

INDEPENDENT STATE OF PAPUA NEW GUINEA

2021 BUDGET SPEECH

Theme:
"Consolidation For Growth"

For the Year Ending 31st December, 2021

Presented by:
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On the occasion of the Presentation of the 2021 National Budget

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HON. IAN LING-STUCKEY, CMG. MP
Minister for Treasury

“Consolidation for Growth”

Introduction

Mr Speaker, once again it is an honour for me, and my people of Kavieng, and as Treasurer in the Marape Government, to stand here in her Majesty’s house to introduce the 2021 Budget. This is my second budget, and the seventh time making a major economic address to the Parliament as Treasurer.

Consolidating the Vision in Times of Crisis

Mr Speaker, there are five things I want to set out today. First, I must comment on the shameful, power-hungry politics of last Friday the 13th that has sent PNG into a political crisis.

Second, as we should never forget, a reminder of the economic crisis that PNG had been left in by May 2019 – including having officially moved to a failed state status in the eyes of the world.

Third, an update on the COVID-19 pandemic crisis.

Fourth, an outline of the 2021 Budget, and its responsible and steady approach to restoring debt and deficit levels to sensible levels.

Fifth, and most importantly for the people of PNG, an update on our growth prospects and a practical, responsible path out of PNG's political, economic and COVID-19 crises.

1. PNG's Shameful Opposition Politics

Mr Speaker, let me reflect on the extraordinary circumstances surrounding my 2021 Budget speech.

Last Friday lunchtime, I was working with Economic Ministers and hard-working staff from Treasury, Finance and Planning to finalise the 2021 budget. We had gone through extensive consultation, listening to the submissions from businesses and the community, talking to our education officials, talking to our international colleagues about financing. We believed we had formed a sensible path forward in these extraordinary times. Then I was summoned to the National Parliament Chamber! Another round of not just power-hungry, but power greedy politics, that ignored the national interest.

Mr Speaker, sometimes we are our own worst enemy!

Last Friday, we saw opportunists, led by that infamous national court terrorist from Vanimo Green, abuse our Constitution again, the laws of Parliament again, in a blatant, illegal, grab for power. This was the most cowboy of attempts, to overthrow Prime Minister James Marape and his mandated government.

Why would they do this? There was a press conference where some of those that had moved tried to justify their actions. I respect that some were genuine – people can decide to move on based on principle. Some boasted a bit too early about how brilliant their tactics had been – without thinking of the costs to the country. Many were concerned about our economy, about deficits and debt, about lost jobs.

Mr Speaker, I share those concerns. But as I will set out in this speech, many of those concerns about debt and deficits and a lack of jobs were created by those, they had just joined. They underestimate the severity of the COVID-19 pandemic. They look for easy solutions, and delude themselves that going backwards to the failed economic policies of the past could somehow take PNG forward.

For the purposes of historical record, let me note three major things that happened on Thursday – just before the grab for power on Friday the 13th.

First, PNG finally passed into law the Independent Commission Against Corruption, or ICAC. So many promises by former Prime Ministers. Now we have one that actually delivers. So although there was a unanimous vote, is it possible that some opposite fear its actual implementation?

Second, there was a leaked memo on some difficulties with the Porgera negotiations. Social media is filled with speculation about how some of the mining companies are willing to buy their way back to the old deals. I comment no further.

Third, the final version of the appropriation bills passed the NEC. This has been a difficult budget. There was not enough money to do all the good things we should be doing if our economy had been better managed in previous years. So although those opposite may now talk of concerns about debt and the deficit being bigger, they were still unhappy that their projects did not get the special funding they wanted. There are those opposite who have complained about the increase in debt, but they have proposals on my desk wanting hundreds of millions of Kina in loans to support their electorate. So they have been lured by promises of even more – an effective bribe to overthrow the government.

Still, for many, what an extraordinary coincidence of cracking down on corruption, of fighting for better resource deals, of responsible budget management – and then less than 24 hours later we have this embarrassing and shameful grab for power.

Mr Speaker, I know that there are now some honourable men on the other side. Decent Leaders. Competent. And we shall miss their contributions in the cabinet.

