



2018 Budget Response

A Positive Alternative

to

Fake Revenue, Fake Loans and a Fake Budget

Delivered by

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Introduction

Mr Speaker, I am humbled as I am honoured-to stand in the house today, to present- Her Majesty's Opposition and the Alternative Governments detailed response to the 2018 Budget.

Mr Speaker, I convey our appreciation to the Prime Minister and also to the Leader of Government Business, for abiding with parliamentary convention, for not repeating the shocking mistake of 2016 and therefore, allowing for an Opposition budget reply this year.

Mr Speaker, The Alternative Government will only fight the good fight! We have a genuine desire to rebuild this nation, to partner with like-minded leaders, many of whom sit on the opposite side of the house. Oppositions in the past, in most countries, share a simple motto: Expose, Oppose and Depose. But we want to rebuild our country- the proper way. So our motto, will be different. During this term of parliament, the Alternative government will Expose, Oppose and Propose. A subtle difference, a small difference but one that will establish and magnify our integrity and showcase our experience and most

importantly, our track record of successfully managing the government, the budget and the economy. This is our point of difference!

Mr Speaker, I stand here not just to oppose the errors and misjudgements of the 2018 Budget-K2 billion of fake revenue, fake loans and inevitably, a fake budget- because when the government runs out of money again in 2018, we will all be called back to the house, pass yet another supplementary budget, which mostly, is a sign that the budget has failed, yet again! This Budget is filled with misguided spending priorities, failed plans for financing and yet, another huge deficit that will burden our children with too much expensive debt.

Rather, I stand here to propose solutions. I propose these solutions representing the Alternative Government of Papua New Guinea.

Mr Speaker, the Alternative Government has the experience to fix this economy and fix this country. The National Alliance Party had to take over the reins of bedding down economic reform commenced around 2000. These reforms were started by the Honourable Member for Moresby North-West who sits on this side of the house. They were continued during the term of the

Leader of the National Alliance, the Honourable Member for Aitape-Lumi in his senior roles as an NA Minister in Grand Chief Somare's government, including his years as Minister for Treasury and Finance.

Those National Alliance years were good years for Papua New Guinea. From 2003 to 2011, there was growth, after allowing for inflation of 5 per cent per year in incomes measured by non-resource GDP. For reasons I will go into later, it is better to measure the economic welfare of the people of Papua New Guinea by focusing on the non-resource parts of our country rather than giving too much weight to just big mines and LNG projects. In contrast, the current government is aiming for increases of only 2 per cent each year. We need to aim higher. We need to get back to higher growth rates relevant to PNG's people. During the National Alliance years, nearly 15,000 formal sector jobs were created every year. Under this government, over the last five years, there has been no formal sector job increase—infact, the number of jobs has been going backwards by some 4,000 jobs per year. The National Alliance has demonstrated that we can deliver on improving the standards of living and jobs prospects of

our people. This is in a big contrast to the current government.

Mr Speaker, the Alternative Government of Papua New Guinea has a better vision for this country. This vision is truer to our founding principles and ideals. Over the last five years, it seems, the government has lost some of its way on serving the interests, of the people of PNG.

We need to get back to focus on PNG's people, our rural people, the often-forgotten majority, who have no access to clean, reticulated water, electricity and privileged access to urban services like shopping centres and even just basic government services. We talk a lot, eat a lot, smile a lot and are always in the newspapers, tv and even all over this uncontrollable dragon called Facebook! We need to see and touch, our billion kina budgets, we need to see these millions and billions working in our remote villages and remote provinces. It's just not happening! And if it is - it's not fast enough. We need to empower our rural people, so they and their children can live healthier and more productive lives. As the people's representatives in this Parliament, we have this as an obligation. One that should be above politics and personnel gain.

With the kindest possible interpretation, possibly, the government has finally started to accept the enormity of some of their mismanagement and the adverse impacts this has had on our families and our businesses. The Minister for Treasury seems to acknowledge that there is a revenue crisis. He also admits in the Foreword to the Budget how “the shocks have had a much greater impact than initially anticipated and continue to have an adverse impact as we end 2017”. It is good to know that there is at least, some straight forward talking on how bad things have become.

To my brother members in this house, if you have been focused on the rural setting and touched the lives of our little people, I acknowledge you, I thank you and I respect you.

And why has this revenue crisis happened? Part of the problem is that this government has been far too slow to respond to changing circumstances. The drop in international commodity prices occurred three years ago. So what has the government done? They initially pretended there wasn't going to be a problem, believing it was a fake problem, pretending that there would be no

impacts on the economy because LNG prices were claimed to be in fixed price contracts.

Mr Speaker, that was clearly a lie. The force of the lie was clear by the middle of 2015 when the PNG Treasury admitted that revenues had fallen through the floor. But still the government continued to sit on its hands.

By sitting on its hands, by not doing enough to turn things around three years ago, it means that adjustment is now much harder. This was a serious mistake with the government sitting on its hands for far too long.

The language in the budget claiming economic recovery is underway is a wonderful sentiment. However, once you believe this is the case, the danger is that you sit back on your hands again.

Mr Speaker, contrary to the language being used by some Ministers on the other side, indications are that PNG is already in a recession. I am pleased that Minister Maru has stated that PNG was headed towards a recession, but others are pretending, the economic recovery is underway. However, the latest figures from the Bank of Papua New Guinea indicate that during the first six months of 2017, business sales have gone backwards,

employment has gone backwards, and private sector credit has gone backwards. The fact that our income tax collections keep falling is also a sign that we are going backwards. Experts at some of the most eminent universities in our region, consider PNG is in a deep recession.

There is an urgent need for us to have the policies to turn around the economy and to improve the prospects for raising the standards of living for our people.

Things have become so bad that PNG's economy is like a badly leaking bucket. It is even difficult to determine which holes need to be fixed most urgently.

The Alternative Government has a vision for getting PNG out of this mess and this very deep hole that the government has dug over the last three years.

The Alternative Government understands that many economic issues must be addressed. Initially, it has made strategic choices and has decided to focus on just three critical economic issues for fixing:

- a budget crisis as clearly revealed by last Tuesday's Budget,

- a jobs and standards of living crisis as experienced by so many in PNG,
- a foreign exchange crisis.

I will expand on each of these three crises in this budget response, setting out the challenges as well as solutions. These three economic crises must be fixed in concert-together with, other action to address PNG's deep governance, corruption and social challenges.

Budget Crisis

Budget Problem

Mr Speaker, let me return to a more detailed assessment of the budget itself.

As I work through the 2018 Budget, I inevitably bring my experience as a businessperson into understanding more, our country's budget.

The perspective of a businessperson can cut through much of the confusing language we see in budgets.

Put simply, when I look at the budget, I think of PNG as being similar to a very large and diverse company-PNG Government Limited.

Like a business, PNG Government Ltd gets money, spends money, and hopefully, makes a profit and not a loss. So for the 2018 Budget, all the budget revenue figures, those

from taxes, property income and donor grants, they are similar to the sales revenue of a company.

Like a business, all those wages and grant transfers and interest expenditure are similar to a companies' expenses.

