



## Ministerial Statement-Economic Update

Responding to COVID-19

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Minister for Treasury  
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## 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 is my third this year. How things have changed. How uncertain has been the battle.

In my first economic update on 19 February, the expectation was that COVID-19 would be contained to China. The focus was on how we get out of the deep, deep budget, growth, jobs and debt holes left by O'Neill. In my 4 April statement, just six weeks later, the focus was on best preparing our health systems and our economy for this deadly enemy. I announced an economic stimulus package of K5.6, now K5.7 billion. Today two months later, I will provide an economic update as well as progress on the Marape-Steven governments smart, innovative, caring, responsive economic stimulus package.

## Reflections on the Impacts of COVID-19

Mr Speaker, Honorable Members, I wish to place on the public record the nation's thanks and appreciation for all those individuals and organisations who have contributed to

the successful outcome of Papua New Guinea's war on the coronavirus.

While it is still early days, we have been spared the worst effects of the pandemic on the health of citizens, and the well-being of the economy and government finances.

Our hearts go out to those Papua New Guineans who have contracted this terrible infection, and the six million-plus people in other parts of the world. Almost 400,000 people have died – none of them our citizens – and we send our condolences to their loved ones.

Mr Speaker, I am proud to be a part of the Marape Government team that has led PNG into battle and has, so far, conquered our enemy. I wish also to place on the public record the nation's gratitude to all those people who have made important contributions – public servants, emergency services workers, the security services, elected representatives at all levels, the private sector and NGOs, scientists, doctors and medical experts, and our international friends.

Most of all I want to register my deep and sincere appreciation of the sacrifice ordinary Papua New Guineans have made since the lockdown began under the State of Emergency. Papua New Guineans have pulled together as a nation like

never before, and in the face of fear and uncertainty, financial pain, and most importantly of all, separation from our friends and family.

National unity has been the key factor in our victory to date – with the obvious exception of the Members for Ialibu-Pangia and Vanimu-Green, who have chosen to put cheap, political advantage ahead of the national interest during a State of Emergency.

Indeed, Mr Speaker, we should never forget we would be in a much better financial and economic position today if it had not been for the reckless, wasteful and self-indulgent Prime Ministership of Mr O’Neill.

We would have been in a position to fight our own battles.

## Estimated Economic Impacts of COVID-19

COVID-19 is having devastating economic impacts around the world. The speed of the impacts in many countries around the world is much faster than the Great Depression of nearly a century ago. PNG is not immune from this global downturn.

There are still great uncertainties. Some of these are global. For example, what will oil prices be over the next seven months? We had the extraordinary situation where oil prices

went negative in late April. They have now recovered to about \$US20 per barrel, less than half the budget estimate.

The global economic shock is expected to reduce the value of PNG's exports from \$US11.3 billion in 2019 down 15 per cent to \$US9.6 billion in 2020. These international developments, combined with the impacts of our actions to stop the spread of COVID-19, is estimated to reduce PNG's GDP growth this year by 3.7 per cent, dropping our growth forecast from a positive 2 per cent to a negative 1.7 per cent.

This is bad news. A drop in growth of 3.7%. It would have been much worse without our economic stimulus package. Globally, the COVID-19 impact is less than other countries in our region. For example, using the IMF's April World Economic Outlook, the Solomon Islands is facing a 5 per cent drop in growth, Fiji an 8.8 per cent drop in growth, Samoa a 8.1 per cent drop, and countries such as Palau a 13.7 per cent drop.

The fall in growth is expected to reduce resource revenues in particular – by an estimated K1,073 million. In addition, domestic tax revenues are also expected to fall by K1,149 million. So total tax revenues are now expected to be reduced by K2,222 million – slightly more than the earlier estimate of

K2 billion. Unfortunately, this is another K222 million in budget cuts or additional financing that we face.

Mr Speaker, the COVID-19 pandemic has also had significant impacts on global financial markets. This brings through some additional bad news that in the interests of honesty and transparency we will not hide. Until last Friday, all information that I had been provided with, indicated that we were on track for meeting all the financing requirements of the 2020 Budget. However, we just been told that the level of expected financing from the ADB Partial Credit Guarantee Bond, has been reduced from \$US300 million down to \$US190 million – a shortfall of \$US110 million or some K380 million. This is purely due to the changed economic circumstances from COVID-19.

This adds to our financing challenge. Combined with the extra forecast K222 million loss in revenues, we are now looking for K502 million more than back in April. Things keep moving quickly. Over coming weeks, I will set out plans for how we will be meeting these additional financing challenges. This is likely to involve a combination of additional domestic financing including quantitative easing and exploring options for deeper budget cuts.

# Update on the Economic Stimulus Package

Mr Speaker I want to update Honorable Members on the status of our K5.7 billion Economic Stimulus Package and in particular the K600 million direct spending dedicated to the war on COVID-19.

