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## Falling Oil Prices Threaten 2019 Budget – K638 million shortfall

“The fall in oil prices from \$US85 per barrel at the time of the 2019 budget preparations down to \$US52 per barrel just two months later demonstrates the risks of the O’Neill/Abel government relying too much on resource revenues. Based on the latest IMF oil price projections and using the figures in the 2019 Budget, PNG is facing a 2019 revenue shortfall of at least K638 million. The government should have kept to its new budget deficit anchor which would have delinked vital government expenditure from the ups and downs of oil prices. Instead, the government went on a spending spree based on the high oil prices of mid-2018 which have since collapsed. This was irresponsible budgeting and the PNG people are now facing once again the pain of O’Neill/Abel’s economic mismanagement” stated the Shadow Minister for Treasury and Finance, Ian Ling-Stuckey.

“As I outlined in the 2019 Budget Reply Speech, this government went on a reckless spending spree when it spent all of its K1 billion in 2018 and expected 2019 K1.3 billion resource revenue bonus from high oil prices. This broke the promises in the Budget Strategy, and the promises made to the World Bank and international investors, that PNG would save such revenue windfalls. This dangerous decision is coming home to roost as oil prices have fallen sharply since October 2018.

“The O’Neill/Abel government assumed oil prices would average \$US68 per barrel in 2019. However, the IMF, in its January World Economic Outlook Update, dropped expected oil prices down by \$US8 to \$US60 per barrel. So what does such an oil price drop mean for PNG? Using the government’s own budget figures, a fall of \$US3 per barrel in oil prices between 2019 and 2020 (from \$US68 to \$US65 per barrel) was expected to reduce resource revenues by K638 million – from K1,856.2 million in 2019 to K1,218.6 million in 2020. However, the fall in oil prices has occurred one year earlier, and the fall has been more than twice as severe. So the likely fall in resource revenue is at least K638 million in

2019 – and could be much more (details of calculations below)” stated the Shadow Treasurer.

“The O’Neill/Abel government continues with its economic mismanagement. The oil price bonus of last year should have been invested into the Sovereign Wealth Fund to help stabilise expenditures. But there is no operational Sovereign Wealth Fund. It continues to be a myth, in the same way as the often promised but never delivered “Independent Commission Against Corruption” remains a myth. Just as we know that any O’Neill government will never take action to stop corruption, we also know this government will never take action to properly fix the economy. It is time we had a new coalition that will get jobs and incomes growing again, understands the cost of living burden on families, and will better manage the budget to deliver essential services” said Mr Ling-Stuckey.

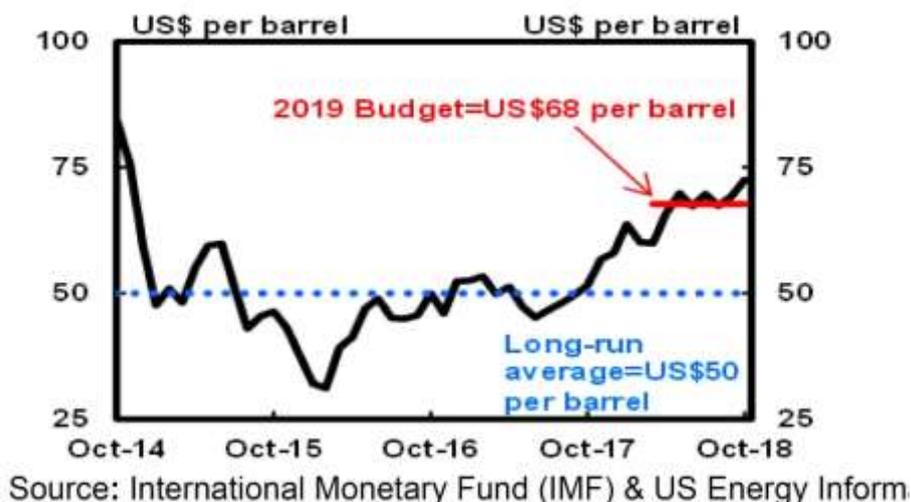
**Hon.Ian Ling-Stuckey,CMG.MP**  
**Shadow Minister for Treasury & Finance**

21 February 2018

### Details

The 2019 Budget assumed oil prices would remain at \$US68 per barrel in 2019.

**Chart 5: Crude Oil Price**



The IMF in its January 2019 World Economic Outlook update lowered the price forecast for oil in 2019 down to \$US60 per barrel, and for this price to continue into 2020 -

<https://www.imf.org/en/Publications/WEO/Issues/2019/01/11/weo-update-january-2019>

## WEO Update, January 2019

Indonesian rupiah—have staged recoveries from their 2018 valuation lows last August-September.

### **Forecast Assumptions**

The assumptions about tariffs, policy stances, and financial conditions underpinning the forecast are broadly similar to those in the last WEO.

