



# 2015 NATIONAL CIMC'S DEVELOPMENT FORUM

**Overview on current state of the economy  
and plans for effective economic  
management over the medium term**

**Wednesday 1st July 2015**

---

DAIRI VELE

SECRETARY

DEPARTMENT OF TREASURY



# Outline



- 1. State of the economy**
- 2. 2015 Budget Priorities**
- 3. 2015 Expenditure Priorities**
- 4. Challenges**
- 5. High Priority Reforms**
- 6. Conclusion**



# CONCLUSION



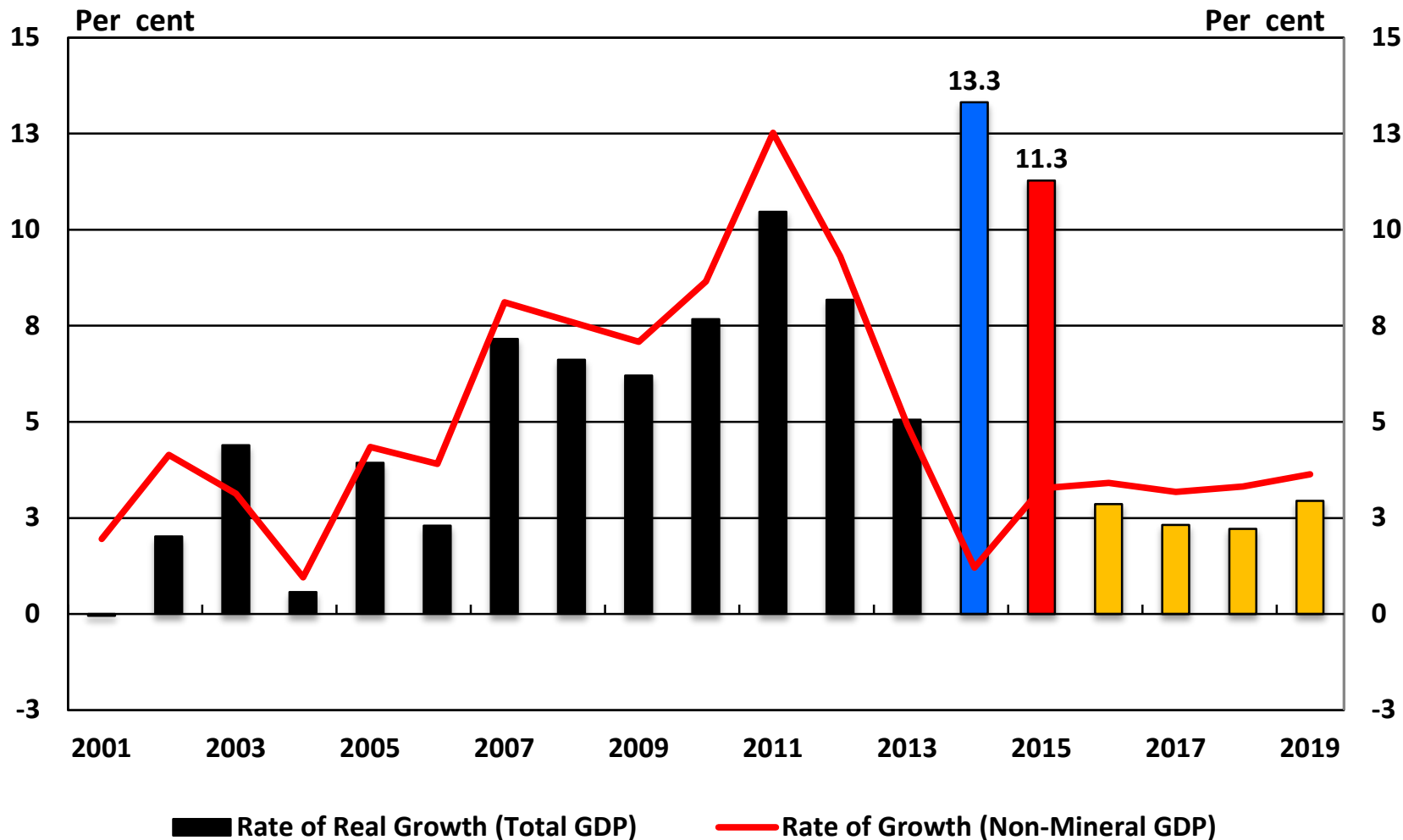
- PNG growth remain strong with 14 years of uninterrupted economic growth
- Despite continued strong growth, fiscal position has altered due to the fall in revenues as a result of the sharp fall in commodity prices
- This calls for reprioritizing of expenditures to priority areas and deferring of expenditures not yet implemented to bring the budget back on a sustainable path ; in doing so
- Short and enduring challenges confront us in this task, key being maintaining macro stability in the short-term, and Financing the Budget and maintaining Fiscal discipline in the long-run.
- It is also critical to include APEC and other priority expenditures in the framework of our medium term fiscal strategy



