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QUESTIONS WITHOUT NOTICE

TUESDAY 4 September 2018

PNG's 2019 Budget Strategy

Thankyou Mr Speaker,

My questions are directed to the Treasurer, on the 2019 Budget Strategy he released to this Parliament last Friday.

Mr Speaker, I thank the Treasurer for releasing this document. As he indicated in his speech, this is an important paper in providing budget transparency to the people of PNG. It should be timely, accurate, credible and signal the government's future budget priorities.

Mr Speaker, I am deeply gratified that the Treasurer is starting to adopt the policies of the Alternative Government. He does this when he claims he has the policies to lift non-resource sector growth to above 5 per cent per annum within three years, and he will rely more on concessional finance rather than expensive foreign borrowings. This is positive in the sense of better policies. But I have some questions, about how he plans to do this.

My Questions are:

1. Treasurer, do you agree that you expect to deliver the 2019 Budget on 6 November 2019? Do you agree that the Fiscal Responsibility Act requires the Budget Strategy to be delivered

three months before the budget – so by 6 August 2019? Treasurer, do you admit that the 2019 Budget Strategy, violated the Fiscal Responsibility Act by being over 3 weeks late? Treasurer, are you always going to be so late that you've even needed to drop the "100 Day Plan", and now simply call it the 25 Point Plan? …without so much as an announcement or even, an explanation to the Members of this House and the people of PNG.

2. Treasurer, do you agree that Treasury forecasts, until now, have formally included only those resource projects where a final investment decision has been made? Do you agree, that you have broken with this convention, by formally including the PNG LNG 3rd train, the Pasca project and Wafi-Golpu into the growth projections, while explicitly, excluding other projects such as the P'nyang project and the Frieda Copper mine? Treasurer, did you consult, with any of the companies before making this potentially commercial-in-confidence information public? Do you agree, that indicating your government's assumed starting times of different projects, may be based on confidential information?
3. Treasurer, continuing with your growth projections, you state that the earthquake in the first half of 2018 "led to a decline in oil and gas production by 5.9 per cent". How does this compare, to the Oil Search 2018 First Half Update to its investors, which stated, that oil and gas production fell by 31 per cent - over five times greater then your 5.9%? How can we trust the Treasurer's claim of "the sustained lift in gas production, over the second half of 2018 which is expected to continue over 2019" when Oil Search is telling its shareholders, that the mid-point of its production guidance for the second half of 2018 is 14.76 million barrels of oil equivalent – slightly below the average of 15.14 over the last four half-years? **Why is it that the Treasurer is basing his growth forecasts, on more optimistic forecasts than companies are telling their shareholders?**

4. Treasurer, do you agree that an assumed increase in economic growth rates, should lead to higher taxation revenues? If so, why is it, that the Budget Strategy shows no such tax increases? Indeed, by 2021, the new Budget Strategy now expects overall taxes to be less than the 2018 Budget forecasts, despite, the major increases in assumed growth levels and assumed oil prices! Do you agree for people and members of parliament, looking at this document for the first time, that (i) it comes across that someone, has just pushed up the growth numbers due to well, again, suggesting that the economy is running smoothly when its not, (ii) breaking with conventions and possibly, breaking commercial-in-confidence discussions between the government and the private sector, because the implications have not actually been factored into the actual Budget Strategy? If this was the case, would this make the Budget Strategy, a grade six (6) effort, in the eyes of readers and members of parliament?
5. Treasurer, do you agree that even if not timely, at least you should use accurate information in your 2019 Budget Strategy? If so, why does the starting point for your expenditure projections for the next five years – which is in Table 5 - start with an old number – why didn't you update 2018 expenditures in line with your MYEFO? Similarly, could the Treasurer inform the Parliament why he also used the old figures for 2018 expected revenues and expenditures in Table 3? If the starting number is wrong, how can we trust the numbers in forward years? Treasurer, doesn't this display yet again, a careless use of numbers, your lack of timeliness and accuracy, your willingness to steal the Alternative Government's policies, without thinking about the strategic implications and what is looking like a well, shambolic role in preparing the 2019 Budget?

