

PNG: Fiscal Policy at a Crossroads



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PNG UPDATE

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PNG: Fiscal Policy at a Crossroads

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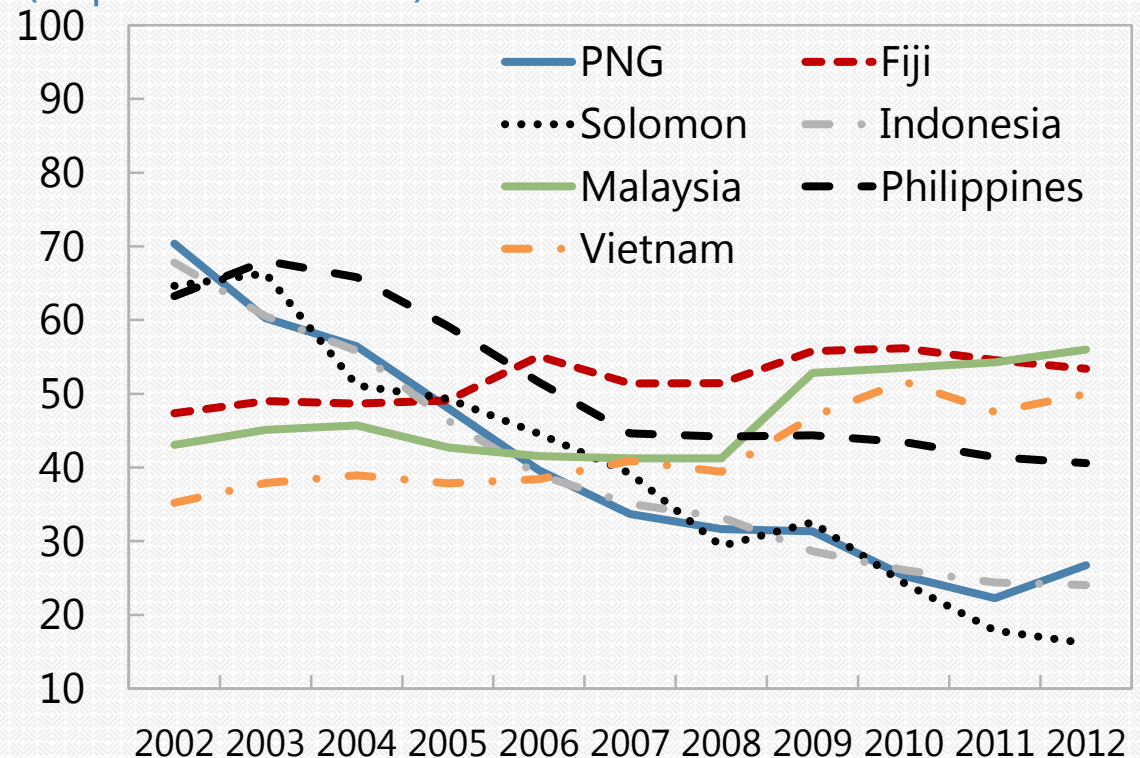
- I. Fiscal Performance during 2002-11**
- II. Changing Fiscal Policy: MTFS 2013-17**
- III. Prospects for 2015-19 and Long-Term Fiscal Sustainability**
- IV. Summary and Policy Implications**

Successful fiscal consolidation: 2002-11

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- The government debt fell from 74 percent of GDP in 2002 to 22 percent of GDP in 2011.
- The achievement was remarkable and compares well with Asian economies.

Government Debt (In percent of GDP)



Successful fiscal consolidation: political commitment

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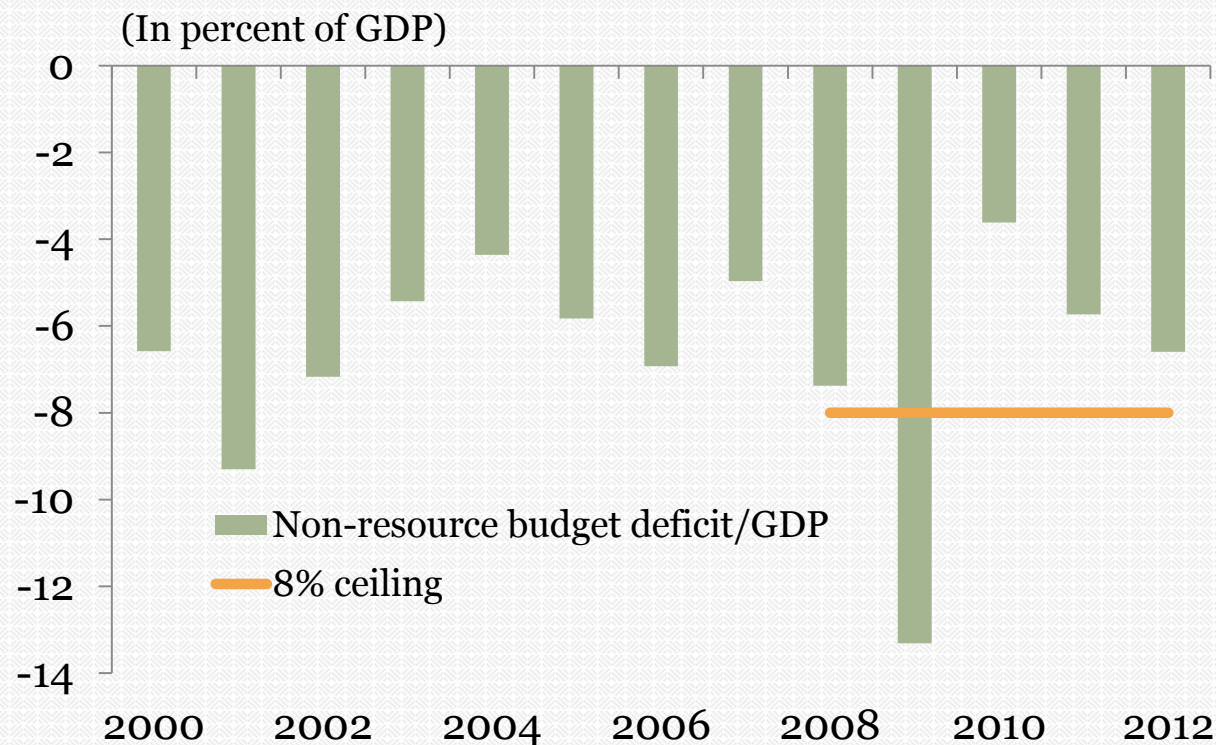
- Fiscal consolidation was guided by two MTFSs.
- MTFS 2002-07:
 - Targeting a balanced budget;
 - Achieved in 2004
- MTFS 2008-12: Capping non-mineral fiscal deficit at 8% of GDP:
 - Mineral revenue \leq 4% of GDP;
 - Trust accounts \leq 4% of GDP;
 - Additional mineral revenue: 30% for debt reduction; 70% for public investment

