Public Statement by
Rt Hon Sir Mekere Morauta

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Former Prime Minister Sir Mekere Morauta said today the O'Neill Government's proposed $US300 million (K1 billion) International Finance Corporation borrowing was a smoke-screen and would do little to solve the country's economic and financial problems.

"I am surprised that the IFC would even consider such a loan," he said.

"The Prime Minister cannot borrow his way out of the problems he has created.

"The budgetary and financial problems the country is facing will not be cured by band-aids such as this. In fact it will only make matters worse."

Sir Mekere said the Prime Minister's justification for the loan is a lack of foreign exchange, which is crippling business and commerce and leading to increased hardship for ordinary Papua New Guineans such as job losses, rising prices and a collapse in service delivery.

Yes, Mr O'Neill's incompetent management has created a foreign exchange crisis, amongst other difficulties.

But the only solution is economic reform that is properly designed, financed and implemented over the next several years.

"That will be painful and difficult enough, but it will be nothing compared to what will happen if Mr O'Neill continues on his current path," Sir Mekere said.

"It is not the IFC's usual role to provide balance of payments support to governments, but this is essentially what is being proposed, according to the Prime Minister. The IFC usually takes equity, lends directly to business, or both.

"Mr O'Neill's proposal lacks transparency; with the Government squeezing banks to finance its spending, there is a risk the loan in effect becomes Budget support through the back door.

"IFC is not set up to manage the kind of risks associated with this proposal. What is needed is a proper economic and structural reform program, supported by a balance of payments loan from the IMF."

Sir Mekere said the loan will only temporarily ease Mr O'Neill's foreign exchange crisis - $US300 million is a drop in the ocean compared to the huge accumulated backlog of foreign exchange demand in the banking system and the financing gap in the budget.

It will disappear overnight and then we will be back to square one, he said.

The loan will also add to the dangerous official debt burden that Mr O'Neill has created.

In 2011 when Mr O'Neill came to power, official debt was K7 billion. By 2015 it had more than doubled to K17.8 billion, and rising.

In 2015 the annual interest bill on the official debt of K17.8 billion was K1.5 billion.

That interest payment is higher than spending on essential services such as Health, Education, Transport and Law and Order, which are all receiving less than K1.5 billion each in the 2016 Budget.

But the "official figure" of K17.8 billion excludes the K3 billion UBS loan, borrowings by State-Owned Enterprises including the drawdown of funds from the K6 billion Chinese ExIm Bank line of credit, contingent liabilities and other off-balance-sheet items.

Today actual debt has risen to at least K27 billion, so the actual annual repayment is likely to be more than K2.3 billion.

More borrowing is not the right answer, Sir Mekere said.

Mr O'Neill needs to recognise that there are no quick, easy fixes for the problems he has created through wasteful spending and reckless borrowing.

An example of his cargo cult mentality was his prediction last week that all would be well because oil-producing states would agree to a production clampdown, thus increasing oil and gas prices.

Unfortunately for the Prime Minister, economic and financial management is not determined by media spin or crossed fingers.

The oil price is back under $US40 a barrel – compared to the $US54 on which the 2016 Budget was based – after producers failed to cut production.

"We are only four months into 2016 and already Mr O'Neill's budget is in tatters and needs to be redone," Sir Mekere said.

"Sensible, responsible and orderly solutions are required."