

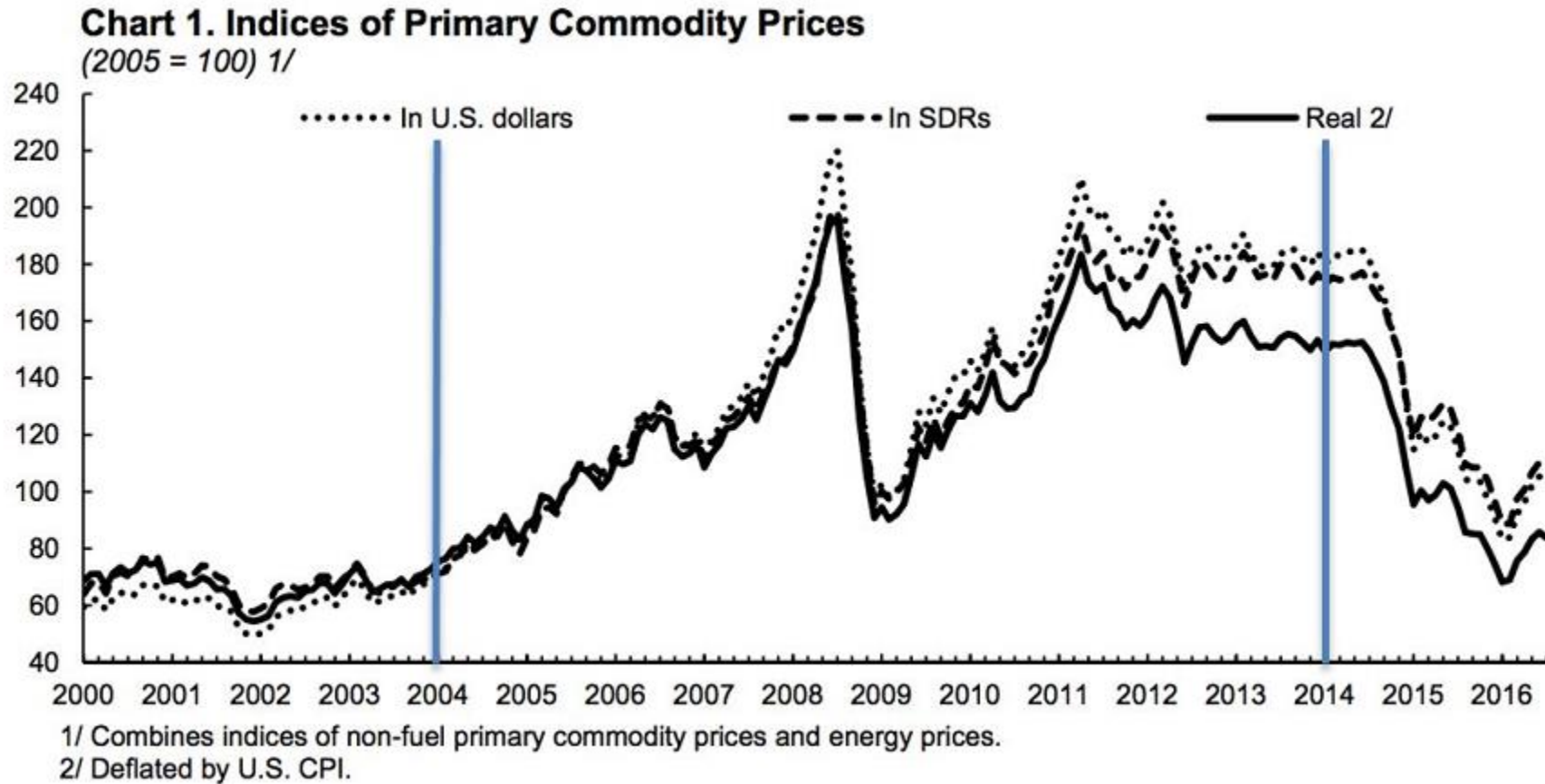
PNG's resource boom: a fiscal retrospective

Stephen Howes and Rohan Fox
Development Policy Centre, ANU
Presentation to 2016 PNG Update

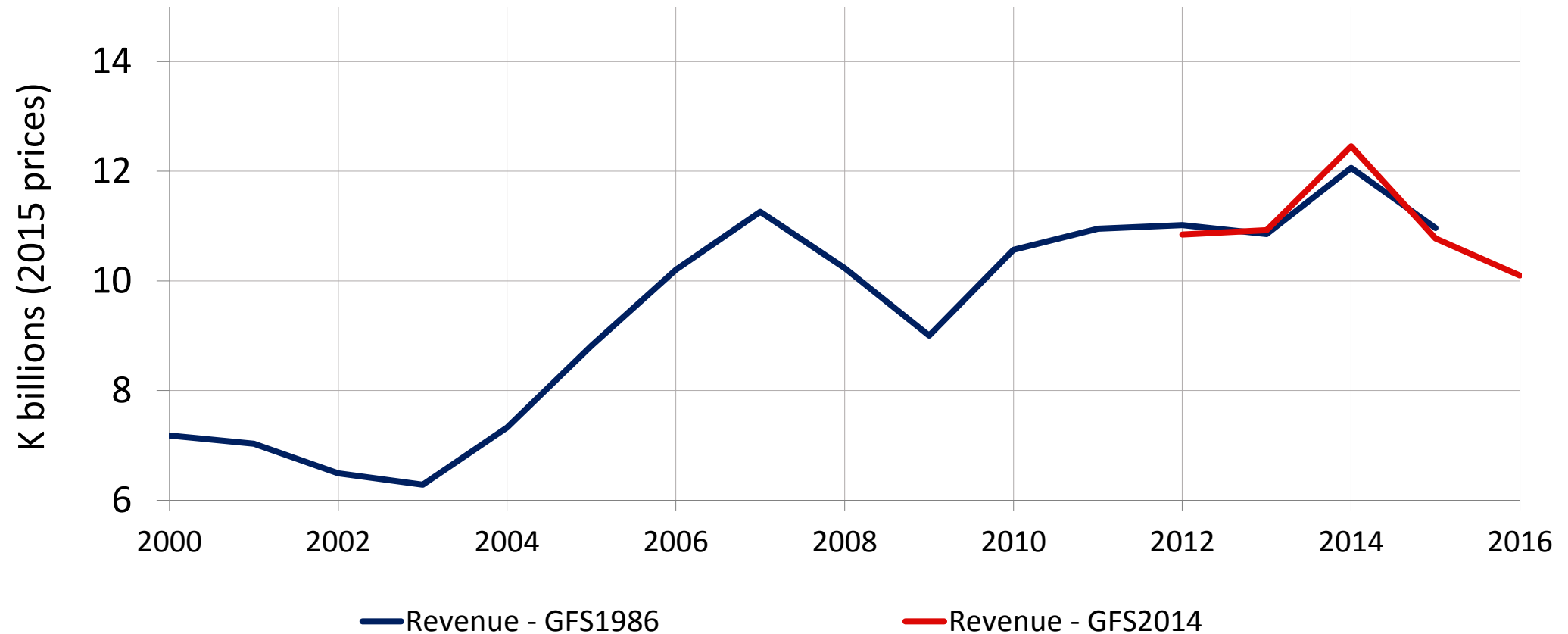
Introduction

- 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?