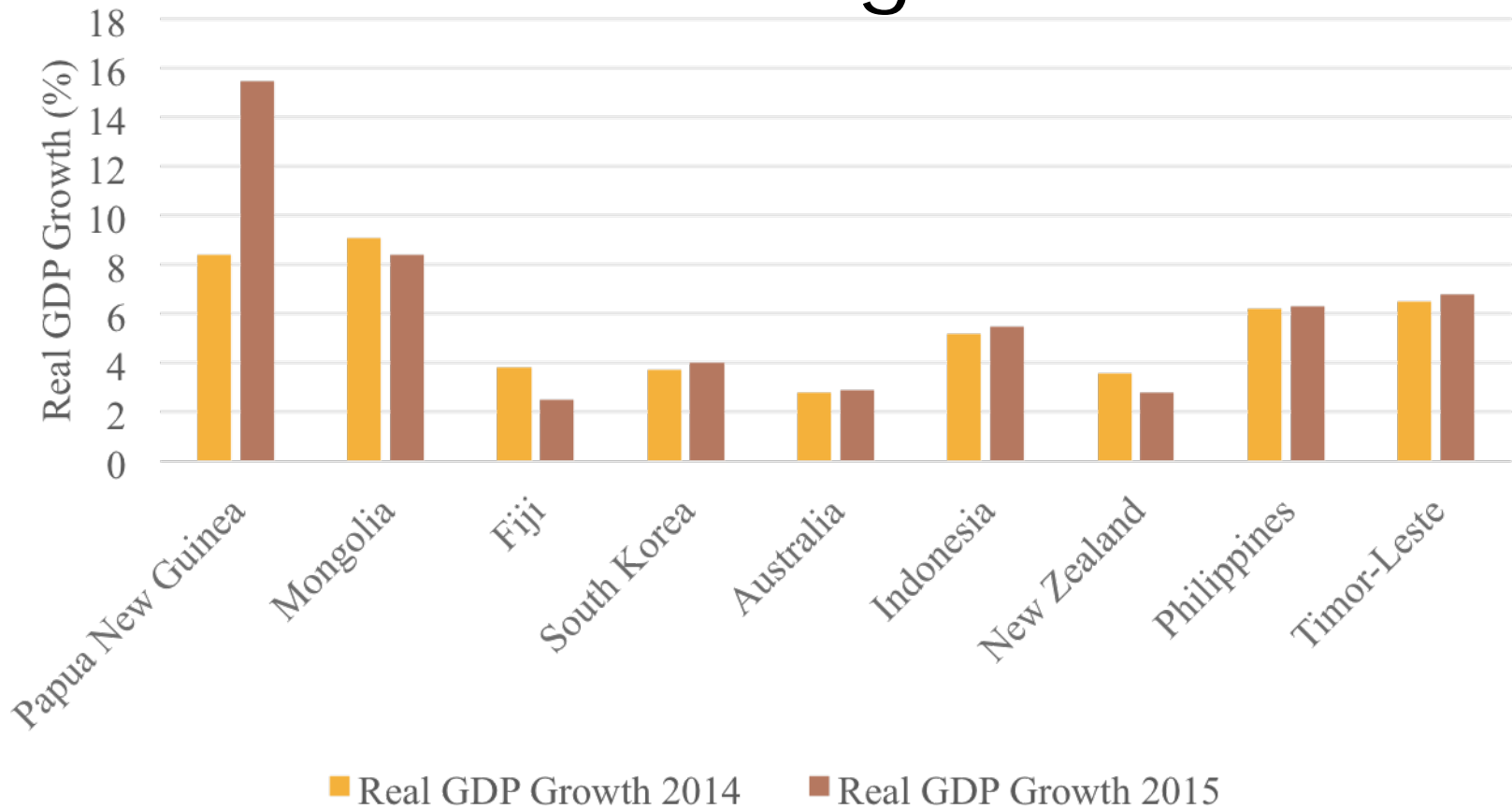
# Economic growth remain strong in 2015!



