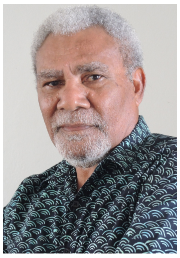
Public Statement
by Rt Hon Sir Mekere Morauta
Former Prime Minister and Member for Moresby North-West
Port Moresby, 24 September 2017

What the Supplementary Budget should deal with



The Member for Moresby North-West, Sir Mekere Morauta, said today that the International Monetary Fund Article IV Summary Report was a timely wake-up call for the Government, and that he hoped the Supplementary Budget to be brought down in Parliament this sitting would deal with the issues raised.

He said the Supplementary Budget should be the start of a long journey to repair the Budget and public finances, and lay the foundation for sustainable growth, especially in the non-mining sector.

The IMF pointed out that the 2017 fiscal deficit would need to be reduced significantly, but that further reductions would need to occur in future years.

It also said that the Government needed to stop borrowing and printing money, reduce liquidity in the system – which means reduce expenditure - and that it needed to urgently address the foreign exchange shortages and allow the kina some measure of flexibility to determine its own value in terms of other currencies.

Sir Mekere said people should not be misled by the IMF's language, which can appear supportive and flowery but in fact is making a very damning assessment. For example, the IMF said "there is substantial room to reduce inefficiency and leakage". What they actually mean is that there is gross corruption, abuse, wastage and inefficiency in public expenditure.

Apart from fixing the foreign exchange problem, the other major action the Government needs to take to help stimulate the domestic economy is to pay its debts to the private sector for goods and services already supplied. Former Prime Minister Morauta said that unless payment of the arrears – thought to be at least K4 billion if unpaid superannuation is included - is addressed in a structured way in the Supplementary Budget and 2018 Budget, the recession in the non-mining sector would deepen.

"The Government is forcing small and medium Papua New Guinean businesses into bankruptcy, simply because it is not paying its bills," he said. "This means job losses. This means lower spending by individuals and businesses. This means lower levels of GST, PAYE and company tax."

Sir Mekere said that although he applauded the Treasurer's stated intentions to repair the economy, he was concerned about the quality of advice he was receiving, and the fact that he did not have the support of the Prime Minister.

"The problems in the economy and public finances did not surface after the election; they were made by the O'Neill Government in the last five years," he said. "The pain is now being felt sharply. We do not have a new Government; we have a recycled O'Neill Government.

"Treasury should have been able to advise their new Minister, Mr Charles Abel, on Day 1 on what should be the content of an immediate Supplementary Budget. Instead they produced a simplistic PowerPoint presentation with a fancy title of 'The 100 Day Plan'.

"When the then PNC Government of Bill Skate was thrown out on 14 July 1999 and a completely new Government which I led as Prime Minister was elected, within 27 days the necessary domestic and international consultations had been completed, a recovery and reconstruction course charted and made public, and action begun with a Supplementary Budget passed on 10 August.

"We are already more than 50 days in to the 100 Day Plan and what has been achieved? Nothing, apart from more businesses going to the wall, public servants being locked out of offices due to Government not paying rentals, constant power black-outs, water shortages, continuing crisis in the health system.

"Instead of a structured plan to repay Government debt, we see isolated and secret sales of government assets - the Oil Search shares – which is like putting a band aid on a raging ulcer.

"But those in charge cannot agree on the cause of the problems. For example, the Prime Minister says non-payment of rentals is a minor cash-flow difficulty, the Finance Secretary says it is the Budget itself, and the Treasurer points the finger of blame at 'a temporary slowdown in growth'. The Treasurer says DSIP will be cut (a move welcomed by the IMF) but the Prime Minister says it won't."

Sir Mekere said the Supplementary Budget was the key test of the Government's ability to make running repairs. But very little can be achieved in three months. The comprehensive repair work will need to be made in the 2018 Budget and continue for at least three years.

"If the root problems are not addressed now, the situation will get far worse, and the pain of adjustment will be unbearable."