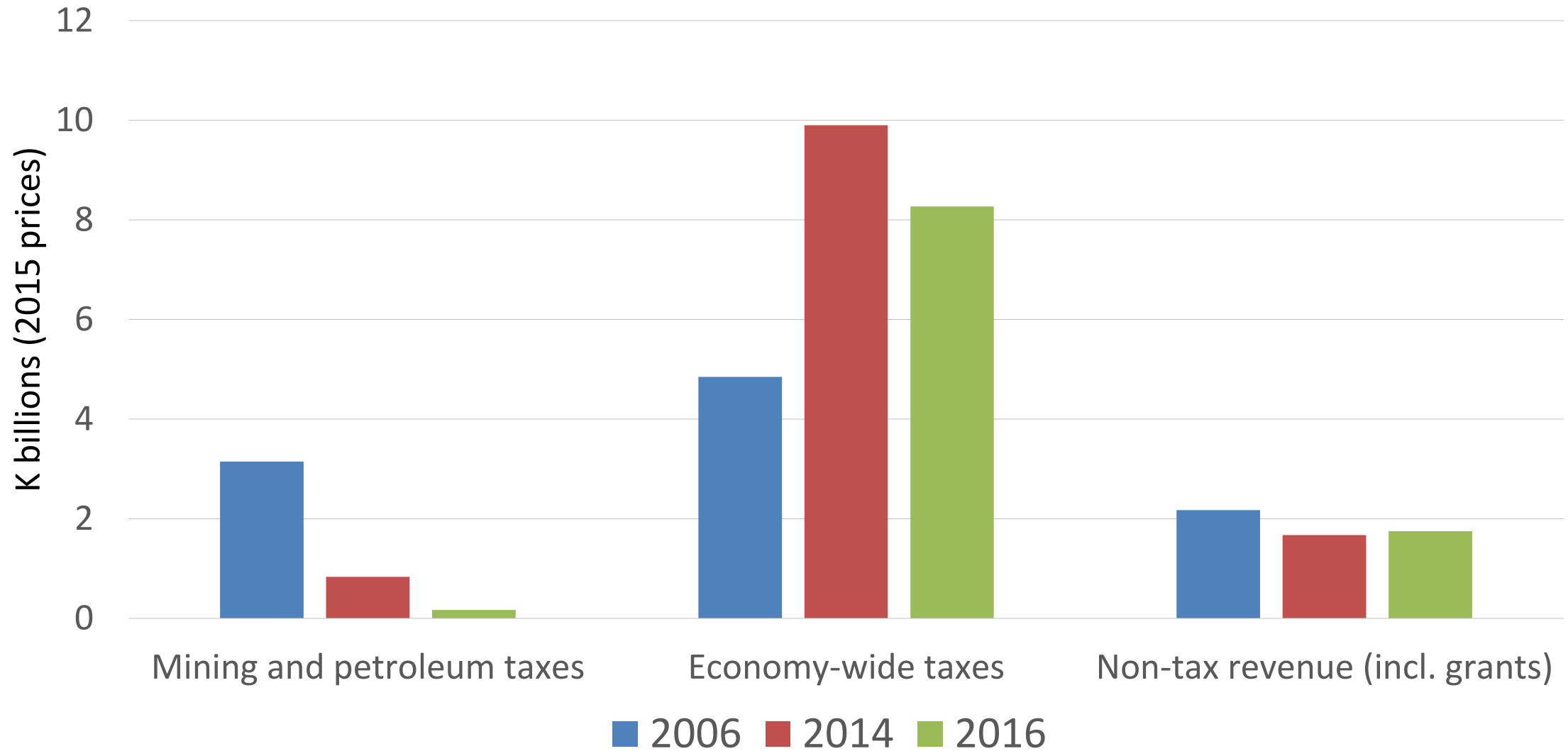
PNG's resource boom: 2004 to 2014



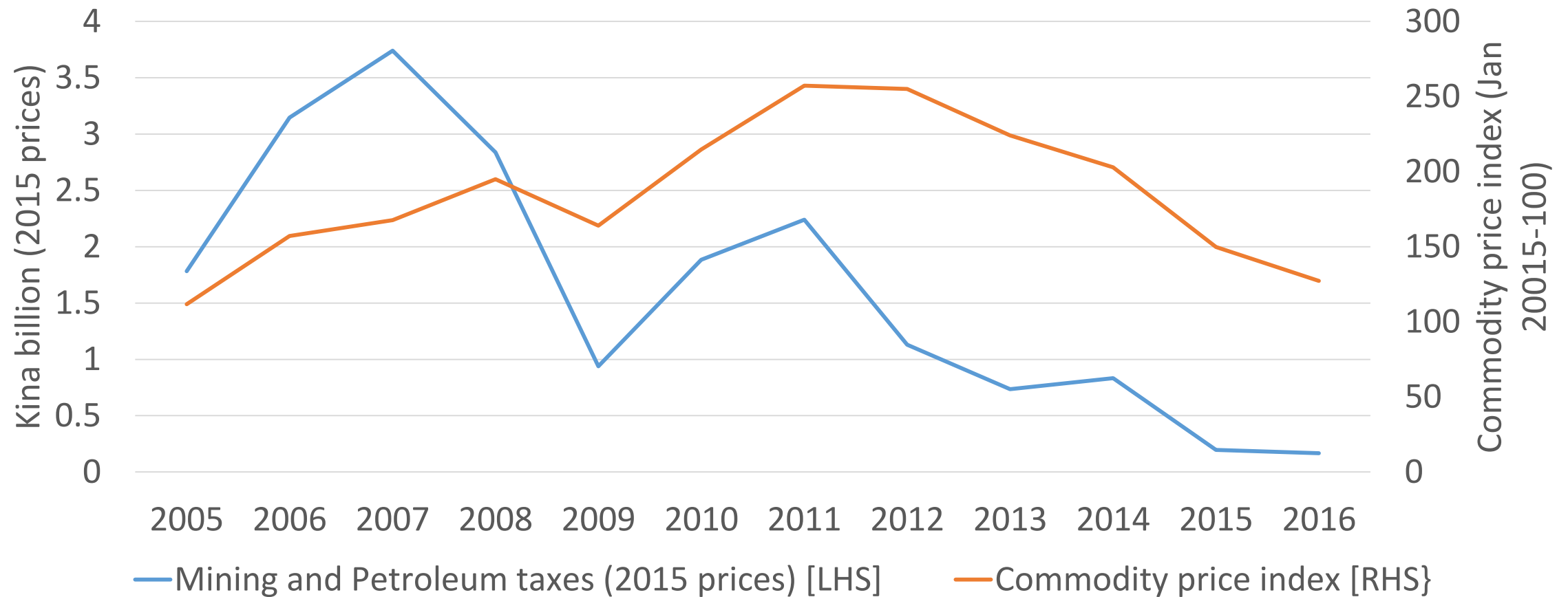
The revenue boom finished early: total government revenue almost doubled between 2003 and 2007, but is now back at 2006 levels



Economy-wide taxes have boomed, but are now falling.

