Papua New Guinea National Budget 2025

"Securing Papua New Guinea in 2025 and beyond"

November 2024

KPMG Papua New Guinea

Contents

01 Executive Summary

The 2025 Budget At A Glance

Continuing the "Securing our Future" theme of last year, the 2025 Budget focuses on securing Papua New Guinea in 2025 and beyond. There is a generally more upbeat air about the 2025 Budget which aligns with the global outlook of stable (albeit subdued) growth of around 4.2%.

PNG is expecting higher growth at 4.7% next year, driven by the resumption of the Porgera mine, enhanced foreign exchange access, higher commodity prices, and increased government spending.

The K2.9bn projected deficit shows an improvement of K1bn from the 2024 Budget, the third consecutive year of deficit improvement, and is now at 2.2% of GDP, an improvement of 1.1% in one year. This progress indicates that the expected budget surplus by 2027 may be within reach, at this trajectory.

GoPNG plans to finance the deficit by a combination of domestic and external borrowing. Net domestic borrowing through Treasury bills and bonds is expected to be K861m while net external borrowing from the ADB, World Bank and IMF is expected to be K2.1bn. This takes the debt level to K64.9bn or 47.4% of GDP. Debt peaks at K65bn during 2025 and then is forecast to steadily decline as a % of GDP through to 2029.

Highlights

On the revenue side, the K25.4bn forecast which is 10.8% higher than the 2024 Budget is built up by a 13% increase in tax revenue (K21.2bn); and a 9% increase in non-tax revenue (K2.7bn). Post-covid, grant revenue is expected to decrease by 32% to K1.5bn, and the donor funds are directed towards supporting the government's medium term investment expenditure priority areas.

In terms of expenditure, 2025 will see the second year of implementing the Medium-Term Development Plan IV (MTDP IV) 2023 to 2027. Total Expenditure is projected at K28.4bn, up 5.4% on the 2024 Budget. Other than government administration costs, debt services and provinces are the two largest beneficiaries. K3.5bn has been allocated for debt interest payments, representing 12.4% of the total expenditure budget, primarily driven by escalating domestic borrowing cost.

Pleasingly though, the health sector received a 10% increase, which is an improvement, and this sector now receives 10% of the operational budget. Education also receives a heathy injection with a 12% increase, making this the second largest non-administration sector at 16% of the expenditure budget. The largest percentage expenditure increase of close to 53% is in the community and culture area, specifically related to the NRL bid. As this sector receives only 1% of the overall expenditure allocation this should not cause any major concerns.

It should be noted that, heeding its own advice to implement efficiency measures, GoPNG reduced public service administration costs by almost 6% in the 2025 Budget. This is the first decrease in this sector and is a positive step.

On the tax front there are three pieces of positive news in the 2025 Budget. The major commercial banking sector would certainly be pleased at the change in direction taken in their tax rates. From 1 January next year there are reductions in this sector, with an end state of a 35% income tax, implemented over different periods for banks based upon the size of their taxable income. More good news is that, subject to requirements being met, withdrawals from an authorised superannuation fund may be exempt from income tax. Finally, and very welcome, is an increase in the income tax and stamp duty thresholds applicable to first time homeowners.
On a lighter note, given that a 0% excise duty will apply to fully electrical vehicles, this seems to indicate an expectation of stability in the power supply sector in the near future.

Zanie Theron
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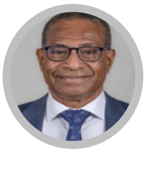

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02 Economic Analysis

The budget seeks to enhance security, improve revenue collection and secure Papua New Guinea's future through strategic investments and fiscal responsibility. Overall, the budget continues the Government's focus on economic stability, growth, and improvement of living standards, with a strong commitment to fiscal discipline and infrastructure investment.

Global growth is projected to remain stable, although relatively subdued, compared to pre-pandemic levels at a rate of 3.2% in 2025. Central bank rates to fight inflation are now reducing in advanced economies to a more neutral stance to encourage economic activity. Many countries, particularly low-income countries, have seen downward revisions in growth as a result of many factors including conflicts in Ukraine and the Middle East.

Growth in Emerging markets is expected to remain steady at around 4.2%. There are, however, a number of risks to global growth including monetary policy tightening, China's property sector, spikes in commodity prices, and social unrest.

Papua New Guinea (PNG) is poised for promising economic growth, with its real GDP expected to climb from 3.0% in 2023 to 4.9% in 2024 and 4.7% in 2025. This positive trajectory is driven by the resumption of the Porgera mine, enhanced foreign exchange access, higher commodity prices, and increased government spending. Despite a slight dip in non-resource GDP growth due to civil unrest in January, the impact was mitigated by government fiscal support.

The non-resource sector is anticipated to grow robustly, supported by agricultural production, infrastructure investments, and favourable commodity prices. Inflation is projected to decline significantly this year, from 2.3% in 2023 to 1.2% in 2024, aided by a sharp drop in betel nut prices.

Employment in the formal sector is projected to grow steadily, particularly driven by the resource sector, and efforts are underway to improve data collection across the broader labour market.

In terms of fiscal management, PNG is committed to reducing its budget deficit by K1.03bn to K2.9bn, with an ambitious long-term goal of achieving a budget surplus by 2027 and potentially repaying all government debt by 2034.

The 2025 Budget includes measures such as the Household Assistance Package, tax reforms, and efforts to reduce bureaucratic hurdles, all aimed at easing cost-of-living pressures and fostering inclusive growth.

This Budget reflects GoPNG's dedication to sustainable economic development, fiscal responsibility, and improving living standards. However, GoPNG must remain vigilant and adaptable to global economic changes to achieve its fiscal targets and ensure sustained growth.

Key Insights

- PNG's GDP is likely to rise due to mining, and government spending however there are risks surrounding foreign exchange.
- The projected decline in inflation aided by the Household Assistance Package and tax reforms will be dependent on implementation effectiveness.
- The Government aims to reduce the budget deficit and achieve a surplus by 2027, with an ambitious target of repaying all government debt by 2034.

