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COVID-19 AND THE PNG ECONOMY: POTENTIAL IMPACTS OF THE ECONOMIC STIMULUS PACKAGE ON THE 2020 NATIONAL BUDGET

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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 consequences on the economy and society, especially if more cases are confirmed.

In response 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 the restrictions imposed on movements, which have hindered business and economic activities. In response to the adverse economic implications and the need to fund measures to mitigate the spread of COVID-19, the Government announced a K5.6 billion economic stimulus package on 2 April 2020 (see Ling-Stuckey, 2020). The value of the stimulus package has since increased to K5.7 billion courtesy of an additional K100 million as budget support, through a new Government decision (see Business Advantage PNG, 2020a). This article discusses the potential impacts of the 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 (see Department of Treasury 2019), the key estimates were as follows: 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 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 attributed 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 most likely 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 finance measures to mitigate the adverse impact of COVID-19, the Government announced a K5.6 billion economic stimulus package on 2 April 2020. 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 economic stimulus package has six components/measures. The original value of the package was K5.6 billion, as announced on 2 April 2020 (Ling-Stuckey, 2020).

announced an extra K100 million (or K0.1b) budget support for health, security and economic sectors (Business dvantage , 2020a). herefore, the total stimulus pac age is now K5. billion. summary of the six measures is now as follows:

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- 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 finance the extra funding needed for health, security and economic sectors.

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: Measure 1 (K2.5 billion treasury bond issuance); Measure 2 (K1.5 billion funding from international financial institutions); the revised Measure 5 (K600 million extra budget support); and Measure 6 (proposed Supplementary Budget).

To analyse the budget impacts of the above measures, we first analyse the impact of the changes in expenditure on the budget deficit given the revised total revenue of K12.1 billion; and then consider the impacts of the financing measures.

- **Impact of changes in expenditure on the budget deficit**

There are three changes to expenditure that will change the budget deficit from K6.6 billion (starting point) up to K7.17 billion and K7.27 billion, and then down to K6.2 billion (which is the deficit after expenditure changes but before financing).

The increase in the budget deficit from K6.6 billion to K7.17 billion is based on information on page 21 of the Ministerial Statement. That is, there is an extra K570 million (or K0.57b) budget support comprising direct budget expenditure of K500 million (per original Measure 5 of the stimulus package) and an extra K70 million in cost of medical supplies by the World Bank. The K0.57 billion extra expenditure increases the total expenditure to K19.27 billion (from K18.7b) and the deficit to K7.17 billion "(i.e. K12.1b – K19.27b = (-)K7.17b).

The budget deficit then increases further to K7.27 billion as a result of the extra K100 million (or K0.1b) budget support announced by the Government in May 2020 (i.e. part of the revised Measure 5). That is, the K0.1 billion extra budget support will increase total expenditure to K19.37 billion (from K19.27b) with the deficit increasing to K7.27 billion [i.e. K12.1 – K19.37 = (-)K7.27b].

After the two expenditure increases, there is a proposed budget cut/savings of K1.07 billion in the upcoming (planned) Supplementary Budget (Measure 6) according to the Ministerial Statement (p.22). If this occurs then total expenditure will fall by 5.5 percent to K18.3 billion (i.e. K19.37b – K1.07b = K18.3b) and subsequently, the deficit is reduced to K6.2 billion [i.e. K12.1 – K18.3 = (-)K6.2b].

So, having accounted for the estimated fall in total revenue by K2 billion (to K12.1 billion), increase in total expenditure by K0.67 billion (i.e. K0.57b + K0.1b), and the planned savings/cut of K1.07 billion in the forthcoming Supplementary Budget, the deficit will be K6.2 billion. This is 34.8 percent higher than the original 2020 budget deficit (K4.6b) but 6 percent lower than the K6.6 billion starting point stated by the Treasurer in April. The next task is to analye the impact of the financing options to fund the revised deficit of K6.2 billion.

source another K2.2 billion loan (during the rest of the year) in order to fully finance the revised deficit of K6.2 billion.