Successful fiscal consolidation: outcome

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- Strong implementation.

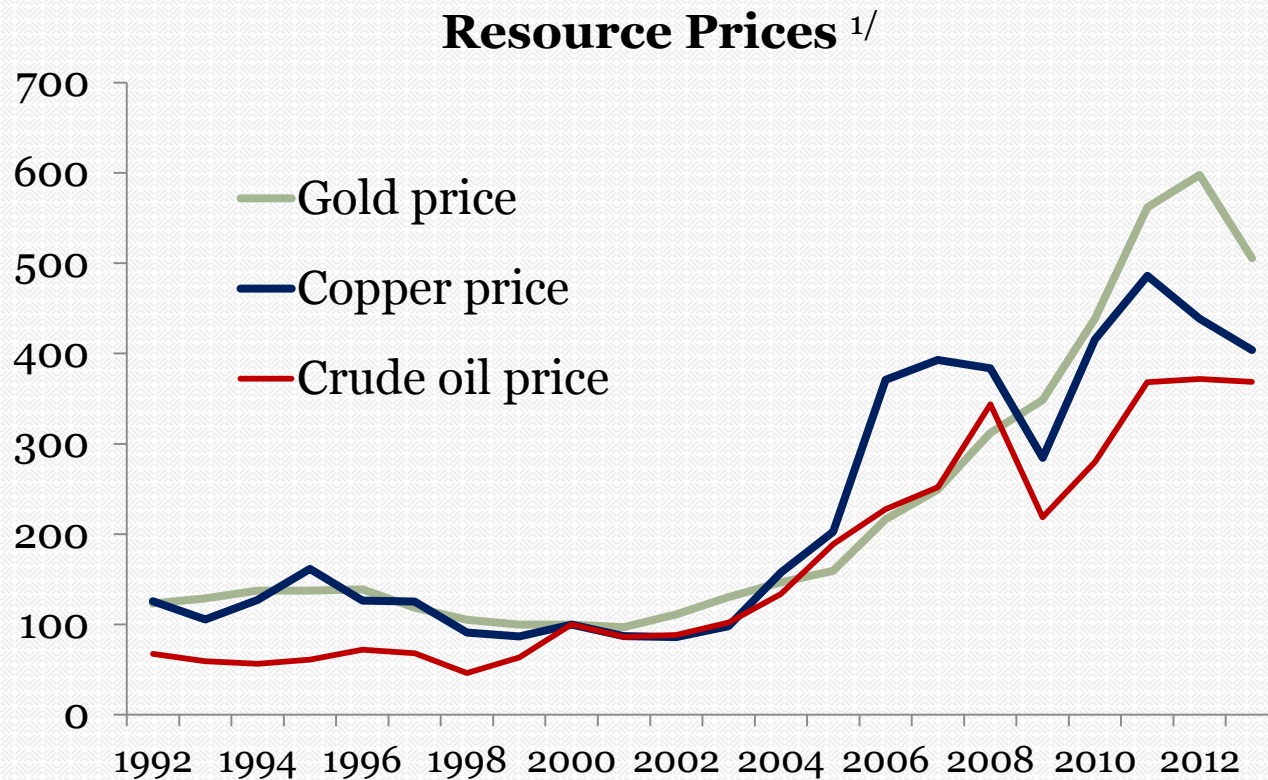
Non-Resource Budget Deficit



Successful fiscal consolidation: good luck

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- Upward trends in resource prices.