The difference between sales and expenses is profit or loss. Looking at this budget, we see that PNG Government Ltd has been making some very big losses in recent years. These losses are, by far, the biggest in our nation's history! The latest loss we have had confirmed is that for 2016. That was a loss of K3.1 billion. In 2015, we had a loss of K2.5 billion. In 2014, a loss of K3.2 billion. In 2013, a loss of K2.7 billion.

Mr Speaker, it has to be asked, is PNG Government Ltd broke? Our people are feeling the pain through a lack of jobs, a lack of incomes, a lack of foreign exchange and a lack of important government services.

The last time PNG Government Ltd made a profit was back in 2010 under the National Alliance Party. Later in my speech, I will show how the wisdom of the National Alliance can, working with the people of PNG, turn around the fortunes of what has become a very sick company under its existing Board of Directors.

And of course, when you make losses, you either go broke or you have to mortgage the house, sell off assets and borrow more money. And that is what the government has been doing. Since 2011, debt has grown from K8 billion to over K24 billion. Looking at it another way, our past governments took 37 years since independence, to build up PNG's total debt to K8 billion. Then in 5 short years between 2012-2017, the current government built up debt to K24 billion-tripling debt in 5 short years only.

And with much bigger debts, a company has to start paying out much more interest. Interest expenses have gone from K0.5 billion in 2013 to an estimated K1.8 billion in 2018. This is an extraordinary and massive increase of K1.3 billion because of the government's irresponsible attitude to properly managing the finances of the company, especially the three year gap before the government finally admitted that it needs to adjust to the shocks. A three year wait - No business could survive with such inaction.

So with this perspective of a business person, how does the 2018 Budget compare?

Let me first look at the projected sales figures for this is the starting point for any company in making its plans.

Looking at this budget's sales figures, I must conclude that the directors of the company PNG Government Ltd are seemingly, deceiving their shareholders.

Mr Speaker, this budget is built on false and misleading foundations. It contains at least K2 billion in fake sales revenues in its starting base.

Let me expand on this very important claim. From a simple businessmen's perspective, if you don't forecast your sales correctly, then the rest of your business is at risk.

The 2018 Budget's revenue assumptions are, frankly, wrong. So wrong and so largely wrong that frankly, we call them FAKE REVENUE! Given the state of the PNG economy, you would have to be an ignorant business person to assume, your revenues were going to increase as much as assumed in this budget-a 20 per cent increase in sales from K10.6 billion in 2017 to K12.7 billion in 2018 – NOT ON Mr Speaker! FAKE REVENUE!

This government has a record of telling some, well, lies about revenue. I'll prove my point! The 2014 Budget claimed revenues would be K12.7 billion. IT WASN'T! It was K11.5 billion-a shortfall of K1.2 billion!

The 2015 budget claimed revenue would be K13.9 billion. IT WASN'T! It was K10.9 billion a shortfall of K3 billion.

The 2016 Budget claimed revenue would be K12.7 billion. IT WASN'T! It was K10.5 billion- a shortfall of over K2 billion. Again.

Mr Speaker, We are making the same mistakes, time and time again - over and over again – year after year-when will we learn?

We don't know how bad the 2017 budget estimate is yet. So far we know, the mid-year update acknowledged that it would come in at least K0.5 billion short. This budget has nearly doubled that shortfall to K0.9 billion. But we won't know until March next year how bad the actual figure will be.

A key requirement for this budget was credibility. A true building block. An absolutely essential starting point, was to have a credible revenue number for 2018. Instead, this budget is full of such obvious tricks that it would absolutely fail, most credibility tests.

The 2018 Budget has, at this early stage, some K2 billion in “fake revenue”. And when you start your sales figures with a lie, your tempted to make your expenses are lie and

that's when the rest of your budget falls to pieces. This is not the "building block" that the Minister for Treasury promised.

So where is this K2 billion in "fake revenue?"

First problem is we have a fake formula- giving K24 million to the Internal Revenue Commission and Customs to collect and squeeze an extra K755 million in revenue. A return of K31 for every extra K1 in admin costs? Not credible. Not workable. Not true!

Why not credible? Well, the government tried the same trick in the 2017 budget where it budgeted K19 million to the IRC and expected to generate K400 million in extra revenue – a fake return of K21 for every extra K1 in admin costs. Instead, revenue has gone backwards by at least K1 billion.

And why not credible? When we go into the budget detail, we see great expressions such as on page 70 of Volume 1 that, and I quote "In 2018, there is a greater emphasis on revenue generation, therefore K3.0 million has been allocated toward Revenue Raising Initiatives." That sounds good but when we go even further into the detail of this budget, in the Public Expenditure Program,

we actually find that the funding for the “Revenue Raising Initiatives” program, listed on page 78 of Budget Volume 3, a program that actually commenced way back in 2014, that the government actually has cut funding from K5 million in 2017 to K3 million in 2018! Are we now seeing fake initiatives too? They talk about doing more resource raising initiatives, but this is actually an old program and they've cut funding for the program in this budget too.

Why not credible? The government claims it will receive K1,250 million from our struggling State Owned Enterprises, on top of a surprise and incredible K565 million once off payment. This is very suspicious accounting and it is very suspicious forecasting. There is no way that our State Owned Enterprises can pay such huge dividends. No way! There simply is not enough money in the balance sheets of these organisations for such huge payments. Instead, these organisations are having to borrow money to pay these dividends in some very very suspicious deals. This will simply mean poorer services from our power and water utilities.

Why not credible? The 2018 budget assumes an increase of over K0.5 billion in GST revenues — up from K1.5 billion in the 2017 Supplementary Budget to K2.0 billion in 2018.

When I first saw this, I was worried that the government had decided to increase the GST rate from 10 to 15 per cent! How else could they have got so much money from GST? But they say that they are only going to review the GST rate, not that they have increased it is yet. I am very concerned about the increases in the costs of living that are being considered by this government.

Without these K2 billion in sales, then either expenses have to be cut further, or there will be further losses and even more debt again. Goodbye DSIP!

Mr Speaker, Let me now turn to some major issues with the government's expenditure plan or choices on expenses.

The government has been spending too much on the wrong things, and not enough on the right things. There has been budget austerity-cut backs in the key areas required for development, and a free-spending approach to big projects, especially in Port Moresby.

So let's look at the actual pattern of increases in this 2018 budget. Who are the biggest winners? The biggest increase of an extra K482 million goes to interest costs. The next biggest increase of K310 million is to the administrative sector. These reflect poor priorities and

previous mismanagement from the government. As Secretary to the Treasury has admitted, there has been an extraordinary expansion in the number of public servants. The figures he's quoted are that public service numbers have jumped from 70,000 to 130,000.

On a more positive note, we support the increase in health expenditure of K285 million. But this still means health gets less money than even in the 2016 Supplementary Budget. The government has not even restored the slashing of funding of the bitter 2017 budget. Relative to the 2015 budget, health has been cut by 16% in real terms. It's no wonder our health services are declining! It is good that more funds are being provided for medical supplies. However, the underlying issue is a lack of transparent competitive tendering in the medical supply contract. People know that this has been a major issue in the health system.