Mr Speaker, I thank you for your ruling on the illegality of the motion to adjourn Parliament. Section 2(1)(a) of the organic law on the calling of meetings of the parliament is clear. The time and date for a meeting of the parliament , on motion without notice, can only be made by a Minister-Not Leader of the Opposition. Game Over!

This means that until the laws of our land allow otherwise, The Marape Government will continue to govern. We are not willing to let this nation suffer just because of their greed for power. We must continue running this country. We need to get the budget passed. We need to let our businesses know that the process of budget repair is continuing. We cannot delay the budget which means our negotiations with international partners are also delayed. If we let those opposite get their greedy hands onto the budget process, let

me assure this house that many of the good, cheap finances will simply disappear. They have demonstrated no economic credibility. The international community will step back and watch to see the nature of any new government – and these delays will damage our country and our economy.

2. PNG's Economic Crisis

Mr Speaker, as I have said before, we must learn from the mistakes of the past. I will not let people forget the economic mismanagement which has so damaged our economy. Let me just repeat the facts again.

These facts are in the budget documents and our NSO reports and IMF reports and academic reports. The economic legacy mess we inherited is:

1. Living standards hole: - Average living standards declined by K520.0 for every person in the country from an average of K5,380.0 in 2014 down to K4,860.0 in 2019.
2. Debt hole: - Debt increased more than four-fold from K8.5 billion in 2012 to K37.6 billion in 2019 – consisting mainly of K18.1 million increased deficit financing, hidden K2.6 billion in debt arrears (now estimated to be even larger), and the still hidden losses from the Oil Search share saga;

3. Budget Deficit hole: - the biggest on-going budget deficits in PNG's history. And with a starting point of K4.6 billion in 2019, and even with years of responsible fiscal consolidation, O'niells deficit legacy will add another K13 billion to our nation's debts – as I've said before, he is, the K50 billion debt man!

4. Employment hole: - formal sector employment fell by nearly 100 thousand jobs relative to growth trends. And lost jobs affect our families, our economy, and our government revenue. Our deficit is likely K1.5 billion higher just because of lower tax collections from these missing jobs.

5. International debt interest costs – Increased from K44 million in 2012 to K436 million in 2019 – nearly 10 times greater!

All done at a time when the PNG economy should have been booming along with our Asia-Pacific neighbours.

This was our starting point. Let us never forget. Let us not repeat failed economic policies – let us be smarter as we consolidate our budget and build the basis for future growth.

3. COVID-19 Pandemic Update

Mr Speaker, PNG has been spared from the worst health impacts of COVID-19. Much of this flows from wise management. Closing down our international borders. A well directed COVID-19 Economic Stimulus Package. Support for our health facilities. Strong international support – willing to reach out for assistance rather than the mistake of trying to do it alone in the disastrous frost and drought response of 2015.

But there is something else going on which is hard to describe. There were grave fears for a massive breakout in PNG. While we must not become lazy in dealing with COVID-19, the reality is that it has not directly hit our people as much as feared. But we need to be careful, for this is a hidden enemy that has not hit us hard as yet, but has hit other countries much harder than expected.

In my Parliamentary presentation on COVID-19 back in April, I talked of fears that the US could lose up to 200,000 people due to COVID-19. The death toll in the US already exceeds that figure. With the extraordinary increase in COVID-19 infections in the US – with every day last week shattering a new records with 175,000 infections recorded just on last Friday alone when the PNG opposition was

damaging our nation – the latest estimate is that up to 439,000 will die by March 2021.

The joy from last week was the announcement that at least one of the trial vaccines may actually be working. This is good news and points well for recovery.

The announcement of the vaccine indicated that it was likely only 1.3 billion doses could be produced by the end of 2021. This is a double dose vaccine – so there is just enough for 650 million through to the end of 2021, thirteen months away. We may well have finally started turning the corner, but it is a long way back. This is why the 2021 Budget is based on needing continued COVID-19 funding through not only all of 2021, but through into 2022 as well.

Our people and health systems need to know with certainty that such funding is coming through now – not adding to uncertainty by delaying the budget so that it would be unlikely to be passed in December.

4. A responsible 2021 Budget

The International Economic Context

Mr Speaker, the domestic and international context for our 2021 budget is the most challenging in our nation's history.

Since 1975, there has never been a global crisis such as the one we are now facing. Please, do not blame this government for an international crisis that was not of its own making.