03 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	2024	2025
Total Real GDP Growth	The anticipated growth of the non-resource sector, forecasted at 4.5% in 2024 and 5.2% in 2025, is mainly fuelled by several key factors: the rise in agricultural production, investments in public infrastructure, higher commodity prices, a depreciating exchange rate, the spillover effects from Porgera mine activities, and increased government expenditure. The projected growth in the resource sector, at 5.9% in 2024 and 3.4% in 2025, is largely driven by the resumption of production at the Porgera Gold mine. In contrast, the Oil and Gas Sector is expected to grow by 2.7% in 2024 but is anticipated to decline by 0.3% in 2025. The economy overall is projected to grow by 4.7% in 2025.	4.9%	4.7%
Non-mining Real GDP Growth	The Increased performance in Agriculture, Forestry and Fishery (AFF) Wholesale and Retail Trade, Public Administration & Defence, Administrative & Support Services and Construction has driven growth in the non-resource sector in 2024. In 2025, the Wholesale and Retail sector is anticipated to expand by 5.0%, driven by increased consumer spending fuelled by higher household incomes and government expenditure. The AFF sector growth of 3.0%, is propelled by increased production of cocoa and palm oil. Ongoing government spending will underpin Admin and Support Services, Public Administration and Defence, and Construction to grow between 5.0% and 5.5%. The Information and Communication sector is projected to grow by 7.4%, following the completion of the fibre optic cable and heightened competition. The Financial and Insurance sector is expected to grow by 8.0% with the entry of two new commercial banks, while the Transport sector is anticipated to grow by 6.0% due to the easing of fuel shortages and the commencement of Air Niugini's fleet replacement program.	4.5%	5.2%
Real exchange rate index	The Kina continues to depreciate against key trading partner currencies, especially US$ and AUD. This trend is influenced by both global market dynamics and the exchange rate policy adjustments implemented by BPNG, aimed at enhancing exchange rate flexibility and reinstating Kina convertibility. One view is that the Kina in December 2023 was overvalued by around 13.0%. Following the policy adjustments, the Kina exchange rate has depreciated by 5.0% against the USD between January and September 2024. Consequently, this has reduced the backlog of forex orders to well below the K2.0 bn mark, exhibiting positive signs of Kina convertibility.	n.a.	n.a.

Key Economic Assumptions	Comment	2024	2025
Monetary Policy & Kina Facility Rate	A transition to a tighter monetary policy by the BPNG began in May 2024, following a period of accommodative policies since November 2023. The BPNG raised the Kina Facility Rate (KFR) by 2.5% in May, 3.0% in August, and an additional 4.0% in September 2024. As a result, the money supply increased by 5.8%, averaging K34m compared to K32m in the previous year. This growth was driven by a 9.7% increase in credit to the private sector and a 6.9% rise in net claims on the government.	3.3%	4.0%
Inflation avg on avg	In 2024, inflation remained notably low, standing at 0.9% in September. This is attributed to several factors, including lower quarterly outcomes, declining commodity prices, and decreases in telecommunications and transport costs. Inflation in 2025 is projected to rise to 4.5%, driven by the anticipated effects of exchange rate depreciation and the base effect of the lower headline inflation outcome in 2024.	1.2%	4.5%
Balance of Payments & International reserves	For 2024, the current account surplus is projected to be K22.5bn (18% of GDP), a 49% increase from 2023, driven by improved commodity prices, enhanced competitiveness, and increased production in agriculture, fishery, and mining. Despite this, the overall BoP is expected to show a deficit of K926m due to a significant net outflow in the financial account. International reserves in 2023 were K14.4bn, covering 10 months of imports, but are expected to cover only 7 months in 2024. In 2025, the current account (CA) is expected to reach K26bn, equivalent to 17.6% of GDP, representing a 21.2% increase from the 2024 estimate. This is attributed to higher-than-expected revenue from PNG's export commodities, driven by elevated commodity prices and increased export volumes, which were supported by enhanced production from the Porgera and Ok Tedi mines.	n.a	n.a
Oil (US$/barrel)	Prices averaged US$79 per barrel during H124 2% below Budget estimate of US$80 per barrel and 5% above 2023 average. Risks to the price outlook remain balanced in terms of supply and demand. Middle East conflict could push prices up by disrupting supply. US rate cuts would be positive for demand. Strong supply from producers is expected to keep a cap on rising prices. Budget increase is expected to average at US$76.4 per barrel in 2025.	80	76.4
LNG (US$/MMBtu)	Buyers of PNG liquefied natural gas (LNG) are predominantly located in East Asia. Almost 75% of the LNG traded in East Asia is sold on long-term contracts. The LNG year-to-date price has decreased during the first five months against the 2024 budget estimate and the corresponding period by 12% and 19.3%, respectively. On the downside, weaker LNG demand from Asian countries like Japan and South Korea are expected to lower prices as these countries have begun to substitute LNG with nuclear power. The LNG price estimate for 2024 has been revised down against its Budget estimate of US$14.6 per MMBtu to average US$13.0 per MMBtu. In 2025 the price of LNG is expected to average around US$14.2 per MMBtu due to expectations milted to global supply and improved demand.	14.8	14.2