The next largest increase goes to the economic sector. This could be a good thing. But nearly half of this expenditure is for APEC. Whilst now locked in, there really were more pressing development needs in our economy than this expensive showpiece. Indications also are that the K300 million in funding will be entirely inadequate, and

we expect the final cost will be much greater. The government has also talked up big the increased funding for the agriculture sector. I will discuss that in more details when outlining how such spending could be spent much, much better.

So the biggest winners in this budget are interest costs, administration, health and APEC. Are some of these really the right priorities at this time of severe economic pain and failing government services?

Further down the priority list there are increases in education of K131 million. But this once again does not go close to restoring funding. The education sector has had a cut from K1,554 million in the 2015 Budget to K1,293 million in 2018. This is a slashing, after allowing for inflation, of 31 per cent in real terms despite the pressures for more schools, more teachers and more access to ever higher levels of education. No wonder our important education institutions are really feeling the pain! As a result, this is pushing down the quality of our education standards. We need to stop and look seriously at whether this is the right education policy for our future. Certainly, many people in my electorate regularly talk of their concerns that their children are going off to school but not coming back to

the village with practical skills. They are not being trained properly, and the jobs are not being created. I will discuss this issue more in the jobs crisis section below.

The transport sector has been cut from K1,586 million in 2015 to only K937 million in this budget – a real cut of over 50%.

Law and order has been cut from K1,244 in 2015 down to K1,064 million in the 2018 budget – a real cut of nearly 30 per cent. Why has this government decided even in the 2018 budget to slash funding for our vital police and judicial services? Provision of good law and order is so vital for providing safety in our communities, of dealing with issues such as domestic violence and fake witchcraft allegations, of providing reassurances that can build our tourist industry. And especially in this APEC, it seems unusual that we are cutting support for our security and police services.

Mr Speaker, I must also state our concern at the enormous cut in the community and culture sector from K222 million in 2017 to only K102 million in 2018 – a cut of over 50% in just one year. We applaud the increased emphasis on economic activities, but we should not lose sight of the importance of our extraordinary cultural

diversity, and the importance of supporting our community.

A hidden feature of all of this is in the Provincial allocation. This is funding for the provincial and district services improvement programs. Collectively, it seemed, after the consultations of the Minister for Treasury, there was a general acknowledgement that we may need to defer some of these payments until the books of PNG Government Ltd were in better shape. This was the key feature of the Supplementary Budget where over 70% of the reductions came from these deferrals. Given the revenue crisis we are facing, possibly it would have been better if we decided to defer some of these payments again. This could have reduced pressures by nearly K1 billion. Instead, we see that the government has fallen back to this recent form of patronage payments which in fact disempowers and debilitates our people and us as representatives of our people .A stand-out area where the government has lost control of its spending is interest costs. As mentioned earlier, these interest costs have exploded from K0.5 billion in 2013 to K1.8 billion estimated for 2018. This increase of K1.3 billion is double the cost of

introducing tuition-fee free education. This is an expense that should have been kept under control.

Once again, from a business perspective, controlling interest costs has two key components. The first component is ensuring that you keep a good credit standing. Unfortunately, despite the historic opportunity to improve PNG's credit rating because of the PNG LNG project, international credit rating agencies have downgraded PNG's rating. The loss of confidence in the local markets has also contributed to the cost of Treasury Bills nearly doubling in cost. Rebuilding confidence in economic management is crucial to reducing these interest rates again – and every one percentage point drop in interest rates will now save close to K150 million every year.

A second part of controlling interest costs is controlling the level of public debt. This is where the extraordinary poor performance on sales planning has come home to bite. PNG has had its largest series of losses on its budget accounts ever over the last five years.

The 2018 Budget now reveals that the deficit for 2017 has blown out yet again. to K2.3 billion. So on 7 November, only three weeks ago, the government said in its 2018

Budget Strategy that the 2017 deficit would be K1.9 billion. Now, although this isn't clear in the tables, 2017 revised revenue has fallen another K408 million.

This leads to a very major concern those on this side of the house have with the Minister for Treasury's budget speech delivered one week ago. Indeed, I am very concerned that the Minister for Treasury misled the house when he presented the budget. For in his speech, whenever he talked about 2017, he only ever talked about the revenue and deficit numbers at the time of the Supplementary Budget delivered on 27 September, more than two months before last Tuesday's budget. However, he knew that in those two months, the PNG Treasury, working with IRC and Customs, had taken another K408 million off its revenue estimates.

Mr Speaker, he hid this K408 million reduction from this parliament. He hid the implications that this means the 2017 budget deficit has also increased by K408 million. He hid from this house that this meant that the 2017 deficit is now 3.1% of GDP, not the promised 2.5%. He hid from this house that he had now failed to meet the very first point in his now expired 100 Day Plan – deficits were bigger and public debt was bigger than he promised.

Mr Speaker, unfortunately the Minister for Treasury seems to be stretching the truth! Two weeks ago, During Question Time, I focused on the governments announcement of a signed K16 billion deal with China. These figures and projects do not feature in this budget! These projects are based on tied financing. Point 18 in his 100 Day Plan said the government would cease tied financing. And even after this was pointed out, what does the Minister for Treasury do in his Budget Speech? He totally ignores this reality. He simply states "Point 18 is for the ceasing of closed tender financing which Cabinet has approved.." and then goes on to talk about the National Procurement Authority. Another broken promise, another deception in the speech.

If you were on the Board of Directors with your Chief Finance Officer changing the numbers so much so quickly, and then hid this fact when doing their presentation on the accounts to the Board, and they also hid the fact of a K16 billion tied financing deal, you'd be suggesting he be replaced! Minister for Treasury, this was a very disappointing aspect of last week's speech. It seriously hurts ones future credibility. When Ministers do this, how can we trust them?

Experience suggests the actual loss in 2017 for PNG Government Ltd will be much worse than even a K2.3 billion loss, but we won't know for certain until March next year with the 2017 Final Budget Outcome. For example, the budget indicates that Ok Tedi has only paid a dividend of K130 million, not the K200 million shown in the budget. Kumul Consolidated Holdings Ltd is also struggling to find the K100 million that are still in this budget's fake revenue figures.

Mr Speaker, from 2012 to 2016, losses on our budget accounts averaged K2.9 billion every year, some 4.7 per cent of our entire economy every year. A loss requires more borrowing, and that means more debt. PNG's debt levels have trebled from K8 billion in 2012 to some K24 billion in 2017. Clearly, this is not sustainable. No household or firm in PNG could allow its debt levels to increase so much when its incomes and sales were doing so poorly.

Unfortunately, once again the CFO has been failing in his job and we still do not know exactly how bad things are. Even the K24 billion figure is hiding debts we know are on the books of the Kumul enterprises as well as other liabilities such as over K2 billion in outstanding superannuation liabilities. This is like stealing from your own

employees, the very people who helped keep your business afloat. We also know that there are significant arrears in simply not paying suppliers to government. No business would be allowed to operate in this way. . And we also know that funds have not been promised to meet resource owner entitlements. This is a very risky path to go down. Proper payments have not been made to the people of Bougainville. The government has fallen behind in some very important payments to our people.. Be warned, the resource owner of PNG are getting angry because of the poor performance of this government.

Mr Speaker, I have talked about the fake revenues in the 2018 budget. But I must also talk about the fake loans, the hidden and uncertain financing of this budget.

