



# Ministerial Statement on the PNG Economy: Historic Economic Reforms Continue

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## 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 provide the Parliament an update on the national economy.

## Historic Economic Reforms Continuing

Mr Speaker, there are two key issues I wish to address today.

First, I want to talk about the reality of PNG's economic prospects in 2020 – our growth prospects and the budget.

Second, I want to announce a major economic reform step – a vital step out of the economic holes left by the economic mismanagement of the former Prime Minister's government.

## PNG's Economic Growth Prospects

Mr Speaker, one of the characteristics of the Marape-Stevens government is its willingness to accept the facts. We are about

honesty and integrity. We will be transparent with problems, and then determine solutions. We are setting a clear pathway forward while acknowledging that it will take years, years not weeks or months, to get out of the economic holes left to us – a budget hole, a growth hole and a forex hole. We are willing to make tough decisions as shown by the 2019 Supplementary Budget and the 2020 Budget itself. We have visionary changes – such as focusing on our agriculture, fishing, and tourism sectors, with increased downstream processing and support for our SMEs. Our vision includes 2020 budget initiatives such as Connect PNG, labour mobility, affordable education, SOE reform and simplified and lower taxation on SMEs.

This is true economic leadership – and contrasts with the fake budgets, failed 100 day plans and statistical lies of the former administration.

Mr Speaker, there has been discussion about PNG's growth prospects in 2020. Some business people have spoken of their concerns about the economy, and this received wide coverage through Business Advantage and other stories. There has also been reporting of the World Bank's latest update on the PNG economy and a reference to a growth downgrade.

Mr Speaker, let me start with a few facts.

The key economic growth rate for 2020, a figure endorsed by the IMF, is 3.3%. This is the rate of growth for the non-resource economy after allowing for inflation. This part of the economy accounts for the actual living standards of our people. This growth rate is slightly above the population growth rate of 3.1% - so living standards for our people are hopefully expected to improve in 2020. This also means better business prospects and hopefully our people will have more money to spend.

Looking forward, the prospects continue to improve. The key growth rate for the economy is expected to increase to 3.8% in 2021, increase further to 4.1% in 2022, and then to 4.6% in 2023 and 2024. These are growth forecasts endorsed by the IMF as we prepared the 2020 Budget.

Following best international practice, these growth forecasts are not dependent on any new resource projects. New resources projects should only be included in official growth projections once the Final Investment Decisions are made. So

any additional resource projects would provide even further upside to the growth prospects of 4.6%.

Mr Speaker, these growth forecasts increasing to 4.6% are in stark contrast with the former Prime Minister's economic record. Indeed, the real non-resource GDP growth rate from 2015 to 2019 averaged only 1.1%. This was a national disgrace. Such a poor growth record has hurt our people. Shame on the former Prime Minister's government failing the people of PNG and driving down their living standards. Shame on his cutting employment levels. Shame on his moving PNG to effectively "failed state" status. Shame!

What are the predicted sources of growth in 2020?

Fortunately, the growth figure is slightly higher in the sectors that affect most of our people. 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.

One economic sector which is expected to do particularly well is the information and communication sector which is

expected to grow at 8.0 per cent. This reflects better communications access flowing from the Coral Sea cable.

Mr Speaker, frankly, I consider much more needs to be done.

I want an even higher growth rate.

I know that the IMF considers that non-resource GDP growth will increase to 4.6% by 2023.

I know that these growth rates do not include any new resource projects – so I want the Papua LNG project and other projects such as P'nyang on fair terms, on fair terms, to go ahead to increase this growth rate even further.

But I want to do even more. I want to lift that growth rate in non-resource GDP not only to 5 per cent, I want to lift it even higher. And that will require fundamental economic reforms to the PNG economy.

Mr Speaker, using a different measure of growth that is greatly influenced by the ups and downs of the resource sector, the overall GDP growth rate was predicted in the 2020 Budget to be 2.0 per cent. This is lower than the non-resource

sector growth rate because of assumption that the oil and gas sector will move backwards by 4.9 per cent to average production levels after a positive spike in 2019 following the 2018 earthquake.

This 2.0 per cent real GDP growth rate is more conservative than the latest World Bank forecasts of 2.9 per cent. So the World Bank lowered its growth forecast from 3.1 per cent down to 2.9 percent. But this is still well above our own forecast of 2 per cent. Clearly, our budget and growth forecasting is starting to be more balanced, even conservative. As Treasurer, I prefer to base our budget and growth forecasts on a conservative rather than an optimistic basis. For it is easier to adjust for the upside than the downside.