- **Possible changing size of the budget cut in the Supplementary Budget and its likely impact**

The impacts discussed above are based on the assumption that the full amount of the announced budget cut of K1.07 billion will occur in the planned Supplementary Budget. However, if the budget cut from the Supplementary Budget is less than K1.07 billion, then the remaining financing needed to fully fund the deficit would be more than K2.2 billion (i.e. after accounting for the K2.5 billion treasury bond receipts and K1.5 billion additional foreign financing). On the other hand, if the budget cut is more than K1.07 billion, then the extra savings (above the K1.07b) could be used to offset potential further declines in total revenue and/or new expenditure. These are possibilities given that GDP is forecast to have negative growth rate for the year (per p.5 of Ministerial Statement) and the uncertainty around the timeframe for COVID-19's existence.

- **Impact and management of borrowed funds**

An important factor when analysing deficit budgets is the impact and management of borrowed funds or loans. Under the economic stimulus package, the total budget financing component of K4 billion (i.e. K2.5b + K1.5b) is vital in providing the much-needed funds for the budget. Moreover, spending from the use of these funds have the potential to contribute to increasing government revenue by creating jobs and increasing consumer spending, and subsequently tax receipts (via income tax and indirect taxes such as the Goods and Services Tax). The same may be said of the K2.2 billion financing that is yet to be raised.

However, given the expected increase in the deficit beyond the K4.6 billion (under the original 2020 Budget), the extra financing from borrowed funds will add to the estimated debt stock of K37.2 billion. It is important to note that the repayment burden will most likely be here after the COVID-19 pandemic has gone. The interest on the loan from IMF is 1 percent (per Ministerial Statement) while the interest on the Treasury bond is between 8 percent and 9.5 percent, depending on the term dates (see Business Advantage 2020b). Therefore, there must be wise fiscal management to ensure that whilst the Government spends to mitigate the negative effects of COVID-19, it needs to ensure that the deficit and subsequently the debt level do not get out of control. Moreover, there is a need to devise effective strategies to increase government revenue to reduce reliance on borrowing and reduce the current debt burden.

Indirect budget impacts

The remaining two measures of the economic stimulus package (Measure 3 and Measure 4) could affect the Government budget indirectly via the potential increases in consumer spending and tax revenue. In terms of the K600 million loan repayment holiday, if businesses and individuals do not have to repay their loans for a three-month period, then the funds retained could be spent on goods and services (in light of COVID-19).[1] Similarly, for the K500 million assistance to members of superannuation funds, this could also boost consumer spending as super fund members spend their accessed savings on goods and services.

For both measures, the indirect impact on government budget is the tax payment receipts via income tax and GST or other indirect taxes as a result of increased consumer spending. Having said this, it must be noted that the magnitude of the indirect impacts of the two measures on the budget is subject to the extent of the usage of these measures. The loan repayment holiday impact depends on how many people/businesses take up the option. Similarly, the superannuation measure impact depends on how many members take up the option to withdraw their savings. Additionally, this measure is constrained by the fact that only around 10% of the population are members of superannuation funds (The National 2020, p.3).

Conclusion

In response to the need to address the adverse impacts of the COVID-19 pandemic, the PNG Government announced a K5.6 billion economic stimulus package, which was later revised to K5.7 billion. There are six measures of the economic stimulus package. 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. The remaining two measures (i.e. loan repayment holiday and superannuation measure) will affect the Budget indirectly via increased consumer spending that could lead to increased tax revenue for the government, subject to the extent of usage of the two measures.

[1] 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.

The loan repayment holiday impact depends on how many people/businesses take up the option. Similarly, the superannuation measure impact depends on how many members take up the option to withdraw their savings. Additionally, this measure is constrained by the fact that only around 10% of the population are members of superannuation funds (The National 2020, p.3).

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