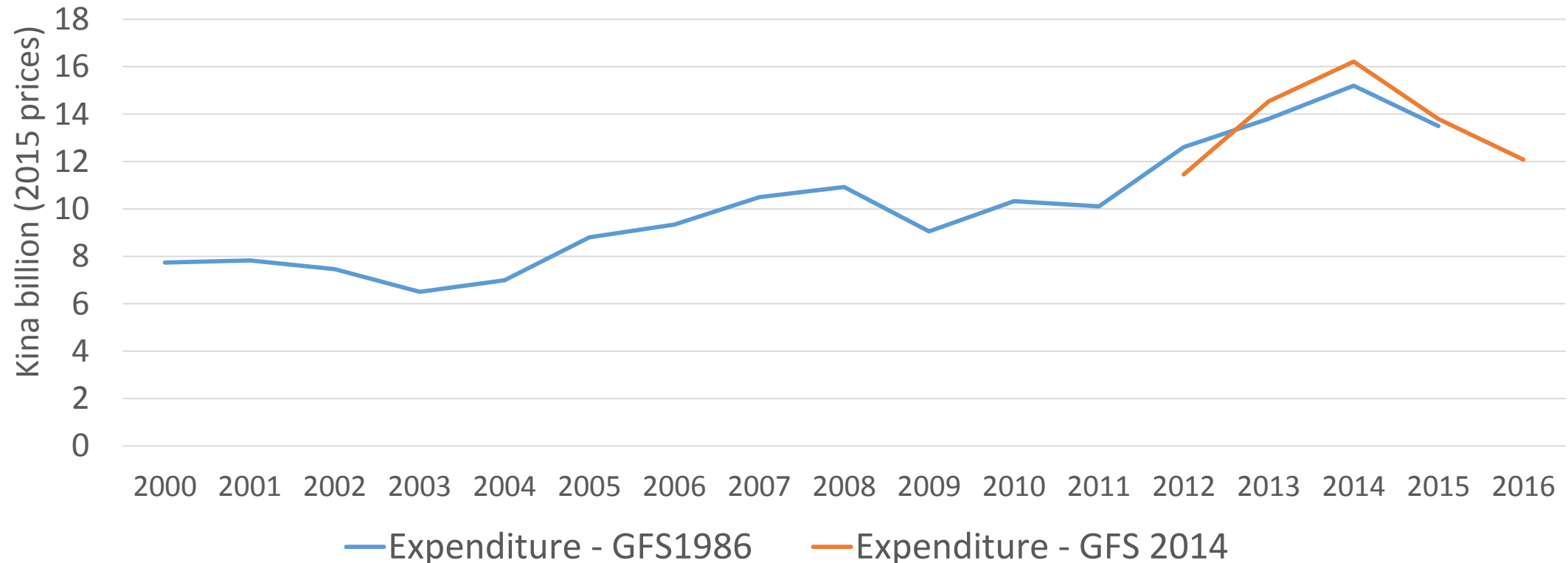


Resource revenues started declining post-2007, well before the fall in commodity prices

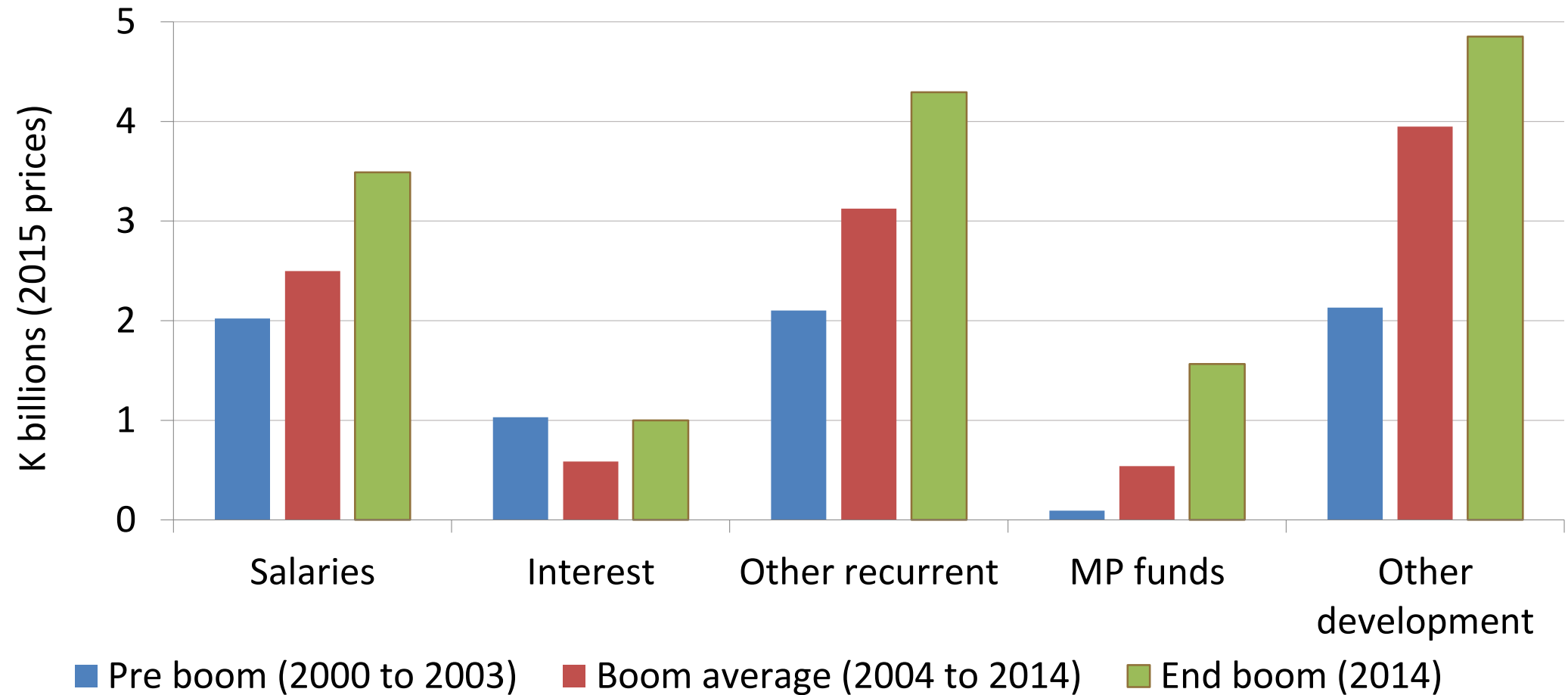


Expenditure more than doubled over the boom;
now falling – though not as much as revenue