Mr Speaker, I apologise for so many questions. But this 2019 Budget Strategy document raises too many questions and I wanted the Treasurer to have even a faint chance of trying to restore its credibility.

Thank you Mr Speaker!

HON.IAN LING-STUCKEY,CMG.MP
SHADOW MINISTER FOR TREASURY & FINANCE

Question 1 background.

Fiscal Responsibilty Act – note Clause 6 which state the Treasurer shall release publicly and table a Budget Strategy Paper at least three months before presentation of the Budget to the National Parliament

PART III. - ANNUAL FISCAL REPORTING.

Division 1. – Annual Budget Strategy Paper.

6. BUDGET STRATEGY PAPER.

The Treasurer shall release publicly and table a Budget Strategy Paper at least three months before the presentation of the Budget to the National Parliament.

7. PURPOSE OF BUDGET STRATEGY PAPER.

The purpose of the Budget Strategy Paper is to assist public understanding of the fiscal situation and the Government's budget strategy.

8. FOLLOWING INFORMATION IN BUDGET PAPER.

The Budget Strategy Paper shall contain the following information:-

(*a*) the principles that will guide the forthcoming budget; and

(*b*) the broad fiscal parameters for the forthcoming budget year and the key Government strategies and policies for the management of revenues and expenditures, including tax expenditures; and

(*c*) a discussion of the risks to the budget parameters and the Budget strategy; and

(*d*) the medium-term outlook for government revenues and expenditures; and

(*e*) a discussion of how the Budget strategy relates to the Medium Term Fiscal Strategy and the Medium Term Development Strategy; and

(*f*) a framework for the preparation of departmental ceilings for budget estimates and for developing detailed budget policies.

Question 2 background

These extracts show the explicit assumptions driving up the growth forecasts between resource projects. Note that resource projects starting are driving up the growth estimates – not expected improvements in other areas of the economy such as agriculture or tourism.

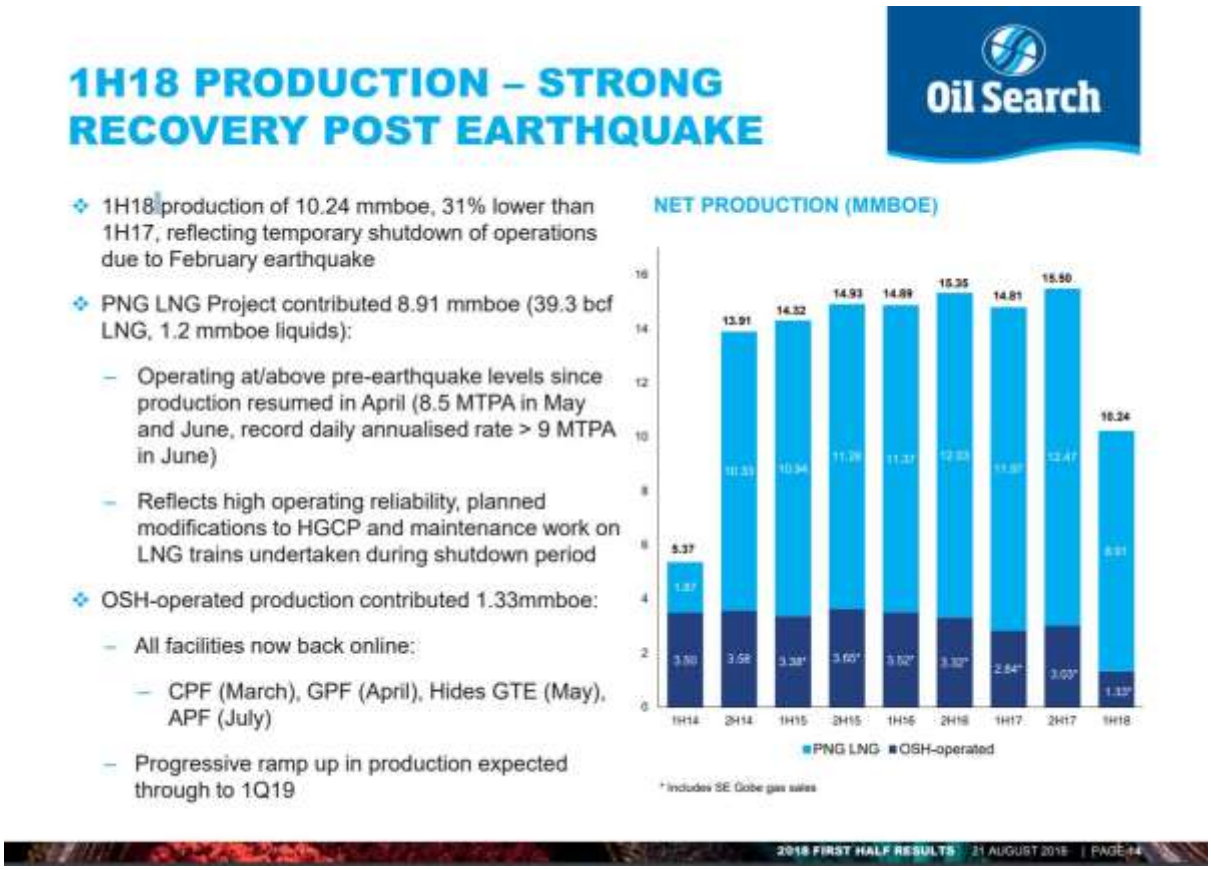
projections, the sustained lift in gas production over the second half of 2018 and which is expected to continue over 2019, coupled with the early works and services from the expected commencement of the Wafi-Golpu project and Pasca and Papua LNG and the broader impact on the domestic economy, have been factored into the projections. Consequently, real GDP is

