New PNG government implements IMF's economic restructuring demands

Frank Gaglioti, Sue Phillips
19 August 1999

After just over a month in office, the Papua New Guinea government led by Prime Minister Mekere Morauta has announced plans for a far-reaching program of economic restructuring, along the lines being demanded by the International Monetary Fund, the World Bank, and the country's former colonial ruler, Australia.

On August 10, Mekere brought down a mini-budget which imposed new consumption taxes and further slashed public spending, while offering tax breaks to big business, particularly the major mining corporations that dominate the country's economy.

The budget included the raising of an extra $US27 million through increased taxes on gaming, log exports, petrol, alcohol, and cigarettes. The alcohol tax has risen 44 percent and the petrol tax has been doubled, severely affecting rural communities dependent on road transport.

Spending cuts of $52 million include a $8 million cut to funding for the provinces. In fact, PNG's provinces have received no funding for 1997, 1998 or 1999. The community development or poverty program has been cut from $5.5 million to a mere $370,000. Programs aimed at rural health improvement and upper secondary school maintenance were slashed by $9 million and rural infrastructure programs were reduced by $16 million, including a $11 million cut to road maintenance.

At the same time, Mekere announced a complete review of the taxation system. He scrapped the existing “interest withholding tax” and singled out for “review” the 4 percent levy paid by mining companies. Nagora Bogan, PNG ambassador to Washington and previously Commissioner General of Internal Revenue, has been commissioned to carry out the review. John Ralph, the former head of Australian mining giant CRA, will serve as his advisor. Ralph is the author of a recent Australian government report that recommended a cut in the corporate tax rate to 30 percent—estimated to be worth about $US6 billion to big business annually.

Mekere won office after the previous prime minister Bill Skate lost the support of most of his coalition and resigned just prior to a scheduled no-confidence vote. Mekere, a businessman and a former governor of the PNG Central Bank, served as a minister under Skate but became increasingly critical of his government's economic policies. Last November he was promoted in the Australian press as an advocate of IMF policies and a critic of the Skate government's budget. More recently he criticised Skate's plan to recognise Taiwan in return for substantial loans that fell outside IMF guidelines.

In his budget speech, Mekere strongly attacked the previous budget for failing to implement cuts to the public service and for attempting to borrow funds from Taiwan. In a recent interview with Australian ABC television, Mekere said: “Accepting money is like putting a band aid on a tropical ulcer... money will not solve the problem, the problem is structural and it is from within... unless we fix that we are just wasting our time... Taiwan money will give us relief but what after that?”

Mekere was critical of Skate's failure to implement the retrenchment of 7,000 public servants foreshadowed in last November's budget. He said the retrenchment packages for the planned sackings had been budgeted from the proceeds of the sale of government enterprises that had failed to take place. Instead of a decline of 7,000, the number of public servants had increased by 3,262, producing a budget blow-out. An article in the PNG's *Post-Courier* newspaper noted: “The retrenchment of public servants will [now] be done properly in a more co-ordinated manner”.

Shortly after Mekere came to power, the Australian Foreign Minister Alexander Downer and Treasurer Peter Costello made separate trips to Port Moresby to ensure that the new government toed the economic line demanded by the IMF. Costello made clear that any financial assistance was conditional, saying: “Australia's position is, and remains, that it will engage in help which will be very closely tied to economic restructure". He praised Mekere's decision to re-establish ties with the IMF and World Bank and announced a payment of $20 million in aid.

Australian big business has welcomed the new Mekere government. Russell Barwick, the Director of Placer Nuigini, which owns the lucrative Porgera and Misima gold mines, told the Australian Institute of Minerals and Metallurgy at the beginning of August: "Sir Mekere is the right Prime Minister for this time... After 20 years of relative stability mining had become uncompetitive... starting with a state acquisition of 15 percent of Porgera and followed by a range of taxes and levies imposed over the last 18 months".

Soon after coming to office, the PNG government announced the signing of an agreement with US transnational company Chevron, for a natural gas pipeline from the PNG Highlands to Townsville and Gladstone in Queensland, Australia. The $2.7 billion pipeline is 2,600 kilometres long and is the second biggest project in Australia's history.

The PNG economy is facing a severe crisis: inflation stands at 20 percent and is increasing, while the kina is continuing to decline against the US dollar. International credit rating agencies Moody's and Standard and Poors last week downgraded PNG, describing the situation as "increasingly precarious".

Successive PNG governments have attempted to prop up the kina. In October 1994, the currency was floated and has declined dramatically despite government intervention. Originally valued at one US dollar, the kina fell to a low of 29 cents in June. Foreign exchange reserves have fallen from $354 million in January, 1998 to $185 million in January, 1999 and to less than $90 million when the Mekere government took office.

The deteriorating economic situation has produced a record budget deficit of $30 million—triple the amount planned for the entire year. In its attempts to prop up the collapsing kina and cover its deficit, the government has been forced to borrow $480 million from the Bank of PNG and a further $335 million from the business sector forcing interest rates up by 25 percent. The loans from the Bank of PNG have now exceeded legal limits.

Mekere's budget is predicated on "external extraordinary financing" of $99 million to be sought from Australia, China and Japan. This week the government issued an urgent appeal to regional governments for a "once-off stabilisation effort" to provide $400 million in loans. PNG is already due to make $111 million in debt repayments this year.

Prior to the mini-budget, Mekere announced a "radical" program of privatisation and the establishment of a Privatisation Commission with far-reaching powers to take over any government asset targeted for sale. Those earmarked for immediate privatisation include Halla Cement, Habours Board, Ramu Sugar, Government Stores, Niugini Insurance Corp, PNGBC, Air Niugini, and Telikom. Last Friday, the government sacked the managing director of Telikom and replaced him with Lindsay Lailai, a leading member of Mekere's own parliamentary party, the People's Democratic Party.

The Privatisation Commission includes the governor of the Bank of PNG, the Executive Director of Port Moresby Stock Exchange and the President of PNG Chamber of Commerce, as well as the President of the PNG Trade Union Congress. The involvement of the trade union leadership is worth noting. There is likely to be considerable opposition from public sector workers—27 percent of the total workforce—faced with losing their jobs and conditions as the commission prepares government assets for sale. Mekere has declared that public utilities will have their value restored prior to sale. Already the government has sacked 96 engineers at Air Niugini—its entire engineering department.

The government's economic restructuring, carried out at the IMF's dictates, will lead to a further decline in the living standards of workers and villagers. Public health and education programs have already been slashed over the last decade. Life expectancy in PNG is just 57 years, with infant mortality rates as high as 20 percent in some provinces. More than half of its population is illiterate and only a fraction of the literate population has any secondary education.