

2020 Budget

Take Back PNG.

Delivered by

Hon. Ian Ling-Stuckey, CMG. MP

Minister for Treasury

Thursday 28 November 2019

Introduction

Mr Speaker, it is an honour for me, and my people of Kavieng, and as Treasurer in the Marape-Steven Government, to stand here in her Majesty's house to introduce the 2020 Budget.

Setting a new vision

Mr Speaker, a lot has happened since the 2019 Budget. At that time, we were in the midst of the APEC extravaganza with our new APEC Haus, red carpet, fancy new roads all focused in Port Moresby and Maseratis.

Now, we have a new Prime Minister that travels economy class. What a contrast.

A year ago, we had a budget that promised so much yet proved so hollow. A budget that pretended that it was fiscally responsible, but one that hid the real situation from the people of PNG.

Mr Speaker, today, the first budget of the Marape-Steven government, I deliver a budget that continues the honesty and integrity of this government – no more fake budgets.

It is a budget that continues with hard decisions.

It is a budget that continues with the budget repair started in our 2019 Supplementary Budget through fiscal consolidation.

It is a budget that starts to implement a reform agenda based on action rather than just sweet words.

It is a budget that announces major initiatives to take back PNG by taking forward PNG.

2020 Budget

Mr Speaker, frankly, this is also a budget of contrasts.

On the one hand, you could look at this budget and consider that it was a soft budget, a generous budget.

The 2020 Budget increases government expenditure by K2,200.3 million.

This is a massive increase. When I first joined Parliament in 1997, total government expenditure was K2,192.2 million. So total expenditure in 1997 was less than just the increase in the budget between 2019 and 2020.

Total expenditure in the 2020 budget will reach K18,726.5 million. This is the largest government budget expenditure in PNG's history.

Total revenue will reach K14,095.4 million – the highest revenue collections in our nation's history.

However, there remains a massive gap between our record spending of K18,726.5 million and record income of K14,095.4 million.

This gap is the budget cash deficit – and it has reached a historic level of K4,631.1 million.

Mr Speaker, this record deficit level is more than a billion Kina higher than the previous highest deficit level of K3,579 million in 2014.

Mr Speaker, so why does this nation have such a massive budget deficit?

The honest answer is a simple answer.

PNG has its largest budget deficit in PNG's history because of the economic mismanagement, the irresponsibility, the deceptions of the former Prime Minister, Peter O'Neill.

Mr Speaker, over eight years, the former Prime Minister quietly dug a very deep economic hole for this nation.

He dug a deep economic hole that destroyed our people's living standards with real living standards falling from K5,380 in 2014 down to K4,860 in 2019, a drop of K520 per person. Every year over the last five years, the average standard of living of every person in this country went backwards by over K100 – every year deeper and deeper into the economic hole.

Mr Speaker, the former Prime Minister dug a deep economic hole by destroying jobs in this country. He lived high on the boom of the PNG LNG project, a project initiated by the previous government, but then he totally mismanaged the post-PNG LNG stage. In contrast to the steady creation of jobs from 2002 onwards averaging around 15,000 jobs per annum, he started destroying some 5,000 jobs every year. This was his jobs hole – turning jobs growth into jobs destruction. Conservatively, there are now 120,000 missing job opportunities. Imagine how much richer our country would be, how much better our country's finances would be, if we had another K120,000 formal sector jobs in our economy. Mr Speaker, the former Prime Minister's economic mismanagement was widely acknowledged by the international community. He pretends that he was praised by international organisations, but let's remember that his time was marked by downgrades in PNG's international credit rating at a time when the PNG LNG project should have provided a boost. Let us remember, despite the ignorant protests of my party member, the Shadow Treasurer, that under the O'Neill watch PNG slipped into being regarded as a "fragile situation" country according to measures done by the World Bank and Asian Development Bank. A "fragile situation" country is just a nice, modern word for the reality that under the former Prime Minister, PNG was headed towards becoming a failed state.

