



SUPPLEMENTARY BUDGET NEEDED URGENTLY

Speech in Parliament by
Rt Hon Mekere Morauta KCMG MP
Member for Moresby North-West and former Prime Minister
in response to the Treasurer's Statement on the Economy

02 July 2019

Mr Speaker, I will confine my comments to Revenue, Expenditure, Foreign Currency, State-owned Enterprises, Debt and Foreign Aid.

Revenue

Treasurer; You said that the Government is [quote] "slightly behind on revenue", with revenue for the first 5 months K974 million – or 19% - less than budgeted.

A few days later the Finance Minister said revenue was down by K2 billion – K1.25 billion greater than your figure. Who is right? You, or the Finance Minister? And whether the revenue shortfall is K974 million or K2 billion, neither figure is "slight", as you describe it.

Very loud alarm bells should be ringing in your ears.

Because first, the shortfall indicates that the budget is way off mark, bordering on useless. And second, it shows that the economy is stuck in a recessionary gear.

Corporate tax, GST, mining and petroleum taxes are all down. State enterprises are not performing, paying only K100 million of the budgeted K500 million in dividends. Departmental contributions are also lower than budgeted.

You mention that [quote] "higher use of infrastructure tax credits may also be responsible for lower tax collections in 2019".

Treasurer, there is no "may" about it. Without question, the use of tax credits has been grossly abused in the past for glorification projects, parties for foreign visitors, football games and conference buildings with sea views, resulting in lower current tax revenue.

You did not mention that you intend to correct such abuse and bring the use of tax credits back to the purpose for which they were introduced – to be spent on projects chosen by the Government in the areas in which the resource projects are located.

Expenditure

On expenditure, you say that [quote] "operational expense from January to May was K4.5 billion, which is 3 per cent higher than expected but much lower than the total warrant of almost K5 billion that Treasury had released".

What does this mean? Lower than "expected". Do you mean lower than budgeted? If not, whose expectations are you relying on?

And then you go on to say that the actual expenditure, although higher than expected, is lower than the amount issued in warrants by Treasury. Why is Treasury issuing warrants without cash to back them up? You may as well write warrants on toilet paper. At least toilet paper has some other utility.

You say that Personnel Emoluments for national departments exceeded budget by 7.3 per cent and for teachers by 11.0 per cent. Why? And yet, many public servants are complaining about not receiving their entitlements in full.

Clearly, the budget assumptions and settings cannot be relied on.

You say that the following expenditure categories were [quote] "controlled":

- Education subsidies
- Medical supplies
- Emergency roads and bridges
- Provincial Health Authority operations
- Tertiary education study assistance
- Provincial functional grants

To me, these are essential items of expenditure; they directly affect the welfare of people and the operations and effectiveness of provincial governments. Why are these areas not fully funded? Should you not be controlling and cutting expenditure on non-essential services, and stopping abuse, wastage and corruption?

Foreign Currency

You are correct Treasurer when you say that there is a foreign currency shortage, and that it continues to hurt businesses operating in PNG. On top of the current shortage, there is an accumulated backlog.

Neither selective, discriminatory rationing of foreign currencies nor short-term expensive commercial borrowings will extinguish the shortages quickly. Yet you say that the Government is negotiating two new loans and another sovereign bond issue.

Commercial borrowings for spending through the budget will create additional demand for foreign currencies, so such borrowings are only of partial help in freeing the forex constraint.

Treasurer I suggest strongly that you consider pure balance of payments borrowing from the International Monetary Fund or some other sources. The difference with pure balance of payments borrowing is that the receipts do not flow to consolidated revenue for spending.

The receipts are held by the Central Bank and add to the stock of foreign reserves the country has.

That, and not commercial borrowings, will solve the shortage.

State-owned Enterprises

Treasurer, there seems to be some contradiction regarding the role of state-owned enterprises.

On the one hand you expect them to be cash cows, paying large dividends to support the budget. On the other hand, you expect them to be [quote] “drivers of economic development”.

To be drivers of economic development, SOEs have to be free from political interference; adequately capitalized by the shareholder – which is broke; and be run on commercial lines.