The baseline forecast incorporates the US tariffs announced through September 2018 and retaliatory measures. For the United States, these include tariffs on solar panels, washing machines, aluminum, and steel announced in the first half of 2018; a 25 percent tariff on \$50 billion worth of imports from China, and a 10 percent tariff on an additional \$200 billion of imports from China, with the latter rising to 25 percent after the current 90-day “truce” ends on March 1, 2019. For China, the forecast incorporates tariffs ranging from 5 to 10 percent on \$60 billion of imports from the United States.<sup>1</sup>

Average oil prices are projected at just below \$60 per barrel in 2019 and 2020 (down from about \$69 and \$66, respectively, in the last WEO). Metals prices are expected to decrease 7.4 percent year-over-year in 2019 (a deeper decline than anticipated last October), and to remain roughly unchanged in 2020. Price forecasts for most major agricultural commodities have been revised modestly downwards.

The 2019 Budget included more detailed oil price forecasts extending out to 2023. This shows the expected drop in oil prices from \$US68 per barrel in 2019 down to \$US65 per barrel in 2020.

**Table 9: Major Assumptions Underlying the Budget**

	2015	2016	2017	2018	2019	2020	2021	2022	2023
	Actual	Actual*	Actual*	Proj	Proj	Proj	Proj	Proj	Proj
<b>Economic Growth</b>									
Total Real GDP (%)	10.5	2.0	3.0	0.3	4.0	3.2	4.5	6.2	6.3
Non-mining Real GDP (%)	0.7	0.7	0.2	3.1	3.1	5.4	4.9	9.7	8.9
<b>Inflation</b>									
Average on Average (%)	6.0	6.7	5.4	5.6	5.4	5.5	5.0	4.5	4.3
Dec on Dec (%)	6.4	6.6	4.7	7.6	3.4	6.3	3.4	4.6	4.5
<b>Exchange rate</b>									
Real Exchange Rate Index(2007 = 100)	141.0	131.0	132.9	133.1	135.7	139.9	143.8	147.0	150.1
<b>Interest rate</b>									
Kina Rate Facility (KFR)	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25
Inscribed Stock (3 year yield)	9.7	9.7	9.7	9.7	9.7	9.7	9.7	9.7	9.7
<b>Mineral Prices</b>									
Gold (US\$/oz)	1160	1248	1258	1261	1218	1255	1257	1343	1382
Copper (US\$/ton)	5502	4865	6166	6476	6200	6270	6220	6318	6318
Oil (Kutubu Crude: US\$/barrel)	49	44	51	68	68	65	64	60	59

The next table from the 2019 Budget then shows the implications of the budget assumptions on oil revenues. Between 2019 and 2020, the expected \$US3 per barrel fall in oil prices decreases resource revenues from K1,856.1 million to K1,218.6 million in 2020 – a drop of K638 million. Given that gold and copper prices were expected to increase from 2019 to 2020 (see above), it is reasonable that the K638 million drop in revenues is entirely allocated to the fall in oil prices. Of course, the IMF projections are currently indicating a much more severe drop down to the levels expected by PNG Treasury in 2022. By 2022, major increases are assumed in gold and copper prices, so only the 2020 figures have been used. As this revenue fall of K638 million reflects just a \$US3 per barrel fall in oil prices, rather than the \$US8 per barrel predicted by the IMF, it is considered conservative. The estimate is still conservative even with the slight oil price recovery over the last two weeks so that the average oil price for 2019 is still well below \$US65 per barrel.

**Table 10: Statement of Operations for General Government**

Kina Million	Actuals		Estimates			Projections			
	2016	2017	2018 Budget	2018 Suppl. Budget	2019 Budget	2020	2021	2022	2023
<b>TRANSACTIONS AFFECTING NET WORTH:</b>									
<b>Revenue</b>	10,485.5	11,525.1	12,730.7	13,400.3	14,266.8	14,630.8	15,236.1	16,846.6	18,516.4
Taxes	8,421.6	9,141.4	9,639.4	9,956.5	10,784.5	11,467.5	12,091.8	13,647.9	15,316.6
Taxes on Income, profits, and capital gains	5,285.2	5,317.4	5,564.9	5,691.9	6,247.1	6,600.5	7,153.1	8,105.4	9,094.9
Taxes on payroll and workforce	14.4	11.2	0.0	10.0	0.0	0.0	0.0	0.0	0.0
Taxes on goods and services	2,584.1	3,255.1	3,448.3	3,542.3	3,773.9	4,065.5	4,097.7	4,663.9	5,301.7
Taxes on international trade and transactions	536.8	557.7	626.1	712.3	763.4	801.6	841.0	878.7	920.0
Grants	1,430.1	1,439.9	1,024.6	1,024.6	943.1	932.1	932.1	932.1	932.1
Other Revenue	633.9	943.8	2,066.7	2,419.2	2,539.2	2,231.2	2,212.3	2,266.6	2,267.8
<b>Of which: Resource Revenue</b>	392.5	675.9	679.1	1,625.0	1,656.2	1,218.0	1,180.6	1,289.3	1,291.6
Mining and Petroleum Taxes	92.0	113.6	89.5	362.5	428.1	259.3	240.3	294.6	295.8
Mining, Petroleum and Gas Dividends	300.5	562.3	500.0	900.0	1,000.0	700.0	700.0	700.0	700.0
Of which: transfer from the Stabilization Fund (SWF)	0.0	0.0	89.5	362.5	428.1	259.3	240.3	294.6	295.8
Revenue as percentage of GDP	15.6%	15.2%	15.9%	16.3%	16.1%	15.3%	14.8%	14.8%	14.8%