First, I will deal with the COVID-19 Treasury Bond. This was bringing forward our cash financing to overcome the worst of our cash shortages. The first two tranches of this Bond financing have raised over 2 billion. I am very confident we will raise the remaining K500 million after June this year.

The Bond raising was a resounding success.

It was a vote of confidence in the Marape-Steven Government, and our plan for the future. – the Take Back PNG agenda.

But it was more than that.

Instead of handing immense profits to exploitative foreign financial institutions in dubious and extortionate deals, the Marape Government has borrowed from domestic financial institutions and individuals who will make a fair and honest return on their investment.

That is, the PNG shareholders in BSP and Kina Bank, the two big super funds, smaller financial institutions such as savings and loan societies, and individual Papua New

Guineans looking for a safe home for their money with very good returns. However, this government welcomes new, foreign based investors into the PNG Bond market.

The Treasury Bond brings with it many other benefits, the most important of which is that it was the quickest way to get some cash into the Treasury.

Mr Speaker, the cupboard was bare after the O'Neill deprecations. Not only did he leave us with nothing, he left us with record deficit and a massive increase in debt.

Now the Treasury Bond has given us some breathing space. Unfortunately much of it had to be used to repay debt excesses incurred over previous years, Indeed, most of the recent financing was for 10 year bonds. So what was happening? We were having to take out 10 year bonds in part to repay 10 year bonds taken out by O'Neill when he was Treasurer!

So stop blaming this government, for taking a loan, to pay off your loan!

Fortunately, and this is by planning, there remains cash in the bank with which to fulfil our immediate obligations and begin the long, arduous and expensive task of rebuilding the nation, while at the same time dealing with the coronavirus pandemic.

But managing our cash flow remains a very difficult balancing act.

Honorable Members should note that the Prime Minister and I are doing everything in our power to fast-track the K1.5 billion we are negotiating with our international friends and multi-lateral agencies.

I am aiming to have K1.26 billion from the IMF, in the Treasury, by the end of this session of Parliament. That is 75 percent of the funds we believe we can access, and a big boost to the stability of government finances. I might add that this money is on very concessional terms, not the exploitative rates charged by the former Prime Minister's merchant banker cronies. How concessional? The IMF funding has a zero per cent interest cost. That's right-K1.26 billion at zero per cent interest cost, the best, cheapest and only sovereign loan, ever negotiated, by any government, in our history. And yet the former Prime Minister and Member for Ialibu-Pangia, who should now call himself the member for Sydney Harbour, has the audacity to criticise our COVID-19 Bond raisings with high interest rates when in fact our government had no choice at all but to borrow these funds at this specific time, of the worst pandemic in our history, to in fact, pay for a loan, that was raised and executed, by the very same person, at the time he was the Treasurer!

So stop blaming the Marape-Steven government, for getting a loan, to pay off your loan!

Stop blaming the high deficits of the budget, when it is your deficit we inherited and part of your budget legacy!

Stop blaming the performance of the economy, when it is caused by the C19 pandemic!

Stop your foolish grand-standing, denying your irresponsible economic legacies of debt, economic, jobs and income holes!

The Member opposite, lied and claimed, we lost our sovereignty by agreeing to this money. What did **we agree** to? Once again, we agreed to do, what we wanted to do, under the Marape-Steven government's, reform program.

**We agreed**, we would publish details of COVID-19 contracts, on the PNG Procurement Commission's website, like you should have done for Apec-to show off your hotcakes! **We agreed**, to regularly review COVID-19 expenditure at weekly BMC meetings. **We agreed**, to key strategic revenue actions from the IRC's annual plan. **We agreed**, to improve our cash flow budgeting sheets and have Treasury and BPNG share more information. All good things, we were already planning to do. No loss of national sovereignty, keeping to our honest economic reform plan, and K1.26 billion of financing at zero per cent interest. Sit back, watch and learn!

It will be used wisely, constructively, fairly, accountably and transparently. We are well on track, with the remaining K240 million, in additional international financing.

Honorable Members should be aware by now that the K600 million in direct budget spending, supported by the extra financing from the Treasury Bond, will shortly start flowing into their Provinces and Districts.

Frankly, implementation has been slow and unacceptable to the government. This funding has not gone out as quickly as we had planned and wished for. There are two reasons for this.

First, revenue shortfalls. We had the plans but insufficient revenue, to support the policy priorities.

Second, our budgeting systems are too rigid for an emergency response. New balances have to be struck between getting the cash out quickly and ensuring its accountability.

Let me assure all Honourable members, that I have authorized the full amount of warrants, for the COVID-19 programs. Clarification on the temporary extension of the State of Emergency, also means that some of the detailed payment delays have been cleared. Come and talk to me if you don't start receiving funds into your district and Provincial COVID-19 accounts by early next week.