Mr Speaker, I am not here to go into a blame game. I am here just setting out the facts. Let us be honest and acknowledge the errors of the past. For without accepting the realities of our situation, then we cannot begin the journey back to the correct path of development. And we must learn from former mistakes. The facts are that we were left in a very, very deep economic hole. An incomes hole, a jobs hole, an economic credibility hole. And a budget hole.

Honest Budgeting

Mr Speaker, when I moved across to take on the responsibilities of Treasurer on 27 August, I needed to establish the facts. I had clearly put on the public record that I had doubts about the accuracy of the budget figures being presented to our people.

So my first task was to set up a Due Diligence exercise to determine the facts. The findings highlighted major problems. The details of the process were set out in my earlier speech on the Supplementary Budget, so enough to say that the exercise uncovered a major black hole in the finances of our country. Indeed, the work uncovered a deep budget hole of K2,213 million between the true situation and what was announced to Parliament less than two months earlier in the MYEFO.

Mr Speaker, there were some that doubted that such a gap could be so large. So we were lucky that a team from the International Monetary Fund, the IMF, were in town and were willing to check the true situation. The IMF, and I will talk more about the IMF later, is like an independent international economic umpire. They were told to have a close look at the Due Diligence work. And their conclusions?

Mr Speaker, they concluded that things were even worse than revealed by the Due Diligence work! Not by much, indeed by less than 2 per cent. The IMF's conclusion was that the budget hole was K2,262 million, K50 million worse than the Due Diligence exercise.

The Marape-Steven's government then clearly showed it was a government that was willing to take the tough action to deal with such a finding. Rather than trying to cover up the problem, we as a government decided to take some painful cuts.

Mr Speaker, contrary to the confused and misleading views of the Opposition Leader, the government made very real and painful cuts to the budget, cuts totalling K1,482 million. Of course we also needed to fund the cost blow-outs in areas such as the K850 million extra required for public service and teacher wage costs and an under-budgeting of interest costs and action to start paying off some of the arrears that had been revealed.

But there were very real cuts in other areas of the budget that met most but not all of these forced increases.

The 2020 Budget Deficit

Mr Speaker, let me return to the issue of the K4,631.1 million deficit this year. Where did it come from? There are three components.

First, continuing work continues to uncover massive levels of unpaid bills. I have recently provided information on how these arrears continue to be discovered – whether they be in unpaid wages and allowances, unpaid bills, and unpaid exit payments for our teachers and public servants that are over the official retirement age of 65.

Mr Speaker, we cannot continue to just pretend this arrears problem does not exist. We are working to repair this through a deliberate program of fixing the arrears problem. The cost is large. Over three years, from 2019 to 2021, we have set aside K2.5 billion to pay these outstanding bills. In 2020, K1,050 million is set aside to clear these arrears from the former government. This adds K1,050 million to our deficit. In reality, these are bills that should have been paid years ago, and appeared as increased deficits during previous years. This was

just one of the techniques used by the former Prime Minister to hide the true state of the budget to our people.

Mr Speaker, the second reason for the large deficit is the starting point. Despite the cuts in the Supplementary Budget, our starting point is the estimated K3.5 billion deficit from 2019. This was already the second largest deficit in PNG's history. This is part of the legacy problem from the former Prime Minister.

Mr Speaker, the third component of the large deficit is the sensible decision to rapidly increase the drawdown from the K6.9 billion of approved project loans from our international partners such as the Asian Development Bank and Exim. An extra K500 million will be drawn down in 2020 – lifting total drawdowns to K1,365 million this year. While this expenditure is very sensible and is fully financed, it adds to the reported budget deficit.

The Pathway forward

Mr Speaker, on the other hand, this budget is a tough budget underneath the headline figures. Indeed, the 2020 Budget is the start of a five-year strategy for climbing out of the deep economic

hole left by the years of mismanagement under the former Prime Minister. The 2020 Budget continues the painful process of budget repair and economic recovery.