For many of our people, they do not see this crisis directly. But it is still all around us.

The latest World Economic Outlook talks of "A Long and Difficult Ascent" recovering from the COVID-19 pandemic. The global growth rate is expected to be minus 4.4 per cent in 2020. So how bad is this?

Using detailed World Bank global economic data, which goes back 60 years, there have only been two years where the world economy went backwards. In 2009 following the global financial crisis, and this current year. Only two years in 60. And this year's forecast economic drop of minus 4.4% is more than twice as bad as the minus 1.7% of 2009.

Mr Speaker, I use this figure to highlight the reality that the world is in by far its greatest economic crisis since our country became independent in 1975.

Mr Speaker, certainly a tough time to get the job as PNG's Treasurer!

I already knew that it was going to be tough. In my 2020 Budget speech, I outlined how PNG had to start on the slow road of recovery due to years of economic mismanagement.

So while trying to slowly recover from the debt, the deficit, the growth holes left by the former government, PNG is hit with by far the worst global crisis since our nation's birth.

So what do we do? Simply panicking and jumping off a ship, as it is going through a storm, is not helpful!

Let me set out the steady approach that the Marape government is taking to deal with this extraordinary double hit made worse by the lies of the opposition.

The overwhelming message is that we need a steady hand on the ship's rudder, to navigate through these extraordinary times. So staying the course we set out a year ago, adapted to the realities of the COVID-19 crisis.

So there will be no big announcements of new initiatives in this budget. Rather, a wise and steady hand, consolidating our economic and budget situation, so we can move back to our growth path to begin rebuilding, the living standards of our people.

Mr Speaker, the key, high level facts of this budget are as set out in the Budget Strategy Paper released last week.

Let me set out the basic facts.

Expenditure

Expenditure is expected to reach K19,607.8 million. This is a very substantial increase of 9% from the K17,989 million 2020 Supplementary Budget. But still, not enough for some of those now opposite.

The main sources of expenditure increases are: first, to fund K600 million in round 2 of COVID-19 activities; and second, to fund increased repayments of arrears. So although there is a large increase in expenditure, this must be seen in the context of very responsible policies. We are responding to the COVID-19 pandemic. We are repaying arrears which PNG businesses are saying is the best way to support the economy. Arrears payments in 2021 are expected to total K1,200 million. The simplest way to reduce the deficit is not to pay our businesses money that the government owes. But this is not a responsible policy. It was the old policy, but it is not the way forward.

Within the expenditure budget, we continue to give priority to health, education and law and justice. We are also supporting activities that will build growth through substantial increases in capital investment. In the 2021

Budget, this will grow by K1,072 million from the 2020 Supplementary Budget. This provides enormous possibilities to fund our Connect PNG initiative which has been allocated K300 million. Our construction sector will do well from these activities. But importantly, they are roads and wharves and airports that will connect our nation to the ports and markets of our country and our world. Another part of our reconstruction and growth strategy.

Mr Speaker, as Treasurer, let me assure everyone that I understand the frustrations at how budget measures are implemented. We have a major implementation problem in PNG. We promise our schools support, but the cash doesn't flow as evenly as we would like, though it is in the budget. I spend a good portion of my time as Treasurer dealing with people who are disappointed that the budget promises funding, but it either doesn't arrive at all, or it arrives too late.

Frankly, this really, really annoys me.

There seem to be several causes. One of these is that we are starting to fix our cash flow management within the year. The changes in the Central Banking Act passed in the last sitting will greatly assist with this cash flow management within the budget year.

But there are other areas which worry me greatly. Just last week, I received a complaint from another Minister, of public servants demanding illegal payments just to process the budget. I find this unacceptable. This will not be tolerated, and further actions will be taken to stamp out such disgraceful practices. The Whistleblowers Act will help in this area.

Mr Speaker, I also want to draw members attention to the on-going challenge of the overall balance in our budget. I am concerned we are still spending too much on the public service, and not enough on development. We need more drastic reforms to bring public service expenditure under control. There are actions in this budget which will assist, such as K430 million to pay our public servants who should have already retired. Following advice from Parliamentary colleagues who are looking at the issue, I look forward to announcements on more fundamental reforms shortly.