The K600 million direct support package has been split into two parts – Health & Security Sector, and Economic Sector

The details of the K280 million for health and security are as follows:

- K60 million to limit the spread of the pandemic through preventative health actions, by upgrading hygiene at markets, schools, universities and technical colleges, churches, district hospitals, aid posts and other potential hotspots. K0.5 million is being distributed to all Provinces and Districts. Full warrants have been released and funding set aside, from the first and second C-19 bond raising.
- K37 million to be distributed directly to front-line Provincial Health Authorities, as a 22 percent increase in each of their 2020 Budget funding allocations. Full warrant has been released and the first K22 million has already been released to Health for paying to PHAs through the HSIP account;
- K30 million for the Department of Health with the focus on the provision of Personal Protective Equipment. Full warrants have been released and funding set aside from the first C-19 bond raising, on top of the K45 million already released;

- K60 million to the RPNGC, the Defence Force and Correctional Services to strengthen law and order and to defend our borders. Full warrants have been released with the first K30 million paid to the Police;
- K73 million to the Defence Force to construct 10 border posts, including facilities for Immigration, NAQIA and Customs activities as appropriate, to future-proof the border. Full warrants have been released and the first K35 million has been paid to Defence;
- K15 million to the Department of Foreign Affairs and International Trade, with capacity building and strengthening of PNG's foreign missions, to respond to the needs of PNG citizens living overseas, as well as the repatriation of those who need to return home. Full warrants have been released and full payment has been made;
- K5 million to support the Marape Government commitment to help PNG churches and urban authorities, provide food for those most in need; and

The details of the K320 million for the economic sector are as follows:

- K113 million for districts and provinces to promote agriculture development and food security through an

outreach campaign and grants for improved crop production such as the purchase of seedlings and management of threats to plant and animal health. K1 million to every Province and District is being distributed. Full warrants have been released and funding set aside from the second COVID19 Bond raising;

- K 50 million as a price support program for agriculture export crop production directed at small cash crop producers, especially in the coffee, cocoa and copra industries initially – implementation details on this will be released shortly;
- K45.5 million to support rural MSMEs and households, enabling districts to undertake responsive MSME activities such as market improvements and small business training – K500,000 has been allocated to each district. Full warrants have been released and funding set aside from the first COVID19 Bond raising with disbursement taking place as we speak;
- K41.5 million as an additional Business Stimulus Package to protect jobs and make doing business easier which will be mainly directed to support Provinces to reduce existing charges on businesses. Full warrants

have been released with the first K19.5 million from the first COVID19 Bond and K22 million from the IMF RCF; and

- K70 million for additional economic-based activities to help stimulate the economy, with options being discussed further with the IRC and Customs, as well as other more direct stimulatory measures. Warrants are waiting final programme details.

Mr Speaker, The Marape Government is cognisant of its responsibilities to transparency and accountability. For example, Provinces and districts are to report on all spending, in accordance with Finance Instruction 5-2020 on COVID 19 procurement and reporting requirements, which is available on the government's procurement website ([http://www.procurement.gov.pg/wp-content/uploads/2020/05/FI-05-2020-Expenditure-Control-of-Funds-for-COVID-19-Emergency-Response\\_signed.pdf](http://www.procurement.gov.pg/wp-content/uploads/2020/05/FI-05-2020-Expenditure-Control-of-Funds-for-COVID-19-Emergency-Response_signed.pdf))

Details of COVID-19 spending, will be published on the Procurement Commission's website.

Mr Speaker, these initiatives are practical and effective, very carefully targeted and look to the future, as much as dealing with the immediate impacts of the coronavirus pandemic.

They place the interests of our people at the centre of our efforts.

I want to stress that most of the money is going to provinces and districts – continuing our decentralised approach and our focus on the rural and subsistence economy and the informal sector. This is where the bulk of our population is, and it is entirely appropriate that that is where the money should go. This is our fundamental policy when it comes to disbursements of much of this funding – the local level knows how to spend the funds more effectively, for many of these programs than bureaucrats in Port Moresby.

For example, K211 million is going to provincial and district administrations. In addition, Provincial Health Authorities are receiving K37 million extra – a 22 percent increase in their budgets, and provinces will receive support for lowering PMV fees and charges.

Honorable Members will appreciate that this is a remarkable achievement, at a time when COVID-19 has added to the devastation, caused by Mr O'Neill's destructive and discredited leadership.

Most economists agree that this is the worst economic crisis facing the world since the Great Depression back in the 1930s, nearly a century ago, and Papua New Guinea is having to deal

with it as a “fragile state,” thanks to the former Prime Minister.

This is just a friendly term the international community uses for failed state.