The growth prospects of other mineral and petroleum investment projects such as the P'nyang project, the Stanley Gas Project, other Petrochemical projects and the Frieda Copper mine, although not factored in current projections, are expected to strengthen growth in the medium-term above

Question 3 Background

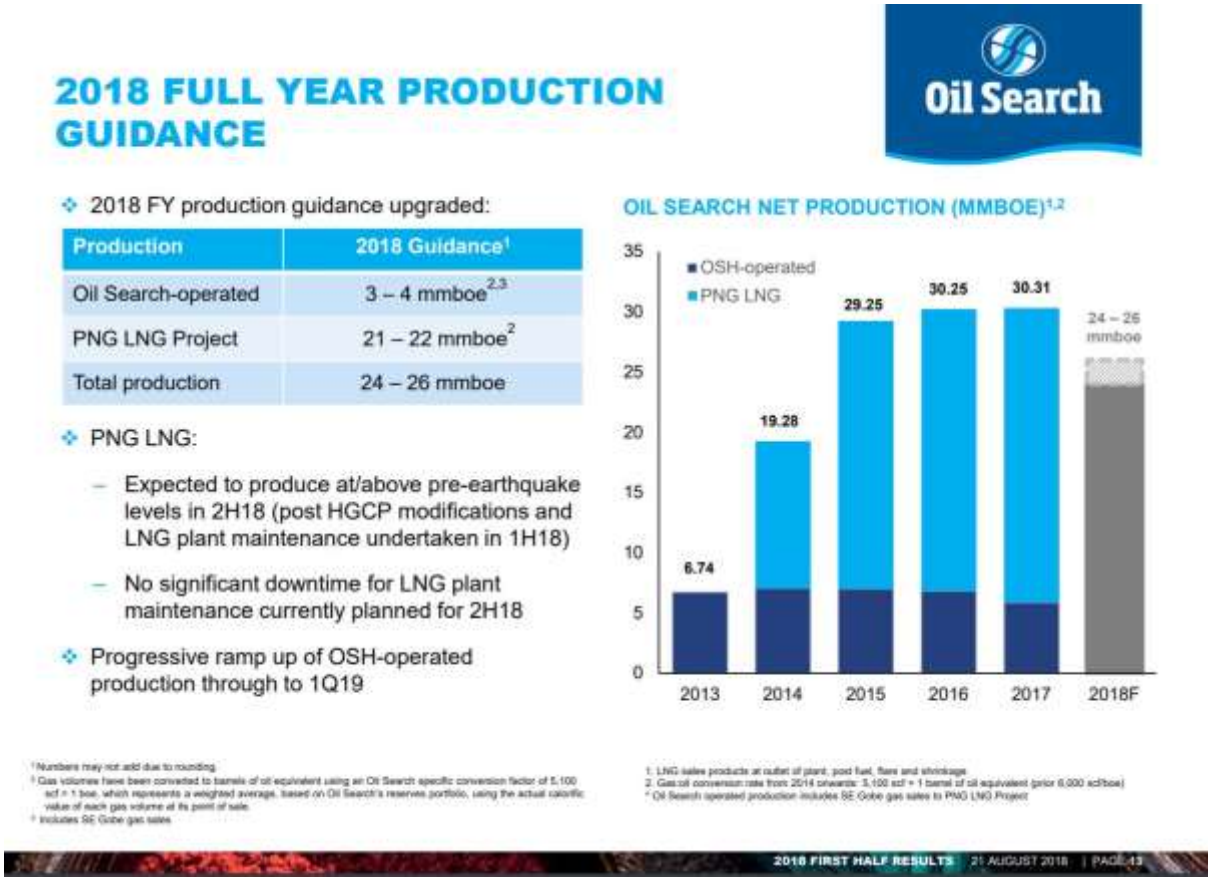
Earthquake decline of 5.9% vs 31%

terms in 2018. This is mainly due to the impact of the earthquake in the first half of the year which led to a decline in oil and gas production by 5.9 per cent.



Oil Search detail showing half-yearly production since the first half of 2016 of 14.89, 15.35, 14.81 and 15.5 – an average of 15.13mmboe. Production in the first half of 2018 is shown as 10.24mmboe. The next graph shows the "guidance" to shareholders is between 24 and 26 mmboe. This would require production of between 13.76 and 15.76 mmboe – with 14.76 being the mid-range of the guidance. This is slightly less than the average for the previous four halves, and even at the very top end of the guidance, is

only 1% greater than the level achieved in the second half of 2017 – the time when the budget was being prepared.



Question 4 and 5 background

This is the revenue forecasts from the 2019 Budget Strategy as well as the revenue forecasts from the 2018 Budget. Note that the 2019 Budget Strategy should show significantly higher increases in taxes as these should flow from the assumed significantly higher economic growth rates. This is not the case, although the story changes slightly according to the year and type of tax. However, note that by 2021, taxes are actually now expected to be less than at the time of the 2018 Budget (K12,568m down to K12,499m), despite the higher growth rates and the expected K212m in extra revenues included in the 2018 MYEFO. The 2019 Budget Strategy talks of much higher mineral and petroleum