KPMG

Papua New Guinea Budget 2024

"Securing our future"

A review of the Budget's major business implications

28 November 2023
kpmg.com.pg

Contents

"The 2024 Budget continues to focus on the thirteen-year budget repair plan introduced in the 2023 budget. "

Executive summary

The 2024 Budget at a glance

The 2024 Budget theme of "Securing our Future" seems intended to signal the achievement of the overall visionary themes over the past three budget years. The main theme of "Take Back PNG" continues to apply, with the addition of "and leave no child behind" explicitly mentioned this year. Similar to last year, specific reference is made to an uncertain, specifically "gloomy" international outlook. This is mainly due to the country's exposure through primary commodities exports and high levels of imports, especially of manufactured goods. The domestic outlook is certainly positive, and mention is made of the current government's economic credibility.

The K3.984bn deficit projected demonstrates the second year of deficit improvement, and is now at 3.3%, an improvement of 5.3%in one year. Government is certainly expecting to achieve a budget surplus by 2027, at which point it plans to commence debt repayments. The deficit requires additional borrowings to bridge the gap, and in 2024 debt interest repayments of K3.05bn are planned.

International reserves are described as "buoyant" with expected reserves of US$3.648bn expected to be available by the end of 2023, and the government committed to ensuring that business delays in this sector are addressed.

The planned revenue growth exceeds the expenditure increase by just under 7%, and with revenues planned to continue growing at almost double expenditures year on year, budget repair is considered likely.

Highlights

On the revenue side, the K23.393bn budgeted is as always funded through mainly local tax collections of K16.32bn, amounting to 80% of total revenue. K2.2bn in international donor aid is expected as well as other revenue of K2.494bn, mainly expected dividends from OkTedi and PNG LNG.

On the expenditure side, 2024 will see the first year of implementing the Medium-Term Development Plan IV (MTDP IV) 2023 to 2027. Total expenditure rises 8% from K24.675bn to K27.377bn. Other than government administration costs, health and education are the two largest beneficiaries, although the health sector only received a 4% increase. The largest expenditure increase of close to 60% is in the utilities area which is pleasing to note and an indication of the government's intent to settle arrears in this area. The public services administration costs (mostly salaries) again continue to increase, which was pointed out in our 2023 publication, despite reference being made in this budget to expenditure efficiency measures to be implemented.

The Budget continues the household assistance package to provide relief for cost-of-living pressures, with a further K440m planned for 2024, the majority to be allocated to school fee subsidies. This may somewhat alleviate the sting of the removal of the dependent rebate. Interestingly the government has decided to reduce the tax on log exports from 70% to 50% due to a reported reduction in global demand for this product. This decision coincides with the Government's objective to ban the export of unprocessed logs by 2025 and instead focusing on downstream processing in this sector.

"Major structural reforms are envisaged and this government views itself as the infrastructure government with a 257% increase in the Public Investment Program under the current leadership to date, with a capital budget of K10.7bn planned for 2024"

Ces Iewago
Managing Partner

"The theme of this year's Budget is securing our future"

Key insights from the 2024 Budget

A summary of key elements of the 2024 Budget.

Economic Analysis

- Inflation has slowed in comparison to 2022 levels as a result of improved global supply.
- Domestic revenue collections from commodity exports have moderated.
- The non- resource economy remains a focus with significant emphasis placed on sustainable development goals and inclusive growth for all.
- Focus on fiscal consolidation and prudent monetary policy that can drive economic growth

Economic Assumptions

- The Key macro-economic risks identified include higher global inflation; the Fx imbalance prevailing in PNG; volatility of commodity prices; further delay in the Porgera Mine resumption and new resource projects; and poor execution of large-scale infrastructure projects by GoPNG.

Expenditure

- Expenditure overall grew by 8% to K27.4bn
- There is a strong focus on expenditure efficiency measures which appear thorough, pragmatic, and well considered. The execution of these will be challenging but, if implemented successfully, will be significant for the achievement of spending targets.
- Capital expenditure targets priority areas and, at 39% of the total budgeted spending, aims to deliver a more solid economic platform

The **2024 Budget** continues to focus on the thirteen-year budget repair plan introduced in the 2023 budget.

Fiscal strategy

- The Medium-Term strategy and outlook have not changed materially on last year and the key themes are reinforced - maintain fiscal support for economic recovery efforts, strengthen the revenue base, improve the quality of spending, and obtain cheap responsible financing.
- Key risks for the fiscal strategy stem from lower taxes paid by mining, resources, and corporates; lower dividends from the SOEs; further delays in the re-opening of the Porgera Mine and delays in concluding other large resource investment projects; and rising global interest rates pushing up debt interest repayments.
- Revenue predictions remain optimistic and represent a real risk to the achievement of the medium-term projections.

Revenue

- Resource-related revenue (including dividends) is expected to decline by almost 40.0% in 2023 on the back of lower projected global crude oil prices.
- Non-resource related revenue is projected to increase 16.4% in 2023 supported by an increase in CIT, PIT and GST, coupled with sustained trade and economic activities.

Tax

- 2024 Budget changes are aimed at supporting and encouraging domestic manufacturing with changes to import tariff codes for certain inputs into manufacturing processes and proposed changes to fishing industry.

"The Budget focuses on prudently managing debt and driving fiscal consolidation"

Economic analysis

The 2024 budget commits to "spending money more wisely, raising revenues more fairly, and financing debt more cheaply". The overarching goal of the budget is to maintain the effort to deliver on sustainable growth, whilst returning to a budget surplus by 2027.

Despite some signs of improvements earlier in 2023, global economic recovery has been slow and uneven. Significant global challenges such as rising inflation and interest rates, along with falling growth and the war in Ukraine continue to have had significant impacts on the global economy. PNG has been significantly affected by global market developments, particularly given its exposure through primary commodity exports and high levels of imports.

PNG has seen a moderation in prices for most of its export commodities during the first half of 2023 due to improved global supply and weak demand. As a result, inflation has slowed and domestic revenue collections from commodity exports have moderated compared to the 2022 levels.

The PNG non-resource sector is expected to grow by 4.5 per cent in 2023 and 4.7 percent in 2024, with average growth of 5 per cent over the medium term (2025-2028). The GoPNG continues to support businesses in the non-resource sectors through increased spending in investment on critical infrastructure and economic enablers. There is a key drive by GoPNG for broad-based, inclusive, and sustainable growth which includes empowering Small Medium Enterprises (SME), improving connectivity/access to markets through the Connect PNG initiative, as well as strengthening the ease of doing business through series of structural reforms in the economy

A focus on rural community shows GoPNG places importance on the sustainable development goals and inclusive growth for all. This is demonstrated through an increase in infrastructure spend, particularly in rural areas. The importance of Connect PNG remains, aiming to ensure that the whole of PNG is linked, which is expected to lead to greater development in the agriculture sector, particularly in relation to cocoa, coffee, and copra.

The 2024 budget focusses on prudently managing debt to bring the budget to surplus by 2027. The capital expenditure and formation strategy aim to be consistent with building PNGs human and physical capital. The plan focusses on fiscal consolidation and prudent monetary policy that can drive economic growth.

Key Insights

- Inflation has slowed in comparison to 2022 levels as a result of improved global supply.
- Domestic revenue collections from commodity exports have moderated.
- The non- resource economy remains a focus with significant emphasis placed on sustainable development goals and inclusive growth for all.
- Focus on fiscal consolidation and prudent monetary policy that can drive economic growth

"PNG's economic growth and outlook is greatly affected by global market developments, given its exposure through primary commodities exports and high levels of imports"

Economic assumptions

The Budget estimates are based on a range of assumptions including revenue collections, economic growth, and commodity prices

Volatility in economic fundamentals presents significant risks for a comparatively narrowly based economy like PNG. Key assumptions underpinning the Budget are presented below.