PNG Government Ltd continues to make big losses, and these must be financed through some type of borrowings or financing. Just as this government has form in pretending there are fake revenues each budget, this government also has serious form about fake loans to finance the losses.

In the 2015 budget, there was the incredible statement that the deficit would be financed through the sale of 4.27% of PNG LNG shares held by Kroton. This was,

according to the budget, going to generate K2.5 billion in revenue. Instead, during the election campaign, the relevant landowners were promised that the shares would be given away for free. In this budget, there is talk of neither. This is either fake sales or fake promises.

Mr Speaker, how long have we heard about the mythical Sovereign Bond. It keeps appearing in our books as a fake financing item. Extraordinarily, there is built into the 2018 Budget plans for K640 million in 2018 in “extraordinary” financing which appear to be the “highly concessional” budget support loans from the Asian Development Bank and the World Bank. However, there is no detail of these loans in the budget documents. Apart from showing up in financing tables and some very broad comments, there is no detail. There does appear to be a new health sector program from the Asian Development Bank, but that is only listed as providing K20 million. We are assured that there were discussions in Washington about such a loan. However, I fear this is just a fake loan, wishful thinking on the part of the Ministry for Treasury. This is because the World Bank does not give budget support loans unless it is in consultation with the IMF. And the latest IMF report made clear that it thought the government needed to fix

up its exchange rate problem, and look at reducing DSIP funding. This budget does neither, so the chances of a loan would seem very remote.

Another K640 million in fake loans in 2018 is the so-called Sovereign Bond. Yes, exactly the same figure as the claimed budget support loans. The Sovereign Bond has been promised for each of the last three years. Indeed, the 2016 Budget hoped for a K2,800 million Sovereign Bond – a plan which came to nought. The Secretary for Treasury assures us once again that the market indicates that the time is right. Indeed, he indicates that even Mongolia has been able to access a Sovereign Bond. This is an interesting analogy. Yes, Mongolia did issue a Sovereign Bond in August 2016 but by March 2017 it was reported to be in difficulty in repaying its bonds. So instead, it had to go to the IMF for an economic adjustment program which started earlier this year. This is bringing in some K15 million in cheap financing. We say rethink the Sovereign Bond issue! Possibly PNG should just skip the expensive Sovereign Bond attempt and jump straight to seeking friendly foreign support under a complete package of needed but painful economic reforms. Mongolia is now able to issue Sovereign Bonds

again, but only because they are benefitting from friendly foreign support.

So if fake financing of selling the PNG LNG shares, fake budget support and fake Sovereign Bonds have not happened in the past, then how has the government's big losses been financed? There have been three ways. First, more and more short-term Treasury Bills have been issued. The value of Treasury Bills have skyrocketed from K2.8 billion in 2012 to K9.4 billion in 2017. These Treasury Bills are having to be rolled over at least every year. That is why, as part of the budget, there is an Appropriation Bill to pay for these debt rollovers of an extraordinary K10.3 billion. This is on top of the K1.8 billion in interest costs. The second source of financing is the expensive Credit Suisse loan which didn't raise as much money as hoped, but still amounts to K1.4 billion. The third and related source of financing is the Central Bank effectively printing money by buying all leftover Treasury Bills from auctions-that no one wants. History indicates that is a very risky form of financing and certainly qualifies as a fake loan.

Before I start setting out some Alternative Government solutions out of this mess, let me note the interesting similarities between the 2016 and 2018 budgets. Both the

2016 and 2018 budgets had around K14.7 billion in expenditure and assumed income of K12.7 billion. The 2016 budget ended up having a K2.1 billion revenue shortfall. This led to expenditure cuts of K1.2 billion, and a K0.9 billion blow-out in the deficit and increase in public debt. It looks as if we have not learnt and are already going down the failed path of the 2016 Budget. It is better that we acknowledge that now.

So even though the government is claiming that it is putting some money back into critical areas, we just won't get! There are huge expenditure cuts ahead. These will probably be delayed until after next year's APEC meeting just so the government can look good. Just don't believe or rely on those claimed extra moneys for health, education and infrastructure. And don't feel confident about K100 million to the National Development Bank for SMEs, as once again this is likely to be just a hollow promise as the money won't be there. And when the crunch comes as the revenues are not flowing, I hope that members opposite fully understand that any bestie projects that have been promised in reality will not be funded, and that we should all feel very uneasy whether PSIP, DSIP and WSIP funds will flow.

We cannot support the 2018 Budget in its current form with its fake revenues, its fake financing and loans, its poor spending choices. This is a fake budget. We would hope the government will work with us to produce a credible budget that better meets the needs of our people.

Budget Crisis Solutions

Let me briefly set out solutions for fixing our budget crisis. Over coming weeks, I will provide more detail on these actions.

The first step is simply to accept the facts. Finding a solution requires accepting how bad the problem is. There is some straight talking in words, but these are not reflected in realistic numbers. The 2018 Budget's K2 billion fake revenue numbers will just make the pain of adjustment more difficult. As my party leader will outline, we really are living beyond our means. And as the member for Moresby North-West will outline, we need an audit of government books to find out how much debt is being hidden in Kumul entities.

Second, we should accept the need for friendly concessional finance. The budget hole is so deep PNG can no longer get out on its own. We need to lower interest costs and bring in foreign exchange – not

expensive Sovereign Bonds, Credit Suisse loans and tied, unaccountable Chinese loans. For the sake of our children, the sick, and our ailing infrastructure, PNG needs help to cushion the pain of adjustment. Budget adjustment is required, but it will take some time to do it well.

Third, we need realistic revenue estimates. We can't keep living in a balance sheet world of fake revenue numbers. We need to build the revenue base and this means more tough measures are required. For example, we need to get smarter returns from our natural resources-but of course, we need to study the issues involved and consult with industry on how best we can do this together.

And if we decide to lift taxes of diesel towards petrol, we would want that increase directed to the National Roads Authority to improve maintenance of our roads and increase growth.

Fourth, we need to remove budget austerity-cuts, on key areas of health, infrastructure, law and order and education. As indicated above, there has been too much chainsaw cuts in critical areas over recent years. We also need to pay our arrears – those to our resource owners,

our former loyal public servants, our local businesses with unpaid contracts.

Fifth, cut wasteful spending on less important areas such as the bloated public service.

Sixth, for the Sovereign Wealth Fund , we need to ensure all resource revenues flow through the fund without a large proportion being siphoned off by Kumul.

Seventh, we need action to lower interest costs. Greater confidence in the economic credentials of government will improve credit ratings and help lower domestic interest costs saving hundreds of millions of Kina.

Eighth, we need to take a long-term and historic perspective. If we compare actual spending per person in PNG, after allowing for inflation, we are now spending less per person than at any time in our history. Our development needs are enormous as PNG languishes at the bottom of many of the social and economic indicators for the Asia Pacific region. We have too many of our people living in absolute poverty. So while the answer is primarily about getting the economy going again and improving the quality of expenditure through less corruption and patronage, we probably also need to

spend money better. We need a national discussion on what we think our overall sales targets-revenue and expense targets-expenditure should be.

