

An aerial photograph of a tropical island. The water is a vibrant turquoise color, transitioning to a deeper blue further out. The island is lush with green vegetation and has a small sandy beach. In the background, other islands and a large body of water are visible under a blue sky with scattered white clouds.

Ministerial Statement on an Economic Stimulus Package

Responding to COVID-19

Hon Ian Ling-Stuckey, CMG. MP.

Minister for Treasury

2 April 2020

Introduction

Mr Speaker, in these most difficult of times, facing one of the gravest threats to the future of our people, I wish to provide the Parliament with an economic update.

This update will cover the current best estimates of the impact of COVID-19 on the national economy, the Marape-Steven Government's Principles for responding to the crisis, and then details of a K5.6 billion economic stimulus package. I repeat, a smart, innovative, caring, responsive K5.6 billion, K5,600 million, economic stimulus package, by far the largest in our nation's history.

Estimated Economic Impacts of COVID-19

Mr Speaker, when addressing this house on 19 February, only six weeks ago, I made mention that the coronavirus spreading in Wuhan in China would have adverse impacts on the PNG economy, but that we did not know how large these would be because of many, many uncertainties.

Now, we know the coronavirus, now called generally called C19, was not contained in China. We read every day in our press how C19 spread from China and is now in over 200

countries. We hear of increasing stories of hospital systems being over-run in advanced countries such as Spain and Italy. On Tuesday, we hear the US President estimating that the death toll in the United States is likely to be between 100,000 and 240,000 deaths even with the social distancing measures that have been put in place including closing schools, limiting travel and forcing people to stay in their homes.

Mr Speaker, responding to C19 is literally a matter of life or death. We are at war. This is a global war – all of us against an invisible enemy, that has no army, no guns and bullets, no spears and does not sleep!

International Impacts

Mr Speaker, even six weeks ago, we were starting to see the Chinese C19 outbreak having impacts on the global economy. Commodity prices were falling. Global supply chains were being affected.

These impacts are worse than expected, in part due to the extraordinary drop in oil prices. And as we all now know, a fall in oil prices will lead to a fall in LNG prices, PNG's largest export.

Mr Speaker, a team of local and international experts have been estimating the economic impacts of the COVID-19 on the

PNG economy. The economic modelling is difficult because we have not had an economic crisis of such complexity or magnitude since World War 2. So there are many uncertainties.

The best estimate from this team is that the value of our exports will fall by at least 13 percent. As our exports were estimated to total K42 billion in 2020, this means the value of our exports are estimated to fall by over K5 billion. This means lower incomes for mineral companies, but also lower incomes for many of our rural households. It also means that there is over K5 billion less foreign exchange being earned. These external impacts will also reduce our revenues, including our resource revenues. In broad terms, we expect to lose around K1 billion in revenues because of these external impacts. This is bad news.

Domestic Impacts

Mr Speaker, for those scientists that do the numbers on the likely impacts of sick people and deaths in any country, one of the key factors is how quickly a country responds to the threat. The models show dramatic differences between a country that acts early when there are no or only a few deaths, and those countries that wait a week too long.

PNG is fortunate because it has acted early. We have had the leadership of our Prime Minister to close down our borders with only one reported case, and no known deaths. This is an absolutely vital step in winning this war against C19.

The government knows that closing our borders, stopping the movement of people, has serious economic impacts.

We can all see the slowdown is having dramatic impacts on tourist facilities, airlines and markets. There are reports of looting in some areas, driven on occasions by increasing hunger from workers laid off jobs.

Mr Speaker, preliminary economic modelling indicates that PNG's economic growth rate is likely to fall to below zero this year. C19 will push PNG into a recession, driven by the fall in world growth as well as the impacts of shut-down measures on tourism, retail trade and other parts of our economy. This modelling is likely to be conservative – economic models are not designed to deal with such a complex economic shock with so many impacts as C19.

The slowdown in growth and people losing their jobs will lower personal income tax, company income tax and GST collections.

The domestic impacts are expected to reduce our budget revenues by a further K1,000 million on top of the external impacts of another K1,000 million.