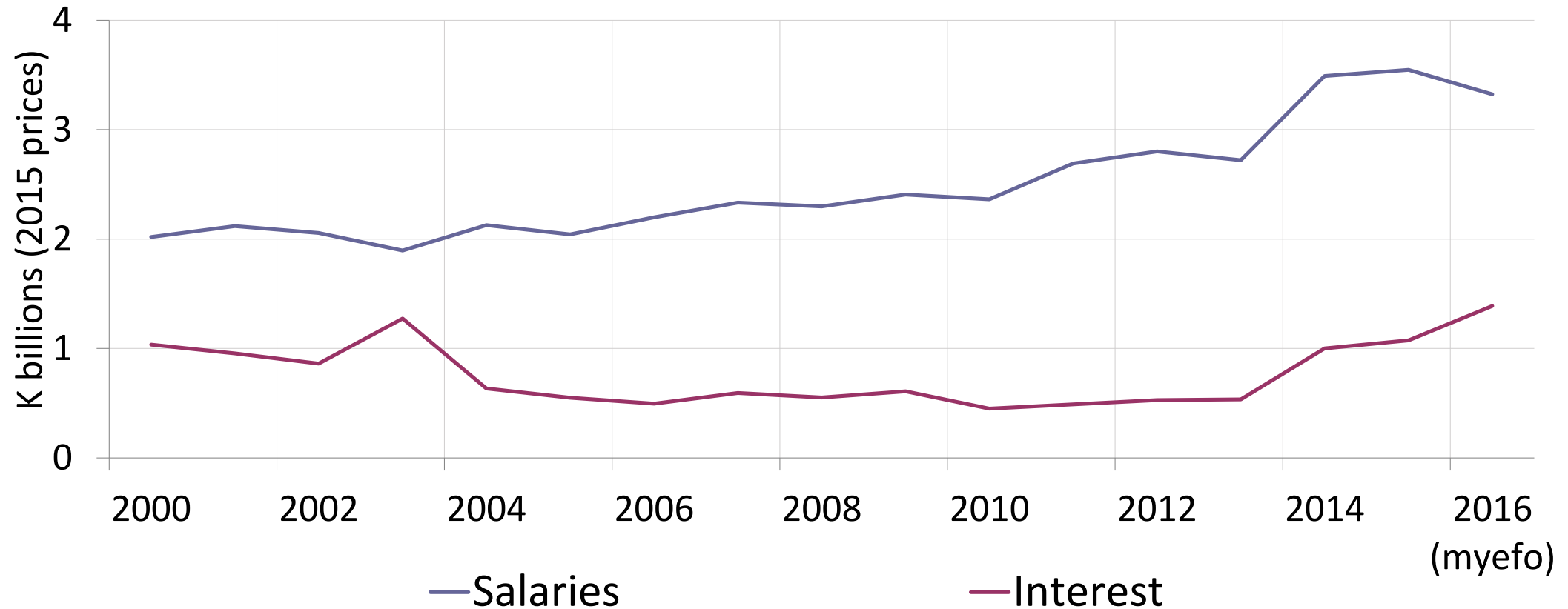
Total government expenditure



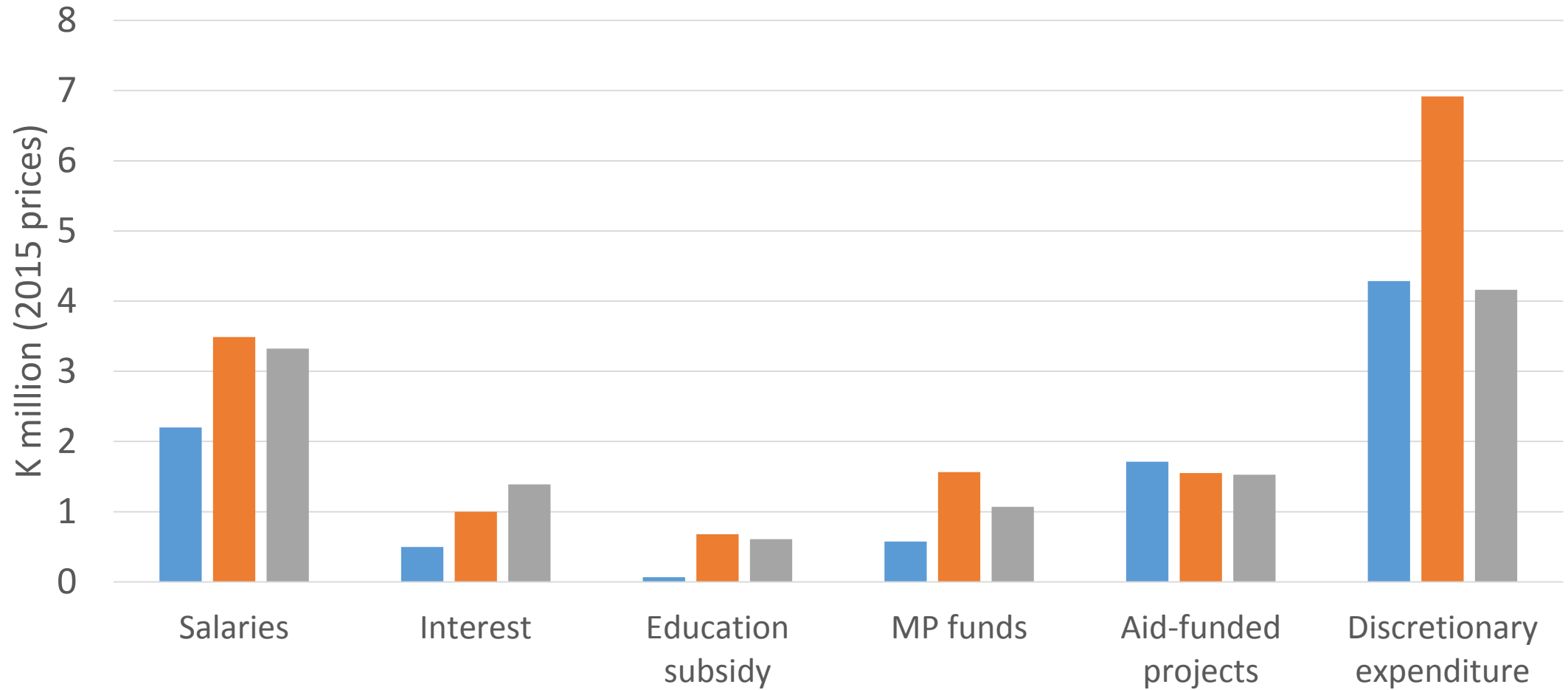
Most expenditure categories show major increases; the largest were in development expenditure



Salaries and interest increased significantly only towards the end of the boom.