Key Economic Assumptions	Comment	2024	2025
Gold (US$/oz)	Gold prices maintained an upward trend since the first quarter of 2024 as fears of a global economic recession and ongoing tensions in the Middle East increased demand for safe haven assets. YTD price was US$2,295 per ounce. – 16% above the 2024 Budget estimate of US$1,973. The prolonged conflicts between Russia and Ukraine and the Middle East are expected to underpin the upward price trend from US$2,325 per ounce in 2024 and US$2,540 per ounce in 2025.	2,325	2,540
Copper (US$/tonne)	Copper prices have been trending upwards and averaged US$9,124 per tonne – 10% above the 2024 budget estimate of US$8,285 per tonne. Key drivers of higher copper prices in 2024 are the fears of a global supply shortage due to operational disruptions of major mines in key producing countries. Copper prices are expected to remain high in 2024 and continue to trend upwards in 2025 as upside risks are expected to drive prices. However, downside risks could materialise if supply conditions in major producing countries improve together with weaker than expected economic growth from China. Copper price is expected to average US$9,441 per tonne in 2024 and continue its upward trend in 2025 at US$10,028.	9,441	10,028
Copra (USD$/tonne)	Copra oil prices have increased in 2024 due to strong demand across various sectors amid its wide-ranging applications in food and beverages, cosmetics, pharmaceuticals and industrial uses. Prices averaged US$1,405 per tonne – 30% above the 2024 Budget estimate. The outlook for copra oil prices in 2025 and the medium-term remains positive and the price of copra oil is estimated to average around US$1, 487 per tonne in both 2024 and 2025.	1,487	1,487
Cocoa (USD$/tonne)	Cocoa prices have surged to historical highs since late 2023 to average 113% above its 2024 Budget estimate of US$3,354 per tonne. Cocoa prices recorded a 46-year high in the first half of 2024 due to severe global supply shortages and extreme weather conditions and crop related diseases in Ivory Coast and Ghana. The two West African nations supply over 70% of global cocoa output. In PNG, overall cocoa production has been affected due to a prolonged dry season in the main cocoa growing regions. 2024 cocoa prices are expected to average US$7,028 per tonne and in 2025 this is expected to moderate to US$6,040 as supply is restored to some extent.	7,028	6,040
Gold (US$/oz)	Gold prices maintained an upward trend since the first quarter of 2024 as fears of a global economic recession and ongoing tensions in the Middle East increased demand for safe haven assets. YTD price was US$2,295 per ounce. – 16% above the 2024 Budget estimate of US$1,973. The prolonged conflicts between Russia and Ukraine and the Middle East are expected to underpin the upward price trend from US$2,325 per ounce in 2024 and US$2,540 per ounce in 2025.	2,325	2,540
Palm Oil (USD$/tonne)	Average price for palm oil was 3.2% above the 2024 Budget estimate and averaged US$866 per tonne. For 2025, the palm oil price is expected to decline off the back of excess market supply due to the effects of La Nina events and lower import demand from India. A downside risk for 2025 onwards such as the EU Deforestation regulation may impact PNG's tax revenue through increased market supply and lower than expected prices. Palm oil price assumption for the 2025 Budget is projected to average around US$851 per tonne.	866	851

04

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

2024 Budget Update

The 2024 fiscal year was impacted by domestic and global factors, including civil unrest in January 2024, natural disasters, and inflationary pressures, primarily imported inflation through a depreciating Kina. The Mid-Year Economic and Financial Outlook (MYEFO) estimated Total Revenue & Grants to decrease by K463m to K22.9bn due to a decline in non-tax revenues. Total Expenditure & Net Lending was estimated to increase by K701m to K28.1bn and total public debt stock was projected to be K61.9bn, or 49.8% of GDP.

2025 Budget Strategy

The 2025 National Budget is aligned with GoPNG's 13-year Budget Repair Plan and is guided by the Five National Goals & Directive Principles and aligned with key development policies. GoPNG plans to grow the economy to K200bn by 2030, reduce borrowing and debt levels, and create a conducive business environment. The Loloata Commitment of 'spending money more wisely, raising revenue more fairly, and financing debt more cheaply', was repeated. The 2025 Budget will continue the fiscal consolidation path initiated in 2022, expanding the revenue base while achieving a net decline in fiscal deficits and debt levels. Paramount among fiscal discipline targets is debt discipline.

The main fiscal parameters of the 2025 Budget are:

- Budget deficit at 2.2% of GDP.
- Debt estimates of 47.4% of GDP.

Major risks to revenue projections would be posed from delays in securing external financing, lower dividend collections from SOEs and any natural disasters.

Total Revenue and Grants for 2025 is projected at K25.4bn and 10.8% (K2.5bn) higher than the 2024 Budget. The forecasts are on the back of strong expected economic growth of 4.7% lifting taxes (CIT, GST and SWT). The other significant forecast increase is in respect of the Mining and Petroleum Tax due to reduced depreciation.

Government priority expenses are in the law-and-order sector and the threat posed by law-and-order issues to service delivery and public infrastructure.

Total Expenditure is projected at K28.4bn, up 5.4% on the 2024 Budget and will continue to strike a balance between the challenge of stimulating the economy and meeting the requirement of fiscal sustainability and discipline.

GoPNG plans to finance the deficit of K2.9bn by a combination of domestic and external borrowing. Net domestic borrowing is expected to be K861m while net external borrowing is expected to be K2.1bn, taking the debt level to K64.9bn or 47.4% of GDP.

Medium term outlook and strategy

GoPNG's medium-term fiscal outlook has been revised to reflect changing economic and fiscal conditions while maintaining its focus on the key targets of the longer-term Fiscal Plan. The medium-term projections presented in the 2025 National Budget exclude the impact of development projects especially in the mining and petroleum sector to reduce the risk of delay in the implementation of these projects.

GoPNG will focus its efforts to trim expenditure inefficiencies and leakages in the system, particularly in payroll, arrears, rentals and utilities. As to the sub-nationals there will be a focus on strengthening existing and adopting new monitoring mechanisms to ensure huge constituency development funds are used for their intended purpose of strengthening provincial economies. Careful fiscal management is required to ensure priority sectors such as health and education and critical human capital development spending areas are protected to enhance long-term growth potential.

Over the medium-term, GoPNG will allocate sufficient funds for the maintenance of key infrastructures built and ensuring operational funds are efficiently released to support service delivery.

GoPNG's Medium-Term Revenue Strategy is aimed at building a revenue base that can finance GoPNG's medium- and longer-term expenditure plans. The key focus will be tax administration reforms and improved compliance which will enhance and modernise the existing tax system while at the same time improving revenue collection. GoPNG 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.