So overall, we estimate the total fall will be K2,000 million. This K2,000 million drop in revenue would add to our already record budget deficit of K4,631 million. The starting point because of COVID-19 is that the budget deficit could increase to K6,631 million. This is before any new spending to respond to the crisis. This is the starting point. What a difficult starting point!

Smart economic stimulus options

Mr Speaker, the question is ‘How does the Marape-Steven Government respond to such an extraordinary, war-like, economic emergency?’”

An unsophisticated and dangerous approach would be to just spend big from our budget to stimulate the economy-which is exactly what the leader of the opposition has been advocating! However, the economic legacy from economic mismanagement means that we already have the largest deficit in our nation’s history of K4,631 million. Wouldn’t it be nice to have a budget surplus based on the success of the PNG LNG project! But that is not our starting point.

The loss of K2,000 million in revenues – and possibly more – means that the starting point when thinking of how to respond is K6,631 million.

We must be careful and not only think about today, but also think about the impacts of simply spending more and more, building our debt more and more, leaving more and more of a debt burden which our children will have to pay for.

It would be irresponsible to do this without exploring thoroughly all other options.

So what do we do instead? There is a smarter response. Rather than just focusing on the budget, we can use other economic tools available to government. These are monetary policy and regulatory policies including superannuation. The positive links we have now built with the international community can be leveraged.

Mr Speaker, today I will set out six smart components of our response. Some increased expenditure is required – but it is less than one-tenth of the entire economic stimulus package being presented today.

But before moving to the details of our economic stimulus package, let me set out the broad principles we are applying to our response.

Coronavirus Economic Stimulus Package- Principles

Mr Speaker, the Marape-Steven government recognises the C19 pandemic health emergency will create an economic emergency. A smart, innovative, caring, responsive approach is required to build our country's economic resilience.

Our Government is not going to sit waiting for things to become a problem before reacting. We are proposing a package of actions to help support business activity during this critical time, to protect jobs and to ensure that needed investments still continue

This economic stimulus package is based on five principles.

First, the response will be a **PNG-owned and driven** response.

It will be designed to advance the Take Back PNG agenda.

It will be coordinated, including budget and monetary policies, superannuation policies, business to business support, procurement policies and regulations.

It will recognise the cash, the foreign exchange, the budget management, the private sector, the household elements of a sensible, nimble-meaning clever and flexible response.

It will include a vision for the future – using this crisis as a way to reshape our society into one that is fairer, united and more inclusive.

Mr Speaker, the second principle is that the response will be **broad and comprehensive**.

It will cover households in both rural and urban areas.

It will cover businesses – both small and big, formal and informal.

It will be inclusive. Not just the big end of town. Very much also the small end of the rural village. Covering our mothers and fathers and our children no matter where they live. This will be tough as we don't have the delivery mechanisms of the advanced countries. But we will work very, very hard to get support out to where it is needed, no matter where that need.

Mr Speaker, the third principle is that the response will be **smart and forward looking** – there will be a focus on practical projects that build our economic capacity. Our Public Investment Program will be focused on projects ready to go. Procurement arrangements will be streamlined to allow early commencement of activities.

Mr Speaker, the fourth principle is that the response will be **responsible**. Years of economic mismanagement have limited our scope to move in this emergency. The massive build-up in

expensive debt mainly for budget deficits rather than investment means that PNG is already on the verge of being classified as a high debt risk country. Once again, wouldn't it be nice if the starting position now to respond to the C19 war was a budget surplus. But this is not our economic legacy.

This must be very carefully managed. Most other countries have more budget room for manoeuvre. We will require sensible cutbacks in areas such as the census, international travel and meetings - and redirect funds to priority areas of health and security. We will rely primarily on monetary policy options, including quantitative easing, as well as regulatory actions, such as on superannuation, to deliver our objectives. 90 per cent of our economic stimulus response today is based on flexible use of those other options.

Mr Speaker, the fifth and final principle is that the response will draw on **friendly foreign support**.

Our positive re-engagement with the international community led through the recent IMF Staff Monitored Program has opened doors. For all of our critics for working with the new IMF, it is time to reflect on your old-fashioned views.

I know the old IMF and I did not like it. The new IMF is so much better.