Key Economic assumptions	Comment	2023	2024
Total Real GDP Growth	In 2023, the non-resource sector slightly missed expectations, growing by 4.5%, impacted by business sector performance, lower commodity prices, and forex shortages. The resource sector contracted by 2.2% due to mining sector issues. For 2024, a strong non-resource sector (+4.7%) is anticipated, supported by increased government spending, while the resource sector (+20.3%) expects growth from mines like Porgera, Ok Tedi, and Lihir. Overall, the economy is projected to grow by 5.3% in 2024.	2.7%	5.3%
Non-mining Real GDP Growth	The wholesale/retail, construction, and financial services sectors are expected to rise by 4.7%. The growth is supported by initiatives like 'Connect PNG' and infrastructure projects. Sectors like agriculture and mining will see notable growth. The non-resource sector, led by Wholesale/Retail, Real Estate, Construction, and Financial/Insurance industries, is expected to increase by 4.7%. Agriculture, Forestry, and Fisheries (AFF) are projected to grow by 2.7%, driven by increases in cocoa and copra oil production. Globally, improved trade flow is anticipated to benefit various sectors, contributing to their recovery and growth in the medium term.	4.5%	4.7%
Real exchange rate index	In 2023, the Kina saw a 5.1% cumulative depreciation against the US Dollar but experienced a 2.2% appreciation against the Australian Dollar monthly. This was due to variances in the foreign exchange market and in interest rates. The real exchange rate index stood at 134.8 points for 2023 and is predicted to remain stable in 2024. Additionally, PNG's Trade Weighted Index demonstrated modest growth, indicating the Kina's strengthening against major trade partners.	134.8	134.8
Monetary Policy & Kina Facility Rate	The Monetary Policy underwent a shift from an accommodating stance to a neutral one, notable for two decreases in the Kina Facility Rate (KFR) - first from 3.3% to 3% in September, then further down to 2.5% in November. This change was prompted by a period of low inflation. Projections for 2024 anticipate a stable rate at 3.3%. Additionally, partnerships with the IMF aimed at enhancing fiscal, monetary, and exchange rate policies will utilize the KFR to handle liquidity and control over market rates.	2.5%	3.3%
Inflation avg on avg	In 2023, decreased inflation was attributed to lower quarterly outcomes, diminished inflation in major import partners, and declining commodity prices. Projections for 2024 suggest an average inflation of 5.0%. This anticipated inflation is expected to be propelled by rising oil prices, currency depreciation, increased spending, and a surge in economic activity, particularly due to projects like Porgera and Papua LNG, generating inflationary pressures.	3.5%	5.0%
Balance of Payments & International reserves	In spite of robust current and capital accounts, a deficit of K1.1 million emerged, primarily due to declining commodity prices and a shortfall in the financial account. The 2024 expects a rise in the Current Account surplus. However, the forecasted decrease in commodity prices might stabilize overall balance movements in the long term.	n.a	n.a
Oil (US$/barrel)	Prices fluctuated throughout 2023, settling 6% below projections and 21.0% lower than 2022 levels, primarily due to global economic uncertainties and rising interest rates. Despite this, prices rebounded, supported by supply cuts from OPEC+ and Russian export limitations. As for 2024, market volatility and geopolitical tensions are expected to persist, likely leading to an upward trajectory in prices.	79.1	80

Key Economic assumptions		Comment	2023	2024
	**LNG (US$/MMBtu)**	In 2023, factors like high demand, limited reserves, increased oil costs, and interruptions in supply contributed to prices remaining higher than anticipated. 2024 projections indicate a potential price decline owing to enhanced supply levels and decreased demand. However, despite these expectations, geopolitical tensions and worries about European supply might act as stabilizing forces, preventing a significant further drop in prices.	14.9	14.6
	**Gold (US$/oz)**	Initially, prices surged, marking a 7.0% increase over the 2023 Budget projection and a 6.0% rise compared to 2022 levels. This price upsurge was driven by factors such as global economic uncertainty, a slower recovery in China, and geopolitical tensions centred around concerns regarding the situation in Ukraine. However, this upward movement in prices was somewhat limited due to the strength of the US Dollar and higher Treasury yields. The outlook anticipates continued upward momentum for gold prices as interest rate hikes start to decrease.	1,918	1,973
	**Copper (US$/tonne)**	Prices increased beyond initial estimates, marking an 8.6% surge over the 2023 Budget projection yet remaining 5.4% below the 2022 levels. This price fluctuation was influenced by several factors, including the strength of the US Dollar, reduced demand from China, and supply-related challenges. China's economic challenges and a global decline in industrial activities contributed significantly to the decrease in demand for copper. 2024 anticipates an expectation of a continued decline in prices due to a sluggish recovery in demand and a potential surplus in supply.	8,591	8,258
	**Copra (USD$/tonne)**	Throughout 2023, prices experienced consistent decreases primarily because of increased supply and reduced demand, which were influenced by a backdrop of increasing inflation. Although there were higher stockpiles, the projected enhancements in supply are expected to outweigh the low global demand. The 2024 outlook indicates a probability of stable and low prices persisting due to the anticipated decline in demand and the concurrent rise in supply.	1,080	1,080
	**Cocoa (USD$/tonne)**	In quarter 3 of 2023, prices surged significantly, surpassing the estimated figures by 31% and shooting up by 26.7% compared to the levels observed in 2022. These increases were primarily attributed to supply shortages caused by adverse weather conditions and crop diseases that affected major global producers. Additionally, there was a surge in worldwide cocoa demand during this period. Looking ahead to 2024, the forecast suggests the likelihood of further price hikes. This anticipation stems from the ongoing increase in demand alongside the expectation that the supply will continue to remain restricted.	3,099	3,354
	**Coffee (USD$/tonne)**	The prices experienced a significant decline by 10.5% below the estimated budget and dropping even further by 25% compared to 2022. This decrease was primarily influenced by favourable weather conditions in major global production regions and the strength of the US Dollar, which bolstered both production and exports. Additionally, reduced consumption following the impact of COVID, compounded by global inflation, contributed to decreased demand. Looking ahead to 2024, the outlook remains uncertain. The increased supply and the strength of currencies could potentially counter any rises in prices, creating a situation where higher prices might struggle to materialize.	4,453	4,090
	**Palm Oil (USD$/tonne)**	In 2023, there was a slight improvement in prices, yet they remained notably lower compared to 2022, exhibiting a 31% gap. This decline was primarily due to increased production among major producers, coupled with the advantage of weaker trading currencies that favoured exports. 2024, expectations suggest that the combination of surplus supply and lower demand will likely continue to keep prices at lower levels.	853	825

Source: Department of Treasury & KPMG Analysis

Key Insights

- The Key macro-economic risks identified include higher global inflation; the Foreign exchange imbalance prevailing in PNG; volatility of commodity prices; further delay in the Porgera Mine resumption and new resource projects; and poor execution of large scale infrastructure projects by GoPNG.

"This budget is aimed at supporting economic recovery, through strengthening the revenue base, improving the quality of expenditure, obtaining inexpensive and responsible financing within prudent risk levels, lower interest costs, and reducing the debt to GDP ratio, while ensuring macroeconomic stability in the medium term"

Fiscal strategy

GoPNG remains committed to its thirteen-year plan incorporating a medium-term strategy to repair the financial position and support longer term economic growth

This budget is aimed at supporting economic recovery, through strengthening the revenue base, improving the quality of expenditure, obtaining inexpensive and responsible financing within prudent risk levels, lower interest costs, and reducing the debt to GDP ratio, while ensuring macroeconomic stability in the medium term.

The main fiscal parameters of the 2024 Budget are:

- Budget deficit at 3.3% of GDP.
- FRA deficit (excluding concessional loans) at 4.7% of non-resource GDP.
- Non-resource primary balance at 6.1% of non-resource GDP; and,
- Debt estimates of 51.1% of GDP.