Burden of adjustment post-boom very uneven

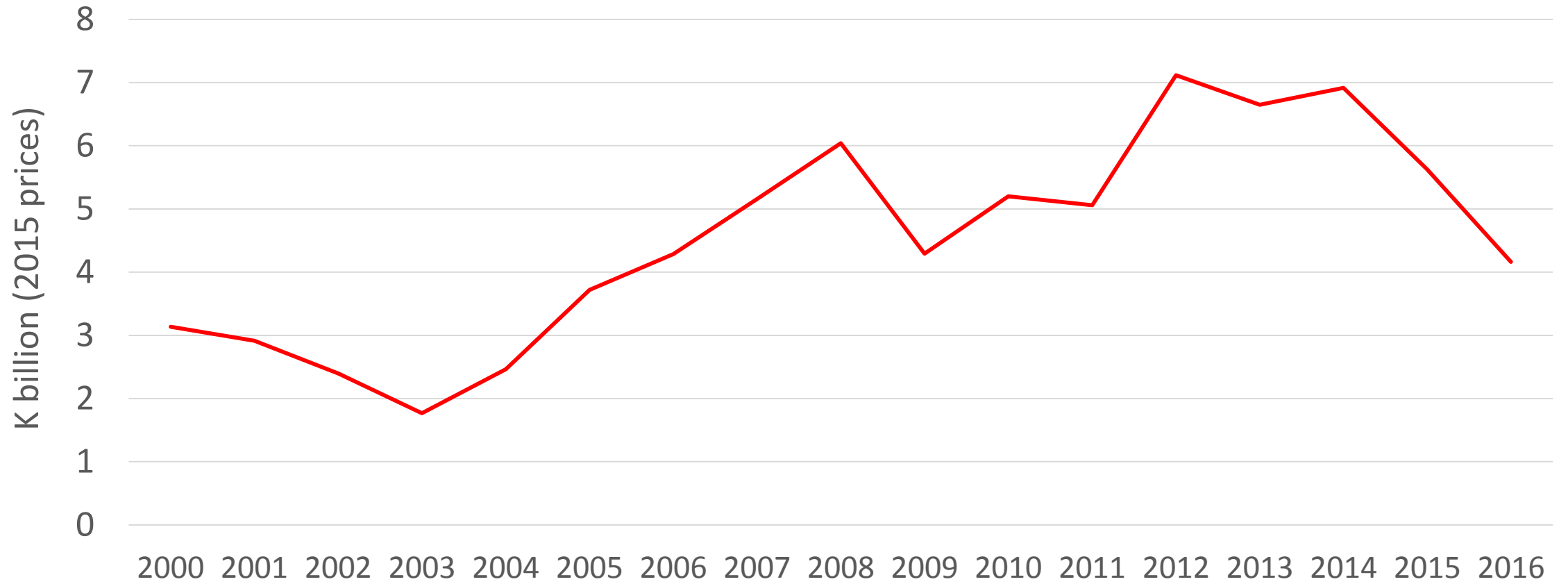


Discretionary spending = total spending minus salaries minus interest minus political commitments minus aid.

■ 2006 ■ 2014 ■ 2016

Discretionary spending = amount available for core government operations (running hospitals, universities; building major roads)

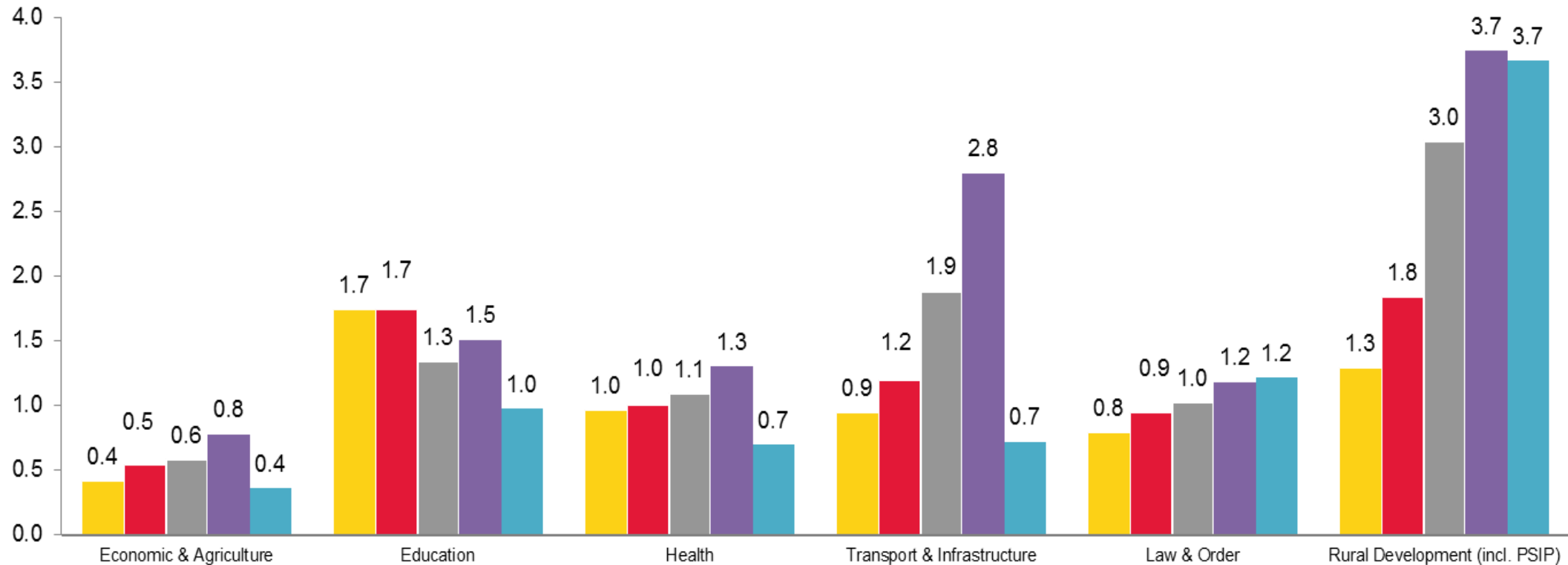
Discretionary spending also back to 2006 levels