The Global Financial Crisis woke them up – as they had to bail out countries such as Ireland and Iceland, they learned more about how to support economies rather than all too often undermining economies.

Mr Speaker, let me set out the benefits of keeping an open mind and being forward looking – removing our old biases and working openly with the world that is.

Our work with the IMF has already allowed us to apply for K630 million (\$US182 million) last week in extremely concessional terms.

This is good, cheap financing. Not over 8 per cent interest costs for a Sovereign Bond. But 1 per cent. This dramatically lowers the interest costs of our borrowings.

Mr Speaker, I am very pleased to announce I have been informed yesterday morning that we can now apply for another K630 million from the IMF this year – a total of K1,260 million in 2020.

And we have been told we can ask for the same amount again in 2021.

So the critics say a nasty, old IMF.

I say now a good friend, still a bit cautious given my experiences back in 2000, but I really am thinking they are a friend which has stepped up enormously at this time of C19

crisis. Taking a big picture, they have always been about supporting our own economic reform program. Sure, they may focus on some areas more than us, but they are backing the economic reform objectives of the Marape-Steven government.

So what does the IMF say about the drop of K2,000 million in revenue. Do they say that you have to keep within your old deficit? No they don't. They understand that the world is at a global war. They say we understand that your deficit is likely to go to K6.5 billion – by far the largest in your country's history.

And even with such an increase in the deficit, the IMF will work with us to provide K1,260 million this year, and another K1,260 million next year. Highly concessional funds with an interest rate of something like one per cent and years before having to repay any principle.

Come on all you social media warriors complaining about the IMF! Give them a break!

And come on those critics within this Parliament!

Look and learn from what is actually happening. We have an economic reform program and we remain absolutely committed to economic reform. The specific targets in this reform program will have to adjust because of the C19 war.

For example, we have lost K2 billion in revenues, so our revenue targets for this year will not be met. The IMF is supporting our economic reform program and I am confident that they will adjust with us. The bottom line is that the Marape-Steven government will always pursue the national interests of PNG.

Mr Speaker, the IMF's financing support is part of a much wider program of support from the international community. The World Bank is providing K70 million (\$US20 million) in medical supplies assistance and the Asian Development Bank K170 million (\$US50 million) in health program support. Other donors are adjusting their programs to respond to C19. We are also exploring debt relief from all our creditors – multilateral and bilateral and have helped initiate discussions at the highest global levels on such support. PNG – leading the world on responses to this C19 crisis.

Security

Mr Speaker, to support these five principles, we understand that their effectiveness also relies on effective coordination with other C19 security actions

Security is already clearly a major issue. Fear of the coronavirus and inappropriate responses to the lockdown

highlight the risks of social disorder leading to widespread looting and other attacks on key economic assets.

Mr Speaker, a key element of the national response is ensuring the safety of businesses, of banks and key supply chains such as power, water, telecommunications and transport.

And on a broader view of security, we must work to lower other costs that will be driven by fear. Fear is almost as big an enemy as the virus itself.

This will extend to medical messages that this is a virus, and not sorcery. We are a Christian nation. If the virus escapes into PNG, and bears its inevitable medical consequences, there is no room for fear based around sorcery.

The C19 response also means livelihood patterns are disrupted. Wives and husbands may not get the incomes from markets and work that were once expected. This adds to tension in households. We must understand these pressures. We must love each other. This is a time for understanding, not for domestic violence.

C19 Coordination and communication

Mr Speaker, a key to success in waging this war against C19 is excellent coordination and communication.

We must ensure that the strong communications between the health, security and economic sectors continue.

We must also ensure excellent communications within the economic sector.

Mr Speaker, there will be regular meetings of the Ministerial Economic Committee, with even more regular meetings of Finance, Planning and Treasury Ministers. There will be regular meetings of Treasury portfolio agencies – especially BPNG but also ICCC, IRC and Customs. There will be regular meetings with business and other representatives.

Mr Speaker, there will also be regular media releases and other forms of communication to help maintain business and consumer confidence. There will be a need for all agencies to have clear communications on the economic measures that are being undertaken.