Finally, the best path forward is to rebuild growth, support the private sector and re-focus the public sector. This will take some time to turn around but growth provides the basis for growing revenues and getting PNG Government Ltd back into shape.

Foreign Exchange Crisis

Problem

Mr Speaker, our country is facing its worst foreign exchange crisis since 1994.

Our business people are crying out that this is the major business issue in PNG. When one hundred CEOs-bosses of PNG companies were asked by Business Advantage in its 2017 annual survey “What is the greatest obstacle to doing business in PNG”, the answer was overwhelming. 60 per cent of CEOs stated that a lack of access to foreign exchange was the most critical issue facing businesses in PNG.

The people of PNG know that foreign exchange shortages are crippling the opportunities for new jobs and

new businesses. New SMEs trying to grow their businesses into international markets cannot open overseas bank accounts or import key inputs to their own local production.

The severity of this rationing of foreign exchange is revealed by Bank of PNG figures showing imports have dropped to their lowest level since 2006 after allowing for inflation. PNG businesses can't import machinery to fix roads or build houses. Foreign exchange shortages are killing growth.

But the government does not seem to acknowledge this as a major problem. There is nothing in the 2018 budget done or announced, to help address this problem. Indeed, this 2018 budget reveals the government is heading down a mistaken path that will make things even worse.

Foreign Exchange Crisis Solutions

My Speaker, the Alternate Government for PNG has a much better understanding than the government or the central bank on how to deal with the foreign exchange crisis.

The Alternate Government's solution has several related elements – some short-term elements, some medium-term elements, and some longer-term elements that we need to start putting in place now

Let me briefly set out these inter-related elements of our proposed solution.

Short-term elements of solution

Mr Speaker, once again the first step is to admit there is a problem. The government should admit it made a very bad mistake when it instructed the central bank to lift the market value of the Kina by nearly 20 per cent in June 2014. This move commenced a downward spiral of poor policy decisions that has moved PNG from a freely floating exchange rate with a fully convertible currency. Now, just over three years later, we are suffering the pain of these poor decisions.

It is time the government committed to no more silly investments best left to the private sector. If PNG had stayed out of the Oil Search share deal, and the foolhardy investment in the experimental Nautilus, PNG would have saved at least USD 254 million and USD 113 million respectively, a total of USD 367 million or over K1

billion. This could be money available now to help PNG businesses to deal with the foreign exchange crisis.

The second short-term solution is to bring as much foreign currency back into the country as possible. The Opposition understands that Kumul Petroleum is holding some K2 billion in a Singapore bank account. We do not know how much money is being hidden into overseas bank accounts. Unless there are very convincing arguments, such funds should be held back in PNG to ease the foreign exchange and cash shortages.

The third short-term solution is to start using one of largest assets which is actually designed specifically to deal with such crises. This asset is PNG's foreign exchange reserves. These reserves are there to help act as a buffer when times are bad. They are designed to help deal with the short-term pain of an adjustment. These assets are worth some USD1.6 billion. The government did the right thing by calling down on USD100 million of these reserves in its 100 Day Plan. But more can be done conditional on a sensible longer-term strategy to return to a healthy balance of payments.

The Alternate Government would look at drawing down USD50 million per month over the next two years to help

address the foreign exchange crisis – a total required input of \$USD1.2 billion over two years. Rather than stripping the central bank of its core assets by demanding dividend payments in Kina (some K150 million in the 2018 budget) a much better strategy is allowing the private sector to access its foreign exchange reserves.

The fourth and vital short-term element of adjustment is to reach out for friendly foreign concessional finance. We did so in the late 1999. The Morauta Government proved it could be done! It was hard medicine, but as I've already talked about, PNG now needs some hard medicine to correct the mess created by the government over the last five years in the way it has been living beyond its means.

Fortunately, the international doctors are much better trained today than they were in the 1990s. The types of measures suggested by international bodies such as the IMF, World Bank and ADB are much more tailored to the needs of countries than 15 or 20 years ago. They've learnt from the Asian Financial Crisis and the Global Financial Crisis. There is a better understanding that fixes for economies often require transition support for policies that will get PNG back onto a better development path. Less

austerity in critical areas and more support for inclusive growth.

The size of any financing package will depend on negotiations. It will depend on how bad PNG's financial situation actually is once we've been able to see the true state of the books. For some perspective, on the size of possible assistance, the Alternate Government simply notes that nearly a USD6 billion package was recently provided on highly concessional terms to Mongolia, a country with many characteristics of PNG.

Medium-term elements of solution

In addition to dealing with the immediate elements of foreign exchange shortfalls, the Alternate Government would initiate key medium-term strategies.

Some of the fault of the current foreign exchange crisis lies in the out-dated objectives set in legislation for our central bank. A review would seek to rebalance the current excessive emphasis on just the inflation objective with one that also includes a growth objective.

Such a review will provide an important opportunity for a national discussion of our foreign exchange system. PNG has moved away from being a freely convertible

currency to being one dominated by central bank controls. Our businesses have been disempowered and the bureaucrats left to make decisions which can make or break struggling PNG businesses. This has been undermining our international competitiveness. If the outcome of a review is to move back to a freely convertible currency, there is a distinct possibility that the currency could gradually move downwards for a period of time before moving back up again. If this is the case, the Alternate Government would do things to ease with any transition.

The Alternate Government supports the policy of ensuring the people of PNG get a fair return on their resources. The current approach requires large foreign exchange inputs that divert funds from other businesses. The Alternate Government will explore alternatives. Mr Speaker, as part of this review, we would want to re-examine the fiscal terms available for resource projects. We will respect agreed fiscal terms for existing projects, but we must do better for any project extensions or new projects, of course with sincere industry consultations including more timely foreign exchange returns. This also is medium-term contribution to fixing the budget.

Longer-term elements of solution

PNG's Alternate Government has a bold vision for PNG's future. This vision is that we view our country as a key partner in the Asia-Pacific region, with this partnership backed by open trading relations. We believe that PNG can be a truly internationally competitive nation where the agricultural products of our highlands and islands fill the shelves of supermarkets in Shanghai, where our fish is sold in Hong Kong markets, and tourists flock from around the world to see the beauty of our country and the extraordinary richness of the cultural diversity of our peoples.

In summary, our vision is to fill the supermarkets of Asia, not just the supermarkets of Port Moresby.

This will require action on many fronts. It will require a smarter and healthier workforce, better infrastructure, better governance, better law and order, better regulation and better incentives.

What it certainly means is that the moves in this budget to increase tariffs on dairy products and meat products, on top of the ludicrous tariff increases in the Supplementary Budget, is a sign this government is going in the wrong direction. These will really hurt consumers – so a 25% tariff

on milk products will be passed through wholesalers and onto consumers. Lukaut! because the prices of your milk and your meat and even your rice will be going up significantly.

Using the figures from the Minister for Planning, when talking about how the new dairy industry will create 200 new jobs, lets go through some of the figures. He claims there are K400 million in dairy product imports. This figure is way too high, as total food imports are less than K700 million, but let's use his figures for now. He is proposing an import tariff of 25%. This increase in costs will be passed by wholesalers onto retailers and then onto consumers-you and I. Milk prices will increase by 25%. This increase in tariffs or import duty will be equivalent to K100 million extra in costs. So 200 jobs will cost K100 million! And ordinary citizens will pay for it when buying dairy products. Mr Speaker, this translates to 200 jobs costing K500,000.00 each! Paid for by you and I and ordinary citizens. There are better ways to create jobs in this country!

