PNG’s resource boom: a fiscal retrospective

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Presentation to 2016 PNG Update
Introduction

• Resource boom’s biggest impact is via government revenue – and then expenditure.
• PNG has been through a massive resource boom over the last decade, which has now ended.
• What was the fiscal impact of that boom?
• What happened to revenue?
• How was the revenue spent?
• What is the aftermath? How do things stand now?
PNG’s resource boom: 2004 to 2014

Chart 1. Indices of Primary Commodity Prices
(2005 = 100) 1/

1/ Combines indices of non-fuel primary commodity prices and energy prices.
2/ Deflated by U.S. CPI.

Source: IMF
The revenue boom finished early: total government revenue almost doubled between 2003 and 2007, but is now back at 2006 levels.
Economy-wide taxes have boomed, but are now falling.
Resource revenues started declining post-2007, well before the fall in commodity prices.
Expenditure more than doubled over the boom; now falling – though not as much as revenue

Total government expenditure

Kina billion (2015 prices)

Expenditure - GFS1986
Expenditure - GFS 2014
Most expenditure categories show major increases; the largest were in development expenditure.
Salaries and interest increased significantly only towards the end of the boom.
Burden of adjustment post-boom very uneven

Discretionary spending = total spending minus salaries minus interest minus political commitments minus aid.

Discretionary spending = amount available for core government operations (running hospitals, universities; building major roads)
Discretionary spending also back to 2006 levels

K billion (2015 prices)
This is reflected in the rise and fall of agriculture, education, health, infrastructure

Kina billion; nominal

Source: BPNG
In some sectors, there never was a boom
In per capita fiscal terms, PNG is back where it was at the start of the boom.
Little borrowing during the boom, but large borrowing towards the end.
Deficit/revenue ratios reached an all-time high towards the end of the boom.
As a result, debt/revenue is now back at pre-boom levels.
The government interest rate has been stable but is now edging up.
But with growing debt, interest/revenue at pre-boom levels, and set to rise further.
2017

• Another tough year
• Revenue budgeted to be up by K 500 million, which is less than the rate of inflation.
• But K 400 for elections and K 250 for APEC.
What does the future hold?

Revenue per capita

Kina (2015 prices)
Concluding remarks

• The legacy of the boom is much higher salary and interest bills; and new policy initiatives (free education and expanded MP funds)
• But not higher revenue: revenue already back to 2006 levels (and pre-boom if we look at per capita).
• All borrowing consumed by the “boom legacy”.
• Something has had to give. The result has been crowding out of discretionary/core spending, which has fallen back to 2006 levels and is set to fall further.
• The outlook is for these problems to intensify with low economic growth and even lower revenue growth forecast.
What to do?

• Borrow in the short-term: to stimulate the economy and protect critical expenditure.

• Depreciate the exchange rate: to stimulate the economy

• Restructure expenditure: current levels of constituency funding and school subsidies are unaffordable; wage restraint needed.
Sources and notes

• 2016 revenue and borrowing from the MYEFO; 2016 expenditure assuming 2016 revenue and budgeted borrowing

• Devpolicy blogs:
  • http://devpolicy.org/png-real-revenue-back-to-2006-levels-20160822/
  • http://devpolicy.org/how-did-png-spend-the-resources-boom-20160912/
  • http://devpolicy.org/pngs-discretionary-expenditure-crunch-20160919/