Details of K5.6 billion Economic Stimulus Package

Mr Speaker, as the Treasurer in the Marape-Steven's government, I am proud to announce the largest economic stimulus package in PNG's history.

K5,600 million.

90% of this is funded through innovative, flexible mechanisms.

Not just big government spending. Looking at other options using the full powers of government especially when we are at a war-like setting.

While already the largest economic stimulus in our history, we will do more, if we need to do more.

If this C19 war goes on for many months rather than a few months, we will do more. For example, our work on repayment holidays on loans is valued at K0.6 billion for 3 months. If the crisis continues for six months, the support will be an extra K0.6 billion. Nimble and responsive.

Mr Speaker, the first and largest element of our economic stimulus package is **K2.5 billion issuance of COVID-19 Treasury Bonds**. Our 2020 Budget financing plan is being undermined by C19. The impacts of this were very clear during March – normal domestic financing options simply were not working. We were not getting the cash to support our vital hospitals and care centres. Although we had allocated an immediate K45 million in a C19 response, we simply were not getting the cash and it was very, very hard to get the required funds.

Mr Speaker, frankly, this is intolerable. We must be able to get the Kina to fund urgent priorities. Currently, we have had the cash to fund less than 10 per cent of our budget (outside of wages and interest costs). We should be at least 25% of such expenditure – instead we are at less than 10 per cent. Our development budget and health budget are suffering.

So what do we do? We are going to market hard for K2.5 billion in domestic financing. There will be an offer of at least K1 billion as early as next week. We need this cash now. We are talking to the banks, superannuation funds and others to support this cash fund-raising. But we also understand that things are very tight for them.

As a fallback, and it is just a fallback, we will support this through what is known as quantitative easing implemented by the Bank of PNG. This is what many other countries are doing – including the Australian and US central banks. In good times, this is not something a country should do. In these times of war against C19, it is a feasible, responsible option. The likelihood of inflation is small when the economy is being pushed into a recession. So K2,500 million in cash raisings over the next four months to support our urgent actions to support health, security and development in our country.

Mr Speaker, the second part of our package is **K0.6 billion of support for loan repayment holidays.**

We know that households and businesses are doing it hard.

How do you pay your mortgage when you've lost your job or your business?

If your sales have collapsed, how do you ask your bank to support your overdraft?

We welcome the very constructive support of our banks in indicating that various forms of mortgage repayment holidays are available for up to 3 months.

All of these actions by our banks and finance companies are supported by quantitative easing options from our central bank – BPNG. So being conservative, we estimate the backstop support for our private banks to provide these tax holidays is conservatively estimated at something less than the K754 million based on current borrowings and average interest costs – so we have allowed for K600 million.

This is a conservative estimate based on these tax holidays only being in place for 3 months.

If the lockdowns and C19 war continue for longer, then we will provide this support for longer. We want households and

businesses to be in a position to quickly re-emerge from this crisis.

Third, **K1.5 billion in friendly foreign assistance**. I have actually provided the details earlier. K1,260 million from the IMF. K170 million from the Asian Development Bank. K70 million from the World Bank. I am working hard to ensure more is coming. Our tax revenues have collapsed. I am working hard to try and fill this gap with cheap financing.

Fourth, **K0.5 billion in superannuation measures**. This is part of our smart thinking. When looking at available resources to support the C19 war, I have looked beyond just the budget. I have looked beyond the quantitative easing measures from the central bank. One of the great assets of PNG is our very sensible superannuation arrangements. These savings total about K14 billion. This part of the Economic Stimulus Package is about using some of these savings now.

You save for a rainy day. Now is more than a rainy day – it is a cyclone.

We should use some of these retirement savings to support people in this cyclone. We need to ask the question if we should continue saving over the time of the C19 cyclone or is it better use of money to support the economy?

In talking to the superannuation funds, we had some ideas. Rather than imposing them through changes in legislation, we have asked them to come back with a package of activities worth K0.5 billion to support jobs, businesses and investment. A likely element of this would be enhanced early access for people who lose their jobs.

We look forward to the suggestions from the superannuation industry on how best to use K0.5 million of superannuation funds. And of course, if the C19 war goes on and on, we will ask for more options.

