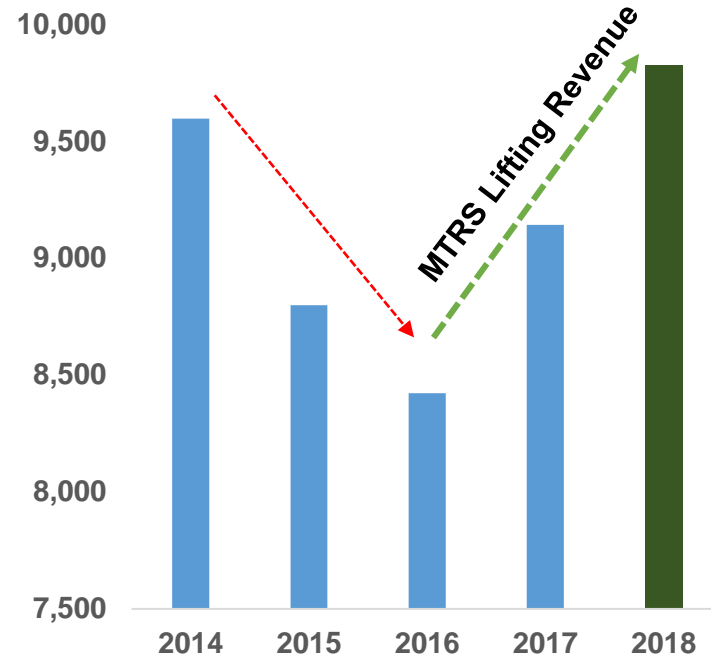


# Medium Term Revenue Strategy (MTRS) & 25-Point Plan

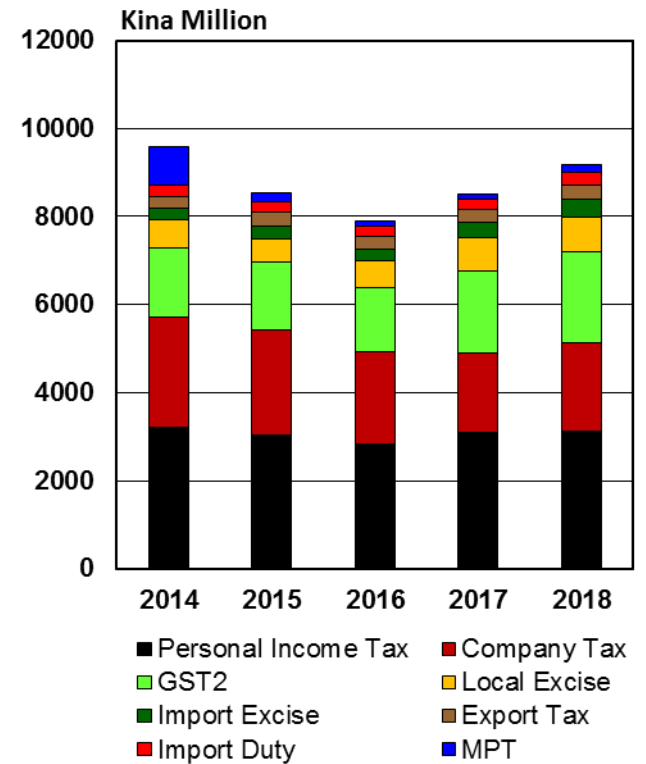
**Revenue Strategy-Lift** revenue as a percentage of GDP by improving tax administration, tax policy and tax law reforms.

- Stop the declining trend in revenues;
- Institute the MTRS strategies;
- Enforce compliance and strengthen collections; and
- Ongoing monitoring.

TAX REVENUES (K MILLIONS)



MAJOR TAXES (K MILLIONS)