This policy approach has been tried before with the sugar industry. Ramu Sugar was protected by very high tariffs and import restrictions for decades, and is still protected in part by a high tariff. So 45 years later, with our people

paying too much for sugar for decades, and still they want high tariffs.

We will also be hosting the APEC Summit this year. As host, we should respect the objectives of APEC. The first pillar of APEC is “trade and investment liberalisation”. When leaders went to the APEC Summit last month, Vietnam announced cuts in thousands of their tariffs. When APEC leaders come to Port Moresby, we are in the midst of raising tariffs and other obstacles to trade. We have stopped our tariff reform program and are going in the opposite direction. We are insulting the philosophy of APEC and don’t deserve to host such a meeting with our growing protectionist policies.

Jobs and Standards of Living Crisis

Problem

Latest BPNG figures confirm that there are fewer jobs in PNG than there were 5 years ago, even though we now have more than an extra million people in PNG. PNG is not generating the jobs needed for its people. We are training more and more students simply to join an unemployed line. We need to build human capacity in better ways to meet the job market in PNG, and we need the job market to be healthier.

PNG's standard of living is going backwards. When we look at true measures of economic standards of living, after taking out the resource sector, the impacts of inflation and population growth, PNG is going backwards. Even on broader measures such as the Human Development Index, PNG is not making progress. To meet the 2050 Vision, we must start doing better.

Part of the problem is also the current government's approach to getting growth going. The 2018 Budget had headlines that it was a big growth budget, especially with a major investment in agriculture. And one of the largest components of this was the "State Equity Fund" which received funding of K100 million for 2018 and a total of K440 million over 5 years.

So let's examine this show-piece project and discuss if this is the best way to spend K440 million to help boost the agriculture sector, a sector absolutely critical for the incomes of most of our people.

Page 190 of the Public Investment Program, the near 1,000 page Volume 3 of the 2018 Budget, provides this very interesting description of the program. "Objective: To enable the government to participate as equity partners in major agriculture investments". That actually is

the wrong objective which I will discuss later – a repeat of the mistakes of the Waigani paper farmers of previous projects. The next part describing the “Status” is particularly interesting. The 2018 Budget say “Even though funding commenced in 2014” - now let me stop there. This was a project that was actually initiated by the now Treasurer when he was Minister for Planning back in 2014. Definitely it is not a new idea! And do you know how much was allocated to that program in the 2014 Budget? K160 million over four years. It was called the “Agriculture Commercialisation Equity Fund” back then.

Let me continue on this “rediscovered” 2018 Budget proposal and I will quote directly “Even though funding commenced in 2014, there has been no results due to a lack of guideline to effectively manage the implementation of the project.”

Mr Speaker, Old ideas. Same cancer, different bodies. No Planning. No implementation. No results.

So we must then ask, will the new plan do any better? There really are no details to make full judgements? Which projects will be chosen? What criteria will be used? If the equity is eventually sold “to the people of PNG”, how will it be determined who gets this and at what price? Will it

be sold off to besties at very low cost? What are the accountability arrangements? Will the Auditor-General be able to examine the accounts of such entities to ensure the investment from the people of PNG are being well spent?

And when I note that the new Planning Minister stated at the PNG investment conference back in September that funds would be provided to Kumul Agriculture for these equity investments in the 2017 Supplementary Budget, but instead the funds are allocated to the Department of National Planning and Monitoring in the 2018 Budget, I suspect that this program has to undergo a lot more thinking before it is worthy of a K440 million investment.

Mr Speaker, we consider that this K440 million should be put into the agriculture sector, but not in the way of this highly dubious old idea of equity injections probably into the special projects of the government's besties. Our rural people are much more deserving of this money.

In the spirit of the speech, to not just oppose but also to propose, We propose that a similar amount of money be invested into schemes such as the Special Economic Zones – Sepik Plains concept. Of course this would scale up the program to other areas. The good things about this

program is that it does the sort of things that a good government should do to get growth going and leaves other areas for the business acumen of its people.

The East Sepik scheme has five sensible inter-locking components. The first is good rural all weather road networks. The second is key bridges built. The third is electrification. The fourth is water supply. The fifth is police barracks constructed. In our expanded program, we would also ensure that there was investment in schools and health centres. Crucially, this would also include coverage of the costs of teachers and nurses and police and agricultural extension officers and maintenance crews – there is no point putting in capital works if the recurrent costs are not provided.

We would also do something else the government does well. There will be an assessment of soil types and other characteristics vital for determining whether an agricultural investment is suitable. This is similar to the initial geological mapping done for the mining sector. This lowers information costs and provides greater confidence for any private investment decisions. Once again, this type of research and information sharing is something it is sensible for the government to do.

Putting in large equity investments into these projects, sapping our scarce revenue and foreign exchange, is a bad way to spend money.

Let me know provide a second example of a better ways to spend the money allocated in this budget. The government is talking big about providing K100 million to support SMEs. We agree entirely with this allocation of funding. But providing the funds to the National Development Bank? The NDB continues to fail in actually supporting true entrepreneurs. Too often, we see the so-called loans going to government besties once again – not the people who could really use the money to get jobs and growth going. There is also an assumption that the loans never have to be repaid – they become just hand-outs.

There are better ways to spend this money. Rather than trusting what has proven to be a failing bank, it would be better to draw on the skills of the private banks when assessing loans. There are projects underway by the World Bank and others to effectively subsidise these loans to SMEs through existing banks with strong governance mechanisms. This is often best done by lowering the risks of lending to a SME. These risks are a reality for lending

institutions as many small businesses, go broke – although not to the same extent as the PNG Government Limited heading that way.

We also know that getting a small business up and running requires more than just access to capital. There are lots of practical skills that are required such as keeping basic books, how to purchase, pricing, sales and marketing, customer service and negotiating properly. Support for the SME Corporation could be increased further. The proposed Incubation Centres are, if properly executed, a sensible proposal as it could allow this practical sharing of skills on how to actually get a business going, how to get customers, and crucially, how to keep those customers coming back so you can grow your business.

As stated previously, our approach is to propose as well as oppose.

Jobs and Income Crisis Solution

Mr Speaker, I have provided some specific examples of how we, the Alternative Government, could spend taxpayers' funds better than contained in the 2018 budget, including in the areas of agriculture and getting growth going. These examples start getting to the heart of

why the Alternate Government can get growth going again, while the current government is putting scarce moneys into the wrong things which will just drag the economy down further.

Essentially, we bring a different philosophy to the table.

Our approach will be to change the focus of development towards one that believes in people and their ability to respond to opportunities. The role of government is to improve these opportunities in areas such as training, good infrastructure and utilities, good regulation, maintenance of law and order, and a fair taxation system that applies to all. This is a very different focus from the current government that has been about equity investments into big resource projects or big agricultural projects, or putting even more money into a failing National Development Bank.

Development must come back to the people.

