Saturday November 23, 2013

Budgets and Deficits

T.K. JAYARAMAN

Another Pacific island country (PIC) and another budget!

Papua New Guinea (PNG)'s budget for 2014 was presented early this week. Fiji's budget was announced two weeks ago. Vanuatu's and Solomon Islands' 2014 budget are yet to be unveiled.

The worries continue to be the same: deficit, debt and sustainability.

Greater concerns are now about two other PICs, Samoa and Tonga, whose fiscal years are July to June. Their budgets for 2014-15 are due in June or so.

An International Monetary Fund (IMF) report on Samoa is more alarming.
First, we deal with PNG's budget

PNG's budget 2014

It is a record budget for K15.29 billion or US$ 5.74 billion.

The main objective is to offset the decline in huge construction expenditure in early 2014 as the US$ 19 billion liquefied natural gas (LNG) project is nearing completion.

The budget is a countervailing instrument, aiming at keeping up the aggregate demand for maintaining momentum of growth in jobs and incomes by boosting allocation for physical infrastructure. It focuses on the Government's key priorities of free education and free basic health care and infrastructure development.

Physical infrastructure

The allocation for physical infrastructure is K2.7 billion (18 percent of the budget). The increase is by 45 percent from last year. As for social infrastructure, education also gets a record allocation of K1.5 billion (10 percent), an increase by 12 percent from last year;

followed by health sector with K1.38 billion (9 percent) up by 37 percent. The total allocation for social sector is 19 percent exceeding the allocation for physical infrastructure.

Revenue estimates for 2014 are based on GDP growth rate of 6.2 percent, supported by LNG project production going on stream next year. It will give rise to growth in receipts from mineral taxes, as well as non-mineral taxes.

The estimated deficits

The estimated 2014 deficit is of K2.37 billion or 5.9 percent of GDP, which is less than the revised figure of 2013 deficit at K2.7 billion or 7.9 percent of GDP. About 75 percent of the deficit will be covered by domestic borrowing and the remaining 25 percent by external debt.

Total debt stock is estimated to grow to K13.96 billion in 2014 from K11.6 billion in 2013. The debt-GDP ratio is expected to be below 35 percent of GDP.

Some similarities

Both budgets are providing impetus to economic development through stress on capital projects and increasing domestic aggregate demand in the context of stagnant world economic conditions.

Both budgets have no new taxes. Both countries have the same kind of approach to provision of social infrastructure. Fiji's 2014 budget announced free primary and secondary education and loan assistance for tertiary students.

Just as PNG's budget deficit is projected to fall in 2014 from its 2013 level, the budget deficit of Fiji is expected to decline in 2014 from the previous level of 2013.

Fiji's budget deficit

Fiji's 2014 budget deficit is projected to decline to 1.9 percent of GDP from 3.5 percent for 2013; and debt level to 48.3 percent of GDP in 2014 from 49.3 percent in 2013.

Earlier this month, the Secretary-General of the United Nations Conference on Trade and Development, Dr Mukhisa Kituyi cautioned against increasing budget deficits and debt levels of developing countries, as they try to boost domestic demand in the face of stagnation of advanced economies.

"High levels of unemployment and a corresponding need for social services had increased government expenses and budget deficits would lead to further rise in budget levels." he said.

Both Fiji and PNG have shown that governments can plan and strive for low budget deficits. However, the approaches of two PICs differ. That is where the similarities end.

Two approaches

While PNG will be financing deficits by borrowing both domestically and externally, Fiji has indicated borrowing will be minimal and confined to capital projects. Secondly, Fiji has planned asset sales to the extent of F$475.2 million, which are expected to swell revenue. The planned sale of assets includes partial privatisation of the Fiji Electricity Authority, divestment of shares in Airports Fiji Limited and Fiji Ports Corporation Limited, sale of foreign mission properties and privatisation of the government printery.

The proposed sale of assets for increasing revenue has raised eyebrows. It is feared the likely buyers would quote lower prices or drag their feet. If the assets sales do not materialise for one reason or another, deficit-GDP ratio may rise and more borrowing would have to be resorted to, raising the debt-GDP ratio.

IMF concerns on Samoa

The World Bank has struck the alarm bell that Samoa's debt-GDP ratio would rise to 65.9 percent in 2014-15, despite ongoing efforts to keep it below 50 percent.

Samoa's debt level has risen from 34 percent in 2007-2008 to 62 percent in 2012-2013, because of rise in loan-financed deficits after the 2009 tsunami. A debt sustainability analysis by IMF has shifted Samoa's rating from moderate to high risk of debt distress.

Tonga's debt-GDP ratio is reported to be above 50 percent.

Most of the debt is external and is dominated by non-concessional loans. Repayment obligations are higher. As they are in hard currencies, they impose severe difficulties including likely defaults. Repayment can be done only if the country has accumulated enough foreign exchange.

In September this year, Tonga had to request China for extension of grace period when the first payment of US$ 7 million was due in respect of a US$ 60 million loan from EXIM Bank of China.

The World Bank has already raised Tonga's external borrowing status to High Risk from Medium Risk.