Risks to revenue projections would be posed from a reduction in mining and petroleum taxes or in corporate income taxes. The non-payment of dividends from the SOEs is a further risk, as are further delays in the re-opening of the Porgera Mine, including discussions on other large resource investment projects. Risks on the expenditure side include rising global interest rates which would push up the debt interest repayments. Additionally, the realisation of financing options early in the budget execution cycle is a significant challenge to timely implementation.

Total Revenue and Grants for 2024 is projected at K23.4b and 14.7% (K2.99bn) higher than the 2023SB. Increasing efforts will be made to improve the efficiency and quality of expenditure through a focus on continuing to pay off (and prevent) arrears, paying out retiring public servants at the mandatory retirement age, audits and data cleansing of the payroll to eliminate ghost workers, reducing duplicate payments and closely monitoring leases, utilities and car rental bills across GoPNG.

Key capital investment projects will be continued especially those that are considered essential and are able to stimulate economic activities. Other programs that add value to rural communities and spur employment and growth in the non-resource sector are also supported.

Government priority expenses are in the health, education, law & order, and infrastructure sectors. Additional focus in 2024 Budget is on investing in e-commerce support for MSMEs and providing business start-up programs. The 2024 Budget will also support the non-resource sector through downstream processing and value-addition in agriculture, fisheries, forestry and tourism.

Total Expenditure is projected at K27.4b, up 8% on the 2023SB and will continue to strike a balance between the challenge of stimulating the economy and meeting the requirement of fiscal sustainability and discipline.

Compensation of Employees (CoE) - increased by K92m on 2023SB due to new teachers and health workers in Q3 23 and new education and health workers expected in 2024. A slight offset is expected via the GoPNG retirement program.

Interest costs of K3bn are expected in 2024 and are expected to increase to peak in 2025 and decline thereafter as GoPNG intervenes in the domestic market and moves to a more concessional financing base. Debt management reforms will continue and are projected to significantly lower interest costs on external debt and lower domestic interest rates through capital market reforms. Development of the domestic Securities market and capital markets reforms. These include improving the efficiency of the primary market, promoting money market and inter-bank transactions and improved coordination between monetary, fiscal and regulatory authorities and market participants.

Medium-term projections incorporate a significant amount of arrears repayment, with K400m projected in 2024 – K300m operational, and K100m in capital arrears (Connect PNG). The Arrears Verification Committee (AVC) has been operational for 4 years and has reduced the total arrears from K5.2bn to K4.1bn.

Fiscal Deficit is K3.98bn (3.3% of GDP) pushing GoPNG debt to K62.6bn or 51.1% of GDP.

Medium term outlook

GoPNG' s focus over the medium-term will be to maintain fiscal support for economic recovery efforts, strengthen the revenue base, improve the quality of spending, and obtain cheap responsible financing within prudent risk levels thereby ensuring macroeconomic stability over the medium-term.

Over the medium-term (2025 to 2028), Total Revenue and Grants is expected to increase by 43.7% while Total Expenditure and Net Lending will increase by a much lower rate of 22.9% targeting a surplus of around K229.1m with a debt to GDP ratio target of 43.5% by 2027.

Over the 2023-2027 projection horizon, with revenue to GDP increasing at a faster pace than expenditure to GDP, the debt stock will decline steadily over the medium-term to 43.9% of GDP by 2027. The Government remains optimistic that policy actions undertaken in this budget and in subsequent budgets will set the debt stock on track to reach 40.0% of GDP by 2030 as prescribed in the FRA (amended 2020).

The non-resource primary balance as a percentage of non-resource GDP is projected to be -0.5% by 2027 and will subsequently move into surplus, in-line with the target of a zero (0) average balance over the medium-term.

2024 Budget strategy & medium-term fiscal outlook

The Medium-Term Fiscal outlook reflected in the table below targets a surplus budget by 2027 and an option of nil net debt by 2034.

The fiscal strategy over the medium-term is to grow revenue faster than expenditure so as to reduce the need to run huge deficits. In the short term GoPNG will introduce counter-cyclical measures to stimulate demand and business activities. In the medium to long term strategy is to target fiscal discipline, specifically debt sustainability, and promote the efficiency of spending.

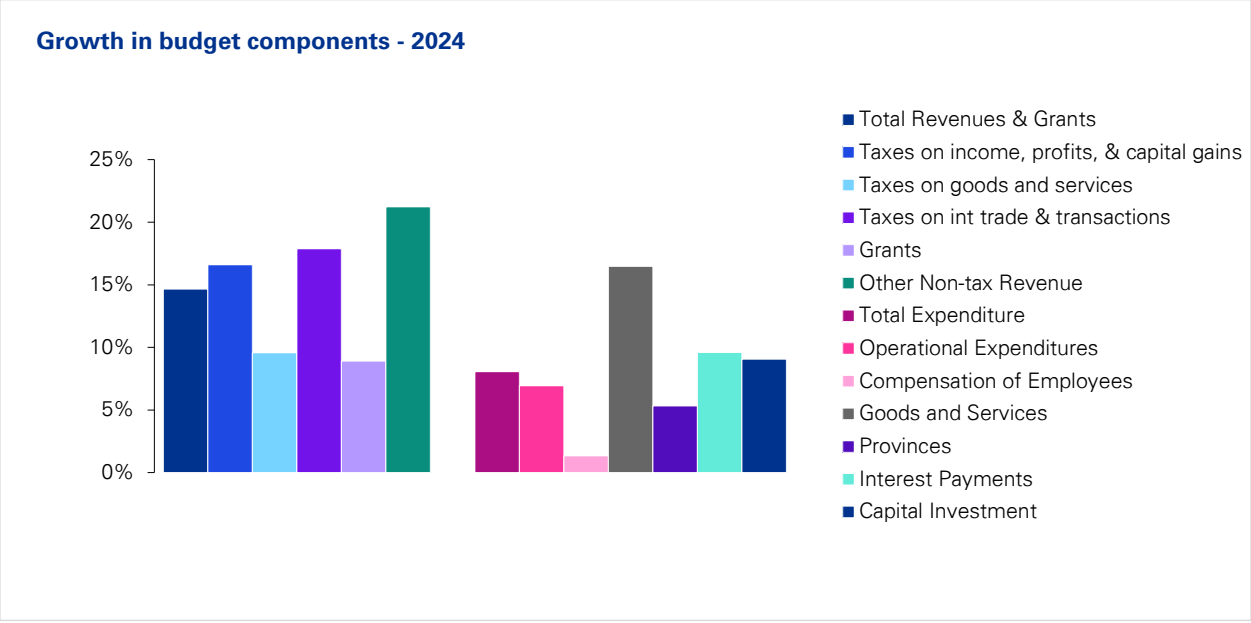
Revenue Strategy aimed at building a revenue base that can finance GoPNG expenditure plans through tax administration reforms and improved compliance.

Debt Strategy targets low-cost financing, within prudent risk levels, that ensures macroeconomic stability and flexible and more concessional borrowing through a balanced portfolio with reduced external borrowings.

The deficit is expected to gradually reduce to achieve a surplus budget by 2027 and public debt to GDP below 40% by 2030.

