Papua New Guinea

SPEECH TO PARLIAMENT - 2017 FINAL BUDGET OUTCOME REPORT

INTRODUCTION.

Mr Speaker,

I rise to table the Final Budget Outcome Report for 2017 and seek leave to make a statement on it.

It is my intention to make a statement at each session of Parliament to coincide with the requirements of the Fiscal Responsibility Act to report on the Final Budget Outcome within 3 months of the end of that fiscal year, the Mid Year Fiscal Outlook Report and the Budget Strategy Paper preceding the incoming budget.

Mr Speaker I had a meeting with the incoming United Nations Head of Mission to PNG, Ambassador Luca Rampola last week. He had come from his last posting based in Gabon in Central Africa.

He described how he had not been to PNG for ten years and said the visible change he observed was remarkable. Ambassador Rampola said that we are lucky to still have much of our resources and environment intact and a relatively small population. He explained how so many of the countries of Central Africa had achieved independence in the 60's, had been blessed with many resources like PNG and today find themselves with large populations, resources depleted and needing to be bailed out by the International Monetary Fund.

The exception in Central Africa was Rwanda, a country of only 26,000 km2 (PNG 463,000 km2) with 12 million people, making it one of the most densely populated countries in Africa. A country with no resources that had suffered a devastating civil war during the Rwandan Genocide in 1994. This country had average growth of around 7% based on a service economy providing education and other services to the region.

Mr Speaker,

Having an abundance of natural resources can be a blessing or a curse. A child that is given everything from birth never quite grows up. A child that struggles learns to become strong and independent.

Papua New Guinea must learn from the African experience.

MID YEAR ECONOMIC OUTLOOK REPORT 2017.

Mr Speaker,

Following the 2017 national elections the Oniell/ Abel Coalition Government introduced the 100 Day, 25 Point Plan in response to the Mid Year Economic Outlook Report for 2017. This report highlighted an alarming decline in government revenue against projections and a corresponding increase in wages and interest costs. Government financing was coming under pressure and there was a sustained foreign exchange shortage. The LNG boom had not materialised because of the oil price, the drought and subdued commodity prices were being felt.

These factors underlined our countries continued heavy reliance on the extractive industries sector which makes up 85% of our exports, for revenue and foreign exchange in particular.

100 DAY PLAN.

Mr Speaker,

The principles of the 100 Day Plan were to; MAINTAIN FISCAL DISCIPLINE AND BOOST FOREIGN EXCHANGE, GROW OUR REVENUES, STRENGTHEN OUR ECONOMIC BASE, IMPROVE GOVERNANCE AND ACT STRATEGICALLY.

The 100 Day Plan was to be effected primarily through a 2017 Supplementary Budget and the 2018 Budgets.

The first step was to restore and maintain fiscal discipline without which we ran the risk of blowing out the fiscal deficit and debt position of the country.

This Government acted with considerable political responsibility to cut the SIP (Service Improvement Program) expenditure in particular and make other adjustments to the 2017 Budget to maintain its fiscal anchors.

FINAL BUDGET OUTCOME REPORT 2017.

Mr Speaker,

The preliminary IFMS reports for the 2017 outturn is showing total revenue and grants at K11.2 billion and total expenditure and net lending at K12.9 billion This translates to a budget deficit of K1.7 billion or 2.3% of Gross Domestic Product. This deficit is .2 % lower than the 2017 projected deficit of 2.5%.

Total revenue and grants are higher than the 2016 Budget by K750m or 7.2%.

The lower fiscal deficit resulted in a reduction in the debt to GDP ratio to 31.9% and places the debt ratio on a downward trajectory from 32.6 per cent ratio in 2016. It should be noted that the 31.9 per cent of GDP debt ratio is well below the pessimistic projections of both the World Bank and IMF in missions to PNG in the second half of 2017.

Domestic revenues have met the 2017 Supplementary Budget expectations with a strong contribution from GST receipts compensating for the fall in corporate income tax. Increased GST collections is reflective of the anticipated recovery of the domestic economy on the easing of the impacts from the drought, slight improvement on the forex imbalance and moderate improvements to commodity prices. The revenue figures also illustrate that compliance efforts from the Medium Term Revenue Strategy and 100 Day are yielding results.

The tax revenue outcome of K9,110m was higher than Supplementary Budget projections by K172m. The IRC collected K7,439m, higher by K61m than projection and K441m higher than the 2016 Budget outcome. Png Customs collected K1,671m, higher by K111m than projection for 2017 and higher by K255m than 2016. Grant receipts were higher than anticipated by K194m.

Non tax revenue was lower by K109m than projected. Dividends totalled K842m, lower by K28m. Fees and charges totalled K122m, lower by K81m.

Of particular note again is the mining and petroleum income tax collections of K114m, K41m below budget and representing only 13% of the total tax take.