This is reflected in the rise and fall of agriculture, education, health, infrastructure

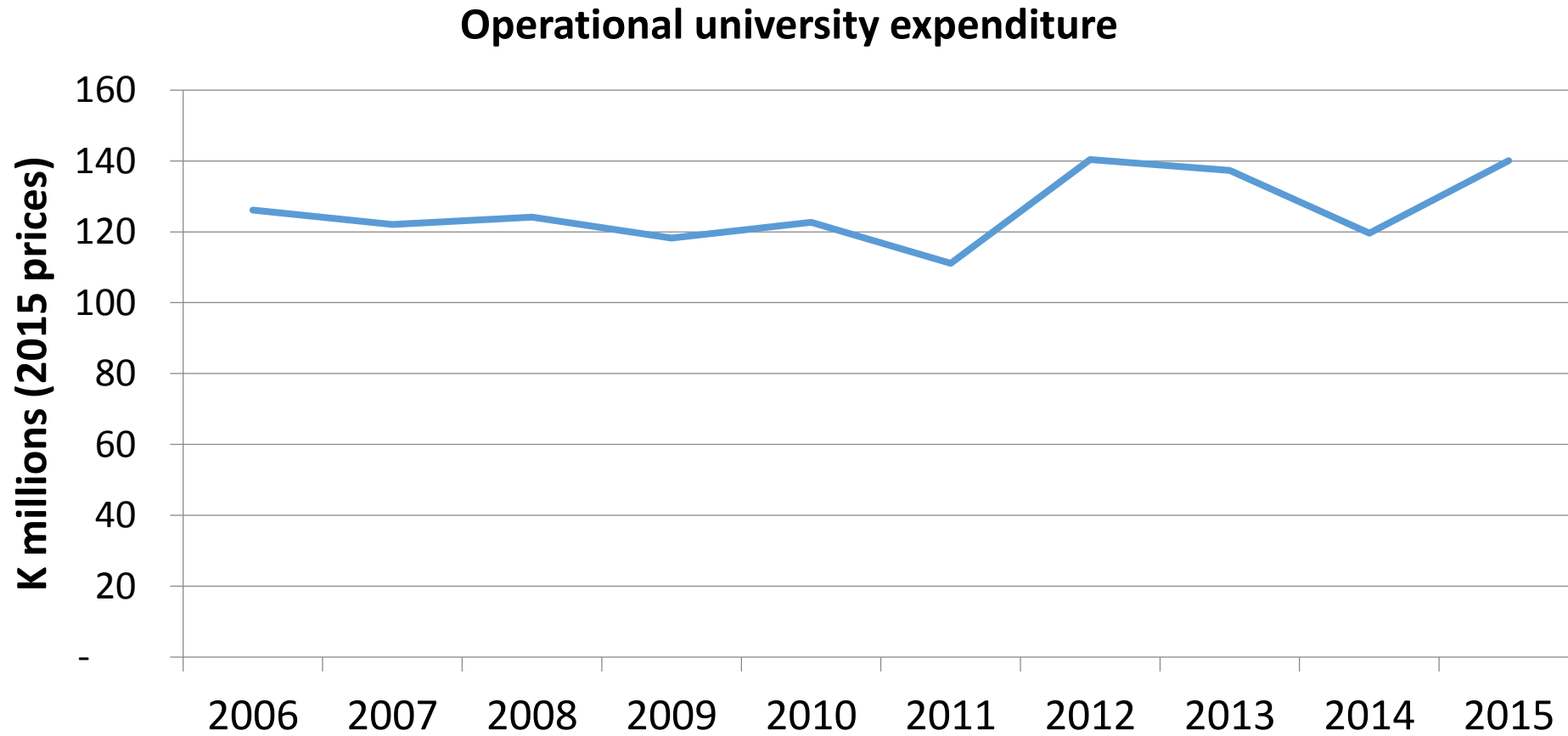
■ 2011 ■ 2012 ■ 2013 ■ 2014 ■ 2015

Kina billion; nominal

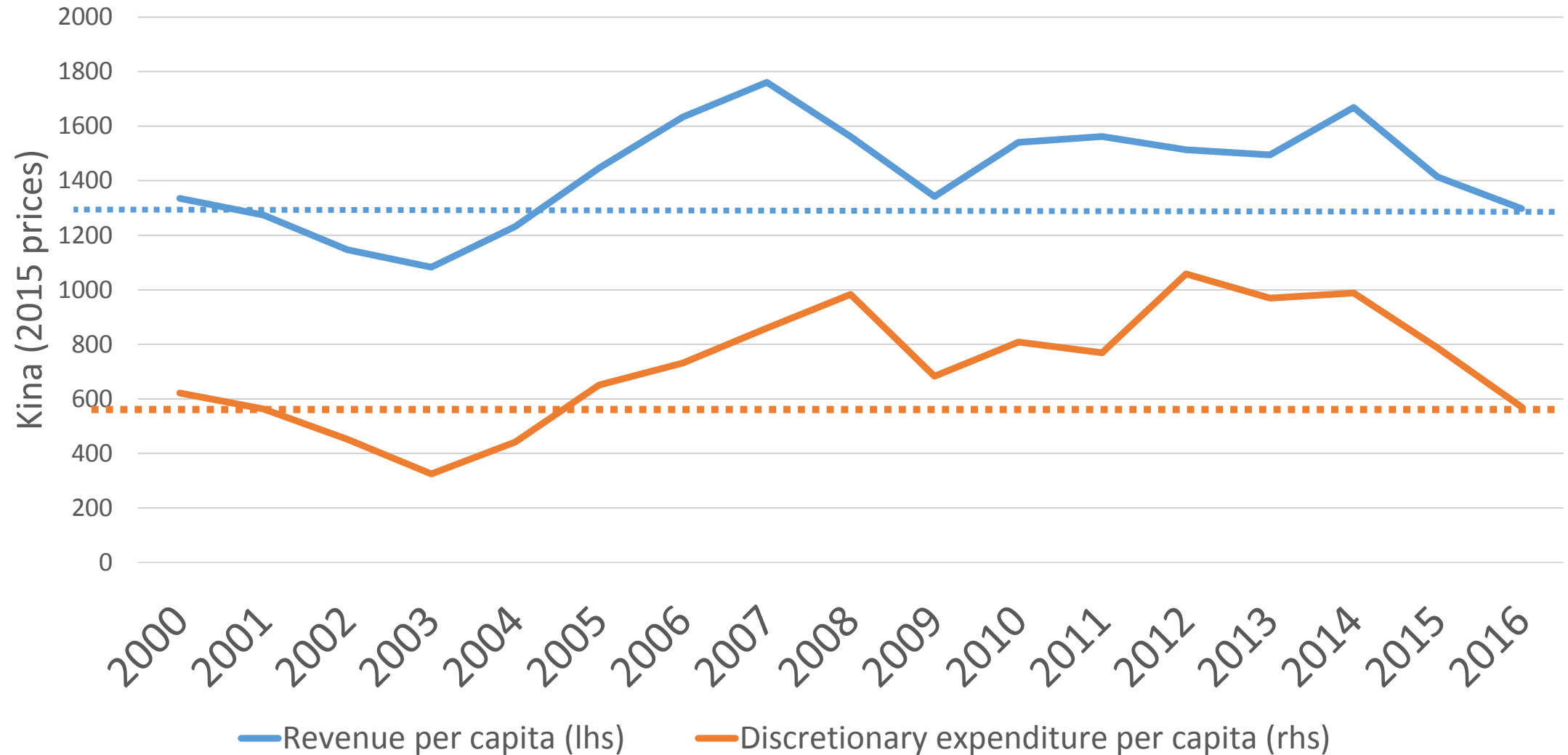


