This article discusses the potential impacts of the PNG Government’s K5.7 billion economic stimulus package on the 2020 National Budget. The stimulus package has six components or measures.

There are both direct and indirect impacts on the budget. Four of the measures (i.e. treasury bond issuance; international financing; proposed Supplementary Budget; and extra expenditure for health, security and the economic sectors) will have a direct impact on the Budget, by affecting key budget variables. In terms of indirect impacts, all six measures will affect the Budget indirectly via increased consumer spending that could lead to increased tax revenue for the government.

Given the loans for deficit financing, the repayment burden will be here after the COVID-19 pandemic has gone, so it is important for the Government to manage the use of the loans wisely so that the deficit and debt levels do not get out of control going forward, and that government revenue is increased to address the growing debt burden.

By Osborne Ogis Sanida

Since its origin in Wuhan City (China) at the beginning of the year, the Coronavirus (COVID-19) pandemic has affected personal lives, communities, health systems, economic systems, and social fabric of nations across the world. In the case of Papua New Guinea (PNG), at the time of writing, there were eight confirmed cases but all have recovered. Despite its low occurrence in PNG, the COVID-19 pandemic has already imposed economic and social costs, and has the potential to impose further adverse impacts on the economy and society, especially if more cases are confirmed.

Responding to the threat of the COVID-19 pandemic, the PNG Government put in place measures to mitigate it, largely through a State of Emergency (SOE). The imposition of the SOE has adversely impacted the economy through various restrictions that have hindered business and economic activities. As an economic response to COVID-19, the Government initially announced a K5.6 billion economic stimulus package on 2 April 2020 (see Ling-Stuckey, 2020). This package has now increased to K5.7 billion courtesy of an additional K100 million as budget support (see Business Advantage PNG, 2020a). This article discusses the potential impacts of the K5.7 billion economic stimulus package on the 2020 National Budget.

The changing nature of the 2020 National Budget due to COVID-19

Under the 2020 National Budget (passed late last year), the key estimates were as follows (see Department of Treasury 2019): total revenues and grants of K14.1 billion; total expenditure and net lending of K18.7 billion; and subsequently a deficit of K4.6 billion, which is 5% of Gross Domestic Product (GDP) estimated at K92.2 billion. Total debt was estimated at K37.2 billion (or 40% of GDP). These 2020 budget figures were arrived at through a progression from the 2019 National Budget under the O’Neil-Abel Government to the 2020 National Budget under the Marape-Steven Government (see Sanida, 2020, for an analysis of the budget progression).

As part of his Ministerial Statement to Parliament on the economic stimulus package on 2 April 2020, the Treasurer, Hon. Ian Ling-Stuckey, announced that due to the COVID-19 crisis, there is likely to be a decline in total revenue of K2 billion (see Ling-Stuckey, 2020). This decline is due to a decrease of K1 billion each from external and domestic sources of Government revenue. The external impact is due to an expected fall in export revenue associated with lower commodity prices. The internal impact is due to an expected lower tax revenue, due to the adverse impact of COVID-19 on the economy.

The K2 billion revenue decline will reduce total revenue by 14.2 percent to K12.1 billion. Consequently, the deficit will increase by 43 percent to K6.6 billion, assuming that the original total expenditure estimate of K18.7 billion is unchanged (i.e. K12.1b – K18.7b = (-)K6.6b). However, given the need to fund the expenses imposed by the COVID-19 crisis (effectively a new expenditure item), total expenditure will increase so the deficit will be higher than K6.6 billion, unless savings/cuts are made to the original 2020 Budget (expenditure), through a Supplementary Budget.

The economic stimulus package

Within the context of the expected K2 billion decline in revenues and the subsequent (expected) increase in the deficit to K6.6 billion, and the need to fund measures to mitigate the adverse impact of COVID-19, the Government announced a K5.6 billion economic stimulus package on 2 April 2020. At the time of writing, the Government had announced an extra K100 million (or K0.1b) budget support for health, security and economic sectors (Business Advantage PNG, 2020a), thus increasing the stimulus package by 1.8 percent to K5.7 billion.

The stimulus package is based on five principles, summarised as follows: PNG-owned and driven response; broad and comprehensive response; smart and forward-looking response; responsible response; and drawing on friendly foreign support (Ling-Stuckey, 2020).

The K5.7 billion economic stimulus package has six components/measures, summarised as follows:
• Measure 1: K2.5 billion (43.9% of stimulus package) in domestic financing through the issuance of COVID-19 Treasury Bonds;
• Measure 2: K1.5 billion (26.3%) in ‘friendly foreign assistance’ comprising K1.26 billion from the International Monetary Fund (IMF), K0.17 billion from the Asian Development Bank (ADB), and K0.07 billion from the World Bank;
• Measure 3: K600 million (10.5%) relief for businesses and households in the form of a 3-month loan repayment holiday;
• Measure 4: K500 million (8.8%) in superannuation measures, in the form of allowing members to access their savings during the economic downturn;
• Measure 5: K600 million (10.5%) extra budget support comprising K320 million for agriculture, business and households, and K280 million for health and security; and
• Measure 6: Supplementary Budget to find budget cuts/savings to address the increased deficit and financing options required.