The Medium-Term Debt Strategy aims to deliver low-cost financing, within prudent risk levels, that ensures macroeconomic stability. With external debt exposing the country to both exchange rate and interest rate risks, and given the current depreciation of Kina against USD, GoPNG will aim to have a balanced portfolio that minimises the risks involved, taking into account the risks (interest rate and rollover risks) on the domestic portfolio. The plan over the medium-term is to steadily reduce the deficit in order to achieve a surplus budget by 2027 and lower public debt to below 40.0% by 2030, consistent with the amended FRA (2023) and targets of the 13-year fiscal plan.

Comment on issues not addressed

Recent budgets have focused on the anticipated benefits from the reopening of Porgera mine and the prospects from the Papua LNG project and Wafi Golpu. However, this year the budget commentary seems to accept that the continuing delays in bringing these into production will continue and there is a reluctance to put definitive timeframes or targets. The Medium-Term fiscal outlook acknowledges this, and the projections exclude the impact of development projects, especially in the mining and petroleum sector – "this conservative approach reduces the risk of delay in the implementation of these projects".

There is no guidance on what was not spent in the prior year's budget. For example, capital investment budget for 2024 was K7.6bn (revised up from K7.3bn). The actual expenditure was K4.7bn. There is no detail on what was not spent, which is important given that the capital expenditure is the spending on long term assets to underpin future growth.

Budgetary item	2024	2025	2026	2027	2028	2029
Total Revenues and Grants	22,931	25,408	27,896	31,307	34,406	37,871
Taxes	18,708	21,201	23,662	26,657	29,372	32,499
Taxes on income, profits, & capital gains	12,516	13,708	14,494	15,987	16,832	18,221
Taxes on payroll & workforce	1	1	1	-	-	-
Taxes on goods & services	5,452	6,553	7,184	8,145	9,566	11,115
Taxes on international trade & transactions	739	939	1,984	2,434	2,975	3,164
Grants	2,205	1,500	1,550	1,600	1,650	1,700
Other Revenue (Non-Tax)	2,018	2,707	2,684	3,050	3,384	3,672
Operational Expenditures	13,589	14,491	15,425	16,747	17,127	18,320
Compensation of Employees	7,497	7,801	8,186	8,629	9,131	9,712
Goods and Services	4,556	4,842	5,199	5,819	5,405	5,707
Provincial Functional Grants	638	706	779	878	990	1,108
GST & Book Makers Transfers	898	1,142	1,261	1,421	1,601	1,793
Interest Payments	3,051	3,523	3,524	3,612	3,466	3,206
Capital Investment	10,276	10,343	10,557	10,776	11,547	12,104
GoPNG PIP	6,857	7,617	7,769	7,925	8,571	8,999
Donor Support Grants	2,205	1,500	1,550	1,600	1,650	1,700
Loans	1,214	1,226	1,238	1,251	1,326	1,405
Total Expenditure	26,916	28,357	29,506	31,135	32,140	33,630
Deficit	-3,985	-2,949	-1,610	172	2,266	4,241

Note - not all line items may be reflected, and numbers may differ from the published tables

Source: Department of Treasury & KPMG Analysis

Key Insights

- The Medium-Term strategy and outlook has not changed materially on the last two years and the key themes are reinforced - maintain fiscal support for economic recovery efforts, strengthen the revenue base, and improve the quality of spending.
- GoPNG will continue its efforts to trim expenditure inefficiencies and leakages in the system with the focus areas for efficiencies being payroll, arrears, rentals and utilities.
- Revenue predictions are characteristically optimistic and represent a real risk to the achievement of the medium-term projections.

Source: Department of Treasury & KPMG Analysis

05 Budget Revenue

Total revenue and grants

Total Revenue and Grants for 2025 is estimated to grow to K25.4bn in 2025 with a 13% increase in tax revenue (K21.2bn); and a 9% increase in non-tax revenue (K2.7bn). Tax revenue remains the major contributor at 83% of total revenue due to higher commodity prices, increased business profitability in both the resource and non-resource sector and improved compliance with initiatives from the PNG IRC and PNG customs.

Non-tax revenue is expected to remain constant at its share of around 11% of total revenue. The non-tax revenue is driven by dividends from State-owned resource companies and collections from departmental fees and charges.

Tax revenue is projected to increase by 13% to K21.2bn underpinned by the improved taxes on income, profits and capital (10% up) and mining and petroleum taxes (17% up). Tax on Goods and Services is estimated to grow by 23% to K6.5bn in 2025, on the back of GST (up 29%), Import Excise (up 68%) and gaming machine turnover tax (up 20%).

Grant revenue is expected to decrease by 32% to K1.5bn due to the cessation of additional support provided to assist with the global covid-19 pandemic. The donor funds are directed towards supporting GoPNG's medium term investment expenditure priority areas.

Revenue Components (Km)	2023SB	2024	2025	Change	%	% of total
Tax Revenue	**16,321**	**18,695**	**21,201**	**2,506**	**13%**	**83%**
Income, Profits & Capital Gains	10,683	12,456	13,708	1,252	10%	54%
Goods and Services	4,882	5,349	6,553	1,204	23%	26%
International Trade & Transactions	754	889	939	50	6%	4%
Non-Tax Revenue	**2,057**	**2,494**	**2,707**	**213**	**9%**	**11%**
Grants	**2,025**	**2,205**	**1,500**	**-705**	**-32%**	**6%**
Total Revenue and Grants	**20,403**	**23,394**	**25,408**	**2,014**	**9%**	**100%**

Source: Department of Treasury & KPMG Analysis

Personal Income Tax (PIT) is expected to increase by 9% to K4.7bn in 2025. The growth is driven by the favourable economic growth outlook, strong employment growth, and improved tax compliance efforts by the Internal Revenue Commission (IRC). Moreover, the resumption of the Porgera mine to near full capacity is expected to contribute to improved collections.