The outputs of these enterprises - power, telecommunications, water, sea and air transport, are inputs to the private sector and essential consumption items for the general public. So, providing these inputs affordably, reliably, efficiently and profitably is the role of SOEs. SOEs should not be treated as mere ATMs by the Government. Their outputs affect the cost structure of the country and living standards.

I created IPBC to bring SOEs under one entity, to clean them up and prepare them to play the role I just outlined, whether owned fully by the state, sold, contract-managed, or merged with private sector companies in public-private partnerships.

The success of Bank South Pacific, which you mention, is exactly what was intended for all SOEs. Similar successes can be achieved with other SOEs if reforms and restructuring are undertaken carefully and professionally.

I find it disturbing that the Government is now breaking up responsibility for SOEs, taking entities out of Kumul Holdings (ex-IPBC) and putting them under sectoral or regulatory departments – for example, Air Niugini under the Transport Ministry, and PNG Power, Telikom and DataCo under the Ministry for Communication and Energy.

This will open the way for political interference; it will result in confusion of roles and even less accountability and transparency. It will be difficult to instill commercial discipline and adopt commercial practices. It will be difficult to develop a comprehensive and coherent commercial framework for SOEs.

The Government should review this decision.

You mention the need to revise the legislation for Kumul Petroleum. I urge you to do this as soon as possible. The recently leaked letter to the Prime Minister and Minister for Petroleum indicates the gross abuse and corruption in the operations of Kumul Petroleum. Kumul Petroleum revenues are public monies and should be paid to Consolidated Revenue, not frittered away by the Board and management of the company.

I suggest that you and the Minister for State Enterprises immediately demand audited accounts from Kumul Petroleum and table them in Parliament. I also suggest that the Government undertakes forensic investigation of the company's past expenditure.

Borrowings and Debt

Treasurer, borrowings are a normal, accepted method of financing budgets. There is nothing inherently dangerous or evil with borrowing. It is prudent to borrow, provided two tests are satisfied:

1. That the proceeds are not used to fund recurrent expenditure or build unproductive infrastructure, and
2. That borrowings are tied to specific projects capable of creating sufficient income to service the associated debt and make net contribution to the economy.

We await your disclosure of the actual level of debt and the cost of debt service. The figure should include all off-balance sheet debt, hidden in various SOEs, NCDC and other cupboards.

Once we have a full picture of public debt, the make-up of the debt should be reviewed. Where possible, the most expensive loans should be refinanced and the maturity of others extended, so that the repayment burden is lightened.

Multilateral and Bilateral Aid

It is disappointing that Treasury has no account of foreign aid receipts for the year so far. It seems you are asking foreign governments and institutions to provide the figures. How strange.

Three things are clear:

1. The Government is not in control of foreign aid;
2. The Government is not managing foreign aid properly; and
3. Foreign aid is not integrated into the budget. Its use now does not necessarily reflect the country's development priorities.

Conclusion

Overall, your statement highlights four issues:

1. The non-mining sector of the economy is not in good shape;
2. The revenue assumptions of the budget are over-optimistic and expenditure levels are unsustainably high;
3. The gulf between revenue and expenditure is widening and will result in higher deficits, higher borrowing and increased debt burden; and
4. The budget needs to be repaired and restructured to be more realistic.

Your statement indicates that Treasury is regurgitating to you the same advice that resulted in the bad fiscal position we are in.

It is critical that the Government act to free us from this fiscal black hole, from corruption, waste, mismanagement, poor budgeting and over-reliance on borrowings and on the mining sector.

A supplementary budget is needed to reallocate the money we have now to:

1. Protect core services in health, education and law and order;
2. Maintain income-generating and productivity-enhancing infrastructure;
3. Stimulate the non-mining sector; and
4. Clear government arrears and pay contractors and suppliers in full and on time.

Meanwhile, the Government needs:

1. first-rate economic advice, and
2. a deep and comprehensive Public Expenditure Review:
 - to lay the framework for future budgets, beginning in 2020;
 - to find ways of delivering services more effectively and cost-efficiently; and
 - to lay the foundation for more balanced and sustainable economic growth.

Thank you, Mr Speaker.