The starting point at the time of my appointment as Treasurer on 27 August has now been revealed as a debt to GDP ratio of 42 per cent.

The starting point was a budget deficit equivalent to 5.8 per cent of our economy.

The starting point was a budget deficit of nearly K5 billion.

The starting point was a difference between income and spending of K550 for every person in PNG. The legacy of the O'Neill years was incredibly irresponsible budgeting.

Fiscal Consolidation

Mr Speaker, under the 2020 Budget, we continue the process of fiscal consolidation which started with the 2019 Supplementary Budget. The 2020 Budget will reduce the O'Neill starting point from 5.8 per cent down to 5.0 per cent. This process of fiscal consolidation will continue and by 2024 the cash deficit would have fallen to a much more sustainable rate of 1.9 per cent. This is a serious pace of fiscal consolidation. The debt to GDP ratio will be reduced from 42 per cent down to 38 per cent.

Mr Speaker, under a new expenditure rule, control will be taken of years of irresponsible increases in the operating budget at the expense of the Public Investment Program. Wages and goods and services expenditure will be reduced from 16.0 per cent of non-resource GDP down to 10.6 per cent - a very major reduction. As mentioned before, arrears will be paid down – totaling K2.5 billion over three years in fixing up unpaid bills from before 2019.

Mr Speaker, at the same time as significant reductions in the wages and goods and services budget, there will be major increases in capital spending. Capital spending will increase from K4,715 million in the 2019 Supplementary Budget to reach K8,584 million by 2024. This represents a very major structural shift in the structure of the budget.

Revenues

A major worry in recent years has been the decline in revenues. We must raise money to pay for the delivery of basic services and, build our infrastructure. Unfortunately, our major revenue areas of personal income taxes, the company income tax and the GST has shown very little growth over the last five years. This is despite a more than trebling of wage funding for the IRC. This must be turned around. The current strategy is based on total revenue increasing from K13,022 million in 2019 to reach K14,095 million in 2020, and 18,834 million by 2024. However, this is not enough. This still represents a decline in the share of revenue to GDP from 15.4 per cent down to 14.9 per cent. An on-going priority will be to develop strategies to lift revenue. Take back PNG will require more financing which is then spent wisely. I believe that we can do this, especially by enforcing greater compliance. The aim is not to increase taxes, the aim is to level the playing field and make sure everyone pays their legal obligations.

Financing

Mr Speaker, the Government will continue to pursue financing on the terms best suited to Papua New Guinea. The

announcement with the Prime Minister about the new landmark funding package of K1 billion demonstrates the credibility of the reforms being pursued by the Marape-Steven Government. The 2020 Budget will continue this approach of seeking financing on the best terms suited to Papua New Guinea.

Exploring IMF Staff Monitored Program

As part of this process of re-building credibility, PNG will explore the option of an IMF Staff Monitored Program (SMP). The IMF has learnt a lot from the mistakes they had made in previous decades. They are undoubtedly a much friendly organisation than the one that I met in the 1990s. Indeed, I remember our former Prime Minister Bill Skate throwing them out of the room. Any IMF program will adopt the measures and reforms included in today's 2020 Budget to ensure the program is on our terms and supports our reform agenda. Working with the IMF will lift PNG's profile and credibility. It will provide a framework for supportive advice for the growth orientated reforms we will be embarking upon. It will open the doors for more good, cheap financing. This is a historic action which demonstrates to the world the seriousness of the reform program to Take Back PNG.

State of the economy

Mr Speaker, as part of the Budget Speech, a Treasurer should provide an update on the economy. This will have a difference in that my focus today will be on the non-resource parts of the economy. This is the parts of the economy such as agriculture, fishing, retailing, construction, manufacturing, transport, banking, community services, the informal economy and all the other non-resource parts of the economy. The vast majority of our people depend on the non-resource economy for their livelihoods, and it deserves greater attention.