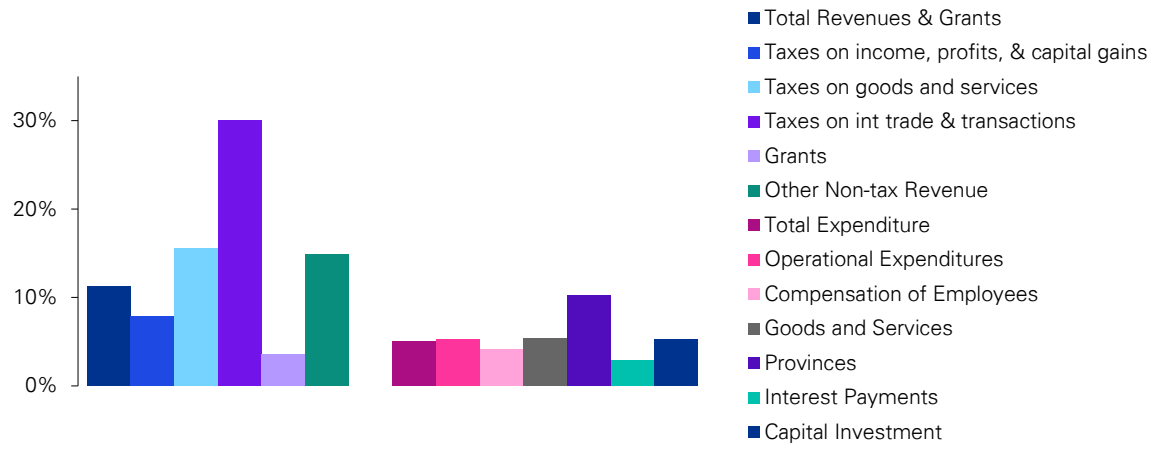
Budgetary item	2023SB	2024	2025	2026	2027	2028
Total Revenues and Grants	**20,403**	**23,394**	**25,826**	**28,492**	**31,360**	**34,746**
Taxes	16,321	18,695	20,835	23,066	25,322	28,234
Taxes on income, profits, & capital gains	10,683	12,456	12,688	13,272	14,153	15,535
Taxes on payroll & workforce	1	1	1	1	-	-
Taxes on goods & services	4,882	5,349	6,969	7,956	8,897	9,971
Taxes on international trade & transactions	754	889	1,177	1,836	2,272	2,728
Grants	2,025	2,205	2,255	2,305	2,355	2,405
Other Revenue (Non-Tax)	2,057	2,494	2,737	3,121	3,684	4,107
Operational Expenditures	**12,742**	**13,627**	**14,171**	**15,009**	**16,097**	**16,416**
Compensation of Employees	6,942	7,034	7,330	7,646	7,987	8,487
Goods and Services	4,342	5,057	5,129	5,454	5,981	5,555
Provinces	**1,458**	**1,536**	**1,712**	**1,909**	**2,129**	**2,373**
Functional grants	642	638	711	793	884	986
GST & Book Makers Transfers	816	898	1,001	1,116	1,244	1,387
Interest Payments	**2,784**	**3,051**	**3,293**	**3,454**	**3,356**	**3,184**
Capital Investment	**9,811**	**10,700**	**11,017**	**11,343**	**11,678**	**12,668**
GoPNG PIP	6,630	7,281	7,536	7,800	8,073	8,938
Donor Support Grants	2,025	2,205	2,255	2,305	2,355	2,405
Loans	1,156	1,214	1,226	1,238	1,251	1,326
Total Expenditure	**25,337**	**27,378**	**28,481**	**29,806**	**31,131**	**32,268**
Deficit	**-4,934**	**-3,984**	**-2,654**	**-1,314**	**229**	**2,478**

Source: Department of Treasury & KPMG Analysis



Source: Department of Treasury & KPMG Analysis

Growth in budget components - 5 year average



Source: Department of Treasury & KPMG Analysis

Key Insights

- The Medium Term strategy and outlook has not changed materially on last year and the key themes are reinforced - maintain fiscal support for economic recovery efforts, strengthen the revenue base, improve the quality of spending, and obtain cheap responsible financing.
- Key risks for the fiscal strategy stem from lower taxes paid by mining, resources and corporates; lower dividends from the SOEs; further delays in the re-opening of the Porgera Mine and delays in concluding other large resource investment projects; and rising global interest rates pushing up debt interest repayments.
- Revenue predictions remain optimistic and represent a real risk to the achievement of the medium-term projections.

"a sustainable revenue collection framework
anchored with more predictable, equitable and efficient revenue
policies are needed to finance
the ongoing demand for funding social and economic programs"

Revenue

Total revenue and grants

2023 revenue forecasts are supported by the continued post-Covid economic recovery in economic growth, increased consumption, growth in non-resource sector revenues and increases in non-tax revenue

Total Revenue and Grants for 2024 is estimated to grow to K23.4bn in 2024 with a 14.5% increase in tax revenue (K18.7bn); and a 21.2% increase in non-tax revenue (K2.5bn). Tax revenue remains the major contributor at 80.0 % of total revenue due to conducive commodity prices, improved business profitability and high employment and wage growth.

Non-tax revenue is expected to increase its share of total revenue from 10.1% in 2023 to 10.7% in 2024 due to higher mining and petroleum dividends.

Tax revenue is projected to increase by 14.5% to K18.7bn driven by increased taxes on income and profits (16.6% up), and company income tax (23.7% up). Tax on Goods and Services is estimated to grow by 9.6% to K5.4bn in 2024, off continuous strong corporate earnings and the higher tax rate of 45% on commercial banks.

The non-tax revenue is projected to grow by 21.20% to K2.5bn in 2024, primarily due to expected higher dividend payments from state-owned resource companies and the full-year implementation of the NTRA Act 2022.

Revenue Components (Km) *	2022	2023SB	2024	Change	%	% of total
Tax Revenue	**16,454**	**16,321**	**18,695**	**2,374**	**14.5%**	**80%**
Taxes on Income, Profits & Capital Gains	11,253	10,683	12,456	1,772	16.6%	53%
Taxes on Goods and Services	4,294	4,882	5,349	467	9.6%	23%
Taxes on International Trade & Transactions	906	754	889	135	17.9%	4%
Non-Tax Revenue	**611**	**2,057**	**2,494**	**437**	**21.2%**	**11%**
Grants	**1,472**	**2,025**	**2,205**	**180**	**8.9%**	**9%**
Total Revenue and Grants	**18,536**	**20,403**	**23,394**	**2,991**	**14.7%**	**100%**

Source: Department of Treasury & KPMG Analysis

Personal Income Tax (PIT) is expected to increase by 12.2% to K4.34bn in 2024. This growth is attributed to a favourable economic growth outlook, strong employment growth, and improved tax compliance efforts by the Internal Revenue Commission (IRC). Additionally, the resumption of the Porgera mine is anticipated to contribute to improved collections.

Company Income Tax (CIT) is expected to grow by 23.7 % to K3.7bn in 2024, supported by continuous strong corporate earnings on the back of robust non-resource sector growth and the corporate tax rate of 45% levied on the commercial banking sector in 2023.

Mining and Petroleum Tax (MPT) is expected to increase by 17.3% from K3.02bn in 2023 to K3.5bn in 2024, driven by the anticipated increase in oil price and higher production volumes anticipated from the PNG LNG project and some of the mines.

Dividend Withholding Tax (DWT) is expected to grown by 9.5% to K496.0m. The increase is attributed to strong economic growth and the ongoing DWT payments from non-resident companies and individuals.

Taxes on Payroll and workforce - training Levy collection is continuing to be an income stream from the delayed filings from 2019, however, the tax was repealed in the 2018 Budget.

Tax on Goods and Services is estimated to increase by 9.6% to K5.3bn in 2024, supported by steady consumption and trade growth.

Total GST collection is projected to increase by 6.6% to K3.2bn, attributed to the IRC's ongoing tax compliance and enforcement efforts in implementing Section 65A to suppliers or service providers to Government Departments and State-Owned Enterprises.

Inland Excise is projected to increase by 13.1% to K1.3bn in 2024. Domestic excise will be driven by an increase in consumption on excisable items by applying 20% excise duty rate on the Tier-2 excise tax base and applying the indexation rate of 2.5% bi-annually.

Gaming Machine Tax (GMT) collection is projected to increase by 6.0 % to K358m reflecting an increase in gambling activities.

Taxes on International Trade and Transactions are projected to increase by 19.9% to K889m, supported by stronger compliance efforts and improvement in trade activities and consumption.

In 2024, Import Duty is projected to increase by 9.8% to K455m. Growth in import duty will be driven by stronger PNG Customs compliance efforts in accordance with the 20:80 inspection ratio and further improvement in trade activities.

Export Duty is expected to increase by 27.7% to K434m driven by introduction of an export duty on unprocessed fish in the second half of 2024 expected to offset lower log export revenue from reduced log export duty.