taxes, but the overall level of taxes on "incomes, profits and capital gains" is actually expected to be lower in 2019 than was initially forecast. The biggest change in overall revenues is from non-tax revenues – these are K456m higher expected in 2019. There is no real expectation for where this major increase would come from. There is reference to point 19 of the now retitled "100 Day

Plan" concerning SOEs lodging audited accounts, but this was due by 30 June 2018 as a deadline under the plan. This deadline has been dropped and this increase is at best highly speculative.

Table 4: Indicative Revenue Projections for 2019 Budget (Kina Million)

	2018 MYEFO	2019	2020	2021	2022
Total Revenue and Grants	**12,943.8**	**13,058.3**	**13,936.5**	**14,981**	**16,253.9**
Taxes	9,821.9	10,613.2	11,484.9	12,499.8	13,749.4
Taxes on income, profit and capital gains	5,568	6,104	6,651	7,258	7,913
Taxes on goods and services	3,618	3,847	4,138	4,510	5,071
Taxes on international trade and transactions	626	662	696	732	766
Donor Grants	1,025	943	932	932	932
Other revenue	2,097.3	1,502	1520	1,549	1,572

Source: Department of Treasury

2018 National Budget, Volume 1

Table 18: Medium Term Revenue Projections 2017-2022

	2017 Supp.	2018	2019	2020	2021	2022
Revenue and Grants	10,979	12,731	12,583	13,552	14,666	15,876
% of GDP	14.9%	15.9%	14.6%	14.7%	14.8%	14.8%
Taxes	8,869	9,639	10,565	11,511	12,568	13,720
% of GDP	12.0%	12.0%	12.3%	12.5%	12.7%	12.8%
Taxes on income, profits and capital gains	5,535	5,565	6,151	6,723	7,369	8,070
Taxes on payroll and workforce	12	0.0-	0.0-	0.0--	0.0--	0.0--
Taxes on goods and services	2,755	3,448	3,762	4,106	4,485	4,900
Taxes on international trade and transactions	568	626	653	683	715	750
Donor Grants	968	1,025	943	932	932	932
% of GDP	1.3%	1.3%	1.1%	1.0%	0.9%	0.9%
Other revenue	1,142	2,067	1,074	1,108	1,166	1,224
% of GDP	1.5%	2.6%	1.2%	1.2%	1.2%	1.1%