Company Income Tax (CIT) is expected to grow by 5% to K3.9bn in 2025, 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. Contributions are also expected from the two new commercial banks that came into operation in 2024. It is worth noting that there is a gradual decrease in the corporate tax for the banking sector commencing in 2026.

Mining and Petroleum Tax (MPT) is expected to increase by 16% from K3.5bn in 2024 to K4.1bn in 2025. Despite the moderation in oil and gas prices the increase is largely attributable to the reduction in depreciation allowances from Allowable Capital Expenditure for PNG LNG project.

Dividend Withholding Tax (DWT) is expected to increase by 10% to K0.6bn. The increase is attributed to strong economic growth and the ongoing DWT payments from non-resident companies and individuals. Additionally, the improved foreign exchange availability has increased the level of dividend repatriation.

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 22% to K6.5bn in 2025, supported by steady consumption and trade growth and improved compliance with IRC and PNG customs.

Total GST collection is projected to increase by 29% to K4.2bn, 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. In 2024, twenty (20) new agencies began implementing Section 65A and more are expected to join in 2025 as part of the SOE and subnational government roll out.

Inland Excise is projected to decrease by 4% to K1.3bn in 2025. The decrease is attributable to lower collection trends which will then offset the revenue gain from the adjustment of the Tier 2 cap for tobacco-based products.

Import Excise is expected to increase by 67% to K0.5bn. The increase reflects the return of this tax head to its long - run trend level after the restoration of excise on fuel products since the second half of 2023.

Gaming Machine Tax (GMT) collection is projected to increase by 19% to K0.5bn reflecting an increase in gambling activities.

Stamp Duty collection is expected to increase by 70% to K0.1bn which represents the ongoing sale of properties and improvement in collections.

Taxes on International Trade and Transactions are projected to increase by 5% to K0.9bn, supported by improvement in trade activities and foreign exchange shortages as kina gradually returns to market convertibility.

In 2025, Import Duty is projected to increase by 18% to K0.5bn. Growth in import duty will be driven by increased consumption and an improvement in trade activities. Additionally, the continued depreciation of the Kina is expected to improve collections in nominal terms.

Export Duty is expected to decrease by 7% to K0.4bn underpinned by the non-implementation of the export duty on unprocessed fish. There is a marginal increase in export log tax as global demand for round logs is expected to recover after the property market crisis in China.

Non-Tax Revenue

Non-tax revenue is projected to increase by 8% to K2.7bn due to expected higher dividend payments from state-owned resource companies and collections from the departmental fees and charges.

The Government is expecting Kumul Petroleum Holdings (KPH), Kumul Consolidated Holdings (KCH) and Kumul Mineral Holdings (KMH) to pay a combined total of c. K1.5bn projected dividend revenue.

Grants

Total Donor Grants are estimated to decrease by 32% to K1.5bn in 2025. The decline reflects the ending of additional support which was provided to alleviate the covid-19 impact. Additionally, further support from Papua New Guinea's major donor partners towards GoPNG's investment expenditure priority areas over the medium-term is expected to remain constant.

Revenue Components (Km) *	2023SB	2024	2025	Change	%	% of total
Tax Revenue	**16,321**	**18,695**	**21,201**	**2,506**	**13%**	**83%**
Income, Profits & Capital Gains	**10,683**	**12,456**	**13,708**	**1,252**	**10%**	**54%**
Personal Income Tax	3,868	4,341	4,729	388	9%	19%
Company Tax	3,041	3,761	3,959	198	5%	16%
Mining and Petroleum Taxes	3,026	3,550	4,137	587	17%	16%
Royalties & Management Tax	70	80	84	4	5%	0%
Dividend Withholding Tax	453	496	549	53	11%	2%
Interest Withholding Tax	219	220	240	20	9%	1%
Non-Resident Insurers WHT	7	7	7	0	0%	0%
Sundry IRC Taxes & Income		0	2	2	1100%	0%
Training Levy	1	1	1	0	0%	0%
Goods and Services	**4,882**	**5,349**	**6,553**	**1,204**	**23%**	**26%**
GST	3,036	3,236	4,186	950	29%	16%
Stamp Duties	36	46	79	33	72%	0%
Excise Duty	1,173	1,326	1,271	-55	-4%	5%
Import Excise	255	300	503	203	68%	2%
Bookmakers' Turnover Tax	18	47	52	5	11%	0%
Gaming Machine Turnover Tax	338	358	428	70	20%	2%
Departure Tax	10	13	8	-5	-38%	0%
Motor Vehicle Tax		0	5	5	0%	0%
Other taxes on goods and services	18	22	19	-3	-14%	0%
International Trade & Transactions	**754**	**889**	**939**	**50**	**6%**	**4%**
Import Duty	414	455	539	84	18%	2%
Export Tax	340	434	400	-34	-8%	2%
Non-Tax Revenue - Other revenue	**2,057**	**2,494**	**2,707**	**213**	**9%**	**11%**
Property Income	1,224	1,246	1,638	392	31%	6%
Dividends	1,133	1,150	1,531	381	33%	6%
Rent	91	96	107	11	11%	0%
Sales of goods and services	157	0	17	17	0%	0%
Fines, penalties and forfeits		0	3	3	0%	0%
Transfers not elsewhere classified	675	1,248	1,050	-198	-16%	4%
Grants	**2,025**	**2,205**	**1,500**	**-705**	**-32%**	**6%**
From Foreign Governments	1,715	1,775	1,150	-625	-35%	5%
From International Organizations	310	430	350	-80	-19%	1%
Total Revenue and Grants	**20,403**	**23,394**	**25,408**	**2,014**	**9%**	**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 2025 Budget forecast due to more robust collections and business profitability.
- Non-tax revenues rely heavily on expected dividends particularly mining, petroleum and gas dividends. Future year projections will be consistent with the Government's new Dividend Policy that is expected to be implemented in Fiscal Year 2025.
- Mining & Petroleum Tax is expected to increase largely due to the reduction in depreciation for allowable capital expenditure as the PNG LNG project is now 10 years old.