Non-Tax Revenue

Non-tax revenue is projected to increase by 21.2% to K2.4bn due to expected higher dividend payments from state-owned resource companies and the full-year implementation of the NTRA Act 2022.

The Government is expecting Kumul Petroleum Holdings (KPH), Kumul Consolidated Holdings (KCH) and Kumul Mineral Holdings (KMH) to pay a combined total of K1.15bn – K1.25bn projected dividend revenue.

Grants

Total Donor Grants are estimated to increase by 8.9% to K2.2bn in 2024, driven by further support from Papua New Guinea's major donor partners towards GoPNG's investment expenditure priority areas over the medium-term.

Revenue Components (Km) *	2022	2023SB	2024	Change	%	% of total
Tax Revenue	**16,454**	**16,321**	**18,695**	**2,374**	**14.5%**	**80%**
Taxes on Income, Profits & Capital Gains	**11,253**	**10,683**	**12,456**	**1,772**	**16.6%**	**53%**
Personal Income Tax	3,652	3,868	4,341	473	12.2%	19%
Company Tax	2,757	3,041	3,761	721	23.7%	16%
Mining and Petroleum Taxes	4,036	3,026	3,550	524	17.3%	15%
Royalties & Management Tax	51	70	80	10	14.6%	0%
Dividend Withholding Tax	681	453	496	43	9.5%	2%
Interest Withholding Tax	55	219	220	1	0.4%	1%
Non-Resident Insurers Withholding Tax	20	7	7	0	1.4%	0%
Training Levy	1	1	1	0	0.0%	0%
Taxes on Goods and Services	**4,294**	**4,882**	**5,349**	**467**	**9.6%**	**23%**
GST	2,475	3,036	3,236	200	6.6%	14%
Stamp Duties	30	36	46	11	29.3%	0%
Excise Duty	1,157	1,173	1,326	154	13.1%	6%
Import Excise	247	255	300	46	17.9%	1%
Bookmakers' Turnover Tax	35	18	47	29	164.6%	0%
Gaming Machine Turnover Tax	328	338	358	20	6.0%	2%
Departure Tax	8	10	13	3	35.4%	0%
Other taxes on goods and services	10	18	22	4	23.9%	0%
Taxes on International Trade & Transactions	**906**	**754**	**889**	**135**	**17.9%**	**4%**
Import Duty	470	414	455	41	9.8%	2%
Export Tax	436	340	434	94	27.7%	2%
Non Tax Revenue - Other revenue	**611**	**2,057**	**2,494**	**437**	**21.2%**	**11%**
Property Income	514	1,224	1,246	22	1.8%	5%
Dividends	480	1,133	1,150	18	1.5%	5%
Rent	34	91	96	5	5.6%	0%
Sales of goods and services	6	157	0	-157	-100.0%	0%
Transfers not elsewhere classified	90	675	1,248	573	85.0%	5%
GRANTS	**1,472**	**2,025**	**2,205**	**180**	**8.9%**	**9%**
From Foreign Governments	1,060	1,715	1,775	61	3.5%	8%
From International Organizations	412	310	430	119	38.4%	2%
Total Revenue and Grants	**18,536**	**20,403**	**23,394**	**2,991**	**14.7%**	**100%**

** Note - not all line items are reflected - minor amounts not reflected and accordingly columns may not sum*

Source: Department of Treasury & KPMG Analysis

Key Insights

- Tax revenue collection has underpinned the growth in total revenue in the 2024 Budget forecast as more robust collections and the banking tax contribute.
- Non tax revenues rely heavily on expected dividends particularly mining, petroleum and gas dividends. The current energy prices have benefited GoPNG in 2023 and are forecast to continue in 2024.
- Resource-related revenue (including dividends) is expected to increase by almost 11.0 % in 2024 on the back of lower project global crude oil prices.

"GoPNG continues to fund service priorities in the health, education, law & order, and infrastructure sectors, as well will continuing the implementation of some of the key capital investment projects which began in prior years."

Expenditure

The 2024 budget is guided by GoPNG's updated 13-year fiscal plan with total expenditure in 2024 budgeted at K27.4bn

The 2024 Budget is guided by the Government's updated 13-year Budget Repair Plan and aims to fund the investment priorities outlined in the MTDP IV. Total expenditure in 2024 is budgeted at K27.4bn, an increase (8%) on 2023SB. The total deficit financing required is K3.98bn, down from 2023SB's K6bn, a positive improvement. The 2024 Budget represents expenditure funded from GoPNG of K24.04bn and donor funded expenditure of K2.2bn in donor grants and K1.2bn in concessional loans. In the budget components, the operational budget is K16.7bn and the capital investment is budgeted at K10.7bn.

The operational budget has increased by 7.3% to K16.7bn driven mainly by:

- The 16.0% increase in the Goods and Services budget which considers the GoPNG's arrears (utility bills, rentals, superannuation, and retirement costs) and interest costs.
- The increase in Compensation of employees (CoE) by 1.3% to cater for the recruitment of teachers and police officers and other specialised medical personnel; and general salary increases.

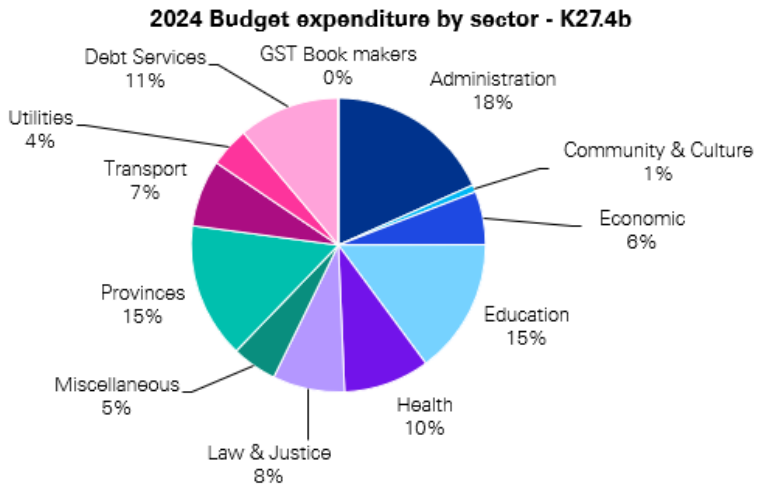
2024 capital expenditure budget increased by 9.2%to K10.7bn from the 2023SB budget to ensure:

- A strategic realignment of project priorities and takes into consideration the successful completion of numerous programs and projects within the MTDP III period and implementing the MTDP IV. These aim to invigorate economic growth and reinforce economic resilience.

Maintaining the funding of fixed commitments of key policies and priorities, such as the Provincial and District Support Improvement Programs and Connect PNG Policy.

Budget Components (Km)	2023SB	2024 Budget	Change in 2024	% of total
Operational	**15,542**	**16,678**	**7.3%**	**61%**
Compensation of Employees*	6,942	7,034	1.3%	26%
Goods and Services	4,358	5,057	16.0%	18%
Debt Interest Payment	2,784	3,051	9.6%	11%
Provincial Functional grants	642	638	-0.6%	2%
GST & Book Makers Transfers	816	898	10.0%	3%
Capital	**9,796**	**10,700**	**9.2%**	**39%**
GoPNG	6,615	7,281	10.1%	27%
Concessional Loans	1,156	1,214	5.0%	4%
Donor Grants	2,025	2,205	8.9%	8%
Total Expenditure	**25,338**	**27,378**	**8.0%**	**100%**

Source: Department of Treasury & KPMG Analysis



Source: Department of Treasury & KPMG Analysis

The 2024 Budget specifically points out Expenditure Efficiency Measures to be undertaken, key amongst which are the following:

Non-Compliance to address governance issues and inadequate provision of reliable and timely financial and non-financial information by GoPNG agencies; failing to submit expenditure reports; inadequately monitoring and evaluating government-funded projects, delays in submitting work plans and procurement plans. Almost a third of all GoPNG institutions did not submit their budget bids.

