



INDEPENDENT STATE OF PAPUA NEW GUINEA

2023 SUPPLEMENTARY BUDGET SPEECH

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

Thursday, 12th October 2023



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Mr Speaker, today I introduce the 2023 Supplementary Budget for Parliament's consideration, the ninth budget that I have had the honour to present to this House.

This is a Supplementary Budget based on PNG's economic strength, despite all the global economic challenges surrounding us.

A Supplementary Budget that allocates an additional K771 million, lifting the 2023 Budget to a record level of 25,338 million in expenditure.

All in the context of on-going budget repair, a drive to surplus by 2027, and the option to repay all our debt by 2034.

Economy

Mr Speaker, as I set out in our Mid-Year Economic and Fiscal Outlook presented in our last session of Parliament, the PNG economy is performing so much better than many countries around us. But the global context has been extremely challenging over the last three years. And now we are faced with the uncertainties of a Middle East war between Israel and the Palestinian Territories. We will keep monitoring these worrying international circumstances, and as we did for COVID-19 and the Ukraine-Russian war, we will respond as necessary to help protect our people. This is a caring and responsive Marape-Rosso Government!

Turning to the domestic economy, let us focus on the performance

of the non-resource economy, that part of the economy that has the greatest impact on living standards for our people. The IMF and World Bank agree that growth this year is expected to be 4.6 per cent in real terms, so even after allowing for inflation. This is on top of growth rates of 4.8 per cent in 2021, and 4.6 per cent in 2022. This is the strongest three-year economic growth since the peak of the PNG LNG construction period.

This Government's approach of "Protecting the Budget, Protecting the Economy" has indeed bore fruit – I Karim Kai Kai!

And the IMF estimates growth will continue at 4.6 per cent in 2024.

There are some opposite that doubt these strong economic growth figures, even though these figures come from an independent IMF and World Bank. There are the critics amongst them who continue to talk down the economy. There are those amongst them, one who must not be named, that so conveniently forgets their own failed track record. They talk in the papers about their wonderful economic performance in 2018, when the verified fact is that the economy was in a recession in 2018, with a negative growth rate. So much for economic management! And when the IMF finally was able to cut through the fake budget figures, we were left with a budget deficit of 5.8 per cent of GDP in 2019, an administration that had increased debt more than four times over, and an administration that had seen debt interest costs sky-rocket from K452 million in 2012 to

K2,147 million in 2019! And all from someone who claims he takes full responsibility for the UBS fiasco, and then so miserably fails to take responsibility.

Mr Speaker, this strong economic growth in PNG is bringing in the revenue. On the back of this growth, tax revenues have performed extremely strongly. Indeed, tax revenues are estimated to be Kina 1,421 million higher than at the time of the budget. Of course, some of this is related to strong resource prices. But company taxes are up by K646 million reflecting the increased profitability of our business sectors, and personal income taxes are up by K350 million reflecting employment growth and higher salaries. The latest good news since MYEFO is that Customs revenues are now expected to be K183 million higher than expected at MYEFO. If the economy was not performing strongly, we would not be getting such large increases in taxation. Tax revenues are based on profits and wages, and these must be growing for growing tax revenues in these key areas. We are also pleased that the new Non-Tax Revenue Administration Act is now expected to sweep an extra K200 million in revenues on top of the original estimate of K459 million. I know that some of my colleagues are concerned about this measure, but fundamental budget principles are that all forms of government revenues should come into a central account, and then the government as a whole determines the relevant priorities. Partially off-setting some of these

gains, is increased uncertainty about actual dividend payments that will be received, and a conservative approach has been taken, in case there are shortfalls from the budget.

Overall, Mr Speaker, we have an estimated K821 million extra to allocate.

Expenditure Priorities

Mr Speaker, the question now is “What do we do with these extra revenues?”

One piece of good news is that for the first time in many years, there is no need to allocate additional funding for higher wage costs. We have been doing some hard work to control wages. This includes the recent work by the Parliamentary Committee on Public Sector Reforms and the Deloitte analysis of the Alesco payroll system, more training sessions on payroll, and greater scrutiny applied to wage allocations.