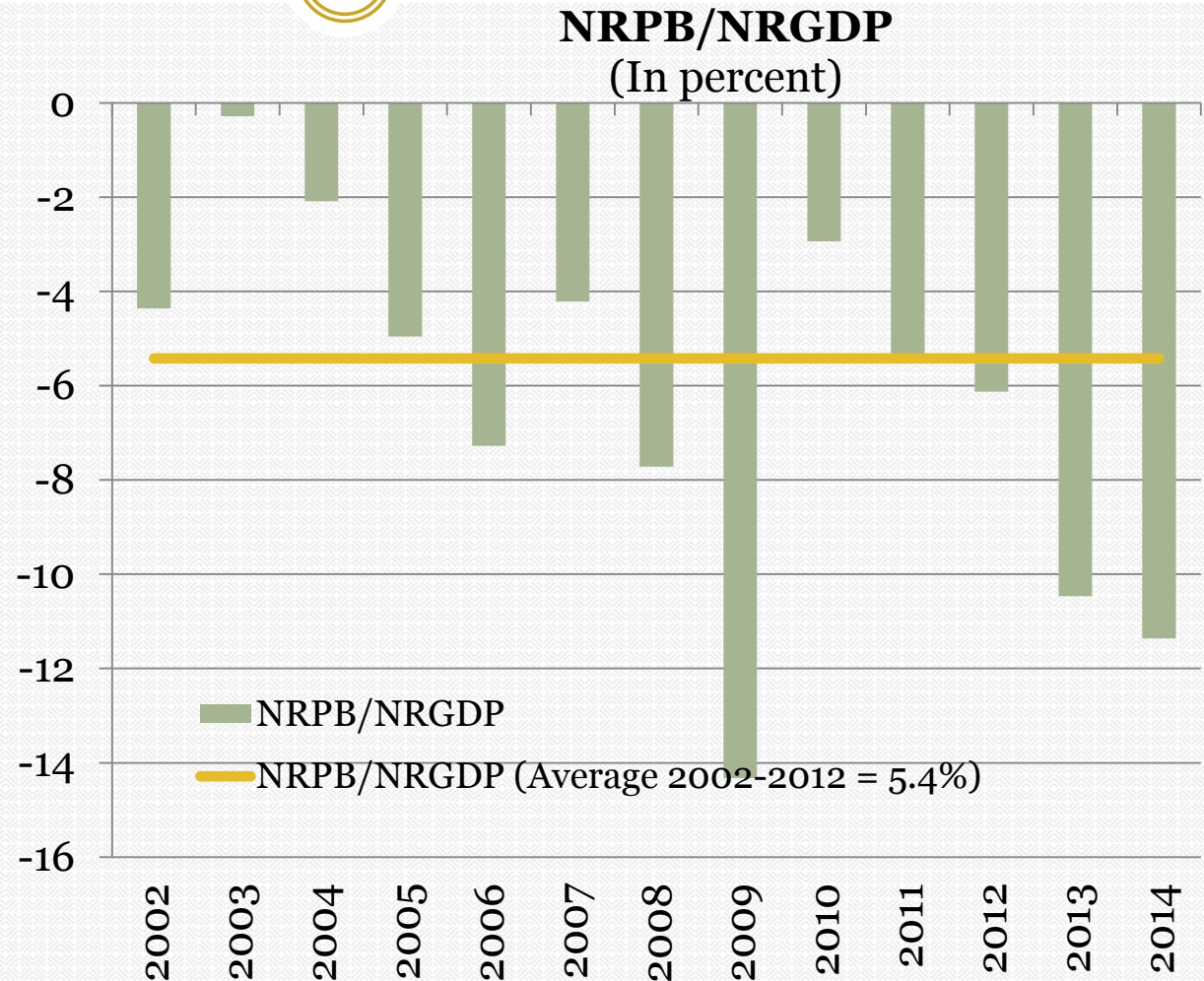


^{1/} The prices are indexed by adjusting year 2000 to 100.

Expansionary fiscal stance: 2012-14

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- Non-resource primary balance (NRPB) in 2012-2014 has been significantly lower (deficit higher) than the average of the past decade.