Source: BPNG

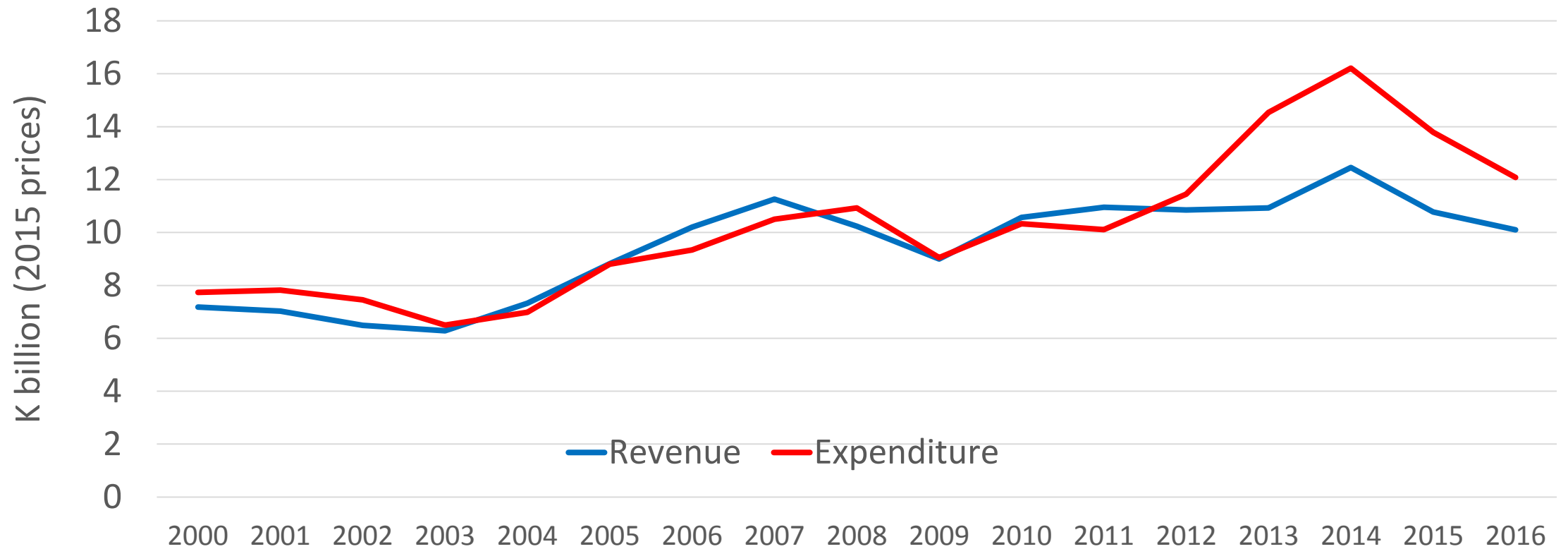
In some sectors, there never was a boom



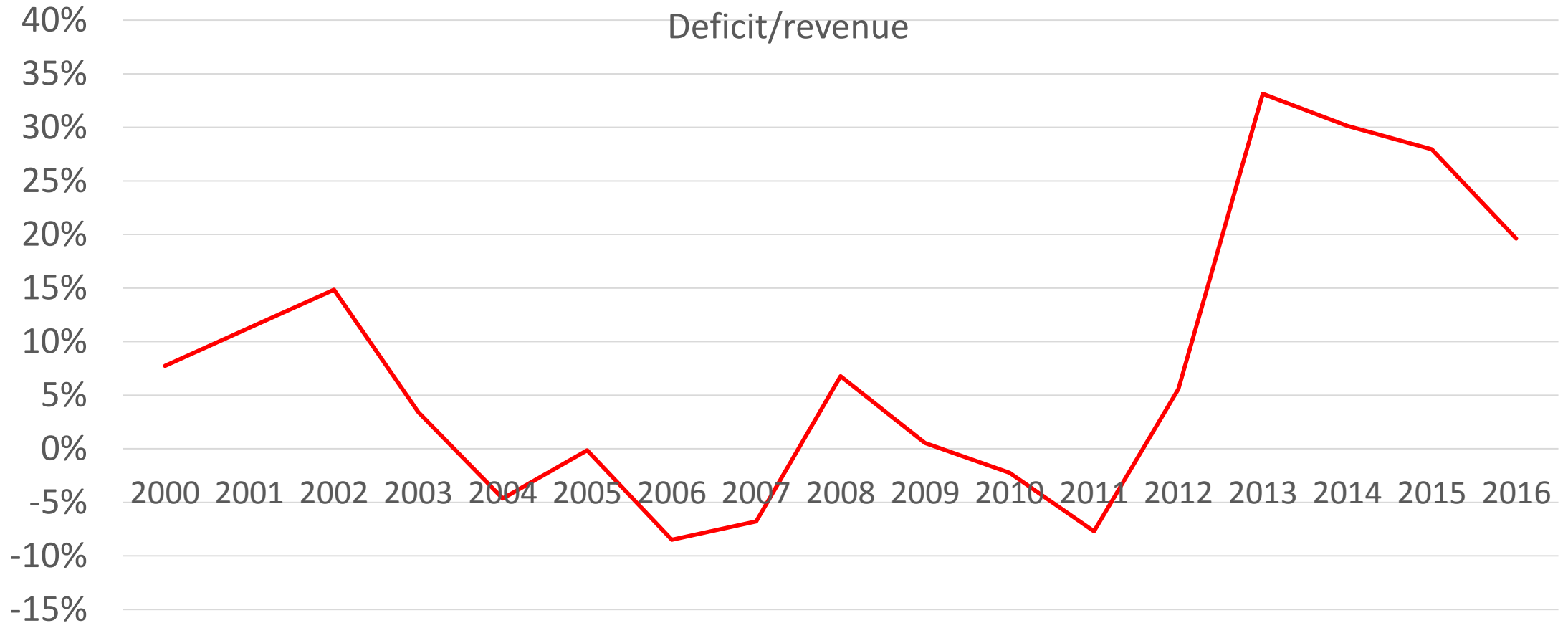
In per capita fiscal terms, PNG is back where it was at the start of the boom