The mechanisms proposed cover the following:

- Penalty Mechanisms which hold agency heads accountable for non-compliance, including failure to pay income tax or superannuation and delays in submitting budget bids or reports.
- Public Disclosure of Non-Compliant Agencies to promote public accountability and exerts reputational pressure on agencies to meet their financial obligations and reporting requirements.
- Budget Training for Agencies to enhance their understanding of budgeting processes, financial management, reporting standards, and compliance obligations.
- Circular on Project Funding Requirements for comprehensive project proposals that exhibit effective planning, financial management, and accountability.
- Restricting Goods and Services Expenditure on Credit to promote financial discipline by requiring agencies to pay for goods and services upfront or within approved timelines.
- Monitoring and Evaluation Mechanisms

Expenditure restraint measures:

- Limiting the creation of new agencies, enhance capacity of existing agencies and merging those with similar functions to avoid duplication and resource wastage.
- setting timeframes or lapse periods for National Executive Council (NEC) decisions
- implementing stringent measures to limit spending on general goods and services; and
- phasing out projects with substantial funding requirements through multi-year budgeting.

Organisational Staffing Personnel Emoluments Audit Committee (OSPEAC) activities will focus on enhancing payroll efficiencies by scrutinising the public service pay bill, identifying causes of overspending, and recommending and implementing corrective measures. Whole-of-Government Retirement Exercise is ongoing with 2,609 officers successfully retired over past two years at a cost of K372m.

Upgrading of Ascender Payroll System to enhance efficiency by automating entitlement calculations for retirement benefits, gratuity, and other salary components, reducing human errors that contribute to overspending in the CoE budget.

Expenditure by Sector (Km)	Operational	Capital	Total	% of total	Comment & major projects
Administration	1,633	3,380	5,012	18%	This Sector has been allocated a total of K5,012.4 million, accounting for 18 % the overall budget. This allocation represents an increase of K649.4 million or 14.9 per cent compared to the 2023 SB
Community & Culture	112	102	214	1%	Funds allocated to this category accounting for 0.8% of the overall budget aim to support, protect and empower children, youth, women, the elderly, persons living with disabilities and other vulnerable groups; and promote sports
Economic & Infrastructure (Renewable and non-renewable sectors)	517	1,091	1,608	6%	The investment in the Economic Sector aims to address the impediments in accessing markets and land development, tourism, empowering Micro, Small and Medium Enterprise (MSMEs), supporting innovative activities in the agriculture sector and increasing downstream processing, supporting development of new mining and petroleum projects, and promote climate resilience through natural environment conservation
Education	3,750	331	4,082	15%	Education Sector has been allocated a total of K4,081.6 million, accounting for 14.9 per cent of the overall budget. The funds are focused on improving education quality, improve access and affordability at all levels from basic elementary, primary and secondary education leading to TVET institutions, colleges and the universities
Health	1,876	713	2,589	9%	Increasing funding for health services and infrastructure to enhance delivery and accessibility of healthcare.
Law, Justice, and national security	1,702	463	2,164	8%	The Law & Justice Sector has been allocated a total of K2,164.3 million, accounting for 8% per cent of the overall budget. This allocation represents an increase of K244.9 million or 12.8 per cent compared to the 2023SB
Miscellaneous	1,361	-	1,361	5%	These includes contingency funds and allocations that cut across all sectors, such as Nambawan Supa Exit payments.
Provinces	2,313	1,769	4,082	15%	The capital expenditure has a continued focus on service delivery whilst the operational expenditure covers CoE and G&S expenses.
Transport	279	1,735	2,013	7%	Key priority capital expenditures include major projects: Connect PNG, CADIP Program, air transportation, PNG Ports Infrastructure Investment programs, construction and maintenance of roads/missing links.
Utilities	84	1,117	1,201	4%	Continue funding major programs and projects: Digital Governance infrastructure development, NBC Rehabilitation and Modernisation Program, Provincial and District Water Supply Project to ensure no disruption to Government administrative operations
Debt services	3,051		3,051	11%	The strategy has a strong focus on managing risk exposure from debt portfolio, that is, the potential variations in the cost of debt servicing and its impact on the budget over the medium term by identifying how cost and risk vary with the composition of the debt.
Total expenditure	**16,678**	**10,700**	**27,377**	**100%**	

Source: Department of Treasury & KPMG Analysis

Key Insights

- Expenditure overall grew by 8% to K27.4bn, of which budget deficit of K4bn will be financed through external borrowing and domestic disbursements.
- There is a strong focus on expenditure efficiency measures which appear thorough, pragmatic and well considered. The execution of these will be challenging but, if implemented successfully, will be significant for the achievement of spending targets.
- Capital expenditure targets priority areas and, at 39% of the total budgeted spending, aims to deliver a more solid economic platform.

"GoPNG are aiming to improve its debt portfolio to be more sustainable and lower cost as it becomes less risky in the view of investors"

Budget financing

The 2024 budget continues GoPNG's 13-year fiscal plan and pivots to a focus on debt sustainability as a result of the impact of challenges and inflationary pressures bought about by COVID-19, Russia's invasion of Ukraine impacting oil prices and increasing global interest rates. Domestic debt peaks at K62.6b in 2024.

Financing the 2024 budget deficit is in line with the government's medium term debt management policy and 13-year Budget Repair Plan. The focus is on debt sustainability by borrowing at competitive and lowest available rates. There are significant global factors negatively impacting the strategy, including increasing global interest rates, depreciation of the Kina against the US Dollar, appreciation against the Australian Dollar and recent geo-political tensions.

The 2024 budget is projected to require a net borrowing of K4.0b in 2024, financed by a mix of multilateral and bilateral creditors.

Financial requirements for 2024

The 2024 GoPNG budget will finance the borrowing requirement via external sources to the amount of K1.7b and domestic sources of K2.3b.

External borrowings are expected to be raised from the following main sources.

- ADB for strengthening public sector management (USD100.0m).
- World Bank Development for budget support (USD100.0m).
- IMF for budget support (USD252.2m).
- Concessional loans for planned projects (K1.0b); and
- Commercial finance for infrastructure projects and budget support (K1.9b).

Domestic borrowings are expected to be raised from the following main sources.

- Treasury bills (K2.0b); and
- Treasury bonds (K560.0m).

The amortisation commitment for 2024 is projected at K19.6b.

Financing Instrument	FX = USD 'million	PGK 'million
External Borrowings		**3,126**
Extraordinary	512	1,912
WB, ADB, Bilateral	*260*	*972*
IMF Budget Support (ECF &EFF)	*252*	*939*
Concessional Project Loans		1,026
Commercial Loans		188
Domestic Borrowings		**21,955**
Treasury Bills		17,550
Treasury Bonds		4,301
Domestic Commercial Loans		104
External Repayments		**1,462**
Domestic Repayments		**19,634**
External Net		**1,663**
Domestic Net		**2,320**
Total Net Financing of Deficit		**3,984**

Source: Department of Treasury & KPMG Analysis

Domestic market conditions

Once again, net borrowing rose in 2023 to fund cash requirements, settle bond coupons and maturities in the absence of external budget finance support by way of issuance of both Treasury Bills and Treasury Bonds. GoPNG plans to publish an issuance program for 2024 in the beginning of the year. The primary domestic borrowers in the weekly auctions are the four commercial banks, the superfunds and corporate and individual investors.

Short-term Treasury Bills were in high demand early in 2023 and declined during the year due to the issuance of a large volume of longer-term Treasury Bills (over six months). Long-term Treasury Bonds continue to be attractive to major market players.

Coupon rates for both short- and long-term debt declined over the year as liquidity remained high. 89% of auctions experienced oversubscription during 2023. Yield on 182-day T-bills declined from 2.7% to 1.3%; 273 day securities dropped from 2.9% to 2.7%; and 364 day securities dropped from 4.3% to 3.1%. T-bond yields dropped below 6% in the last auction of 2022.