Mr Speaker, real growth in the non-mining sector in 2019 has been revised down to 2.9 per cent compared to 3.1 per cent in the Budget. This is affected by a moderation in the agriculture, forestry and fisheries sector, now projected to expand at 2.5 per cent, about 0.3 percentage points lower than 2018.

In 2020, real non-resource growth is projected at 3.3 per cent. This reflects the persistent constraints in business conditions in the non-mineral sectors due to legacy issues of foreign exchange shortages. Growth in the agriculture, forestry and fishing sector is expected to be 3.4 per cent. The growth in agriculture is driven by the on-season in coffee, increased projected Palm Oil production, and increased cocoa yields from the ongoing

revitalization in the cocoa industry. The information and communication sector is expected to grow at 8.0 per cent reflecting better communications access flowing from the Coral Sea cable. The planned increase to this year's capital budget and repayment of arrears is expected to have a multiplier impact on the construction, and retail & wholesale sectors, in addition to information & communication being boosted by the new fibre optic cable starting in January 2020. More details on overall economic growth, including prospects for our important resource sector, are included in the budget documents.

Update on the 2019 Supplementary Budget

Mr Speaker, the reduction in the revenue forecasts in the Supplementary Budget appears to have been reasonably accurate. Revenue collections across all of the main taxes are in-line with their reduced and more realistic estimates. The exception is dividends, where the payment from Kumul Petroleum Holdings is not on track to reach K500 million. On the expenditure side, operational and capital expenditures should meet their budget limits.

Mr Speaker, this means the country remains on track for a deficit of K3,504 million, a far better result than had we not undertaken the due diligence and supplementary budget.

Mr Speaker, the job of budget repair extends to improving the financing of the budget. In Opposition and as Treasurer, I have made clear that for too long we have been pursuing expensive forms of debt – whether through a sovereign bond or a Credit Suisse style loan. My objective is to prioritise accessing cheaper financing for the budget.

We have started making serious inroads. Last week I signed with our Australian friends a K1 billion loan. This will assist with our cash flow problems this year and importantly inject foreign exchange into the market for business. This is cheap good debt from a longstanding and trusted partner and I will continue to mobilise access to financing to assist the budget on PNG's terms in 2020 and beyond.

Key announcements

Connect PNG

A key strategy in this growth agenda is opening up of the country through a national infrastructure network, the *Connect PNG Program*.

Mr Speaker, the unrealized potential of the country lies in our renewable sectors. This is where the majority of our population live and operate through SME's and the informal economy. These sectors possess the highest potential for job growth, but have been largely unconnected to markets, and as such have remained underdeveloped.

Mr Speaker, to awaken this potential, we will invest in economic growth corridors through the Connect PNG Program with critical enabling infrastructure forming the spine of the corridors. This network of growth corridors will connect rural PNG farmers to urban and international markets. Funding for this program in 2020 has an initial instalment of over K200 million. This is just a down payment. We will direct more and more of the growing capital program in the budget to the Connect PNG program. We will also seek support from other international agencies and donors to support this historic initiative.

Mr Speaker, within 10 years, I look forward to driving from Alotau, up over the central spine of mountains in our country, and then back along the coast to Wewak. Take Back PNG.

Introduction of Small Medium Enterprise (SME) Taxation Regime

Mr Speaker, the Marape-Steven's government is committed to assist SMEs grow and flourish. On the expenditure side, this priority is demonstrated through a K200 million allocation. But more can be done.

Mr Speaker, currently if you are starting up a small business, you are supposed to be part of the formal company tax regime. For a very small business, this involves daunting paperwork and a tax rate on any profits of 30 per cent. No wonder they become discouraged and decide to stay out of the formal revenue system!

Mr Speaker, the Government will introduce a simplified and cheaper tax regime for small businesses with an annual turnover of less than K250,000.00. Tax will be paid at a low 2 per cent on the turnover. A further incentive will be to use a simplified accounting and tax rules that are applied to small businesses and micro-businesses. Over time expect compliance and revenues to improve.