*Driven by PNG LNG and a rebound in non-mining in 2015; medium-term expected to be supported by traditional drivers!*



# PNG growth compared to the Region

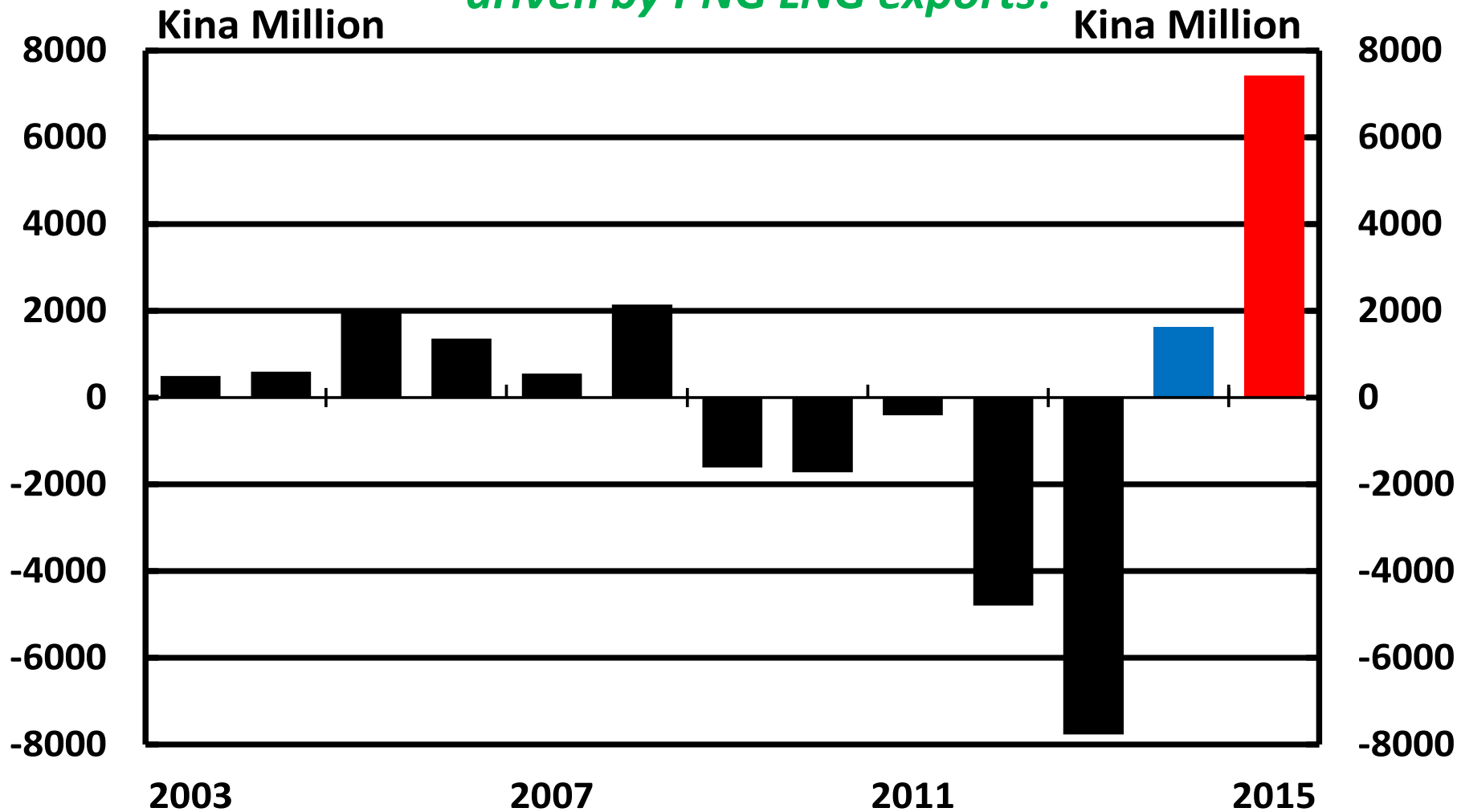


Source of Data, International Monetary Fund, World Economic Outlook Database, October 2014



# Trade Position has improved!

*Current Account Balance – From Deficits into Surplus driven by PNG LNG exports!*