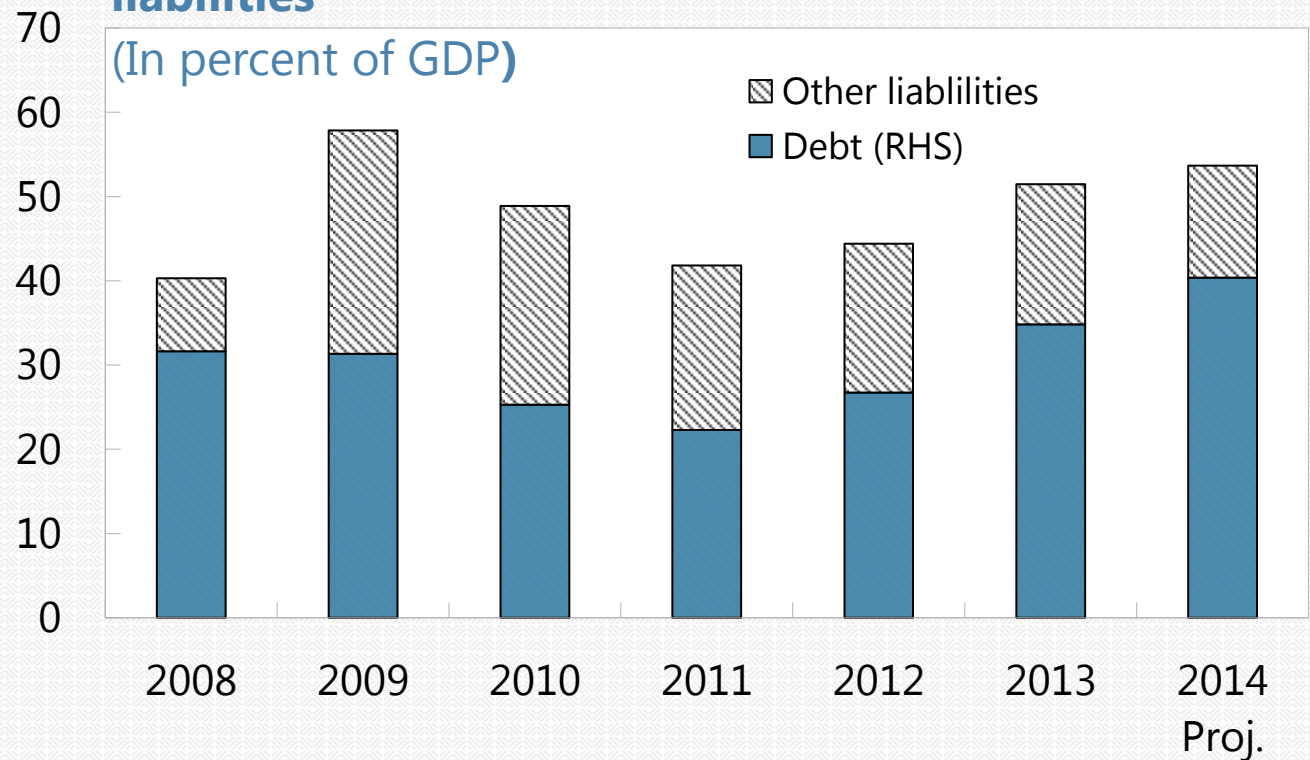
Reduced fiscal space

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- Fiscal deficit: 8.5% of GDP in 2013; 8.3% of GDP (projected) in 2014.
- Central government debt rebounded to around 34% of GDP in 2013; expected to exceed 35% of GDP in 2014.

Government debt and other non-contingent liabilities

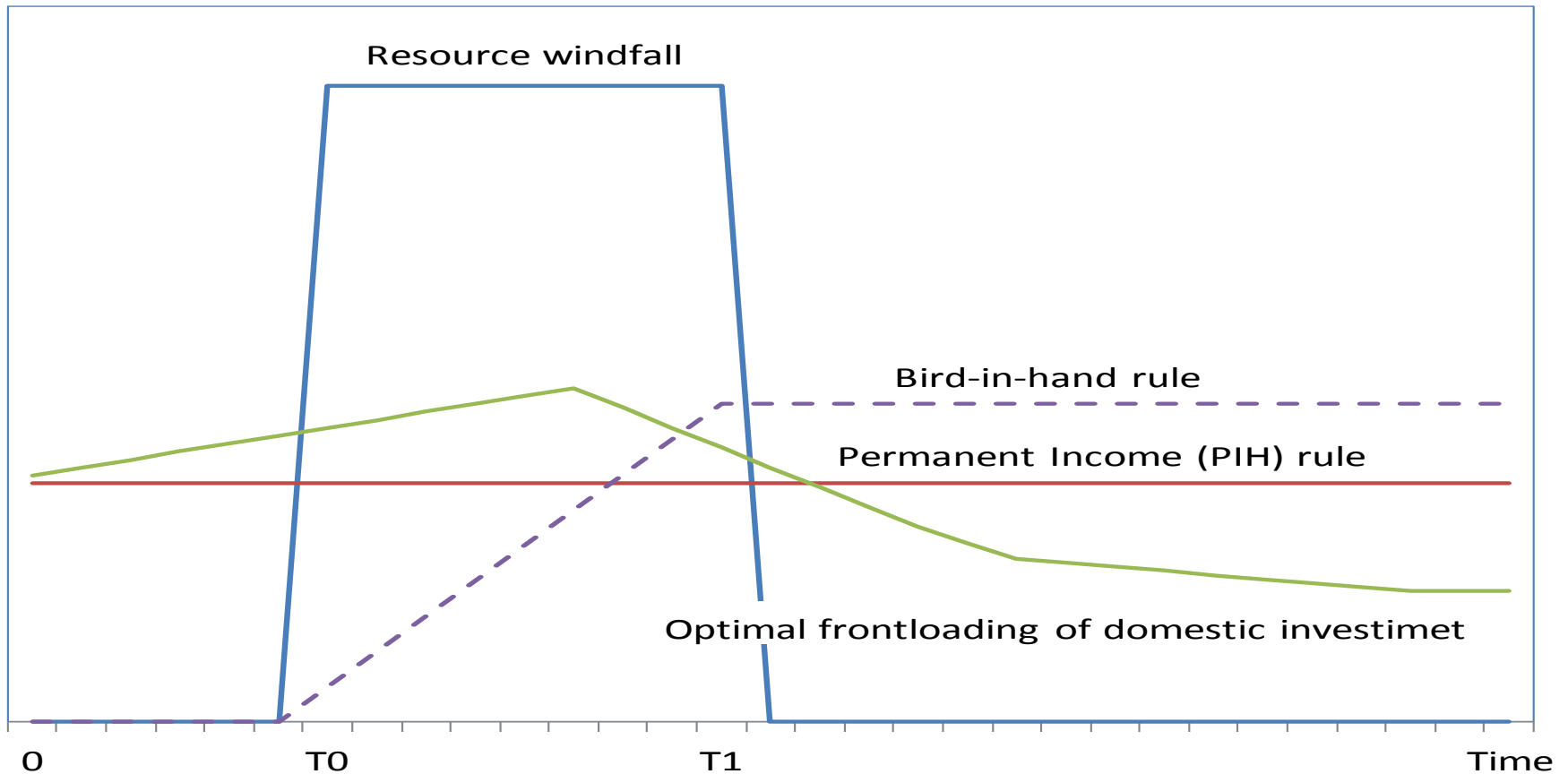
(In percent of GDP)