Mr Speaker, this type of measure is an important demonstration of the Marape-Steven Government's

commitment to help migrate 50 per cent of the population to some form of business by 2030.

Increasing opportunity and revenue from labour mobility

Mr Speaker, Papua New Guinea's richest asset is its people. The experience of other countries is that a key pathway to development is to harness this asset in ways that builds opportunities for families as well as helping communities and our economy. PNG can learn from the experiences of South Korea in the 1950s through to the Philippines of today about how best to allow people to use their own human capital.

Labour mobility offers an opportunity for our workers to travel internationally for well paid jobs and enhance their skills and experience to bring back to the country. These workers also provide remittances back home to support families with initial estimates suggesting an individual province receive up to K140 million a year.

PNG's labour mobility performance compared to other Pacific island countries is poor. The Marape-Steven government will turn this around by prioritising labour mobility to ensure the country can achieve its potential.

An independent Labour Mobility Unit to report to a new Ministerial Steering Committee led by the Deputy Prime Minister will be created. It will be an independent agency staffed with officials from the Department of Labour, Immigration, and others to increase coherence across the national government to increase the number of Papua New Guineans working overseas.

Affordable education

Mr Speaker, consistent with our government's promotion of the principles of citizenry acceptance of greater responsibility a policy shift in the financing of education will see 50% of the cost of fees from elementary up to grade 12 to be borne by parents. This stage of our children's education is not as burdensome as tertiary education so shifting the responsibility to parents is seen as a better way to support affordable education. The cost of tertiary education will continue to be borne by the national government through a new, interest-free, I repeat, interest-free Tertiary Loans scheme. Parents must see investment in the education of their children as a mandatory parental responsibility and district government and provincial government need to continue to provide support at that level whilst the national government will continue to carry the cost investment in human resource.

State Owned Enterprise Reform

Mr Speaker, I want to acknowledge the efforts by Minister Muthuvel on a developing a comprehensive reform package for the country's state-owned enterprises. This recognises the critical problems facing the country's SoEs, with large unfunded debts accrued for uneconomical projects, exacerbated by poor operational performance and poor service delivery to the people of Papua New Guinea. The financial challenges facing many of these SoEs will only worsen next year when expensive debt repayments fall due.

We clearly need to take back our SoEs and this reform package will greatly help.

Conclusion

Mr Speaker, I am proud to be a successful PNG businessman who loves this country. I'm currently at Day 94 of my action agenda. I'm not a 100 Day Plan man, I'm an action man at Day 94. I will continue to serve the Marape-Steven's Government's agenda through concrete and sustained actions in Taking Back PNG.

There is a clear path forward. The first step is being honest. The 2020 Budget continues with the honest and transparent approach that the Marape-Steven's Government started with the 2019 Supplementary Budget. The 2020 Budget outlines the pathway forward on how we can take back PNG. We will work with our international friends and partners, including the IMF, to build a better PNG. Major initiatives are taken in the budget to Take Back PNG, including our commitment to growing the economy by linking our greatest asset, our people and their capabilities, to the markets of Asia through the Connect PNG program. We have a radical program of better support for the SME sector. We will build links to the world through our labour mobility program. We will provide affordable education through targeting our education support to the most expensive part of our education system, the university and tertiary sector. We will help make our SOEs perform better. Our policy attention is on increasing the incomes of our people with a particular focus on the agriculture, the fishing, the forestry, the tourism, the downstream processing and other sectors which link most strongly with improving the livelihoods of our people.

Mr Speaker, as I conclude my presentation, I am conscious that Christmas is only 4 weeks away, and so may I wish you all Gods blessings for the festive season and a Happy New Year.

I commend the 2020 Budget to the Honorable Members and to the people of Papua New Guinea.

HON. IAN LING-STUCKEY, CMG. MP