Overall objective of 2023-2027 Medium Term Debt Strategy

GoPNG is now one year into its Medium-Term Debt Strategy (MTDS). The MTDS is for the period 2023-2027 and focuses on maintaining fiscal support for economic recovery and foster fiscal consolidation over the medium term and managing the risk exposure embedded in the debt portfolio.

The Minister of Treasury emphasises the relatively strong debt % of GDP at 52.6% in the supplementary budget, decreasing to 39.2% in the forward forecast for 2028.

Debt Instruments	2022 Actual	2023 Sup Budget	2024 Budget	2025	2026	2027	2028
Domestic Debt	**27,534**	**29,858**	**32,179**	**33,851**	**34,489**	**34,839**	**34,068**
Treasury Bills	13,789	14,163	13,986	16,373	16,807	17,245	16,663
Treasury Bond	12,583	14,528	17,089	16,530	16,830	16,780	16,631
Loans	1,162	1,167	1,104	949	852	814	774
External Debt	**26,146**	**28,757**	**30,420**	**31,401**	**32,078**	**31,499**	**29,792**
Monetary Gold & SDRs	1,244	1,244	1,244	1,244	1,244	1,244	1,244
Debt securities	1,761	1,761	1,761	1,761	1,761	1,761	0
Concessional	11,774	12,176	12,430	13,767	14,701	15,039	16,053
Commercial	203	173	319	530	741	773	761
Extraordinary	11,164	13,402	14,667	14,100	13,631	12,683	11,734
Gross Debt* (ex. Arrears)	**53,680**	**58,615**	**62,599**	**65,253**	**66,567**	**66,338**	**63,860**
% of GDP (without Arrears)	49.8%	52.6%	51.1%	49.2%	46.9%	43.5%	39.2%
GDP	**107,807**	**111,351**	**122,519**	**132,634**	**141,940**	**152,339**	**163,044**

Source: Department of Treasury & KPMG Analysis

Debt strategy operations

GoPNG's debt policy is aimed to lessen reliance on T-bills to mitigate risk of refinancing; reduce variable interest rate borrowing; reduce commercial borrowing; prioritise concessional financing from external sources in order to secure the necessary financing for development objectives; and develop the domestic debt market to improve its depth, liquidity and efficiency.

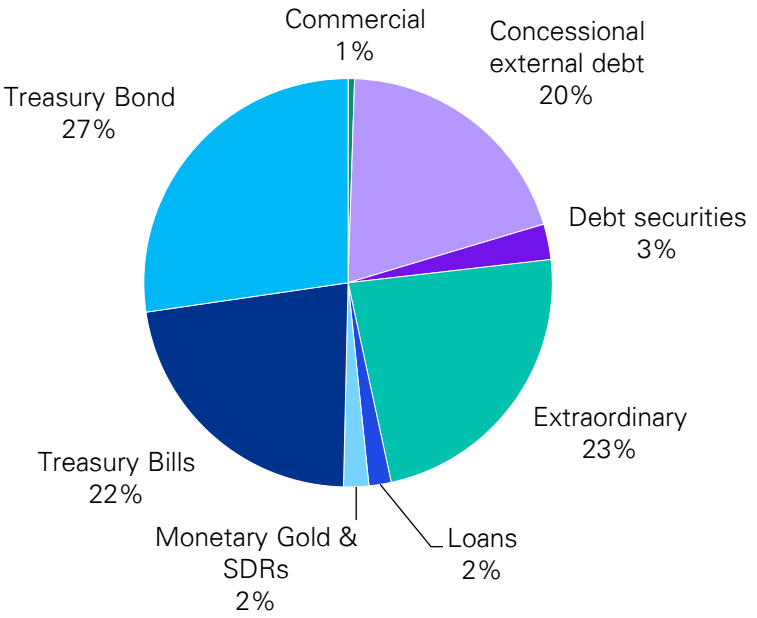
This will be done by reference to key medium-term targets to be contained in an updated MTDS, being developed in conjunction with bilateral and multilateral partners.

Development of domestic debt market

The MTDS aims to development a domestic debt market in order to manage and decrease borrowing costs over the medium term due to relatively high refinance risks and ratings from IMF and World Bank. Key initiatives include.

- Working with existing investors to ensure they rollover their maturing debt and participate in the weekly auctions and monthly tenders.
- Smoothing out the maturity profile of existing and future domestic debt.
- Working with Bank of PNG to finance key projects.
- Review of the MTDS; and
- Quarterly investor meetings to improve relations and effectiveness of the market's participation.

Debt outstanding by instruments (2024 budget)



Source: Department of Treasury & KPMG Analysis

Key Insights

- The K4.0b budget deficit in 2024 is forecast to be financed through net external borrowings of K1.7bn and domestic borrowings of K2.3bn. The K4.0b deficit forecast for 2024 is a lower deficit compared to the 2023 supplementary budget. Debt peaks at K62.6b during 2024 and then is forecast to steadily decline as a % of GDP through to 2028. The level of debt is concerning, but, as the Minister of Treasury emphasises, as a % of GDP, it is relatively strong and declining.

"2024 tax changes focus on encouraging domestic industry"

Tax – general

No major reforms to the income tax regime

One noteworthy aspect of this Budget presentation is the absence of significant new tax measures, unlike previous years. This might be seen as a conscious decision by GoPNG to stimulate the economy through public spending and infrastructure development, rather than looking for additional revenue through increased taxation. The focus seems to be firmly on driving growth through capital investments and targeted import duty concessions.

By not introducing any significant new tax measures, including the hotly anticipated new Income Tax Act, GoPNG may be signalling confidence in the IRC and its administrative revenue-raising measures. Indeed, the Hon. Rainbo Paita, MP, made it a point during his Budget lockup speech to specifically acknowledge and congratulate the work of the respective heads of the IRC and the PNG Customs Service. The lack of tax measures might also signal confidence in quite ambitious projected economic growth targets and other revenue-generating activities that are outlined in the Budget.

Overall, the tax measures outlined in the 2024 National Budget aim to foster a favourable environment for businesses and offer relief to citizens with an emphasis on economic growth and prudent fiscal oversight, without resorting to additional tax burdens on an already struggling private sector.

Employee tax free threshold to be permanent

Previously introduced as a temporary measure to assist employees given the increases in both inflation and living costs, the salary or wages tax-free threshold will now be permanently fixed at K20,000 per annum. Additionally, GoPNG will abolish the dependent rebate in the interests of administrative efficacy.

Gaming revenue

Moving forward, the National Gaming Control Board (NGCB) is expected to be required to contribute K200m to the country's Consolidated Revenue Fund to help finance the annual budget. The NGCB, which oversees the gaming industry and collects income through licenses, fees, and taxes, will perform this statutory transfer in addition to the gaming taxes already collected for GoPNG. This action is part of the Government's strategy to better manage and utilise the revenues generated by state agencies and state-owned enterprises for the benefit of the country's citizens. This measure will be implemented in the year 2024.

International trade and customs

Concessions for domestic manufacturing and lower export duties on round logs

Import duty reduction for manufacturing inputs

Certain imports for use in manufacturing will now be exempted from import duty in an effort to reduce production costs for domestic manufacturing industries:

1. **Soap and Detergent Manufacturing Industries**: Soap noodles (HS Code 3401.20.10), previously subject to a 20% duty will have no duty rate.
2. **Packaging**: Flexible intermediate bulk containers (HS Code 6305.32.00), previously subject to a 10% duty and other packing containers, including record sleeves (HS Code 4819.50.00), will also be free of duty. The foregoing are used in crude coconut oil and/or tea industries.
3. **Food Processing Industry**: Boneless meat for manufacturing (HS Code 0203.29.10), previously subject to 20% duty, will be duty-free, while other meat (HS Code 0203.29.90) will have a 15% duty rate. Shortening for manufacturing (HS Code 1517.90.20), previously subject to a 25% duty will be duty free.
4. **Beverage Industry**: Caps used for beverages (HS Code 3923.50.10), previously subject to 20% duty will be duty free.
5. **Bedding and Furniture Manufacturing**: Mattress inner springs (HS Code 7326.20.10), will be reduced from 10% to duty free.