Competing fiscal frameworks

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Incremental Consumption from a Resource Windfall



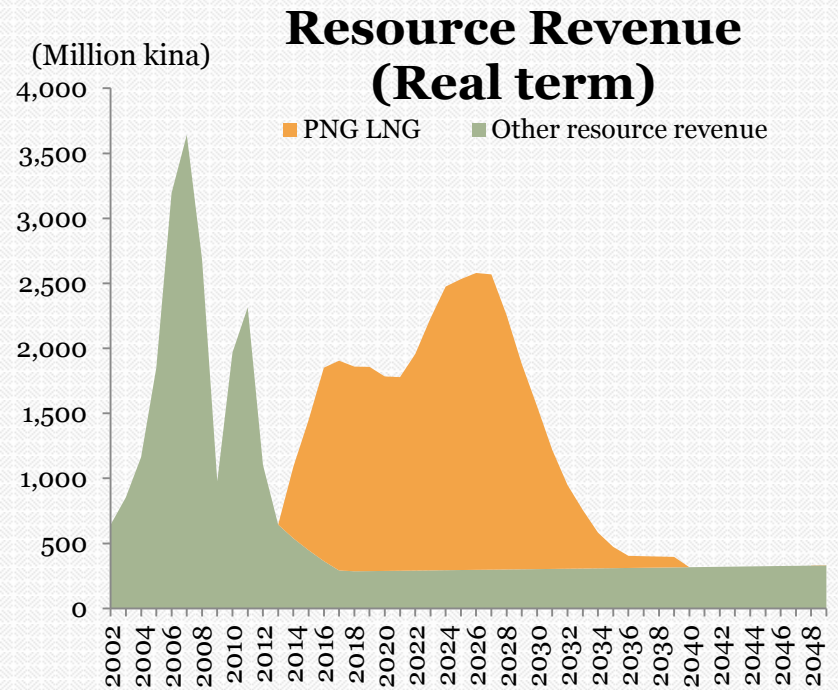
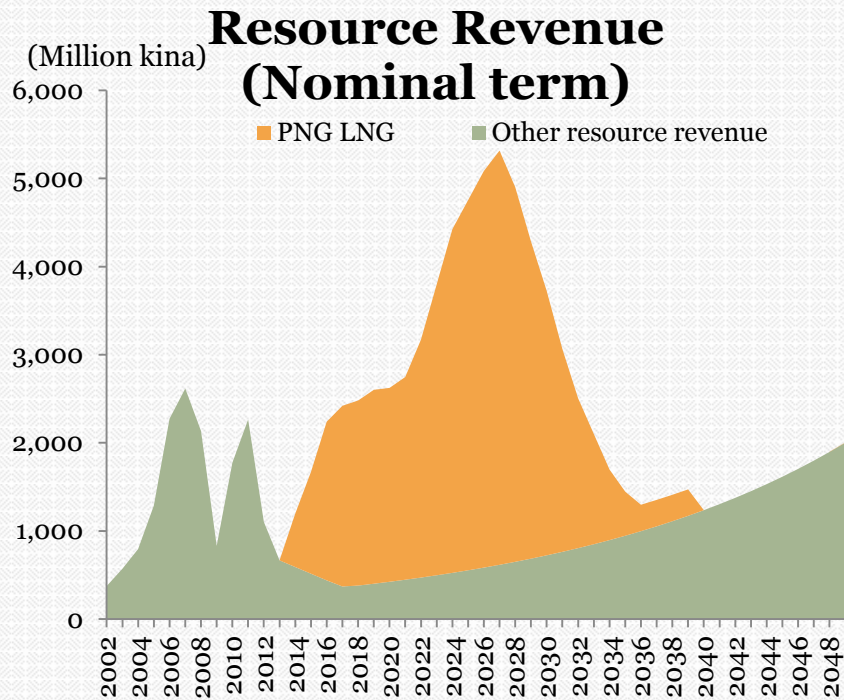
Fiscal framework for PNG: considerations

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- Resource horizon is highly uncertain but finite;
- Social and physical capital is scarce; so some frontloading is desirable, but should not cause instability;
- In this environment, priority should be given to macroeconomic stability, high-quality development, and inter-generational sharing of wealth;
- Limited absorption capacity must be a consideration.