06 Expenditure

The 2025 budget is guided by GoPNG's updated 13-year fiscal plan with total expenditure in 2025 budgeted at K28.3bn

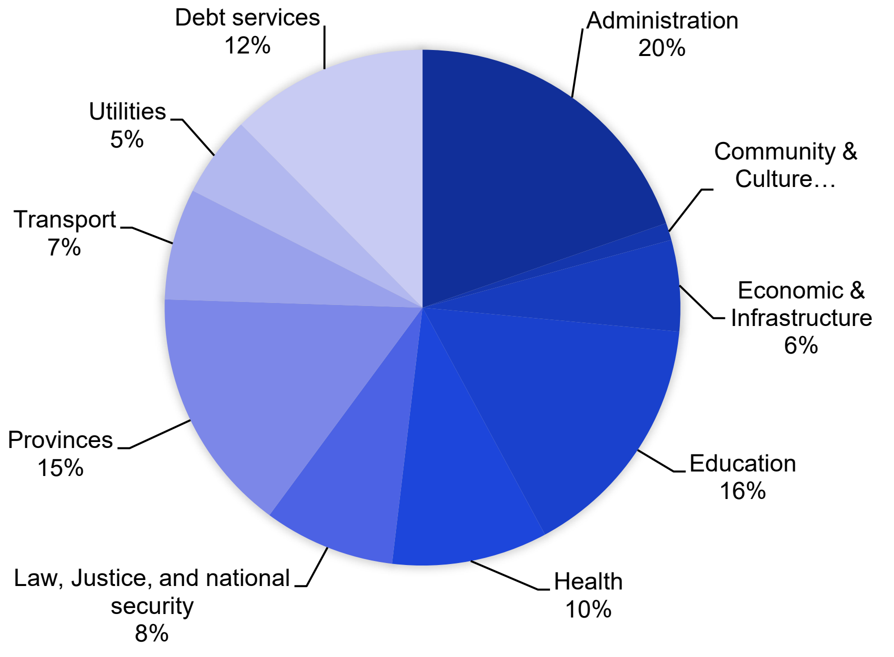
The 2025 Budget aims to fund the investment priorities outlined in the MTDP IV covering 2023 to 2027. Total expenditure in 2025 is budgeted at K28.4bn, an increase of 4% on the 2024 Budget. The total deficit financing required is K2.9bn, down from 2024's K3.9bn, a positive improvement. The 2025 Budget represents expenditure funded from GoPNG of K25.04bn and donor funded expenditure of K1.5bn in donor grants and K1.2bn in concessional loans. Of the budget components, the operational budget is K18bn, and the capital investment is K10.3bn.

The 2025 Budget is framed around the theme "Securing PNG in 2025 and Beyond". In line with this theme, the operational budget has increased by 8% to K18bn driven mainly by:

- Allocations to developing infrastructure in rural areas, continued investment into SMEs, responsible Government Tuition Fee Subsidy (GTFS) Program, and strengthening of SOEs through targeted reforms.
- The Capital Budget for 2025 is estimated at K10.3bn, maintaining it above K10bn as targeted in the MTDP IV. This includes government funding for the Public Investment Program (PIP), donor grants, and project loan drawdowns.

Budget Components (Km)	2024 Budget	2025 Budget	Change in 2025	% of total
Operational	**16,678**	**18,015**	**8.0%**	**64%**
Compensation of Employees*	7,034	7,801	10.9%	28%
Goods and Services	5,057	4,842	-4.3%	17%
Debt Interest Payment	3,051	3,523	15.5%	12%
Provincial Functional grants	638	706	10.7%	3%
GST & Book Makers Transfers	898	1142	27.3%	4%
Capital	**10,700**	**10,343**	**-3.3%**	**37%**
GoPNG	7,281	7,617	4.6%	27%
Concessional Loans	1,214	1,226	1.0%	4%
Donor Grants	2,205	1,500	-32.0%	5%

Source: Department of Treasury & KPMG Analysis



Source: Department of Treasury & KPMG Analysis

The 2025 Budget specifically points out Expenditure Efficiency Measures to be undertaken:

- Organisational Staffing Personnel Emoluments Audit Committee (OSPEAC): This is focused on enhancing payroll efficiencies. Projects include whole of government retirement exercise; the Staffing and Establishment Review for Teachers and Non-Teachers; the upgrading of the Ascender Payroll system; Digital HR Transformation Program; and Digitalisation of HR platforms.
- Arrears Verification Program: Identification and verification of existing arrears, settle compliant claims to reduce the arrears, and develop strategies to prevent the accumulation of future arrears.
- Non-Financial Instructions (NFIs) are issued to government agencies to address inefficiencies identified during the annual budget process.

