Papua New Guinea budget further undermines living standards

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The Papua New Guinea government of Prime Minister Peter O'Neill handed down its 2017 budget on November 1, marked by falling revenues and deepening cutbacks across all sectors of the public sector. It is the last budget before national elections next year.

With revenues forecast to fall by 2 percent, the government has slashed spending by 3.5 percent in a bid to rein in the budget deficit. The shortfall will be met by seeking more off-shore loans. Overall debt to GDP ratio will remain at 28.8 percent, the same as 2016, but a further revenue downturn could take it over the legislated limit of 30 percent.

Treasury Minister Patrick Pruaitch said total spending will be down to 12.9 billion kina ($US4.1 billion), compared to K14.2 billion in 2016. Another swathe of cuts to public services is foreshadowed with "strict conditions" imposed across the public sector. An allocation of K20 million has been made to fund forthcoming public service retrenchments.

Public health and education services remain under heavy attack after budget cutbacks of up to 40 percent over the past year. For 2017, the health sector has been allocated K1.2 billion, down from K1.5 billion, while education will receive K1.1 billion, down from K1.3 billion.

Capital investment has been slashed by 21 percent. Transport, in a country plagued by geographic isolation, is to be cut by 12.5 percent, to K897 million. While the police and defence budget faces a reduction, it remains the fifth-ranked recipient of funds at 8.7 percent of the total, with K1.1 billion.

The biggest expenditure item is government administration, including funding for "improvement" projects. The provinces and districts will get K3.6 billion and K2.7 billion respectively, or taken together 48.9 percent of the budget.

No special provision has been announced to deal with the destruction caused by last summer's devastating El Nino weather patterns, or to prepare for further drought conditions. An estimated 2.7 million people were affected with water shortages, food insecurity and disease. PNG has the highest percentage of people in the world—60 percent—living without access to safe water.

O'Neill told parliament that while K400 million had been allocated to run the 2017 elections, there will be increase in the nomination fee from K1000 to K10,000 to help fund the "expensive" exercise. The move has been heavily criticised on social media as discriminating against those without the necessary finances to stand. It was expected that more than 4,000 candidates would contest the 111 seats.

Pruaitch said it was "no secret" that the government faced a "tight" budget. The "weakening" global situation and low commodity prices has seen government revenues decline and "flatten" in the past four years. "We have been forced by circumstances to tighten our budgetary situation further through supplementary budgets in 2015 and 2016," he declared.

The government's chief secretary, Isaac Lupari, was more forthright, declaring last month that the country would have to "brace for the worst next year" as fiscal conditions will be "very tough".

PNG's growth rate is forecast to drop further in 2017. Figures from the Bank of PNG and the National Statistics Office revealed that PNG is two years into a severe recession. The real growth rate over 2014 and 2015 was negative 1.3 percent. The combined budget deficits of 24 percent of GDP over the past three years were the largest for any three-year period in PNG's 40-year history. Employment has dropped by 7 percent over two years. Business sales have declined by 16 percent from 2014 to 2015, which, along with sharply reduced lending to the private sector, has undermined investment.

According to Australian economist Paul Flanagan, there was a "frightening" fall of 20 percent in government revenues in the past year. The government has imposed austerity measures similar in scope to those in Greece, greatly exacerbating the social crisis facing the working class and rural poor. The 2016 supplementary budget imposed a swathe of cutbacks to government programs, causing many essential services to begin failing.

The assault has fuelled a series of struggles by students and sections of the working class, including doctors, nurses, pilots and dock workers. The ruling elite has relied on police repression and the trade unions to suppress this movement and shut down strikes (see: "Papua New Guinea nurses union calls off nationwide strike")

The unions have channelled hostility over declining living standards into support for the parliamentary opposition, which has no fundamental differences with the austerity agenda. In August, O'Neill, faced down an opposition motion of no-confidence over his alleged corruption.

Pruaitch boasted that the government was looking towards significant export growth. Export revenues stagnated at around K20.8 billion in 2014 and 2015, even though last year was the first full year of Liquefied Natural Gas exports. Export revenues, he claimed, were forecast to improve for copper, palm oil, coffee, cocoa and forest products. Pruaitch said the current foreign exchange "imbalance" will improve as the massive OK Tedi gold and copper mine ramps up to full production. The government is also counting on the APEC summit, which it is due to host in 2018, to also bring in new expenditure.

The government's projections have already been questioned. Former planning secretary Valentine Kambori declared that the forecast budget revenue from dividends from state-owned enterprises (SOEs) was "unrealistic."

Speaking to Australian Broadcasting Corporation last week, Flanagan, a former PNG treasury official, said it would take, even on optimistic figures, at least another six years for PNG to get back to the high levels of economic activity recorded in the 2013–14 financial year when global commodity prices were at their peak. This would mean years of minimal growth even as the population continued to increase.

Foreshadowing deepening attacks on living standards, Pruaitch warned of an increase in prices for basic goods and services. Inflation is expected to be 6.6 percent, alongside an ongoing depreciation of the kina against major trading currencies. The government will increase taxes on tobacco, alcohol and gambling. Personal income tax is expected to increase by K186.6 million after failing to reach the 2016 budget estimate of K2.9 billion.

According to a report by the National Research Institute in September, costs are "high and increasing almost every day" across the country, particularly in the capital, Port Moresby. Director Charles Yala said that the impact was not shared equally by all. "Those who receive higher income can happily live with the rising prices. This is not the case for the middle to low income earners," Yala declared.

In other words, the government's budget will place new economic burdens on those who can least afford it—the working class and the urban and rural poor.