Resource revenue projections

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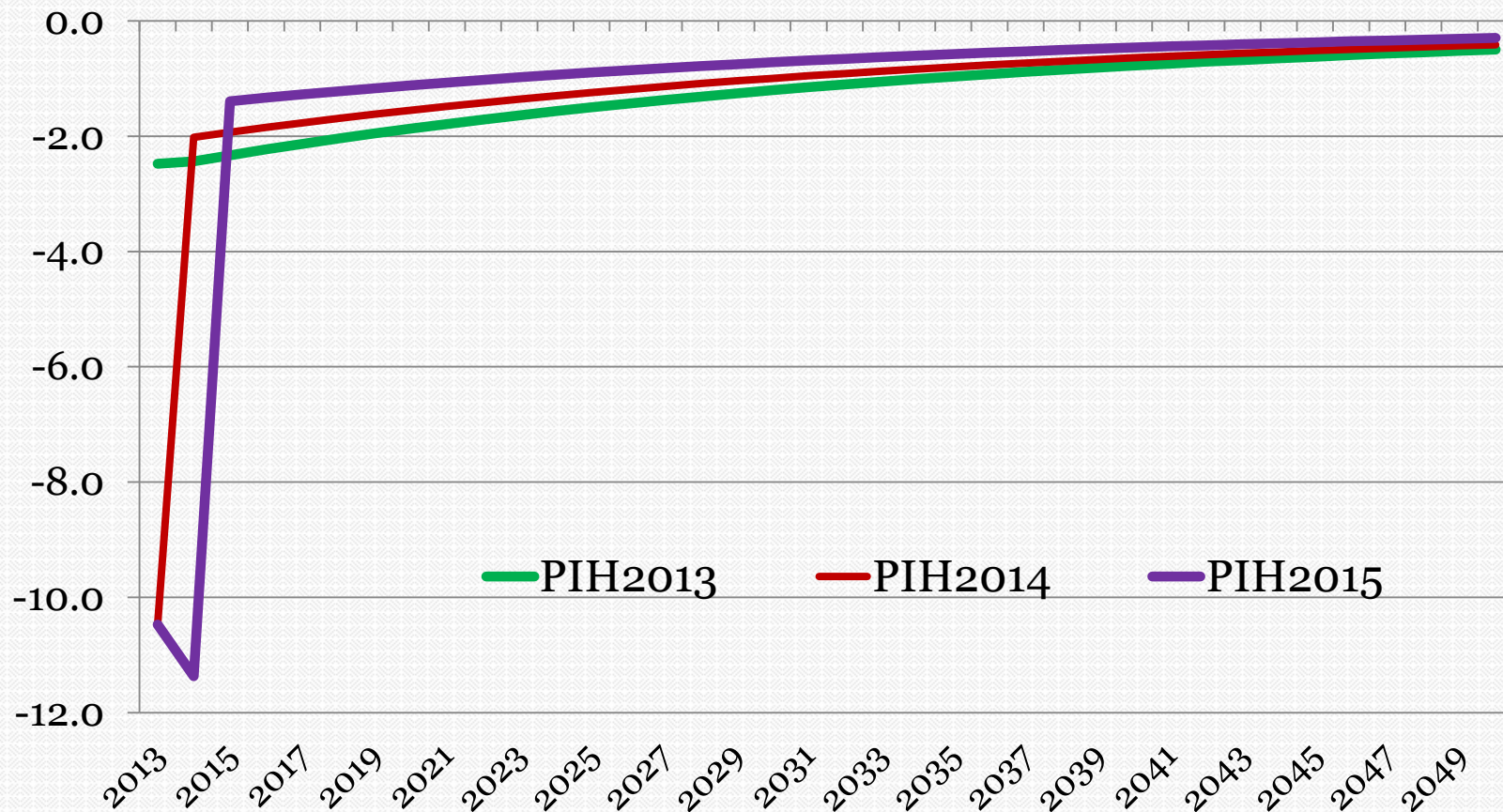
Assumptions for PIH exercise: an illustration

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- NRGDP growth rate: 4.5%
- Inflation: 5.5%
- Population growth: 2.5%
- Resource revenue up to 2018: based on WEO price projections and Budget 2014 projections of export volumes.
- Resource revenue from 2019 onward: LNG revenue from Budget 2013. Other resource revenue fixed at 2018 level in real term.