Revenue

Revenues are expected to total K12,995 million, an increase of K1,636 million or 14.4%. This is a substantial rebound in revenue. Indeed, revenues are expected to increase by more than expenditure has increased. Once again, responsible, steady hand budget management.

There are a number of revenue actions we are taking to help support our revenue growth this year. This includes increases to a range of customs penalties to stop illegal trades.

One item that I want to highlight is a small step, but I consider an important one.

I understand the concerns PNG families face with the high cost of living in PNG. I expressed my concern about the substantial increases in extra taxes applied to many imported goods as part of the 2017 and 2018 budget. I intend to have a more comprehensive examination of our trade taxes to ensure they strike the right balance between supporting our local industries and lowering the cost of living for consumers.

One item that raised particular concerns was the unjustified increase in tariffs on UHT milk. I acted earlier this year for an administrative fix to remove this unfair charge on our families. I am pleased that in this budget, we are formalising this as a permanent reduction in the cost of UHT milk.

Deficit

The deficit this year is expected to total K6,612 million. This is substantially smaller – by K750 million – relative to our budget situation once our revenues collapsed due to COVID-19. This budget deficit will continue to decline, with a reduction in the deficit of another K1,317 million in 2022.

This responsible budgeting will see a rapid decline in our deficit as a share of GDP. Specifically, after hitting a high of 9.0% in April 2020, the deficit declined to 8.1% in the Supplementary Budget, 7.3% this year, 5.3% in 2022, 3.2% in 2023, and then sustainable levels of around 2% for following years. This is a very rapid turnaround. In international adjustment programs, the IMF sets a benchmark of about 1 percentage point per year. So moving from 9% deficit down to 2% deficit would usually take 7 years – we are planning to do it in 4. This is sensible budget management – bringing things back into control without having to destroy our economy through excessive expenditure cuts or major new taxes. The deficit we inherited of K4.9 billion was equivalent to K550 for every person in PNG. We could not simply impose K550 of new taxes on every person in PNG. We could not simply cut expenditure by K550 per person overnight. We knew it would take years. And we have set out the path to get the deficit down sensibly and quickly.

Debt

PNG's debt to GDP level is expected to fall in 2021 from the peak of 53.2 per cent in 2020 down to 53.1 per cent in 2021 (these figures include debt arrears), or K48 billion. The growth in debt from 2018 is simple to explain. It reflects the budget deficit legacy, hidden arrears and COVID-19. The Due Diligence exercise, backed by the IMF, found the 2018 Budget to have fake debt levels by hiding arrears, not using international definitions of debt, and by massively understating the deficit. The 2018 MYEFO claimed debt would be K28 billion but it was really over K35 billion. The 2018 real deficit level of nearly K5 billion can't be fixed overnight. Even finding savings of a billion Kina a year means that it would take 5 years to fix the deficit – and lift debt levels by K15 billion in the process. So this was a debt legacy of over K50 billion. This is the O'Neill/Abel debt and deficits holes. On top of this, COVID-19 alone is to lift PNG's debt by around K10 billion over the next four years. This is the Marape government's debt challenge.

Good economic management now means there are three good news story looking ahead.

First, the debt we are taking on is much cheaper. We are repaying expensive old debt from the O'Neill-Abel years with

much cheaper debt. The latest international loans had an interest rate of less than one percent.

Second, PNG's debt levels are going up much less than most countries. Global debt levels have just passed their previous peak just after the end of World War 2. The COVID-19 pandemic has moved debt levels around the world to historic levels. PNG remains well below its historic peaks of nearly 70 per cent in the early 2000s.

Third, the debt to GDP ratio is forecast to start turning around by 2023. Sensible economic management, with strong budget controls on expenditure and increasing revenues, has mapped out a path for turning the debt corner. This would not have been possible with the economic mismanagement we saw in the O'Neill/Abel budgets.

5. The Path Ahead

Re-surg-ing growth

Mr Speaker, I also want to give at least a bit of good news. The Treasury now estimates that the growth rate in 2021 will be higher than in the Budget Strategy Paper.

Specifically, it is now expected that our economy will grow by over 10.6 per cent in nominal terms in 2021 – from K81.6 billion up to K90.3 billion. In 2022, we once again

expect nominal growth to over ten per cent, lifting the size of the economy to K99.4 billion. We will shortly become a K100 billion economy.