Let me be more specific with examples of how we would have approached the 2018 Budget differently with a people orientated philosophy. For example, the Alternate Government would:

- redirect funds going to the proposed equity investments in big agricultural enterprises owned by

the government's besties and instead put this money into improving agricultural extension services for small-holder cash cropping farmers;

- put road infrastructure funding into rural areas rather than Port Moresby;
- get incentives right for business rather than imposing large tariffs that hurt the cost of living; and
- deal with the foreign exchange shortages which are killing business growth.

The Alternative Government would commit to a growth target of 5% per annum within 3 years. This economic growth target would be based on growing the non-resource economy. The current government has preferred to just use growth of GDP figures. However, we know this gives a misleading view of PNG's development. We know that there are very poor links between the GDP measure and the standards of living of the people of PNG. There was a major jump in GDP when the gas taps opened and PNG starting exporting its LNG. A big jump in GDP – although nowhere near as big as the government pretends. But we know that as the gas taps were turned on, the number of jobs in the PNG LNG project were dropping from a peak of over 10,000 down to something closer to 1,000. The extra jobs and contracts associated

with constructions and transport and food and housing services also went into reverse. GDP is a misleading measure of economic welfare in PNG. Measuring non-resource growth after inflation is a much better measure. Of course, even this yardstick must be complemented by other measures of the actual quality of life, such as the human development index. But measuring just GDP is the wrong way to go.

The National Alliance will focus on a measure of progress that means much more to the families and businesses in PNG. This is real non-resource GDP.

The National Alliance commits to growing the non-resource parts of the economy by at least 5 per cent per annum within 3 years. This covers those areas that really matter to PNG - the agriculture sector, including the subsistence, cash cropping, and plantation components; the tourism sector, the wholesale and retail sector including informal traders; the transport sector; the community sector; and the construction sectors collectively growing at this 5% rate.

The National Alliance was able to do this in the 2000s.

Mr Speaker, we on this side can do it again!

We will improve opportunities for small and medium-sized businesses, both start-ups and those family owned medium-sized businesses that employ so many of our people and are responsible for so much of our investment. We will establish a better business environment. What do we mean by this? Let me be specific - we will act to improve PNG's rankings on the World Bank's "Ease of doing business" ratings from 119 of 190 countries to under 100 within five years. This will be done in partnership with the private sector to identify key priority changes that can be made – and then focus on these. We will unleash the creative potential of the private sector by improving access to credit, making it easier to register for business, allowing firms to enforce contracts, and taking other actions to make for a better business environment.

We will focus on increasing incomes and jobs for the informal sector which includes the areas of opportunity for the vast majority of PNG's population. It is time to remove the focus on big projects and cosy deals done with special friends of the government displayed in this 2018 budget.

We will focus on making the PNG economy internationally competitive with exports focused on the Asia region. A stronger and more competitive economy will help with the jobs and standards of living crisis, it will in turn help bring in foreign exchange, and it will help generate the increased revenues to fix the budget crisis.

The Alternate Government will set out more detailed proposals as part of a wider “Inclusive Growth and Jobs Strategy” that will give great weight to international trading opportunities, not just failed import-substitution approaches. This will be a more people driven approach, based around market incentives to allow people to use their potential, rather than an approach dominated by big government and big business besties of government.

Conclusion

As may be drawn from my comments to date, my preliminary response to the 2018 Budget from Charles Abel is one of disappointment. This is not a political comment, it is just a frank comment that I really consider that this budget is failing the people of PNG. My perspective is that of a simple PNG businessman that has had to deal with the ups and downs of an economy. And humbly, my family and I have successfully dealt with the

opportunities and challenges of the PNG economy over the last 81 years-when my own grandmother Tai ToYing started trading in Kavieng in 1937.

My view of this Budget is that:

- unfortunately, it fails the people of PNG,
- unfortunately, it is not credible, especially its starting point of K2 billion in fake revenue,
- unfortunately, it will not deal with decline in jobs and standards of living of PNG's people,
- unfortunately, it will not deal with PNG's crippling foreign exchange shortages,
- unfortunately, it is not honest enough to actually deal with PNG's acute budget crisis.

Mr Speaker, in this budget response, I have sought to not only oppose the poor policies embedded throughout too many parts of the 2018 Budget, but also to propose specific solutions.

When putting forward these solutions, the Alternative Government considers this is only the start of the conversation.

We wish to talk much more broadly on the best solutions to PNG's economic problems.

The community sector, churches, the private sector, our own academic researchers, the international community can help identify how to solve our most pressing problems. We need to talk more openly rather than assuming our current advisers are always right.

As we face these tough challenges, our belief is we must focus on improving the lives of our children and grandchildren. That is our legacy – tough times to fix the mess so our children can face a better future.

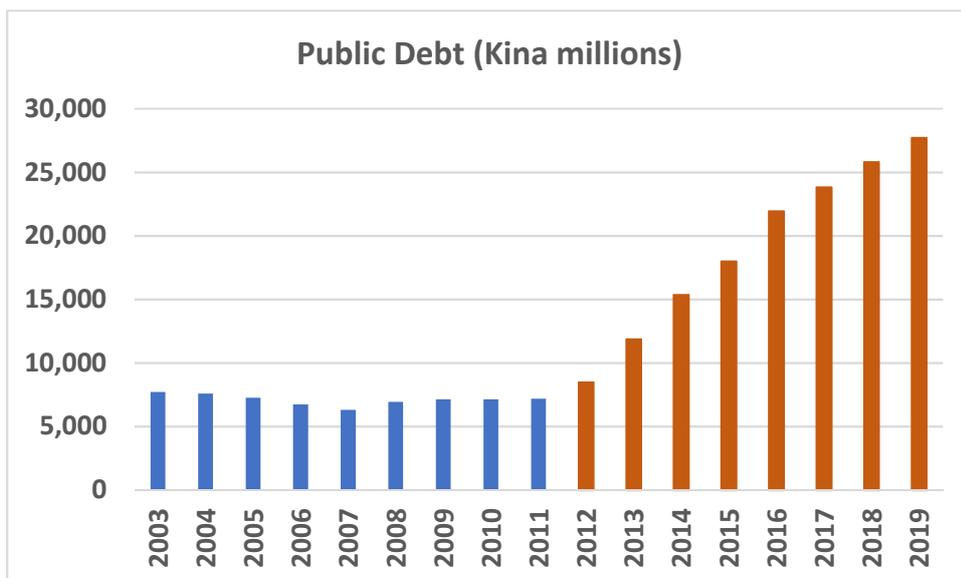
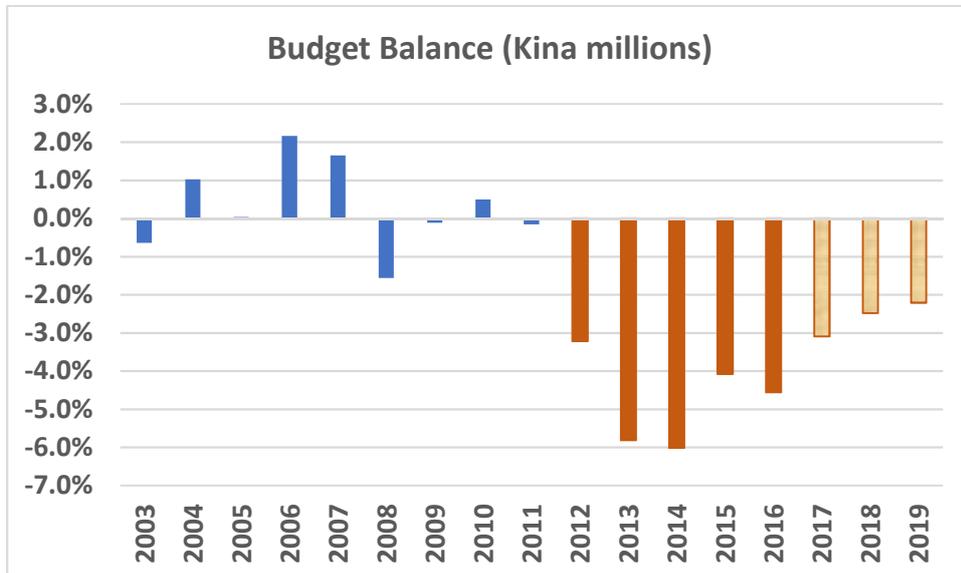
The Alternative Government, the government of the people of Papua New Guinea, the National Alliance and its coalition partners, have a better vision to take our nation forward.