Sustainable fiscal balance under PIH

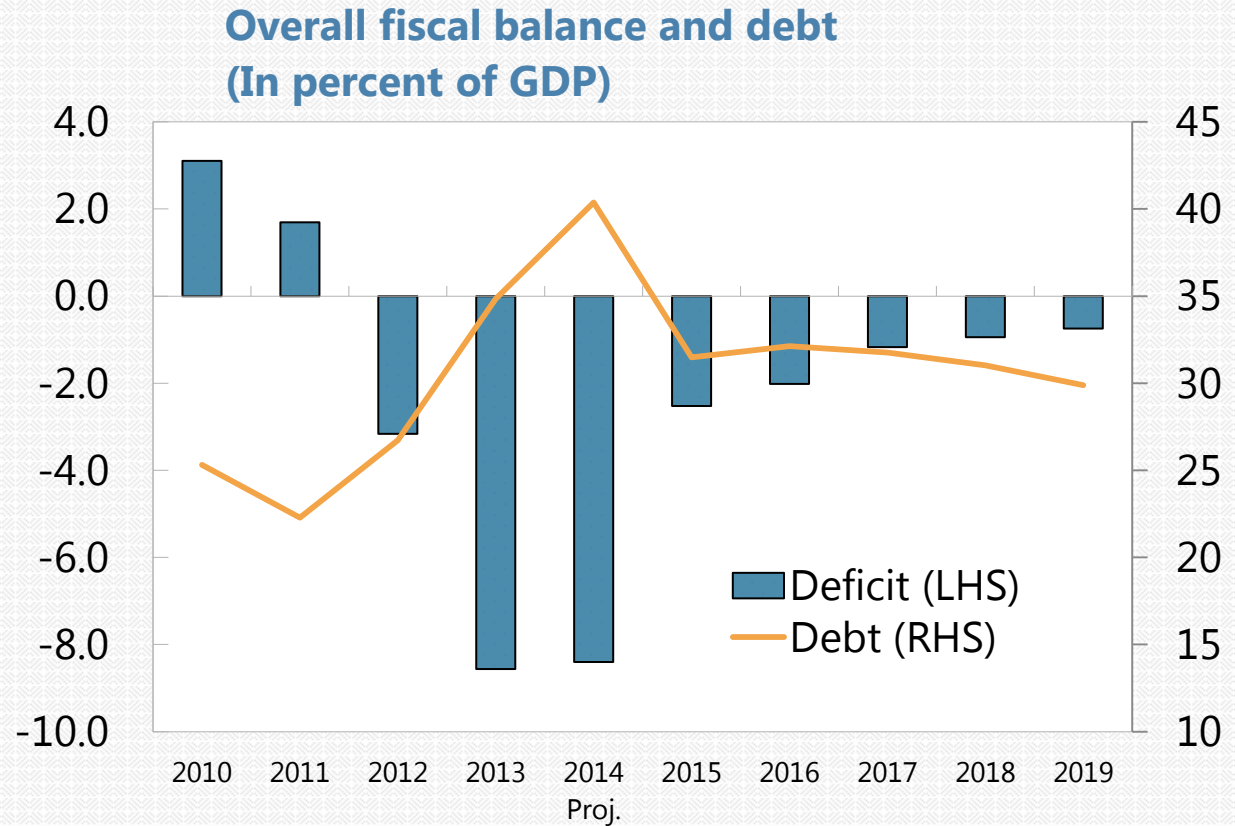
Non-Resource Primary Balance (NRPB)
(In percent of NRGDP, constant in real term)



Baseline (MTFS) for 2015-19

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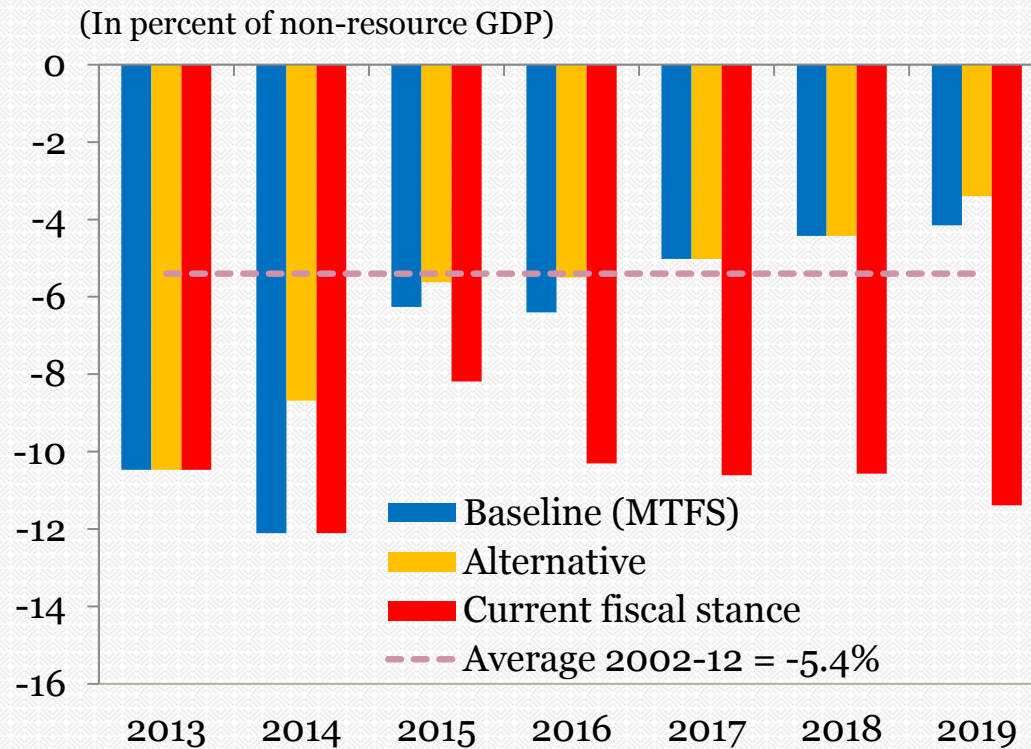
- Fiscal deficit declines over time (sharply in 2015; partially due to LNG-boosted GDP)
- Debt-to-GDP ratio remains above 30% of GDP even after 2015.



Three scenarios for 2015-19: Non-resource primary balance

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Non-Resource Primary Balance