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



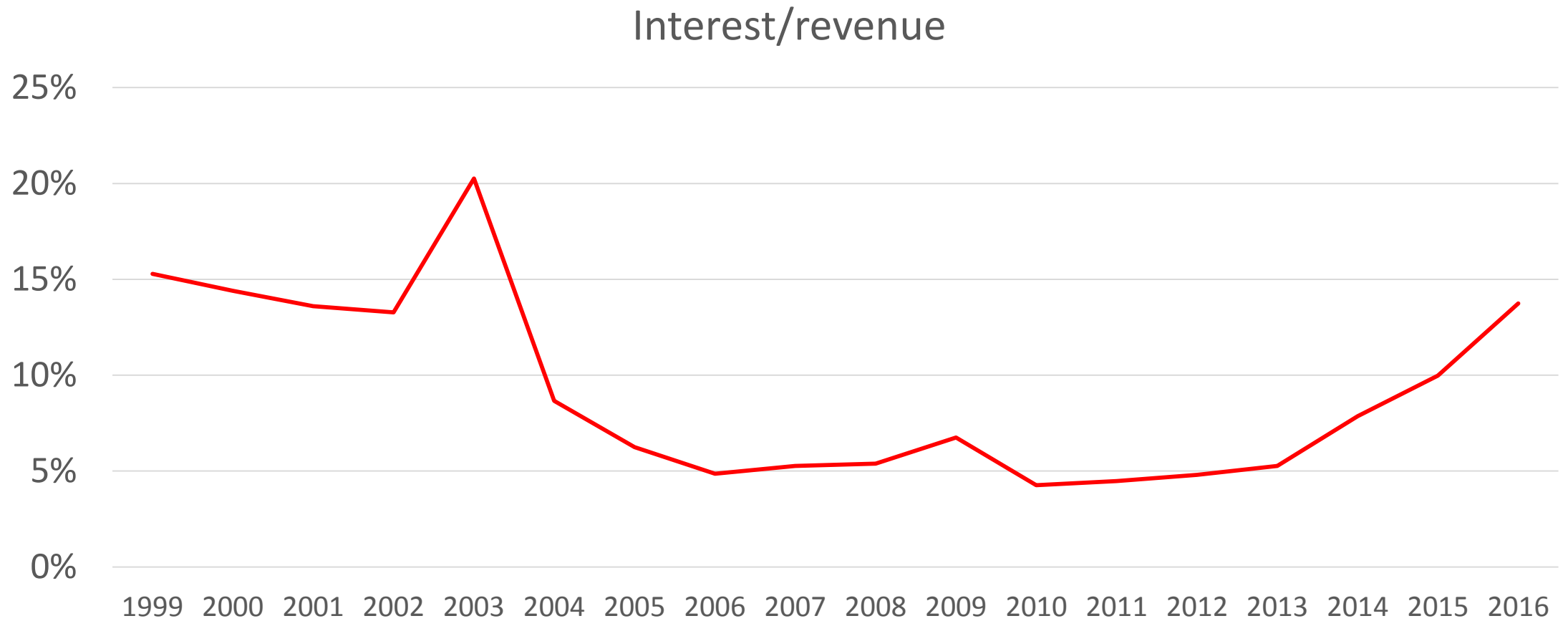
As a result, debt/revenue is now back at pre-boom levels



The government interest rate has been stable but is now edging up.



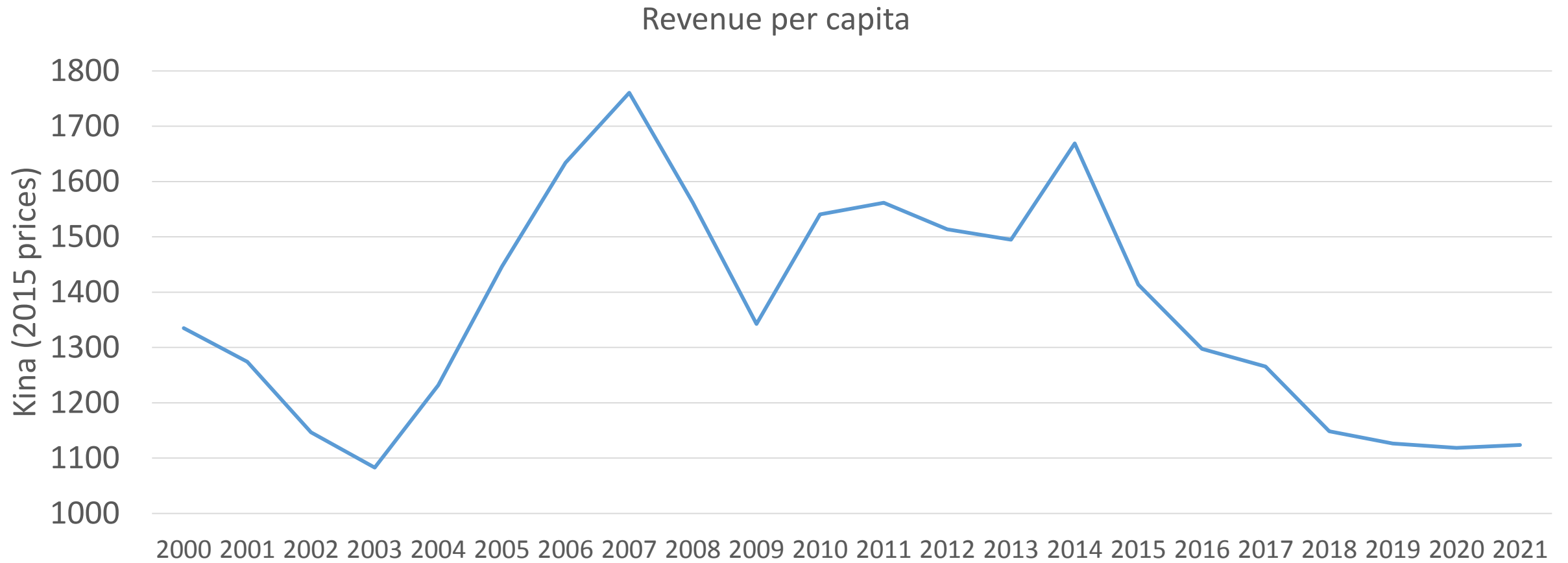
But with growing debt, interest/revenue at pre-boom levels, and set to rise further



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?



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/>