This is not just Treasury forecasts. The IMF is also forecasting a K18 billion increase in PNG's nominal economy to K99 billion over 2021 and 2022.

Credible, realistic forecasts, backed by international experts, which gives hope looking forward. And continuing the conservative growth forecasting modelling which is international best practice, all of this growth is expected even without any new resource projects. If we have Wafi-Golpu, Papua LNG, Pnyang, or the Mayur Resource projects move to the Final Investment Decision, this will lift growth even further – maybe up from K18 billion to K20 billion. So there is an upside, but let's not overstate the upside. Even if the fiscal project terms were fully agreed, it will be at least a year before there is a Final Investment Decision. Let us remember that the PNG LNG Gas Agreement was signed in May 2008, but the Final Investment Decision was not made until December 2009, 18 months later. And because of COVID-19 and the drop in international prices, we know of dozens of LNG projects facing postponements in their FIDs. Contrary to the rhetoric on the other side, the resource

sector simply will move too slowly to get our businesses working in the next 12 months.

Mr Speaker, after 18 months of hard work the economic recovery has commenced. We expect nearly K18 billion of growth in the next two years. This is the largest two-year growth figure in our nation's history. Even when the taps turned on with the PNG LNG project, the economy increased by less than K15 billion from K47.7 billion in 2013 to K62.2 billion in 2015.

And the pattern of economic growth is vitally important.

From 2013 to 2015, almost all of this growth just came about because of the start of LNG exports – a gain of K8.3 billion. But most of the revenue from LNG exports, as we now well know, goes overseas. The exports revenues go to pay dividends to international shareholders, pay back private bank loans. Very little of this came back into PNG – some of it does and this was positive, but the share was unfairly small.

In contrast, the near K18 billion in growth over the next two years is mainly for the people of PNG. Well over half is going into growth in the non-resource sector. So nearly an extra K3 billion in growth for our agriculture, forestry and fishing sector. This reflects the growth in incomes we expect from a

renewed focus on the agriculture sector. K620 million extra going into our construction sector flowing from the large increase in capital infrastructure funding. Nearly K200 million extra in our manufacturing sector. Nearly a billion extra in our wholesale and retail trade. Another K185 million into our accommodation and food services.

This is a better growth record. Better balanced growth.

And big growth.

And now the opposition wants to go and throw that all away – to create chaos as our economy is recovering.

Shame on you!

So let me put these major growth numbers in terms of each person in Papua New Guinea.

Mr Speaker, because of the path we have set, because of our steady management, the K18 billion in gains from forecast growth over the next two years will mainly benefit our non-resource economy, and therefore our people.

Mr Speaker, on average, we expect the average person in PNG to be K1,000 better off, over the next two years, because of the economic policies we have put in place.

Specifically, the increase in non-resource GDP of K9,898 million, spread across our 9 million people, is more than K1,000 per person.

With growth will come better job opportunities and more income when selling goods at markets. And these incomes will add to revenue growth. And this will help with budget repair in a virtuous circle of growth.

Mr Speaker, it has been hard, but we've started to turn the corner. We must not turn back. It is not time to panic and jump off the ship. Trust in the steady hand guiding us through these storms.

Finding opportunities in the midst of crisis

Mr Speaker, the Marape government is working hard on a responsible, multi-part strategy to get our economy growing again.

Let me set out a simplified version of our main approaches to getting the economy growing.

First, broad-based, inclusive growth.

Second, an international engagement.

Third, the resource sector.

Mr Speaker, on the first priority of broad-based, inclusive growth, the focus is on the sectors of the economy overlooked in recent years. The new government knows this was an unbalanced focus. Instead, the Marape government is supporting the agriculture sector, the fisheries sector, the tourism sector, our creative services sector, our manufacturing sector. We are interested in supporting SMEs rather than just selected big businesses. We are interested in bringing the black economy under control and ensuring our own people have share in the gains of growth. The strategies for achieving this are re-focusing our work. Re-focusing our budget so that it really helps to build our rural economy. Re-focusing our tax system to benefit SMEs and crack down on tax avoidance to make it easier for legitimate businesses. Continuing with a fiscal stimulus in this time of the pandemic.

