



Rt Hon Mekere Morauta KCMG MP
Member for Moresby North-West
PO Parliament House, Waigani
National Capital District Papua New Guinea
Tel: 327 7717

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Mr Speaker, I strongly endorse the Budget Reply by the Shadow Treasurer.

As an experienced and successful businessman, he knows the importance of being realistic about revenues and careful with costs, to have a healthy bottom line.

And he has brought a keen eye for detail and financial discipline to his analysis of the 2018 Budget:

- Identifying K2 billion in 'fake revenue';
- Identifying missed opportunities to tighten up spending yet protect basic services; and
- Suggesting solutions to fix the mess and restore credibility.

Mr Speaker, I would like to comment on three Budgets:

- **The Budget that PNG needs;**
- **The Budget that the Treasurer thought he delivered; and**
- **The Budget that PNG got.**

It ought to be clear to everyone now that our economy is facing serious difficulties.

In his speech to the House last week, the Deputy Prime Minister and Treasurer went some way towards acknowledging as much. He said:

- Foreign exchange shortages are constraining growth;
- Deficit budgets have led to rising debts and are unsustainable; and
- Revenue shortfalls have led to spending cuts and build-up of arrears.

But in his Budget, the details were missing on the scope, scale and severity of these problems:

- Foreign exchange shortages are at least K2 billion and 60% of CEOs report this as their biggest constraint;
- Public debts, reported in the Budget, have risen to K25 billion and there are large off-budget debts, such as K2 billion in superannuation arrears, K2.5 billion in SOE debts (in KCH), and K14 billion more Chinese debt currently being orchestrated by the Prime Minister without any involvement of the Treasurer;
- Revenue shortfalls—K3 billion in 2015, K2 billion in 2016 and probably close to K2 billion this year—have caused cash flow problems, budget implementation chaos and the build-up of arrears, estimated at over K2 billion.

These are real problems that cannot be swept under the carpet and ignored.

Mr Speaker, The Budget that PNG needs.

In order to have credibility, the Budget needs to fully disclose the state of the economy in quantifiable terms: the debts, the arrears, the foreign exchange shortages.

In order to have credibility, the Budget needs to correctly diagnose the problems and administer the correct medicine.

In order to have credibility, the Budget needs to have realistic revenue and tough choices on expenditure priorities and expenditure cuts.

In order to have credibility, the Budget needs to be part of a properly thought out multi-year economic reform program, supported by concessional finance and an IMF balance of payments support program.

Mr Speaker, The Budget that the Treasurer thought he got.

The Deputy Prime Minister and Treasurer thought that he had support from the Prime Minister for a responsible Budget. He thought he had support for 2.5% of GDP deficits in 2017 and 2018.

However, the 'revised' revenue numbers in Chapter 4 of Volume One already point to a 3% of GDP deficit in 2017. And, I think we can actually expect something around 4-5% of GDP by the time the final fiscal outcome is known in March.

The Shadow Treasurer has shown how fake revenues in 2018 are likely to blow out the deficit next year.

The Treasurer thought he had support for expenditure prioritisation, including DSIP and various bilas projects.

(This also seems to have been the understanding that the IMF had in September after they met with the Treasury.)

The Treasurer thought he was getting good advice from the Secretary for Treasury on revenue, stimulating the economy and managing the nation's debt.

Unfortunately, he did not get good advice. As a consequence, the Treasurer did not get what he wanted, and PNG did not get the Budget that it needed.

Mr Speaker, The real state of the economy: a severe recession.

The Treasurer says the government has falling revenues. Revenues are falling, but he has got the diagnosis wrong. Falling non-mineral revenues are the symptom, not the disease.

The real problem is a severe recession in the economy.

The Treasurer says the economy is growing at around 2% this year and next. But even such sluggish growth is not supported by the evidence:

- Falling imports and sales;
- Job losses; and
- A collapse in tax revenues.

These are all signs of a severe recession.

The reason for the recession is the lack of liquidity: foreign exchange shortages and inadequate domestic financing for businesses.

The reason for the lack of liquidity is the O'Neill Government's waste, mismanagement and corruption; the Government's unpaid bills and empty promises.

The reason for the revenue shortfalls is the recession. Squeezing businesses harder to pay more tax is likely to aggravate rather than ease the recession.

The 2018 Budget was an opportunity for the Treasurer to put the economy on a path to recovery:

- To take tough decisions on expenditure priorities;
- To free up finance and foreign exchange for businesses;
- To put in place a multi-year economic reform program supported by concessional finance.

But what PNG got is a budget that is bad for business—a budget that will spread and deepen the recession.

Mr Speaker, The Budget PNG Got

The Government is looking for an easy way out of the cash crisis that it created through waste, mismanagement and corruption:

- The government is raiding and crippling state-owned enterprises for quick cash; and
- The government is bleeding bank accounts and squeezing an already struggling business sector for more tax.

For example, delays in GST refunds are already hurting businesses, but will get worse now that the Government is stopping IRC from allowing offsets against tax liabilities.

This is an example of the Government solving its cashflow problem by passing it on to struggling businesses, while the new taxes on imports and diesel will push up prices.

These are not sustainable solutions; they are signs of desperation.

Mr Speaker, the raid on State Owned Enterprises, specifically the proposed K125 million dividend from Kumul Consolidated Holdings, is unrealistic and irresponsible.

State-owned enterprises are sick: a result of rising debts, poor investment decisions, and previous dividend raids.

I understand that KCH is in technical default on the K800-million BSP loan for the port relocation. A loan that is due to be repaid in July 2018.

I understand that Telikom is in default on its K150-million ANZ loan and is living hand-to-mouth as it struggles with cash-flow problems.

I understand that Air Niugini borrowed K70 million from BSP to build new apartments for its bosses, blew out the budget and is having to cut costs elsewhere to pay for the overruns.

Kumul Petroleum has received billions of Kina in income from the PNG LNG project, but has only paid about K500 million in dividends to the State. **Where has the rest gone?**

For the budgeted dividends from KCH (K125 million) and Kumul Petroleum (K300 million) to be credible, the Government must release the financial statements and audits of these entities, so that the extent of the risks can be analysed, discussed and debated.

Mr Speaker, we were promised an Abel Budget based on the 100-day Plan. What we got was yet another Peter O'Neill Budget:

- K2 billion in 'fake revenue';
- Lots of sweet talk, promises and lollies; and
- The prospect of deep spending cuts later next year: APEC will not be cut, but spending on health, education, maintenance of public assets and provincial grants will.

My colleagues and I are ready to offer solutions to the economic problems, including a credible multi-year program.

We have a wealth of experience on economic management and reform.

And we are happy to meet with the Treasurer to provide the advice and support that he is clearly not getting from his Secretary and the Prime Minister.

Hopefully the next Budget will be the one that PNG needs: a real Budget, not a Peter O'Neill fabrication of fake revenue and empty promises.