So, Mr Speaker, the Marape-Steven Government is being forced by the O’Neill disaster, to deal with COVID-19 with one hand, tied behind its back.

One consequence of the former Prime Minister’s waste and mismanagement is that the Government will need to re-allocate all the planned additional COVID-19 expenditure from other budget programs. This means the K600 million stimulus package, along with the K45 million provided earlier for health activities, means we will be looking at budget cuts of at least K645 million. For technical reasons, the World Bank health support of K70 million will also add to budget expenditures, and we will find budget cuts for this as well. So budget cuts of at least K715 million is required, to keep our expenditure at the same level as the 2020 budget. The CACC is examining areas to be cut. As noted above, the additional drop in forecast revenues of K222 million and the loss of at least some of the ADB Partial Credit Guarantee, means we must somehow find ways to finance this, or else look for even deeper budget cuts. More analysis will be made and our

financing plan will be updated shortly – most likely with a shift towards more domestic financing and quantitative easing.

Mr Speaker, the Marape Government's COVID-19 response is not just a simple spending package. Unlike the former Prime Minister, who spent like a madman and impoverished the nation, we have adopted a caring, people-first approach that is innovative, responsible and sustainable. We have used a wide variety of strategic interventions, to complement the K600 million direct spending in our Economic Stimulus Package so that our children and grandchildren, are not buried in debt for the rest of their lives.

These interventions are aimed at saving jobs, protecting household finances and supporting local businesses in both the formal and informal sectors, and urban and rural-remote communities alike. They support women as much as men, the young as much as the old.

Mr Speaker, ours is a very balanced and fair response, based on extensive consultation with all sectors of society.

- We have worked in close consultation with the Independent Consumer and Competition Commission to control price increases, which helps protect the standard of living of all families and reduce the cost of doing

business for our entrepreneurs. Indeed, we have been vigilant, in ensuring that fuel cost reductions have been passed on. The lowering of fuel costs is acting like a massive subsidy to the freight transport industry, a great help in supporting our farmers access to markets at this time of COVID-19.

- We will also help families and businesses by cutting the cost of transport, which will have far-reaching benefits across the economy. Action includes making it cheaper for traders, to reach markets by removing fees and charges imposed by Provincial Governments and transport authorities, until the end of 2020. License fees for PMV operators will be halved. This is in addition to the fuel cost price reductions.
- We have prioritised our Budget measures to clear government debts to business, many of which are local enterprises, allocating K2.5 billion in arrears clearance between 2019-2021. K1 billion will be repaid this year. This is debt, that the former Prime Minister ran up to unsustainable levels and then refused to pay. This will help provide operating cash for companies in priority sectors, and provide cashflow to MSMEs which are highly vulnerable to deteriorating economic conditions

- We have instituted a range of taxation concessions to help companies manage cash flow and to reduce regulatory burdens. We are encouraging Papua New Guinea's growing number of entrepreneurs through a cheaper and simpler tax regime – 2 percent of turnover for small businesses rather than 30 percent of profits.
- We are taking steps, with the Investment Promotion Authority, to lower the regulatory cost of doing business - for example we are reviewing the Corporations Act to strengthen business resilience during periods of economic hardship.
- We will be introducing changes to superannuation legislation, to authorise early access to superannuation to provide cash for households, that would otherwise, be in financial crisis because breadwinners have lost their jobs, a measure that is worth about K500 million.
- We have negotiated with the finance sector for loan repayment holidays for qualifying business customers, by introducing two interventions (i) reducing the KFR from 5 to 3% (ii) reducing commercial banks cash reserve requirements (CRR) from 10% to 7% of total assets, which is estimated to be worth a further K500 million in support. We are working with the MSME Council and

others to track how this is working in practice to support our businesses. And YES, government is aware that many commercial banks, may not be cooperating and passing these benefits to their business customers.

- We have discussed the implementation of quantitative easing to enhance our capacity to raise cash on the domestic market. We are considering further actions in this area, to ensure that BPNG has the same room to move, as most other central banks in our region.

## Conclusion

Mr Speaker, our response to COVID-19, in terms of protecting people, protecting the economy and protecting government finances, continues and enhances the Marape Government's Take Back PNG agenda.

It further entrenches our new vision for a stronger, more independent and more sustainable Papua New Guinea – moving government's emphasis to the non-resources sector and the informal sector, much greater assistance for agriculture, much greater support for entrepreneurial small businesses, much greater support for rural areas, more decentralised actions and decision-making, cutting red tape,

and supporting the move in the 2020 Budget towards development spending rather than public service wages.

Despite the devastation, the Marape-Steven Government has seen this crisis as an opportunity – and as a result this Economic Stimulus Package is not just for now, it is for the future.

Thank you Mr Speaker.



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