Expenditure by Sector (Km)	Operational	Capital	2025 Total	% of total	Comment & major projects
Administration	2,595	2,988	5,583	20%	The Sector now encompasses 30 Agencies, including the NEC Secretariat office. In 2025, the sector's budget stands at K5.5bn, representing 19.7% of the total budget. This marks a 5.7% decrease (K337m) from 2024.
Community & Culture	77	229	306	1%	In 2025, the Sector has been allocated K306.2m, which accounts for 1.1% of the overall budget. This represents an increase of K105.9m (52.9%) from the 2024 Budget. The increase is primarily driven by the PNG NRL bid, which accounts for K100m. The sector is mainly responsible for implementing Youth and Gender Development initiatives under the Department of Community Development and Religion.
Economic & Infrastructure (Renewable and non-renewable sectors)	429	1,193	1,621	6%	The 2025 Economic Sector's budget allocation is K1.6bn, representing 5.7% of the overall budget. This is a K71.5m decrease (4.2%) from 2024, primarily due to minimal miscellaneous expenses under Treasury and Finance. The sector encompasses thirty agencies across the following: • Renewable Sector: Achieve GDP level of K200.0bn by 2030 through investments directed towards increasing export volumes, import substitution, and downstream processing in agriculture, fishery, and forestry. • Non-renewable Sector: Maximise socio-economic and environmental benefits from extractive industries, particularly mining and petroleum projects.
Education	3,989	446	4,435	16%	In 2025, the Sector is allocated K4.4bn, accounting for 15.6% of the overall budget. This represents an increase of K473.5m, (12.0%), from 2024. The increase is driven by expansions in the TESAS and HELP schemes, STEM Program, and adjustments for teacher salary increases and arrears. The sector primarily focuses on achieving Quality Education and Skilled Human Capital as outlined in MTDP IV, with implementation carried out by 14 agencies, including the Department of Education for primary and secondary education and DHERST for tertiary education.
Health	2,154	614	2,768	10%	In 2025, the sector's allocation stands at K2.7bn, representing 9.8% of the overall budget. This marks a K239.0m increase (9.4%) from 2024. The allocation targets emerging challenges such as pandemic preparedness, workforce shortages, and medical supply deficits. Key initiatives include the construction of the National University of Medicine, upgrades to medical stores in Lae, and district hospital rehabilitations, aiming to bolster the nation's healthcare infrastructure and capacity.
Law, Justice, and national security	1,889	445	2,334	8%	In 2025, the sector's allocation stands at K2.3bn, representing 8.2% of the overall budget. This marks a K222.2m increase (10.5%) from 2024, reflecting the government's aim to strengthen the judicial system and expand law enforcement capabilities. The budget supports key initiatives: the Special Police Assistance Program; ICT systems upgrades; and infrastructure development. Notably, the government plans to rehabilitate existing PNGDF facilities to enhance the Force's readiness for external threats and emergencies.

Source: Department of Treasury & KPMG Analysis

Expenditure by Sector (Km)	Operational	Capital	2025 Total	% of total	Comment & major projects
Provinces	2,545	1,820	4,365	15%	In 2025, the Sector has been allocated K4.3bn, representing 15.4% of the overall budget. This marks a K278.1m increase (6.8%) from 2024. The sector encompasses 20 Provincial Government Administrations, town authorities, city commissions, and the Autonomous Bougainville Government. The budget increase reflects the expansion of LLGs from 331 to 354 and Districts from 89 to 96 in 2023, necessitating additional funding to support operations.
Transport	167	1,814	1,981	7%	In 2025, the sector's allocation stands at K1.9bn, representing 7% of the overall budget. This marks a slight decrease of K25.9m (1.3%) from 2024. The sector oversees land, air, and water transportation, providing crucial infrastructure for cross-sectoral development. Key priorities for 2025 include addressing the Connect PNG Roads Missing Links and settling Connect PNG arrears, focusing on enhancing national connectivity and infrastructure development.
Utilities	647	794	1,441	5%	In 2025, the sector has been allocated K1.4bn, accounting for 5.1% of the overall budget. This represents a significant decrease of K376.1m (K20.7%) from 2024. The sector encompasses ICT, Energy, Water Sanitation & Hygiene, and Housing, managed by 9 agencies including SOEs and State Agencies.
Debt services	3,523	-	3,523	12%	In 2025, K3.5bn has been allocated for debt interest payments, representing 12.4% of the total expenditure budget. This allocation marks a significant increase of K471.7m (15.5%) from 2024, primarily driven by escalating domestic borrowing costs.
Total expenditure	**18,015**	**10,343**	**28,357**	**100%**	

Source: Department of Treasury & KPMG Analysis

Key Insights

- Expenditure overall grew by 4% to K28.4bn, of which a budget deficit of K2.9bn will be financed through external borrowing and domestic disbursements.
- The 2025 Budget prioritizes fiscal discipline and strategic investments in law and order and social services. These efforts are integral to achieving the Government's MTDP IV objectives.
- Capital expenditure targets priority areas and, at 37% of the total budgeted spending, aims to deliver a more solid economic platform.

07 Budget Financing

The 2025 budget continues GoPNG's 13-year fiscal plan in line with its Medium-Term Debt Strategy, focusing on minimising borrowing costs, managing risk and supporting the market. Government debt is budgeted to peak at K65bn in 2025.

Financing the 2025 budget deficit is in line with the government's medium term debt management policy and 13-year Budget Repair Plan. The focus is on minimising borrowing costs, managing risk and supporting a well-functioning domestic debt market. GoPNG are facing many competing pressures, including high and prolonged global inflation and economic uncertainty and adjustments required to arrive at a fully convertible Kina.

The 2025 Budget is projected to require a net borrowing of K2.9bn, financed by a mix of multilateral and bilateral lenders, with a priority to concessional lenders.

Financial requirements for 2025

The 2025 GoPNG budget will finance the borrowing requirement via external sources to the amount of K2.2bn and domestic sources of K0.8bn.

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

- ADB budget support loan (USD150m).
- World Bank budget support loan (USD100m); and
- IMF budget support under the ECF and EFF programs (USD418m).

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

- Treasury bills (K112.7m); and
- Treasury bonds (K883.8m).

The amortisation commitment for 2025 is projected at K19.2bn.

Financing Instrument	FX = USD 'million	PGK 'million
External Borrowings		4,042
Extraordinary	668	2,717
WB, ADB, Bilateral	250	1,017
IMF Budget Support (ECF &EFF)	418	1,700
Concessional Project Loans		1,225
Commercial Loans		100
Domestic Borrowings		18,112
Treasury Bills		15,262
Treasury Bonds		2,850
External Repayments		1,854
Domestic Repayments		17,351
External Net		2,188
Domestic Net		761
Total Net Financing of Deficit		2,949

Source: Department of Treasury & KPMG Analysis

Domestic market conditions

Net borrowing rose in the second half of 2024 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 attributes much of this borrowing to BPNG tightening monetary policy as part of its program to normalise the exchange rate.