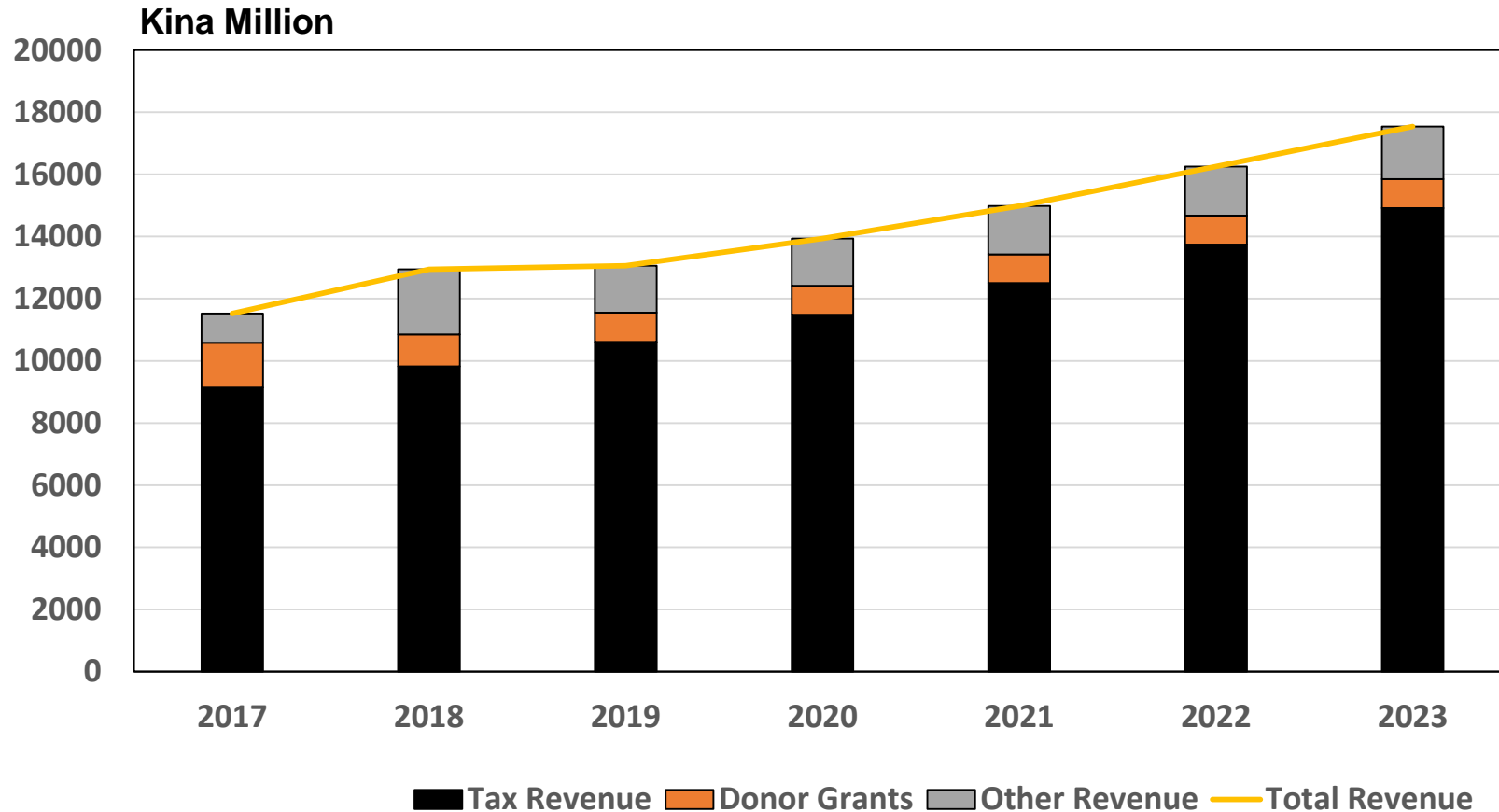
# 2019 BUDGET STRATEGY



	2018	2019	2020	2021	2022
<b>Total Revenue and Grants</b>	12,731	13,058.3	13,936.5	14,981	16,253.9
<b>% of GDP</b>	15.9%	15.0%	15.0%	15.0%	14.9%
<b>Total Expenditure and Grants</b>	14,718	14,955.8	15,612.2	16,389.8	17,515.1
<b>% of GDP</b>	18.4%	18.0%	16.8%	16.4%	16.1%
<b>Net Lending (+)/ Net borrowing (-)</b>	-1,987	-1,897.5	-1,676	-1,408.8	-1,261.2
<b>% of GDP</b>	-2.5%	-2.2%	-1.8%	-1.4%	-1.2%
<b>Non-resource Primary Balance</b>	-592	-442	-193	-10	98
<b>% of GDP</b>	-1.0%	-0.7%	-0.3%	0.0%	0.1%
<b>Gross Government Debt</b>	25,808	27,443	29,118.8	30,527.3	31,788.7
<b>% of GDP</b>	32.2%	31.6%	31.4%	30.5%	29.2%



