

The PNG Stimulus Package explained

Honourable MP, Mr Ian Ling-Stuckey, the Treasurer, has released details of a K5.6 billion stimulus package to counter the impact of the COVID-19 pandemic. This is the largest stimulus package in the history of PNG.

The Treasurer detailed the difficulties in dealing with an invisible enemy and economic modelling in the face of uncertainty as to the scale of the issues. However the best government estimate is that the value of exports will fall by at least 13% or over K5bn. This drop will translate into less foreign exchange, lower income for mineral companies and lower incomes for rural households. Government expects to lose around K1bn in revenues as a result of these external factors.

Traversing domestic impacts of the C19 pandemic, the Treasurer emphasized that PNG is fortunate because it has acted early in closing borders and stopping the movement of people.

The Economic Impact

The economic impact has been modelled and is likely to see the economic growth rate drop below zero, which is likely to be a conservative projection.

This will result in job losses and lower tax revenues and are expected to result in a further K1 billion drop in government revenues. The twin hits will push the expected budget deficit to K6.6bn.

The Treasurer prefaced the stimulus package by cautioning that all options need to be explored before “spending big” when starting from a difficult fiscal position, mindful of the impact on the debt burden for future generations

Principles of the Package

The package is based on five principles:

1. The response will be **PNG owned and driven** designed to advance the Take Back PNG agenda. It will be coordinated across all facets of the economy and will recognise the PNG specific factors and will include a vision for the future.
2. The response will be **broad and comprehensive** covering urban and rural households, small and large businesses.
3. It will be **smart and forward looking** with a focus on practical projects that build PNG's economic capacity.
4. The response will be **responsible** and thus require careful management including sensible cutbacks, a reliance on monetary policy options and regulatory actions.
5. The response will draw on **friendly foreign support**, particularly the IMF, which the Treasurer has high praise for. PNG last week applied for a K630m loan on ‘extremely concessional terms’ of 1% interest rate, and a further K630m will be applied for. A similar loan will be available in 2021 if required. The World Bank and ADB are providing medical supplies and health support respectively

Spending components

The stimulus package of smart spending is based on six components.

1. **K2.5bn issuance of COVID-19 Treasury Bonds** to raise cash needed to fund urgent priorities. As a fall back the Treasury would implement quantitative easing implemented by the Bank of PNG, but no further details of that option were given.
2. **K0.6bn of support for loan repayment holidays**. Little detail is given on this measure save to state that the constructive support of our banks is welcomed for various forms of mortgage repayment holidays for up to three months.
3. **K1.5bn in friendly foreign assistance** from the IMF, World Bank and ADB, as detailed above.
4. **K0.5bn in superannuation measures** to be agreed in consultation with the superannuation funds which could include a package of activities to support “jobs, business and investment”.
5. **K0.5bn in additional spending to the critical health, security and economic sectors**. K175n will go to health, K50m to the police, and K25m to the defence forces. K250m will go to directly support the rural sector, jobs, micro and SMEs and households. The details of this support will be announced shortly.
6. **A supplementary budget** is being prepared. The starting point is the additional K1.07 bn gap between the K2bn drop in revenues, the K570m additional spending, and the friendly financing of K1.5bn.

Overall it is an emotive but reasoned announcement with an emphasis on the challenges to be faced and with a strong rallying cry.

Whilst the proposed package is short on specific detail that is not surprising given that the data is yet to assist in any regard. The measures seem sensible and targeted at the right sectors of the economy that will most require them. The devil, as always, is in the detail but we expect the Treasurer will ensure that the specific package components are covered.

The PNG government is not alone – there is not a government in the world that is not wrestling with the fallout from this pandemic – and they are all doing it with an imperfect information set. This is uncharted territory and it is a time to announce decisive action, which is precisely what the Treasurer has done.