## Novel Coronavirus

Mr Speaker, as I talk about PNG's growth prospects, I must mention the concerns about the emergence of the Novel Coronavirus outbreak originating in Wuhan, China. There are many uncertainties about the impacts of this virus.

Three things are known. First, don't panic. The impacts on confidence are likely to be more significant than the actual

direct economic impacts. Second, there will be an adverse impact in China, and this will flow through to other countries. Third, there will be an adverse impact on PNG, but this is likely to be measured as less than one percent based on current international forecasts.

Analysts have dropped the growth forecasts of the Chinese economy from 6% in 2020 down to 5%, and some even to 4%. So for even the most directly affected country, China itself, the decline in the growth rate is currently considered by most as around one percent. Different economies will be affected in different ways. For PNG, the main impacts will be through restrictions on the movement of Chinese nationals. There may also be impacts on our LNG and other contracts with China. There will be more minor impacts through a reduction in Chinese tourists into our country.

This is not good news for our economy. But this must be considered in a balanced fashion based on available information. There are a great number of uncertainties. But as the Chinese economy is expected by most to slow by only one or two per cent, the impact on PNG is likely to be much smaller. For example, Bloomberg Economics estimates that the impact on the Australian and Brazilian economies will be

only a 0.3% reduction in growth despite their very high level of resource exports to China.

## Economic Stimulus from the 2020 Budget

Mr Speaker, one of the drivers of economic growth in the non-resource sector is the increase in government spending in the 2020 budget. So while maintaining what is acknowledged as a fundamental move back towards sustainable budgeting and a fiscal consolidation strategy, the 2020 budget includes the largest budget deficit in PNG's history. K4,631 million.

Mr Speaker, the Marape-Stevens Government has taken this problem and turned it into an opportunity for stimulating growth.

First, there is over a billion Kina allocated to clear outstanding arrears. This is good for business confidence as PNG Power will finally be paid and thereby help reduce the on-going power blackouts. Contracts entered into in good faith and without political manipulation will be paid after going through a verification process – businesses can start trusting the contracts they enter into with government. Public servants over the age of 65 will be paid their separation

entitlements – and this will help stimulate the economy as they spend their payouts.

Second, there is a planned 67% increase in project financing through the multilateral partners – increasing from K817 million in 2019 to an estimated K1,365 million in 2020. This is an increase of over half a billion Kina. This allows for increased work across the economy. This is good for short-term growth, and good for long-term growth as we are investing in good projects such as better roads and airports and training centres.

## Financing

Mr Speaker, the biggest risk to delivering on the 2020 budget and its growth stimulus is ensuring we can finance this deficit of K4,631 million.

This is a massive challenge.

However, the actual financing challenge is even larger. The unwise, short-term Credit Suisse borrowing by the former Prime Minister means we have already had to find the financing for repaying half of this loan in 2020. Combined

with other borrowings, this lifts our 2020 financing requirements to K5,530 million.

PNG has never faced such a large budget financing challenge in its history. And we also need to rollover the \$US300 million Bridging Loan from Australia that was so vital in supporting our 2019 budget.

We need to raise the required financing. The international community is willing to help – indeed very willing to help an honest Marape-Steven government committed to true economic reforms.

Mr Speaker, the Marape-Stevens Government has put in place a strategy to finance the largest budget deficit in our history as well as repaying and refinancing former loans. However, K3,805 million of this support is based on our receiving international support linked to an independent verification that we have a true economic reform program underway.

The Marape-Steven government is working hard to secure this additional funding on the right terms. This was the key focus of my meeting with the Australian Treasurer, Josh

Frydenburg, in Canberra last month. Our Prime Minister last week wrote to the Australian Prime Minister, Scott Morrison, re-iterating the importance of this financing request.

Let me be clear. If we do not have a program based on international support, then K3,805 million of our budget is at risk. This is 96 per cent of the development budget. We simply cannot cut our development budget which is so vital for our people by such a large amount. So we do need a program of international support. This will allow for our PNG Connect and other vital infrastructure programs. This will provide the financing for PNG to start truly transforming our economy, with a focus on the agriculture sector.

## International support – the IMF Staff Monitored Program

Mr Speaker, I am pleased to announce today that Papua New Guinea has formally applied for a Staff Monitored Program with the International Monetary Fund. This historic letter was signed by the Prime Minister, the Governor of BPNG, and myself this morning. We expect to hear shortly on the outcomes of that application.