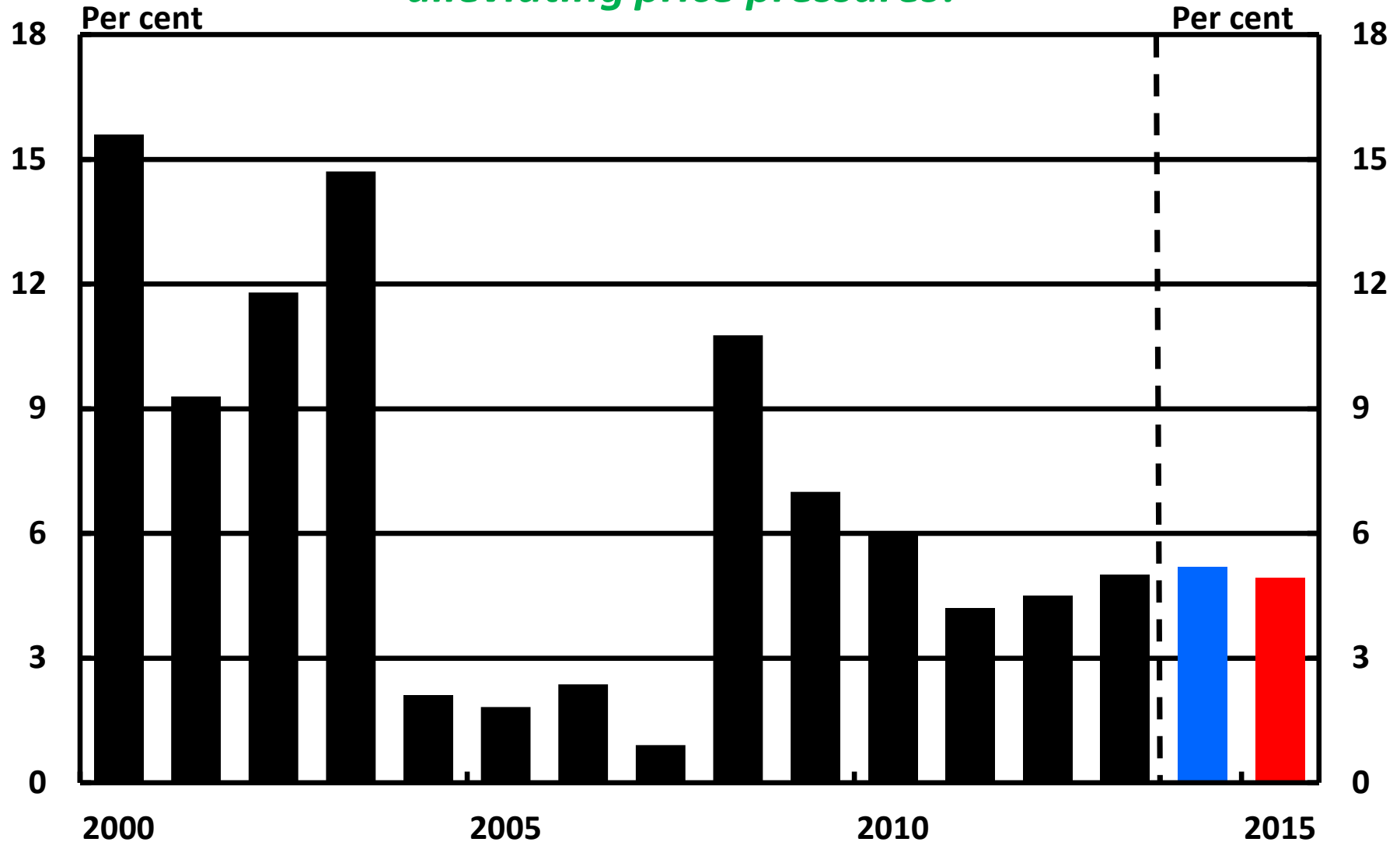




# Inflation Moderating!



*Low commodity prices and low imported inflation  
alleviating price pressures!*





# 2015 BUDGET PRIORITIES



1

- Enhancing Opportunities for our people whilst recognising the need for macroeconomic stability.

2

- Improving Service Delivery through improving designing, scoping and implementation Processes.

3

- Increasing direct funding to the provinces and districts with more emphasis on monitoring, evaluation and compliance

4

- Supporting policy priorities in Education, Health, Infrastructure and Agriculture

5

- Strengthening the Justice sector, Resourcing Corrections Services, Modernising of Police, and Rebuilding of the Defense Force





# 2015 Priority Expenditures



- 2015 Pacific Games Infrastructure
- Tuition Fee Free Policy and Developing a National Curriculum
- Medical Supplies Procurement and Distribution and Free Healthcare
- Key Infrastructure including Highlands Highway, POM City, Rural and Linking Roads
- University Infrastructure and Rehabilitation and Tertiary Education Study Assistance Scheme
- Direct funding of Provinces, Districts and Local Governments through the PSIP, DSIP and LLGSIP
- District Health and District Education Infrastructure



# Challenges



## Short Term

- Macro-Stability
- Maintaining Fiscal Discipline
- Reprioritising Existing commitments
- Managing the increase in Debt stock

## Enduring

- Financing the Budget & Fiscal discipline
- Improving project evaluation, monitoring, reporting & implementation
- Maintaining Investor confidence
  - B+/stable/B



# High Priority Reforms



- **Direct Funding to the Provinces/ Districts/Communities**
  
- **Institutional Development – E.g. SWF, EITI**
  
- **Public Sector Reform**
  
- **Structural Reform – E.g. NSO Reform**
  
- **Tax Review**
  
- **Financial Services Sector Review**
  
- **Attracting Investment**
  - **Budget Reforms**



# CONCLUSION



- PNG growth remain strong with 14 years of uninterrupted economic growth
- Despite continued strong growth, fiscal position has altered due to the fall in revenues as a result of the sharp fall in commodity prices
- This calls for reprioritizing of expenditures to priority areas and deferring of expenditures not yet implemented to bring the budget back on a sustainable path ; in doing so
- Short and enduring challenges confront us in this task, key being maintaining macro stability in the short-term, and Financing the Budget and maintaining Fiscal discipline in the long-run.
- It is also critical to include APEC and other priority expenditures in the framework of our medium term fiscal strategy



