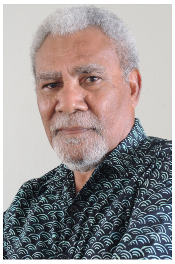
Public statement
by Rt Hon Sir Mekere Morauta
Port Moresby, 26 May 2017

The truth about the latest credit rating report



Prime Minister Peter O'Neill's latest spin on the economy, in relation to this month's Moody's Investors Services credit rating for Papua New Guinea, is complete nonsense.

It bears no resemblance to the reality of what the credit rating agency actually said, and has rightly been rubbished by social media.

Moody's in fact is highly critical of the economy and government finances, reflecting Mr O'Neill's five years of corruption, waste and mismanagement, and enumerates a number of potential risks that could cause further damage and more suffering for Papua New Guineans.

To counter his selective use of the few plusses in the Moody's report, and his misleading analysis of it, here is the downside, as reported by Moody's: "Papua New Guinea's (PNG) B2 rating and stable outlook reflect significant pressure on government financing and external liquidity amid structurally low commodity prices and continued weak GDP growth.

"Credit challenges also stem from weaknesses in governance and security, low incomes and poor infrastructure, while domestic political risk remains a constraint on the sovereign's credit profile.

"We forecast real GDP growth of around three percent in the coming years as the economy adjusts to persistently lower commodity prices than in the first half of the decade. *(Three percent GDP growth is lower than population growth, therefore people are getting poorer and poorer under the O'Neill Government.)*

"Stronger mining and agricultural production and construction ahead of the 2018 Asia-Pacific Economic Cooperation summit will support output; however, continuing fiscal tightening, high inflation and a shortage of foreign currency weigh on consumption and investment.

"Despite government efforts to curb expenditure, fiscal deficits remain wide and debt levels continue to climb. Government liquidity risks have risen due to an increasing reliance on short-term financing, while higher interest rates reduce debt affordability.

"External liquidity pressures are prominent. A backlog of foreign-exchange payments highlights a greater degree of balance of payments stress than PNG's metrics capture. Clearing this backlog will continue to place high demands on the country's foreign reserves.

"The rise in government debt since 2011, in contravention to fiscal rules, is an indication of limited fiscal policy effectiveness. Such debt breached the legislated limit of 30% of GDP in 2016.

"We expect the government's revenue performance to remain subdued because of persistent weak domestic demand and low commodity prices. The government is responding to fiscal pressure with broad-based cuts in expenditure, including operational expenses and capital investment.

"Downward rating pressure could develop as a result of (1) a re-emergence of wide fiscal deficits, leading to a rapid rise in government debt; (2) deteriorating growth prospects that ultimately weigh on fiscal and debt sustainability; and (3) a further decline in foreign currency reserves that increases external payment risks."

Mr O'Neill's constant use of spin, distortions and half-truth is why no-one believes a word he says, Sir Mekere said.