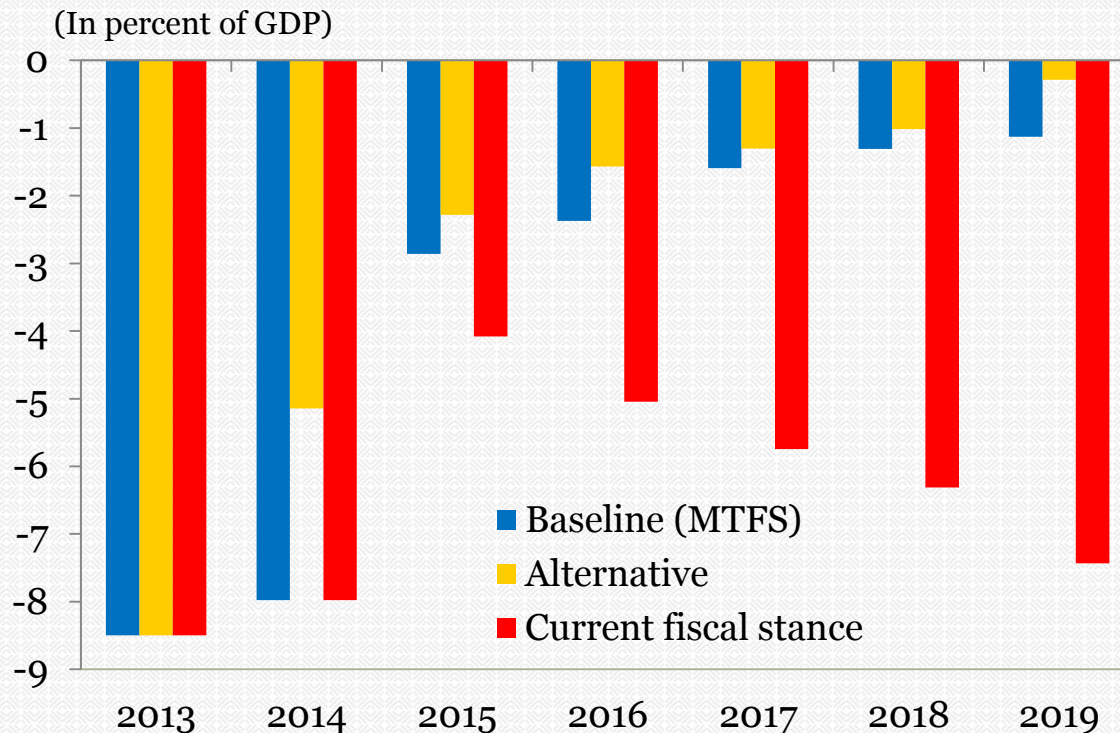


Source: IMF staff calculations.

Three scenarios for 2015-19: overall balance

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Overall Balance

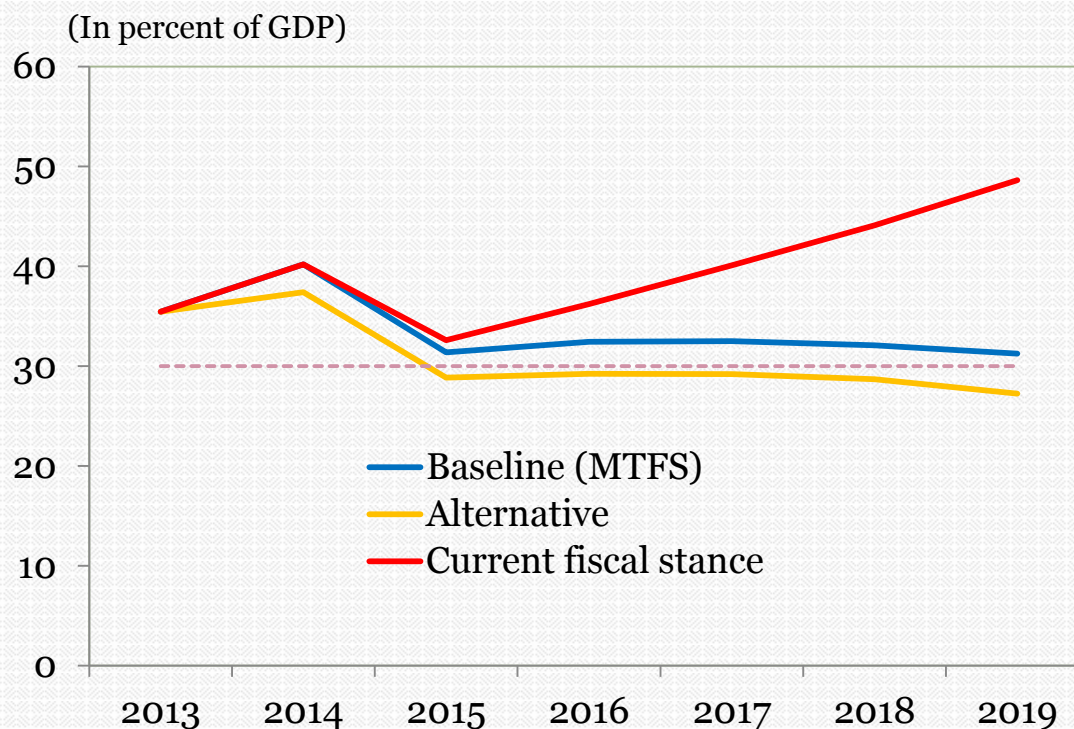


Source: IMF staff calculations.

Three scenarios for 2015-19: government debt

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Government debt



Source: IMF staff calculations.

Summary and policy implications

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- Major achievements in the past underpinned by strong commitment to fiscal and macroeconomic stability, helped by rising commodity prices.
- MTFS 2012-17 is heading in the right direction, but fiscal consolidation may not be fast enough to meet government debt target given large fiscal expansions in 2013-14 and weaker commodity prices.
- Critical choices to be made:
 - Current (2013-14) fiscal stance not sustainable.
 - Sustainable policy requires steadfast fiscal consolidation over the medium term.
 - Focus on spending quality within the resource envelope.