Source: Department of Treasury

On the accuracy of figures, compare the 2018 figures from the following three tables – Table 1 is correct on both revenue and expenditure, Table 3 is incorrect on both revenue and expenditure, and Table 5 is incorrect on 2018 MYEFO expenditure. Accuracy is important for building trust in other numbers.

Table 1: MYEFO 2018

	2017 Actual	2018 Budget & MTFS 2018-22	June Outturn	2018 MYEFO
Total Revenue and Grants	11,525.1	12,730.6	5,553.3	12,943.8
Total Expenditure and Net Lending	13,319.7	14,717.9	5,878.2	14,931.1
Net Lending (+)/Net Borrowing (-)	**-1,794.7**	**-1,987.3**	**-324.9**	**-1,987.2**
% of GDP	*-2.4%*	*-2.5%*	*-0.4%*	*-2.4%*

Source: Department of Treasury

Table 3: Medium Term Fiscal Balance 2018-2022 (Kina million)

	2018	2019	2020	2021	2022
Total Revenue and Grants	12,731	13,058.3	13,936.5	14,981	16,253.9
% of GDP	*15.9%*	*15.1%*	*15.1%*	*15.1%*	*15.1%*
Total Expenditure and Grants	14,718	14,955.8	15,612.2	16,389.8	17,515.1
% of GDP	*18.4%*	*17.3%*	*17.0%*	*16.5%*	*16.2%*
Net Lending (+)/ Net borrowing (-)	-1,987	-1,897.5	-1,676	-1,408.8	-1,261.2
% of GDP	*-2.5%*	*-2.2%*	*-1.8%*	*-1.4%*	*-1.2%*
Non-resource Primary Balance	-592	-442	-193	-10	98
% of GDP	*-1.0%*	*-0.7%*	*-0.3%*	*0.0%*	*0.1%*
Gross Government Debt	25,808	27,443	29,118.8	30,527.3	31,788.7
% of GDP	*32.2%*	*31.8%*	*31.6%*	*30.8%*	*29.5%*

Source: Department of Treasury

Table 5: 2019 Budget - Indicative Expenditure & Net Lending Projections (Kina Million)

	2018 (MYEFO)	2019	2020	2021	2022
Total expenditure & Net Lending	14,717.8	14,955.8	15,612.2	16,389.8	17,515.1
% of GDP	*18.4%*	*17.3%*	*17.0%*	*16.5%*	*16.2%*
Expense	10,044.0	10,029.6	10,248.7	10,469.4	11,266.5
% of GDP	*12.5%*	*11.7%*	*11.1%*	*10.9%*	*10.5%*
Compensation of employees	4,163.0	4,266.2	4,397.2	4,532.1	4,671.1
Use of goods and services	3,004.5	2,649.9	2,641.4	2,695.2	2,965
Interest	1,864.7	2,009.5	2,105.9	2,136.6	2,323.6
Grant	499.9	572.3	572.3	572.3	572.3
GST Transfers to Provinces	511.9	531.7	531.9	533.2	534.5
Capital Expenditure	4,673.88	4,926.2	5,363.5	5,820.4	6,448.5
% of GDP	*5.8%*	*5.7%*	*5.8%*	*5.9%*	*6.0%*
GoPNG PIP	1,881.0	1,989	2,091	2,125	2,323
Service Improvement Programs	1,174.4	1,177.2	1,177.2	1,177.2	1,177.2
Loans Drawdowns	593.9	816.9	1,163.3	1,585.9	2,016.2
Project Support Grants	1,024.6	943.1	932.1	932.1	932.1

Source: Department of Treasury