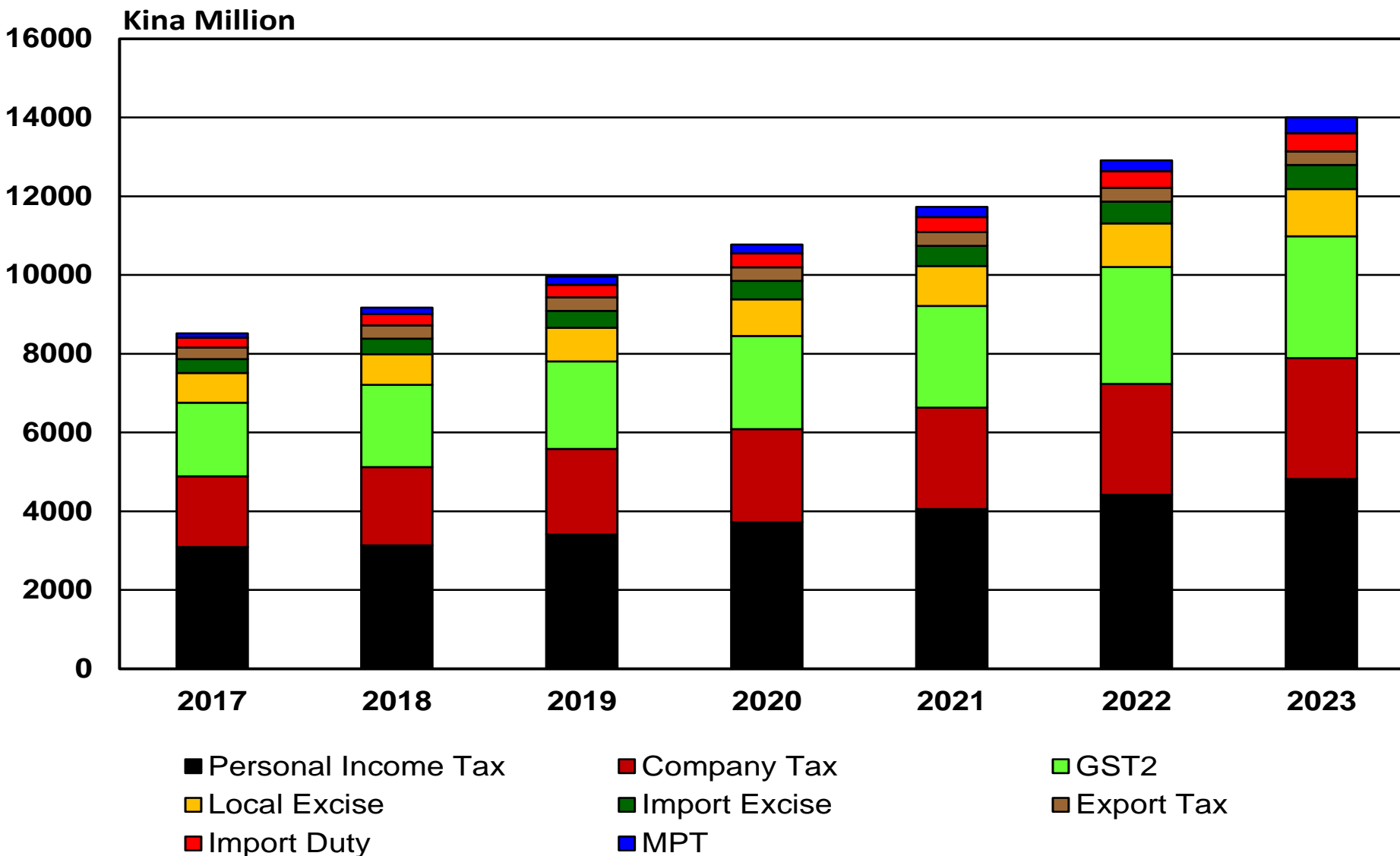
# Revenue Outlook



- Revenue profile in 2019 onwards reflective of MTRS.
- Revenue increasing from K12.9 in 2018 to K13 billion in 2019.
- Indicative Total Revenue and Grants for the 2019 Budget is K13,058.3 million higher by K114.5 million from 2018 MYEFO projections and K327.6 million higher than the 2018 Budget projection.