Potential impacts of the economic stimulus package on the 2020 national budget

The economic stimulus package will have both direct and indirect impacts on the 2020 National Budget.

Direct budget impacts

The direct impacts are those that will have an impact directly on key budget variables such as revenue or expenditure and the deficit and financing measures. Four of the six measures will directly affect the budget; that is, Measure 1; Measure 2; Measure 5; and Measure 6.

To analyse the budget impacts of the four measures, we first analyse the impact of the increase in expenditure (i.e. Measure 5) on the budget deficit given the revised total revenue of K12.1 billion and the subsequent revised deficit of K6.6 billion; and then consider the impacts of the financing measures (i.e. Measures 1 and 2), and the Supplementary Budget (i.e. Measure 6).

Impact of Measure 5 (K600m increase in expenditure) on the budget deficit

Per Measure 5 of the stimulus package, the extra expenditure is K600 million (or K0.6b). This measure will increase total expenditure estimate by 3.2 percent to K19.3 billion. Given this, the deficit will be K7.2 billion (i.e. K12.1b – K19.3b = (-)K7.2b). This is the current level of deficit before any budget cut by the proposed Supplementary Budget. This new deficit is 56.5 percent higher than the original 2020 budget deficit (K4.6b) and 9 percent higher than the K6.6 billion starting point stated by the Treasurer in April 2020. We next consider the impact of the financing measures under the stimulus package on the new deficit (K7.2b).

Impact of Measure 1 and 2 (financing measures) on the new deficit (K7.2b)

In the Ministerial Statement (p.21), it states that the K1.5 billion in ‘friendly foreign financing’ (i.e. Measure 2) is already available, hence this will fund 20.8 percent of the new deficit. Consequently, the remaining deficit will be K5.7 billion (i.e. K7.2b – K1.5b = K5.7b). The international finance will of course need to be repaid with interest, which tax payers have to meet through the Government.

The other financing item is the Treasury Bond issuance of K2.5 billion (Measure 1). At the time of writing, reports indicate that over K1 billion of this amount has been raised and that the bond issue is oversubscribed, implying that the receipts from the bond sale would be fully realised and perhaps more (Business Advantage PNG, 2020b). The interest rates for the bonds range from 8 to 9.5 percent, depending on the term dates (Business Advantage PNG, 2020b). The high interest rates is perhaps a key reason for the oversubscription of the bonds by investors in a short space of time.

The flipside of this is that tax payers (through the Government) will pay higher interest payments and increase in the total debt burden. The K2.5 billion treasury bond financing will finance 34.7 percent of the revised deficit (K7.2b). Given the two financing items, the outstanding deficit will be K3.2 billion (i.e. K7.2b – K1.5b – K2.5b = K3.2b). This outstanding deficit has to be funded via more borrowing or reduced via cuts to expenditure and/or increases in total revenue, which is considered next.

Options to address the outstanding deficit (K3.2b)

After applying the financing measures under the stimulus package, the outstanding deficit is K3.2 billion. The question is how can this be addressed? This may be done via the following three options:

Option 1: If there are no further changes to the revised total revenue (i.e. K12.1b) and total expenditure (i.e. K19.3b), then the Government will need to raise the K3.2 billion through further borrowing, where it can utilise the financing options originally planned in the 2020 Budget. However, this will further increase the debt burden and interest repayments. So, if borrowing, as much as possible, concessional sources must be preferred over commercial ones.
The PNG Government has put in place a K5.7 billion economic stimulus package, that has six measures/components. This article discussed the potential impacts of the six measures on the 2020 National Budget.

Four of the measures (i.e. treasury bond issuance; international financing; proposed Supplementary Budget; and extra expenditure for health, security and the economic sectors) will have a direct impact on the Budget, by affecting key budget variables. All the six measures will affect the Budget indirectly via increased consumer spending that could lead to increased tax revenue for the government.

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1 It is noted that in the Ministerial Statement in April 2020, there is a planned cut of K1.07 billion in the upcoming Supplementary Budget, as the starting point. This amount was the difference between the increased deficit gap of K2.57 billion and the K1.5 billion friendly foreign financing. The K2.57 billion comprises the K2 billion fall in revenue, the K300 million extra budget support under the original Measure 5, and an extra K70 million in cost of medical supplies to be funded by World Bank. In the revised budget support of K600 million (i.e. revised Measure 5), it is not clear how the Government has treated the K70 million; that is, whether or not it is part of the revised K600 million budget support. If it is, then by implication, the K70 million is incorporated in our analysis here. However, if it is an additional item on top of the K600 million, that would imply that the new stimulus package should be K5.77 billion (and not just K5.7b).

2 If instead of spending the funds saved from the repayment holiday on goods and services, the borrowers decide to retain the funds for repaying the loan once the three-month holiday is over, then the spending impact of the repayment holiday (and subsequent effect on tax revenue) will be less.
References


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