Second, we are a government that can look outward to benefit from the massive potential gains of the Asia-Pacific century. The former government focused on one big APEC talk fest and a building that still sits largely unused at the end of Ela Beach, and we are still trying to sell the Maseratis, which we were told so publicly, would sell like Hot Cakes! Rather, we have a deeper, more modern vision. For example, we believe there is extraordinary potential in

encouraging labour mobility so our young have the opportunities for incomes not just in PNG but also in countries such as Australia and New Zealand, and bringing their knowledge and savings back to invest in local communities. We believe in capital market reforms that can open our financing to cheaper and better loans to support investment and our businesses. We believe in reforms to goods and services trade so we are not just looking at supplying the supermarkets of Port Moresby and Lae, but also the supermarkets of Asia.

Third, we are looking at reshaping our vital resource sector so that it provides a fairer return to the people of PNG while also meeting investor interests. We believe there are enormous potentials. We are working on effective outcomes so we can re-open the Porgera mine quickly, as well as encouraging future resource projects. We can do our bit, but the global environment under the COVID-19 pandemic has made the global resource sector more uncertain.

Honourable members, we are focusing on policies that we believe will lift the non-resource growth rate to over 5 per cent per year. This is above the population growth rate, and will start to lift living standards.

The actual hard work of lifting growth falls back onto every Papua New Guinean. In my role as Treasurer, I must encourage good economic policies to support broad-based growth. In our roles as local members, we must ensure that our DSIP and other funds are invested as effectively as possible. Our rural farmers must work hard and be real business people to access markets to lift incomes which will lift growth. Our teachers have to work hard to build the skilled workforce vital for PNG's future.

Our growth future is not just about government - our country's future growth potential is in all our hands!

Conclusion

Mr Speaker.

What extraordinary times we live in.

We have suddenly found ourselves in the midst of a political crisis – but a steady hand will get us through.

We have found ourselves left with a legacy of an economic crisis - but a steady hand will get us through.

We have found ourselves in the midst of the COVID-19 crisis - but a steady hand will get us through.

Mr Speaker, I do not want to focus on the crises that we are experiencing.

I want to look ahead.

I want to make clear that there is a clear path forward through to the 2022 election and beyond.

I want to make clear that the leaders on this side of the house truly believe PNG is a country of enormous potential.

Potential that is starting to be realised. We are heading towards the most rapid recovery and growth of our economy in our history – K18 billion over the next two years. Much more than during even the opening of the PNG LNG project. Delivering the potential for an increase in incomes of K1,000 for every one of our people.

The new vision of this government is starting to deliver the goods.

Slow and steady reductions in the budget deficit.

Slow and steady actions to move towards cheaper debt with interest costs of less than one percent, and seeing the debt to GDP ratio commence its decline once again.

Slow and steady actions to move more of our budget to productive investment, not just on public service wages.

Slow and steady actions that are building confidence.

Slow and steady actions that are about to deliver the largest, broad-based growth dividend in our country's history - K1,000 per person.

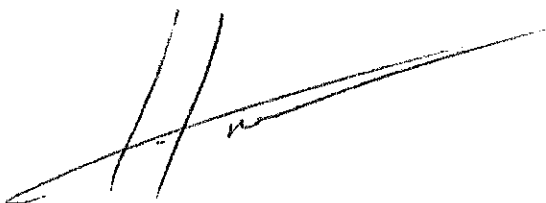
Actions that benefit our agriculture, forestry, fisheries, tourism and manufacturing sectors.

Growth actions that are forward looking, such as our investment in labour mobility and the tens of thousands of jobs that it promises.

Mr Speaker, I thank my parliamentary colleagues, and especially, my ministerial advisers and staff, who continue to dedicate their life for the betterment of our people. I also thank those many unacknowledged but committed staff in the department of treasury who have worked so tirelessly to prepare yet another national government budget.

Mr Speaker, I commend the 2021 National Government Budget to the House.

Tenku, Kalaro, Giro, Kadoxo Mase.

A handwritten signature in black ink, consisting of several fluid, overlapping strokes. The signature appears to be a stylized representation of the name 'Tenku, Kalaro, Giro, Kadoxo Mase'.



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