# Major Revenue Heads Projections



**Major Tax revenues to increase gradually over the medium-term reflecting:**

- anticipated increase activities relating to the construction of a mining and a petroleum project.
- supported by relatively increased MPT receipts due to better forecasts of mineral and petroleum prices



# Expenditure Outlook



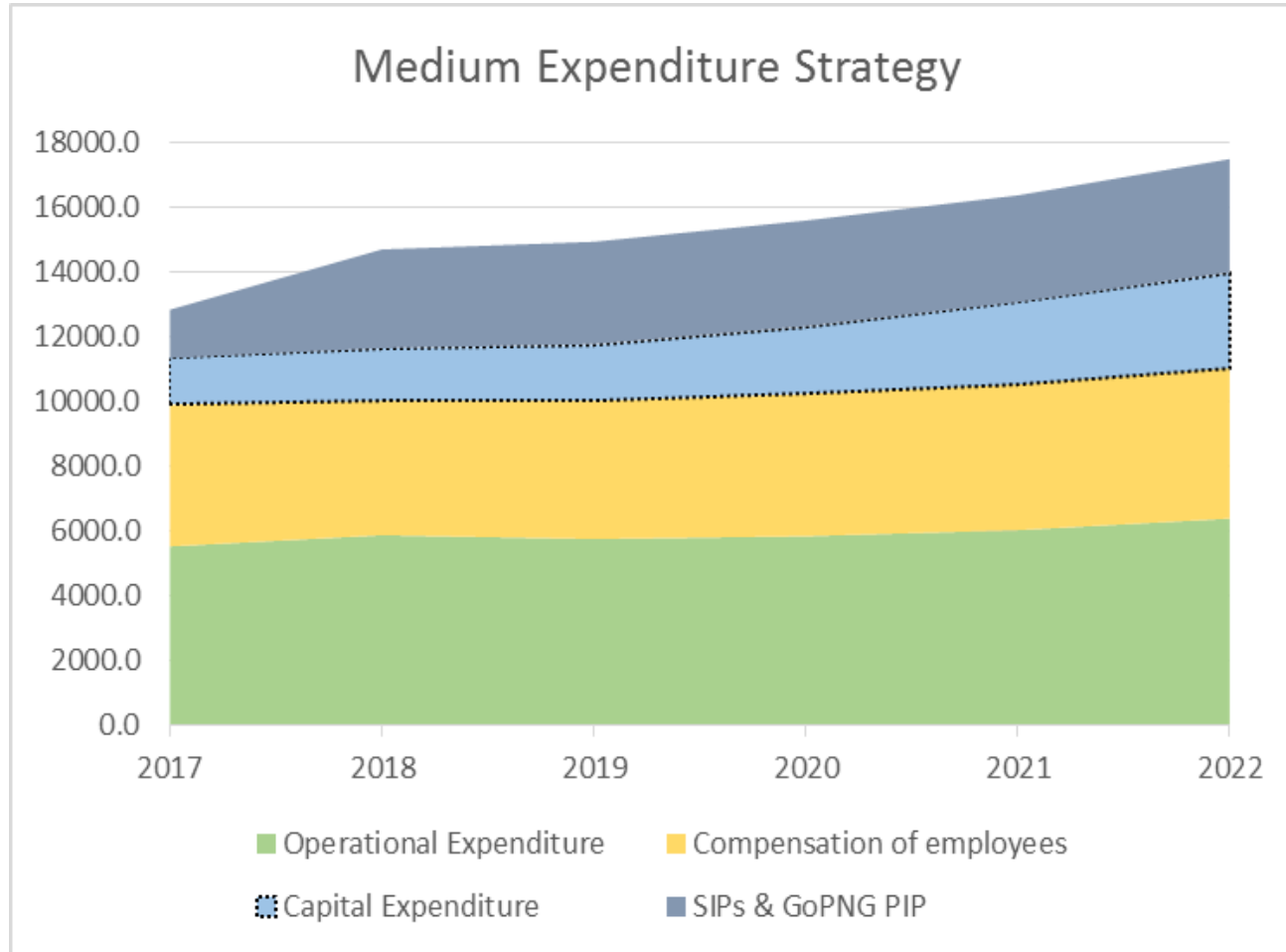
	2018 (MYEFO)	2019	2020	2021	2022
<b>Total expenditure &amp; Net Lending</b>	14,717.8	14,955.8	15,612.2	16,389.8	17,515.1
<b>% of GDP</b>	18.4%	17.3%	17.0%	16.5%	16.2%
<b>Expense</b>	10,044.0	10,029.6	10,248.7	10,469.4	11,266.5
<b>% of GDP</b>	12.5%	11.7%	11.1%	10.9%	10.5%
<b>Compensation of employees</b>	4,163.0	4,266.2	4,397.2	4,532.1	4,671.1
<b>Use of goods and services</b>	3,004.5	2,649.9	2,641.4	2,695.2	2,965
<b>Interest</b>	1,864.7	2,009.5	2,105.9	2,136.6	2,323.6
<b>Grant</b>	499.9	572.3	572.3	572.3	572.3
<b>GST Transfers to Provinces</b>	511.9	531.7	531.9	533.2	534.5
<b>Capital Expenditure</b>	4,673.88	4,926.2	5,363.5	5,820.4	6,448.5
<b>% of GDP</b>	5.8%	5.7%	5.8%	5.9%	6.0%
<b>GoPNG PIP</b>	1,881.0	1,989	2,091	2,125	2,323
<b>Service Improvement Programs</b>	1,174.4	1,177.2	1,177.2	1,177.2	1,177.2
<b>Loans Drawdowns</b>	593.9	816.9	1,163.3	1,585.9	2,016.2
<b>Project Support Grants</b>	1,024.6	943.1	932.1	932.1	932.1