Fifth, we will spend an **extra K0.5 billion as a direct budget response to the critical health, security and economic sectors.** So this direct budget financing is less than 10 per cent of our total economic stimulus response package of K5.6 billion. In line with the principles of our response, a responsible response.

K250 million of this funding will be directed at the health and security response. Specifically, there will be an extra K175 million for health, K50 million extra for police and K25 million extra for the defence forces. The health support of K175 million is nearly four times the initial request for health funding of K45.5 million. A massive increase in support.

On top of the K175 million domestic funding increase is an extra K70 million for medical supplies and other support to the health sector from the World Bank. And on top of that again is additional grant aid support from donors, such as much of the K50 million (AUD\$ 20.5 million) recently announced by Australia. So a quarter of a billion extra to reinforce our health response effort. If more is needed, we will do more.

The other K250 million of our domestic budget response is to directly support the rural sector, jobs, micro, small and medium sized businesses (SMEs) and households. The specific details of these support measures will be announced shortly.

Sixth, we need to start preparations for a **Supplementary Budget**. I have asked the Central Agencies Coordinating Committee (a committee of the Secretaries of key government departments) to do a thorough review of our budget. We need to find budget cuts to finance the increased needs of the health, security and economic sectors. Currently, given the drop in revenues of K2,000 million, the increase in direct budget expenditure of K500 million and the extra K70 million in World Bank, we have K2,570 million in pressures to increase the 2020 budget deficit. We currently have K1,500

million in available additional friendly financing. The difference between these two amounts is K1,070 million. This is the starting point for the CACC to find budget savings. Some items such as the planned 2020 Census clearly needs to be deferred until after the C19 war – we don't want census collectors visiting remote communities to potentially pass on any virus at this time. Clearly, international travel and other costs are falling. The CACC will go through and provide recommendations for a Supplementary Budget.

When doing this, the focus will be on supporting the Take Back PNG agenda.

We want to protect vital activities such as the PNG Connect initiative.

We will look to advance rapidly existing projects.

We will consider activities that can rapidly get support out to our rural communities and settlements. We will be responsive, innovative and caring in our responses.

Mr Speaker, in addition to this package of six comprehensive actions, our economic response to C19 includes items that do not have a specific cost but are vital.

For example, we have been working with the Independent Consumer and Competition Commission to control the prices

of essential commodities. We will continue actions in this area and there will be more announcements in coming days.

Another example is our work with the IRC to defer the timing of a broad range of tax payments. Helping business and household cash flow in a wise way but without a cost to 2020 revenues.

We are also working across all levels of government. Governors and members are also directing their resources towards the war on C19. This truly is a national effort.

Conclusion

Mr Speaker, our nation faces a very grave danger.

By acting early, by shutting down our borders such that we do not even have a single known case of C19 currently in our country, we have been given a chance.

This is a tricky virus. There are still risks of it coming through one of our borders – especially through the illegal movement of people. But we have a chance because of the way our Prime Minister has acted.

Mr Speaker, this government understands that creating this positive chance through a strong lock-down has a significant economic cost. It means that our mothers and fathers are finding it hard to take their goods to market. It means that

prices for many items are starting to go up. It means that people have lost jobs. It means that many businesses are struggling to pay bills. It means that we are worried about our loved ones but can no longer travel and want to talk to them for longer.

Mr Speaker, the Marape-Steven's government understands these pressures. It is responding with an economic stimulus package. It is responding with an economic stimulus package of K5,600 million. This is by far the largest stimulus package in our history. Why? Because our country, not in all the years since Independence in 1975, has this country faced such challenging economic times.

Mr Speaker, we are a resilient people. We will work our way through this crisis.

We will not only get through, we will use it as an opportunity.

We will use it as an opportunity to build a better PNG.

We will use it as an opportunity to build a more caring PNG.

We will use it as an opportunity to make it a more inclusive PNG.

The Marape-Steven government. Nimble. Responsive. Caring-with a vision for PNG as we emerge, and, we **will** emerge, from this C19 war.

Thankyou Mr Speaker, my parliamentary colleagues and the people of this great country of ours.