Mr Speaker,

Total Expenditure and Net Lending in 2017 was K12,925m or K70m higher than the Supplementary Budget projection but lower than the 2016 Budget by K647m.

Within the expenditure envelope a number of categories continue to expand significantly, such as personnel emoluments, rentals, utilities and interest. Given the difficulty in slowing the growth in these rigid categories most of the burden of adjustment fell on capital expenditure and goods and services grants, particularly compared to the original 2017 Budget.

The biggest issue on the expenditure side has been the unbudgeted increases in the government wages bill. The Supplementary budget provided for an increase over and above the original 2017 budget of K430m. This has been exceeded again by K98m in the final outcome. The rate of growth in personnel emoluments is a major structural issue affecting fiscal consolidation. It is simply not sustainable and the directions from Cabinet and Parliament through the 2018 Budget under the OSPEAC must be given the highest priority.

Part of the issue is under budgeting Mr Speaker and part is other issues related to abuse of the payroll system. Our Government is committed to more teachers, doctors and policemen. It is the growth in PE relative to total budget envelope and GDP that has to be managed and understanding that it eats into capital spend and operational spend that are also needed to make sure a growing public workforce is functional.

In addition, interest costs also increased by K9.3 million from the K1,515.6 million projected in the Supplementary Budget to K1,524.9 million at the end of 2017. This increase was mainly driven by refinancing costs associated with short-term domestic debt.

Fees and charges (K109.4 million) captured under goods and services have been increasing, reflecting the K6.7 billion stock of undisbursed loans.

Mr Speaker,

The good news from the Outcome Report is that fiscal discipline has been restored in an overall sense and revenue is on track and improving.

The obvious concern from the expenditure side is the unsustainable growth in public servants wages and the growing cost of debt.

The interesting aspect of the debt picture is the large stock of undrawn concessional loans.

2018 BUDGET.

Mr Speaker,

Moving forward our efforts must now be doubly focused on delivering the 2018 Budget towards the themes established in the 100 Day Plan and begun in the 2017 Supplementary Budget.

1). We need to have a dedicated team driving the Cabinet directed payroll cleansing exercise and reforms. The Chief Secretary through CACC and OSPEAC have been directed to do this.
2). We need to execute our financing plan including our inaugural bond issue. I will travel in the first half of this year to the WB Spring meetings, ADB Annual meetings and on the roadshow to test the bond market. Some of this debt will be used to restructure our loan portfolio by retiring short term domestic debt to lower interest cost and all will contribute to foreign currency reserves.
3). We need to activate or cancel the some of the undrawn stock of concessional loans.
4). We need to push the transition to gas utilisation and hydro for domestic power and the increased utilisation of Kutubu crude refined onshore, and both local gas and crude purchased in Kina.
5). We need to commence at least one major commercial rice project with a PPP but not under monopoly conditions.
6). We need to put more effort into bringing Wafi Golpu, Pnyang Gas, Papua LNG, Paska Gas and Frieda River projects forward.
7). We need to get the Highlands Highway rehabilitation project with ADB started.
8). We need to get the international submarine cable built.

Mr Speaker,

In a slightly longer term sense;

1). We need to partially privatise and reform our SOEs using the experience of the superannuation industry reforms and BSP.
2). We need to develop a mineral and petroleum regime where we take a smaller equity for free and a higher royalty rate, introduce domestic market obligation and local content.
3). We need to understand why a large current account surplus (from mineral and petroleum exports) still leaves us with a foreign exchange shortage.
4). We need to bring the fishing and forestry industries onshore to add value and create jobs.
5). We must drive land reform and invest in agriculture and support SMEs and private sector investment in general.

These of course are all aspects of the 2018 Budget.

CONCLUSION.

Mr Speaker,

We continue to be a wonderfully blessed nation with our destiny in our own hands. We are able to look and learn from the experiences of other countries to guide us.

The challenges we face from time to time remind us that we live in a global community and are subject to economic and environmental shocks. It is the job of successive Governments to foster a more self reliant, resilient and inclusive economy and society. Our Government is determined to do that.

The 2017 Final Budget Outcome Report tells us some good news and some not so good.

I want to report that 2018 has begun on a good note with revenue on track but we cannot afford to rest for a moment. Even if the oil price continues to recover we cannot lean back and relax.

We will always be at risk economically if we extract and export raw materials and import most of our needs. Soon as commodity prices drop we suffer revenue and forex issues. We must be more revenue focused and cost conscious as I told the public servants at the dedication service, right down to turning the lights off in the office after work.

I appeal to everyone of us to do their part as leaders, public servants and citizens, make a contribution to the future of your country. Oh and don't have too many babies!

Thank you.

HON. CHARLES ABEL
TREASURER
DEPUTY PRIME MINISTER.