- The 2019 expenditure to be guided by the 2018 Expenditure Strategy as outlined in the MTFS and the MTDP III.
- Indicative total expenditure and Net Lending for 2019 is K14.9 billion, K238.5 million higher than the 2018 MYEFO projection



# Expenditure Outlook

**Rebalance Expenditure Path over the medium to Stimulate broad based and sustainable economic growth...**



Focus on improving Expenditure Quality, Reduce Leakages, Control Public Sector Wage Bill,

- Operational Expenditure to support Capital Investment
  - Tuition Fee Free, Healthcare Subsidy, Infrastructure Maintenance, etc
- Capital Investment
  - High Impact Infrastructure (Sepik Plain, Highland Highway, Submarine Cable, etc)
  - Service Improvement Programs (Districts/Prov)
  - Health, Education, Transport & Energy Infrastructures
  - Loan Projects Counterpart Funding



# Key Expenditure Priorities

- Tuition Fee Free (TFF) Education
- Free Primary Health Care
- Services Improvement Program (PSIP, DSIP & LLGSIP)
- District Infrastructure Fund
- MTDP key enablers - health, education, Law and Order and infrastructure
- Debt Servicing
- Agriculture and SMEs
- Promote tourism



# Debt Financing Outlook

Debt Instruments	2018 (MYEFO)	2019	2020	2021	2022
<b>Domestic Net Financing</b>	373.8	200.6	454.7	816.2	862.1
<b>Securities</b>	373.8	200.6	454.7	816.2	862.1
<b>Treasury Bills</b>	30.2	-108	156	87.7	-61.3
<b>Inscribed Stock</b>	343.6	308.6	298.7	728.5	923.4
<b>External Net Financing</b>	1,613.4	1,696.9	1,221.1	592.3	399.3
<b>Sovereign Bond</b>	640	640	320	0	-640
<b>Loans</b>	973.4	1,056.9	901.1	592.3	1,039.3
<b>Concessional Loans</b>	337.4	480.6	808.3	1,123.40	1,389.7
<b>Commercial</b>	39.8	-17.9	-513.9	-513.9	-337.9
<b>Extraordinary</b>	596.2	594.2	606.7	-17.1	-12.4
<b>Total Net Financing</b>	1,987.2	1,897.5	1,675.8	1,408.5	1,261.4

- Debt to GDP ratio is 31.2%, slightly better than the 2018 Budget of 32.2%, within the prescribed debt to GDP band in the *FRA*.
- ADB Budget Support
- World Bank Budget Support being finalised
- Sovereign Bond is in advanced stages
- Proceeds from external financing will ease the foreign exchange imbalance.



# Government Reform Initiatives

- **Medium Term Revenue Strategy**
- **Payroll Reforms**
- **Strict Implementation of PFMA**
- **Budget Reforms**
- **Pursue Resource and Non-Resource Projects**
- **Complementary Structural Policies and reforms**
- **Fiscal Discipline**





# Risks to Economic and Fiscal Outlook

## Macroeconomic Risks

- Uncertainty in global trade between the USA and China could impact commodity prices and PNG's key exports in agriculture fishery and forestry and the mining sector;
- Continued imbalance in the foreign currency market;
- Natural phenomena such as earthquake, landslips, L/Owner issues can affect Gov't revenues; and
- Slower than expected implementation of large extractive investment projects will impact overall economic growth.

## Debt Related Risks

- Exposure through debt guarantees and contingent liabilities;
- Heavy reliance on domestic borrowing results in high interest costs; and
- Careful fiscal management required to ensure debt levels remain sustainable.

## Fiscal Risks

- Unexpected delay in securing external financing: e.g, the WB Support;
- Dividends and tax compliance revenue projections not meeting 2018 projections; and
- Complacent fiscal management including failure to control PE, which will add further pressure on the fiscal position and undermine the 2019 Budget fiscal parameters.



**END OF PRESENTATION**



**THANK YOU**