The Marape-Rosso Government has applied several principles when approaching the important issue of allocating the extra tax collections in this Supplementary Budget.

First, we are committed to delivering on the very major policy changes, announced as part of the 2023 Budget. These priorities included:

- A massive increase in support for the law and order sector

from K1,357 million in 2022 to K1,708 million, an extra K351 million, or 25.1 per cent, including more funding for more police and judges

- And as explained later, during the course of the year, these funds have been topped up further by over K100 million.
- A massive increase in support for education and health, including more funding for teachers and nurses
 - Increases since 2021 have been an extraordinary increase for health of 59.1 per cent
 - And an even more extraordinary increase for education of 65.3 per cent over the last two years.
- K677 million for a Household Assistance Package, on top of the K670 million provided in 2022, to help our struggling families deal with cost of living pressures.

We are delivering on these priorities.

Second, we are very aware of the continuing problems in law and order. Throughout this year, we have been providing additional funding for our police and defence forces to respond to the criminals holding our people to ransom. We will prioritise funding to top up these “contingency” funds, and ensure we have sufficient over coming months, to meet any on-going issues.

Third, we must meet our international obligations. One unavoidable impact of global uncertainties, and central banks trying to control high inflation rates in other countries, has been a major increase in global interest rates. We estimate that we will require an extra K273 million to meet these interest rate cost pressures. This is all in the context of the Marape-Rosso Government's, successful actions to lower the average costs of our debt, which overall have seen nearly a billion Kina in annual savings, relative to the high debt interest rates under the former administration.

Fourth, we must top up funding for rentals and utilities payments. We are all tired of the lock-outs and unpaid bills. However, the situation sometimes is not as clear as made out in the paper headlines. Sometimes, our landlords simply get their bills incorrect. In the utilities sector, the situation can be complicated with the utilities not necessarily paying taxes. And there is a broader issue of the nature of some rental contracts with the government that have, in hindsight, inappropriate commitments to make large annual increases in rent year after year to well above market rates, as well as inappropriate interest charges. These are matters that we are also looking to address.

Fifth, we are conscious that there is still a very high level of government arrears, owed to SMEs and other businesses, that entered into contracts in good faith and have delivered, what was

contracted. Unfortunately, some of the funds set aside for these arrears had to be directed to other priority expenditures, such as covering the costs of call-outs by police to deal with law and order issues. This Supplementary Budget will help restore some of this funding so that more arrears can be paid.

Budget Financing Flexibility

Mr Speaker, as mentioned earlier, global interest rates are increasing. At the same time, domestic interest rates have continued to fall. As we head towards the end of this year, we want better flexibility to shift the financing of the deficit, from international finance towards domestic financing. This simply makes good economic sense to minimise the costs of funding the deficit. This does not increase the size of the deficit, it simply gives increased flexibility to fund the deficit of K4,935 million in the most cost-effective way.

Deficit Reduction

Mr Speaker, a final element of this Supplementary Budget is that in the context of higher commodity prices, we should reduce the size of the 2023 budget deficit, by a further K50 million down, to K4,935 million. This is a message to our international partners, including credit ratings agencies, that we are taking budget repair very seriously. We are looking at reducing the budget deficit by a further K1 billion as part of the 2024 budget itself.

Conclusion

Mr Speaker, this Supplementary Budget is delivered in the context of good news for the PNG economy, even as the world economy continues to face challenges. Record taxation revenues have allowed us to move to a record budget expenditure of K25,338 million. We have been careful in how we are allocating these additional funds. They are being used to reinforce the priorities of the 2023 Budget, including delivering on increased financing for law and order, on-going record support for the health and education sectors, on-going record infrastructure spending, including to our historic PNG Connect program, and delivering on our Household Assistance Package. We are using the surplus funds to meet our international obligations such as interest costs, and also provide more resources to the police and defence forces, to rentals and utilities, to arrears, and to reducing our deficit.

Mr Speaker, I commend the 2023 Supplementary Budget to the Parliament.

Thank you.

The Hon. Ian Ling-Stuckey, CMG.MP
Treasurer





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