**THANK YOU**



# POCKET SLIDES





# 2014 BUDGET OUTCOME 2015 REVISION



*Higher Deficit and Debt in 2014 and lower Revenue projected for 2015!*

| Figures in Kina<br>(millions)              | 2014<br>Outcome | 2015<br>Budget | 2015<br>Revision | Difference |
|--|-----------------|----------------|------------------|------------|
| <b>Total Revenue &amp; Grants</b>          | 11,497.6        | 13,927.3       | 12,302.5         | -1,624.8   |
| <b>Total Expenditure &amp; Net Lending</b> | 14,489.8        | 16,199.1       | 16,199.1         | -          |
| <b>Budget Balance</b>                      | -2,992.2        | -2,271.8       | -3,896.6         | -1,624.8   |
| <b>% of GDP</b>                            | -6.9            | -4.4           | -7.6             | -3.2       |
| <b>Debt Stock</b>                          | 15,365.1        | 15,131.2       | 16,761.7         | +1,624.8   |
| <b>Debt as % GDP</b>                       | 35.5%           | 29.4%*         | 32.5%*           | +3.2%*     |

**\*Adjustment of K1,624.8 million Expenditure required to maintain deficit of 4.4% GDP**



# STRATEGIC POLICY PRIORITIES

- **2015: Reduction in Expenditure required in 2015 to offset reductions in Revenue**
  - Increased collections of Revenue limited (Dividends, Compliance, Non-Tax)
  - Uncertain financing in 2015, → Maintain fiscal stance in 2016-2019
  - Access to increased sources of (external) financing required to loosen fiscal stance.

## 2016 Budget and Medium Term:

- APEC, 2017 Elections costing to be included in calculations of available fiscal space
- “Need to formulate a policy response that would realign expenditures to conform to the planned glide path to a balanced budget by 2017”
- Offsetting Savings for new measures, Cap on G&S, PIP focussed on APEC



# First Round Forecast Adjustments

- Revenue Down K1.6 Billion in 2015 and slightly over the medium term
- GDP growth rate increased for 2014, decreased for 2015
- Expenditure Reductions required in 2015 to maintain within Fiscal Responsibility Act limit
- Difficult choices to be made over the medium term to return to Balanced Budget



# Revenue Indication



**Total Revenue expected to be lower by K1.6b; Tax Revenue of K1.3b while Non-Tax Revenue of K0.3b**

| Figures in Kina (millions)   | 2014 Outcome    | 2015 Budget     | 2015 First Round | Difference      |
|------------------------------|-----------------|-----------------|------------------|-----------------|
| <b>Tax Revenue</b>           | <b>9,596.1</b>  | <b>11,257.8</b> | <b>9,912.3</b>   | <b>-1,345.6</b> |
| Personal Income Tax          | 3,195.1         | 3,303.1         | 3,303.1          | 0.0             |
| Company Tax                  | 2,522.4         | 2,746.1         | 2,622.5          | -123.6          |
| Mineral & Petroleum Taxes    | 794.2           | 1,749.2         | 864.6            | -884.6          |
| Goods & Services Tax         | 1,042.0         | 1,366.8         | 1,025.6          | -341.2          |
| Import Duty                  | 273.2           | 296.4           | 296.4            | 0.0             |
| Export Duty                  | 274.5           | 268.4           | 268.4            | 0.0             |
| Others                       | 1,494.6         | 1,527.9         | 1,531.7          | 3.75            |
| <b>Non Tax Revenue</b>       | <b>900.8</b>    | <b>1,065.6</b>  | <b>786.3</b>     | <b>-279.2</b>   |
| Dividends                    | 152.0           | 80.0            | 80.0             | 0.0             |
| Mining & Petroleum Dividends | 99.5            | 202.6           | 202.6            | 0.0             |
| LNG Dividend                 | 414.3           | 495.9           | 248.4            | -247.5          |
| Other Non Tax Revenue        | 235.0           | 283.1           | 251.4            | -31.7           |
| Interest & Fees from Lending | 0.0             | 4.0             | 4.0              | 0.0             |
| <b>Total Revenue*</b>        | <b>10,496.9</b> | <b>12,323.4</b> | <b>10,698.6</b>  | <b>-1,624.8</b> |

\*Total Revenue without Grants

## Budget Balances 2007-2017