These measures come into effect on 1 January 2024.

Reduction in round log duty rates

The only change to export duties this year will affect the logging industry with a reduction in the progressive log export tax from an average of 70% down to 50%. This change will specifically reduce the export tariff for timber logs and poles in the rough, which includes logs that have not been processed (e.g., not sawn), encompassing all species except for balsa, blackbean, cordia, ebony, rosewood, teak, and all conifers, the export of all of which is banned.

If these logs originate from plantations, they are free from export duty. Otherwise, the duty will vary based on the Free on Board (FOB) price per cubic metre (US$/m^3). The rates are incremental; as the FOB price increases, the duty rate also rises, reaching a maximum duty bracket for prices from and above the FOB price of US$200. The progressive rates system is used to discourage the export of raw materials, encouraging domestic processing and value addition. Of note for the industry, GoPNG remains committed to its historic objective to ban the export of unprocessed logs by 2025.

These measures come into effect on 1 January 2024.

Excise duty on tobacco

The Tier-2 programme which was initially introduced in 2019 to fight the sale of illicit tobacco products will now be made permanent. Under the Tier-2 regime, the excise tax for tobacco is set at a concessional rate to encourage smokers to switch from illicit to legally produced cigarettes. This has proven effective in reducing the illicit market significantly.

The Tier-2 excise tax for tobacco products will increase by 20%, going from K209.67 to K251.60 per 1,000 sticks. A bi-annual indexation rate of 2.5% will apply from 1 June 2024 onwards.

The main goals of this policy are to continue to curb the trade of illicit tobacco and to increase GoPNG revenue. By making the Tier-2 system permanent and adjusting the rates, it is projected to raise an additional K200m in revenue for 2024.

Tobacco manufacturers who wish to participate in this system must comply with the set conditions, including keeping the Manufacturer Selling Price (MSP) under K18.50 per pack of 25, or K740.00 per 1,000 sticks.

The measures come into effect on 1 December 2023.

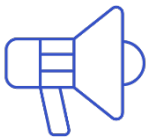
Customs technical amendments

Several technical amendments to the Customs Tariff Act 1990 are introduced effective 1 January 2024 with the aim of improving PNG Customs administration and enhance compliance as follows:

- Renumbering HS Code 2202.99.11 for Chocolate and Yoghurt Drinks
- Renumbering HS Code 2202.99.12 for Milk Drinks
- Renumbering HS Code 2710.19.90 for Zoom
- New Subheading HS Code 3401.11.10 for Bath Soap
- New Subheading HS Code 3401.11.90 for Wipes and Other
- New Subheading HS Code 3401.19.90 for a new category for wipes
- Deleted HS Code 3401.10.10 for Organic surface-active products and preparations
- Deleted HS Code 3401.10.20 for Laundry Soap
- Deleted HS Code 3401.10.30 for Shaving Soap
- Renumbering HS Code 3401.19.10 for Laundry Soap
- Renumbering HS Code 3401.19.20 for Shaving Soap
- New Description HS Code 3923.50.10 for Caps used for beverages and similar items
- New Subheading HS Code 7326.20.10 for Mattress Inner Springs
- New Description HS Code 7326.20.90 for a new category as other

Key Insights

- GoPNG to support domestic manufacturing industries by reducing tariffs on the importation of key inputs.
- GoPNG to reduce average rate of the log export tax with the aim of encouraging downstream processing in PNG, but is still committed to banning the export of round logs by 2025.
- GoPNG continues to target illicit tobacco sales through the use of concessional excise duties.
- Still no mention of the new Income Tax Act which was expected to be delivered with this Budget but effective from 2025.



Announced measures not yet enacted

The government has flagged further measures

New policy development areas not yet implemented

1	The new Income Tax Act was expected to be introduced with this Budget and to be passed by Parliament with an effective date of 1 January 2025 following a one year cooling off period. However, no mention was made of the re-write of the Income Tax Act so it remains to be seen when the final Act may be passed.
2	GoPNG has indicated its intention to impose tariffs on the export of unprocessed fish. The National Fisheries Authority's existing system, relying on license and Vessel Day Scheme (VDS) fees, is thought to not fully capitalise on the sector's potential. To counteract this and promote local industry benefits such as job creation and food security, an export tariff ranging from 10% to 20% based on the FOB value is expected to be implemented starting from July 2024. This will be the subject of consultation with relevant stakeholders and the National Fisheries Authority in Q1 2024.

CFO / Head of Tax checklist

Leaders within finance and tax functions should consider the impact of the following measures as a priority

	Detail	Checklist
1	**New Income Tax Act** Monitor announcements for anticipated reforms, such as the new Income Tax Act, and prepare for future changes.	☐
2	**Gaming Sector** If engaged with the National Gaming Control Board, confirm your understanding of the flow on effects and impact of additional statutory transfers by the Board to the Consolidated Revenue Fund.	☐
3	**Manufacturing Industry** Analyse the benefits of import duty exemptions for manufacturing inputs and adjust procurement strategies accordingly. Update costing models to factor in reduced import duty costs starting 1 January 2024.	☐
4	**Logging Industry** Plan for the reduced export duties on round logs and consider how this may affect export strategies. Stay informed about the Government's stance on the ban of unprocessed log exports by 2025 and prepare for necessary adjustments, such as onshore processing. Consider the business case for onshore processing.	☐
5	**Tobacco Industry** For Tier-2 importers, forecast the financial impact of the 20% excise tax increase and subsequent 2.5% indexation rate from 1st December 2023. Ensure compliance with Manufacturer Selling Price regulations under the Tier-2 system.	☐
6	**Fisheries Industry** Anticipate tariffs on the export of unprocessed fish starting July 2024 and adjust pricing and sales strategies accordingly. Contact the NFA for details of any upcoming consultations. Consider the potential business case for onshore processing.	☐
7	**Importers, customs, and freight forwarding industry** Review and understand the technical changes to tariff codes and their impact on product classification and customs processes. Update compliance systems and documentation to reflect renumbered and new HS Codes and descriptions.	☐

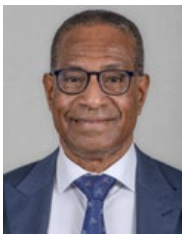
Turning insights into action

How can KPMG help you

Contact Us

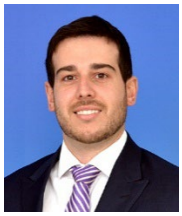
To learn more about how KPMG can help your organization articulate and execute on a growth agenda tailored for you, please contact:

Zanie Theron
Advisory
South Pacific Partner in Charge
ztheron@kpmg.com.au



Ces Iewago
Advisory
Managing Partner
ciewago@kpmg.com.au

Pieter Steyn
Audit & Assurance
Partner
psteyn@kpmg.com.au



Christian Angelopoulos
Audit & Assurance
Partner
cangelopoulo@kpmg.com.au

Karen McEntee
Business & Tax Advisory
Partner
kmcentee@kpmg.com.au

Brett McDermott
Business & Tax Advisory
Partner
bmcdermott@kpmg.com.au

Charles Judd
Advisory
Principal Director
cjudd@kpmg.com.au

Wayne Osterberg
Advisory
Director
wosterberg@kpmg.com.au

Rachel Armstrong
Advisory
Director
rarmstrong5@kpmg.com.au

Jane Sali
Audit & Assurance
Director
jsali@kpmg.com.au

Maria Hernandez
Audit & Assurance
Director
mhernande12@kpmg.com.au

Visit Us Today

KPMG PNG

Nambawan Plaza Lvl B2
OPH Precinct (OPH 2)
McGregor Street
Port Moresby
Papua New Guinea

KPMG

KPMG.com.pg