This application opens the doors for the extra K3,805 million in international financing vital for building and transforming our economy. We cannot deliver the 2020 budget without it.

But an IMF program is much more significant than the extra financing.

Such a program would demonstrate international confidence in the economic reform program of the Marape-Steven government.

In short, such a program is about credibility.

PNG needs to restore credibility. For credibility builds confidence, and international and business confidence in our economy leads to higher investment and increased growth.

This is a historic request. It has been nearly 20 years since PNG has embarked on such an ambitious economic reform program with the support of our international partners.

It is important I set out in the Parliamentary record the reasons for seeking this assistance. This is set out in the

covering letter to the Managing Director of the IMF requesting the IMF Staff Monitored Program.

Let me begin quoting from this letter:

“Papua New Guinea is facing several economic crises. There is a budget crisis as years of economic mismanagement have left the new government with the largest deficit in PNG’s history, a declining revenue base, declining levels of delivery of basic health and education services and significant government arrears to our businesses. There is a growth crisis, with a fall in living standards measured by non-resource GDP per capita over the last seven years of just under 10 per cent. Formal sector employment is actually more than 10 per cent lower than seven years ago. There is a monetary crisis. Foreign exchange shortages are damaging growth and have been identified by PNG businesses as the major constraint on doing business. Private sector lending has continued at low levels. While PNG has faced natural disasters in recent years, such as a major drought in 2015 which likely killed thousands of our people and a major earthquake in 2019 which killed a hundred more, the main reasons for our current situation are poor policies and poor implementation.

The new Marape-Steven Government are committed to implementing economic, social and governance reforms to turn the situation around. There is no quick fix – it will take many years to get out of the economic hole that the government finds itself in. As we undertake our reforms, we are seeking assistance from international partners.”

Mr Speaker, so this is the context of PNG’s application for an IMF Staff Monitored Program. We have done so to secure credibility, to support economic reforms, to gain vital financing for our budget. This is another step forward, one that helps build resilience in our economy, especially as it faces threats such as from the Novel Coronavirus.

Mr Speaker, the Staff Monitored Program has 31 performance criteria. Almost all of these simply reflect the economic and budget reform program already put in place by the Marape-Steven government. This is a program which supports PNG’s own economic reform program, because it is home grown!

Of the quantitative component, 11 of these are called “quantitative criteria” and are focused on delivering our 2020

Budget. It is early days, but we are on track for at least 10 of these 11 criteria. The possible exception is our commitment to ensure that social expenditure, such as health and education and public safety, are protected from any cash flow shortages. Expenditure is running too slow in these areas, and we will work to increase funding in these key social areas quickly. And for those who still wish to criticise the idea of any program with the IMF, think of what I just said. We are under pressure under the IMF program to ensure that health and education expenditure is given priority. This is certainly not the old IMF program I experienced nearly 20 years ago.

There are also 20 other “qualitative” performance criteria. We have already met 4 of these. 14 of these criteria relate to fiscal or budget policy. 7, or half of these, focus on lifting revenues, a key government priority that Prime Minister Marape continues to advocate not just amongst Cabinet Ministers, but also Governors and Chairman of DDAs.

There are 3 specific monetary and exchange rate measures. We will be complementing these monetary criteria with two reviews. The first review will focus on how best to fix the foreign exchange shortages that are damaging our businesses and our economy. This will include policy options for

maximising the benefits and minimising adjustment costs from any move back to a freely convertible currency.

The second review will focus on updating the legislation for our central bank which has not been reviewed for nearly 20 years.

There are also three criteria related to governance and structural reforms. These link to our ambitious State Owned Enterprise Reform program, as well as measures to reduce corruption and the introduction of the ICAC legislation which the National Parliament unanimously endorsed yesterday.

Mr Speaker, in concluding, this is a PNG-led reform program. There are hard yards ahead as we work to escape the economic holes left to the new government. But as a country, we can take these hard yards together to rebuild our country for the benefit of our children.

Mr Speaker, I will provide an update on our progress in implementing our economic reform program in the April sitting of Parliament. This will include an update on the 2019 Final Budget Outcome which will be released on 31 March 2020.

Thank you Mr Speaker, thank you to my Parliamentary colleagues, and I take this opportunity to wish Prime Minister Marape and his delegation the safest of journeys and every success with his visit to Fiji and New Zealand.

Thank you.