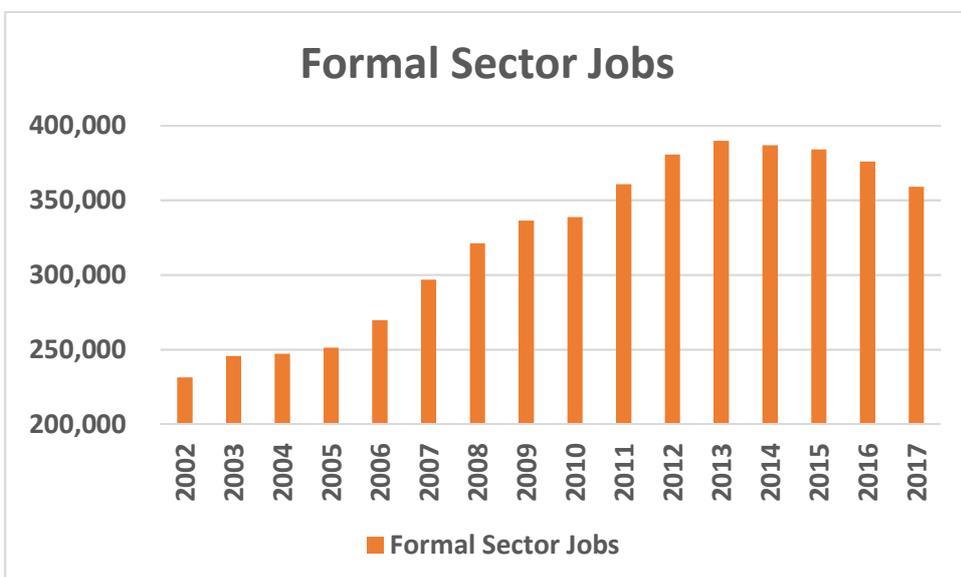
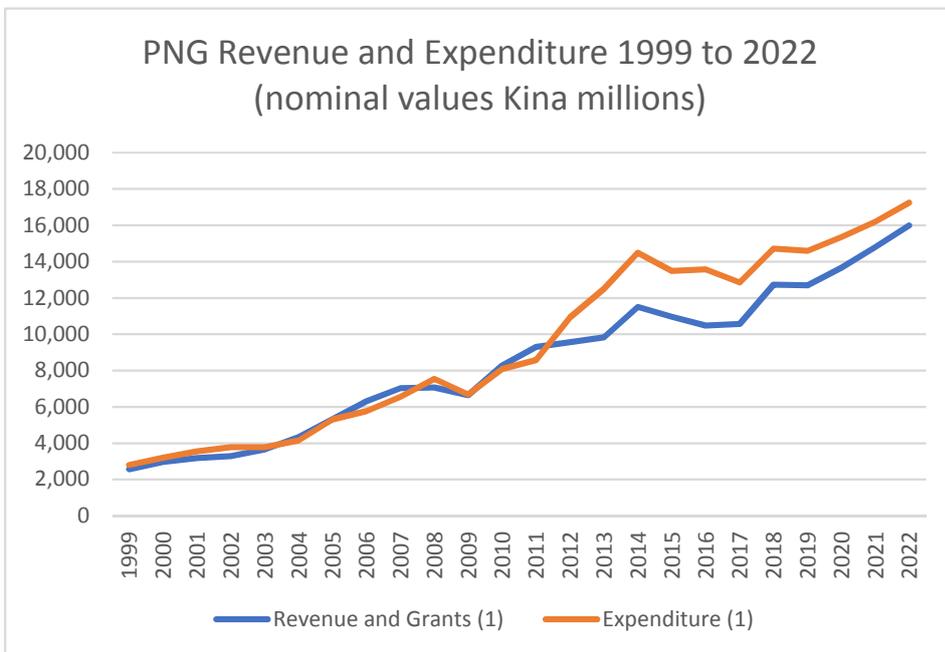
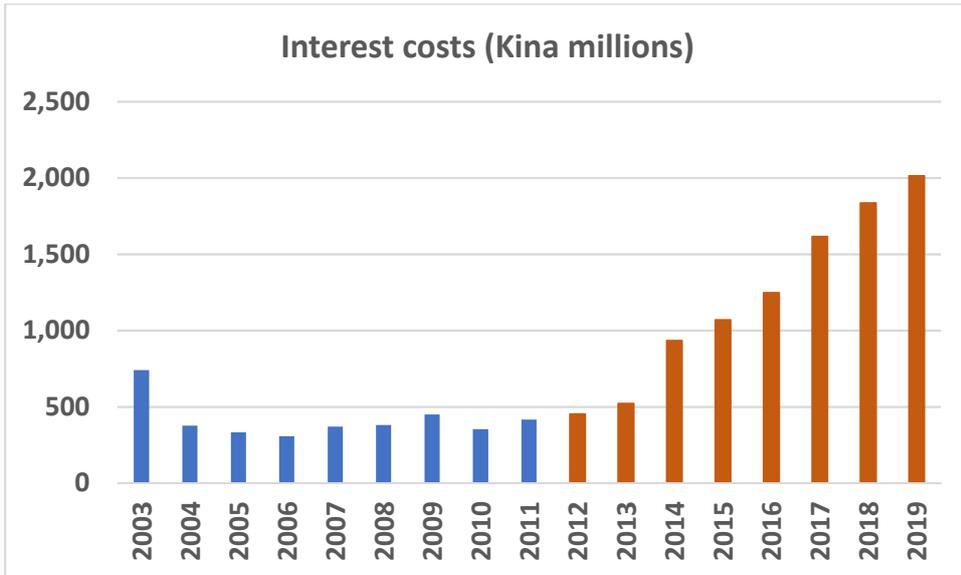
Thankyou Mr Speaker and Honourable Members of the house.

Hon.Ian Ling-Stuckey, CMG.MP
Shadow Minister for Treasury & Finance

Appendix Graphs and Tables –factual basis for the crises.

Budget Crisis





Graph of fall in