Amendments to the Fiscal Responsibility Act 2019

Delivered by

Hon. Ian Ling-Stuckey, CMG. MP
Minister for Treasury

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Mr Speaker, earlier today I introduced the 2019 Supplementary Budget, a necessary although painful element of stepping out of the economic hole left by the former Prime Minister. I now introduce a Bill proposing important amendments to the Fiscal Responsibility Act.

Mr Speaker, these amendments are necessary because the former Prime Minister had left us with an illegal debt situation. This had to be fixed. But, and this is part of the new thinking and new agenda of the Marape-Steven government, we are also including amendments which responsibly start to open up the great investment possibilities of our great land. This is a revolutionary step forward for our country, which I'll expand upon later. First, let me start with why some amendments are necessary.

Mr Speaker, as I have outlined elsewhere, as the new Treasurer, I could not start to make recommendations to my colleagues on the best path forward if I did not first establish where we were. The Due Diligence exercise, led by a magnificent team of PNG academics and experienced PNG public servants, working closely with technical staff from other agencies, and complemented by international experts and academics, including advisors to former Treasurers, has shone the torch on PNG's real budget situation.

Mr Speaker, we now know that the true budget deficit left to the new government, the real economic hole which we inherited was K4,636 million in nominal terms – by far the highest level in our nation's history – more than a billion Kina higher than even in 2014. The Supplementary Budget introduced earlier will take decisive action to reduce this budget deficit. Tough but vital leadership decisions to cut costs by K1,480 million.

But we are still left with the problem that we need to find finance to cover the K3,504 million deficit that remains even after we take the biggest cuts that are feasible this late in the year. That means more financing. That will add to debt levels. And so we also need to deal with the debt implications of the years of previous economic mismanagement.

Mr Speaker, PNG's debt without corrective action in the Supplementary Budget would have risen to over K33 billion by the end of this year. Even after the cuts in the Supplementary Budget, PNG's debt level will still be K31.9 billion. Using international standards for measuring GDP, PNG's debt to GDP ratio, even after the cuts is estimated at 39.8%. This is clearly above the legislative limit of 35%. No more cuts are possible this year. It is not practical to assume that we can lift revenues more this year. We will continue to push for more dividends and more compliance, but we cannot assume this will happen. So we must deal with an illegal debt to GDP ratio. At this stage of the year, the only available option is to acknowledge the facts. And given the facts of a 39.8% debt to GDP ratio, we must make this legal. This means we must lift the current 35% upwards.

Mr Speaker, we know we have to lift the ratio because of the realities of our current situation, but how high should we lift it? Clearly, it has to be lifted to at least 39.8% for our current situation to be legal. However, there are some other existing loans not currently on the books that may come onto the books. Why? Because the former government made many, many poor investment decisions, and then insisted the people of PNG guarantee these risky and often irresponsible loans. More of these loans will end up in difficulties, and the taxpayers of PNG will have to start paying for them. This will add to the level of measured general government debt using the definitions in the FRA and applied since 2012. Some have suggested I take a narrower definition of debt and pretend these impaired state guaranteed loans are not part of the FRA even though we are paying interest on them. I'm not prepared to stick my head in the sand and ignore the problem. We need to face up to the reality that too many of our loans don't have good business cases established before the state borrowed or provided guarantees. This is just part of the painful legacy of bad decisions in the past. Let's just have the courage to acknowledge these problems. There will be hundreds of millions of additional bad debts to hit the budget – and we will have to pay for them. These bad debts will lift our debt ratio which is already at 39.8%. We must prepare for this which means we must have a debt ratio greater than 40% of GDP.

Mr Speaker, I have been talking of the challenges we are facing, the painful legacy left by Peter O'Neill: the largest budget deficit in our history, record nominal debt levels, a debt to GDP ratio that breaks the 35% limit, the likelihood of more bad debts hitting the books meaning a need to lift the ratio above 40%. Let me now start talking of moving forward.

Mr Speaker, as a business person, as I look around our country and its vast potential, my overwhelming view is we have massively under-invested in our future. As a nation, we are under-capitalised. We should have more investments in our roads, in our small businesses, in our education and health systems, in our human capital. Much of this additional investment must come from our own domestic resources. We must lift our revenue levels. But we also need to be smart. Countries such as PNG are usually places which encourage foreign investment, and we must do more of this, especially in sectors most likely to create jobs and other opportunities for our people. We also need to seek out joint venture arrangements and public private sector partnerships. We also want more investment in areas usually undertaken by governments such as roads and wharves and hospitals and runways. In addition to more domestic revenue, and more private investment, we also should look at more capital financing to assist development. So I don't want a debt to GDP cap to overly limit PNG's potential for more investment in good projects with good business cases. This means that in addition to the possibility of more bad debts falling onto our government books, we should create some extra space to allow additional financing.

Mr Speaker, the Marape-Steven government has decided that the right balance between repairing the budget and financing more growth opportunities is to lift the debt to GDP number to 45%. This is a responsible change given our starting point and the likelihood of more bad debts. There were calls to lift the debt to GDP ratio even higher but the government has decided this must be balanced with the importance of debt sustainability. Even with this responsible increase, how do we ensure it goes to good projects with good business cases which can repay the loans and boost growth?

Mr Speaker, an important and innovative element of the changes to the FRA is to give a clear preference to what is termed "reconstruction and growth debt". This term is defined in the legislation as covering concessional loans from multilateral agencies such as the Asian Development Bank and the World Bank. Further assistance is possible if these multilaterals invite other bilateral partners to provide funding. Interest rates on loans cannot exceed 5 per cent. The great benefit of a preference for multilaterals is that knowing they have rigorous project design processes. They establish good business cases for loans and ensure the costs of loans can be repaid from earnings. They also do good social and environmental analysis, and consider important elements such as how projects impact women and children, robust procurement arrangements and strong on-going monitoring and evaluation. Overall, multilateral financing represents good, cheap debt. This is in stark contrast to the bad, expensive debt which the former Prime Minister seemed to specialise in.

Mr Speaker, the way we create a preference for such good, cheap debt, all within the upper limit of 45%, is that such debt is excluded under the FRA from the deficit rule related to the annual non-resource primary balance. This creates an incentive to turn towards this type of better debt.

Mr Speaker, there are also several other good governance reforms made in the FRA amendments. In recent years, there have been disputes about what should be included in debt and the appropriate GDP figure to be used. The definitions of general government debt and GDP have been clarified, and now linked explicitly to meeting international best practice.

Mr Speaker, I am proud to present these amendments to the Fiscal Responsibility Act. They are initially driven by the recklessness of the former Prime Minister and changes were required to make current debt levels legal. Getting international assistance means we should at least ensure we abide within our laws. But going beyond this legal necessity, these amendments also signal a responsible approach to investing more in our country. There is a limit of 45% on all debt which provides some more capacity for borrowing. At the same time, we are introducing arrangements that create a clear preference for good, cheap loans led by multilaterals such as the World Bank and IMF and ADB. We are also introducing some good governance reforms into the way we define debt and GDP.

Mr Speaker, PNG must live within our means. This does not mean we cannot borrow, but it means we must borrow well and very much in the interests of our children. These amendments set out a way forward, another step out of the economic hole left behind, which allows us to take back PNG and wisely invest more in our future through a preference for good, cheap, multilateral financing.

Mr Speaker, I commend the Bill to the Parliament.