

## **PNG 2016 Budget Strategy**

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PNG's medium-term budget strategy was updated yesterday through the release of the [2016 Budget Strategy](#) [pdf]. The strategy sends out all the right messages. It responds to recent criticism from international [ratings agencies](#) and others by setting out a much more realistic strategy for fiscal consolidation. The previous strategy had aimed to return to a budget surplus by 2017 with cuts to areas such as education and health of an unrealistic 25 per cent. The new strategy delays the planned return to surplus until 2020, thereby providing a much more realistic timeframe for making necessary expenditure and revenue adjustments.

These adjustments will still be very tough. Indeed, the document indicates that on top of expenditure cuts in 2015 of K1,400 million (the details of which will be released in the [Supplementary Budget](#) next week), another K1,400 million will need to be cut in 2016 (and this is without allowing for inflation). This represents a very major challenge, especially as commitments in the priority areas of health, education, law and order, agriculture, infrastructure and major international events are protected.

Revenues in 2016 are forecast to drop even below their 2015 levels. Revenue growth then resumes, but remains more than a billion kina lower each year than the levels estimated 12 months ago. The strategy foreshadows revenue reforms flowing from the Tax Review but only broad (and sensible) principles are announced.

Overall, the budget deficit is expected to come out at K2.3 billion in 2015 (4.5 per cent of GDP) and K1.7 billion in 2016 (3.1 per cent of GDP) and continue falling until a balanced budget in 2020. This is expected to keep the public debt to GDP ratio under 35 per cent, and falling to around 30 per cent by 2020. More flexible financing mechanisms are foreshadowed, including a sovereign bond issuance which will partly fund repurchase of domestic securities to balance the debt portfolio.

The strategy also outlines on-going 'budget reforms and complementary policies'. Most of these have previously been foreshadowed (with some reforms very similar to those announced but not implemented years ago). The major new change is a move to the "Government Financial Statistics 2014" standards. This will represent a major update on the existing 1986 standards. Although this sounds boring, and may make it harder to compare this budget with previous years, the change should lead to a major increase in transparency, especially of off-budget expenditure and borrowing which have been a growing concern.

Overall, the strategy maps out a sensible path of fiscal consolidation. It is a valuable step. The challenges will be in the implementation of such a strategy as some very tough decisions will be required at the more detailed level. It is positive that a strategy has been released before the 2016 Budget, the release of which has been brought forward a week to 3 November.