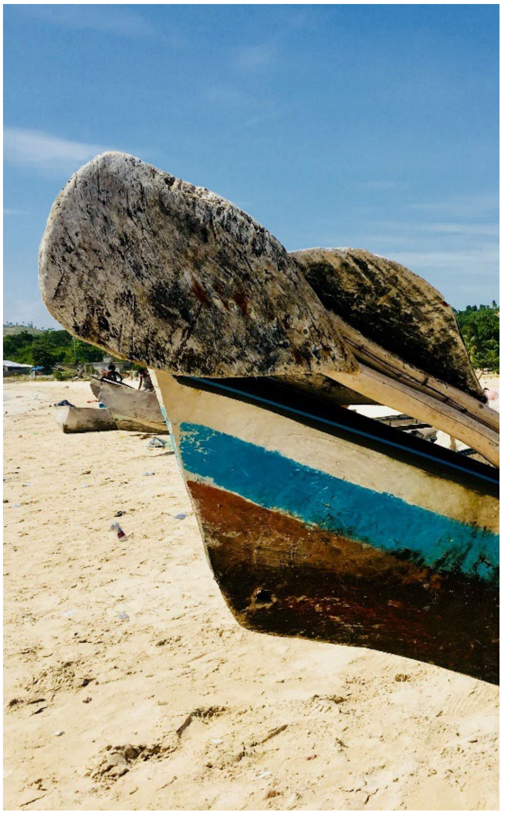
GoPNG had repaid 83.7% of its expected external principal repayments budgeted for 2024 by the end of the third quarter. For the same period however, only 39.2% of budgeted external borrowings had been drawn down.

GoPNG expects to raise a net amount of K2.3m through domestic borrowing in 2024, primarily through issuing treasury bonds.

Overall objective of 2023-2027 Medium Term Debt Strategy

GoPNG is now two years 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 47.4% forecast for 2025.



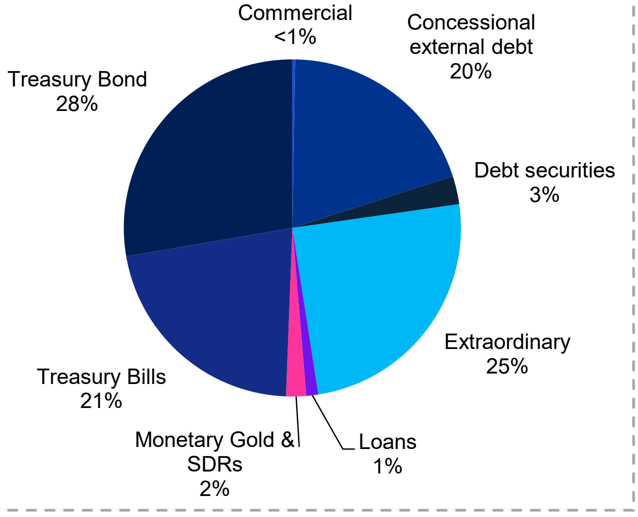
Debt Instruments	2024 Actual	2025 Budget	2026	2027	2028	2029
Domestic Debt	**29,710**	**32,792**	**33,484**	**33,669**	**33,838**	**30,188**
Treasury Bills	14,139	14,075	14,724	15,233	15,165	11,764
Treasury Bond	14,528	17,972	18,272	18,222	18,674	18,424
Loans	1,043	745	487	213	-	-
External Debt	**28,233**	**32,085**	**33,002**	**32,735**	**30,298**	**29,708**
Monetary Gold & SDRs	1,244	1,244	1,244	1,244	1,244	1,244
Debt securities	1,761	1,761	1,761	1,761	-	-
Concessional	11,987	12,821	13,205	13,455	13,712	14,155
Commercial	162	175	651	1,083	1,098	1,014
Extraordinary	13,080	16,085	16,142	15,193	14,244	13,296
Gross Debt* (ex. Arrears)	**57,944**	**64,877**	**66,486**	**66,404**	**64,136**	**59,896**
% of GDP (without Arrears)	52.0%	47.4%	44.8%	41.5%	37.2%	32.1%
GDP	**111,351**	**136,896**	**148,447**	**160,198**	**172,490**	**186,339**

Source: Department of Treasury & KPMG Analysis

Debt strategy operations

The projected deficit profile indicates GoPNG's commitment to achieving sustainable debt levels, with the annual deficit expected to decline and the debt-to-GDP ratio to fall below 40%. Total Central Government Debt Stock is expected to remain below K65bn over the medium term, reflecting the deficit reduction and debt repayment plans.

Debt outstanding by instruments (2025 budget)



Source: Department of Treasury & KPMG Analysis

Key Insights

- The budget deficit in 2025 is forecast to be financed through net external borrowings of K2.2bn and domestic borrowings of K0.8bn. Debt peaks at K65bn during 2025 and then is forecast to steadily decline as a % of GDP through to 2029. The level of debt is concerning, but, as the Minister of Treasury emphasises, as a % of GDP, it is relatively strong and declining. GoPNG are focusing on raising external debt in order to reduce borrowing costs and reduce risk.

08 Tax

Analysis

The new Income Tax Act Rewrite was not passed with this Budget as was expected. The Treasurer mentioned that all stakeholder consultations have been completed, and the draft legislation is ready, but due to some late legal amendments the Bill was deferred until the first session of Parliament in 2025. Once passed, the legislation will have a one year cooling off period and should be effective from 2026.

The tax changes announced appear to acknowledge the struggle faced by people due to the high cost of living and some of the challenges faced by businesses. Winners from this Budget include the commercial banks (less so BSP), parties making overseas remittances, the tobacco and alcohol industries, electrical vehicle importers, first time home buyers, PNG consumers, long serving retiring PNG employees and NRL staff and players. IRC could also be said to be a winner, as 2025 should see the introduction of their much-touted GST tax monitoring system – this could be a game changer for GST collection in retail settings.

All changes will be effective 1 January 2025 unless stated otherwise.

Income and Personal Taxes

Reduction in tax rate for commercial banks

The 2023 Budget saw the application of a 45% tax rate to commercial banks licensed as such under the Banks and Financial Institutions Act 2000. Effective 1 January 2025, the rate is reduced to 40% for commercial banks with a taxable income of less than K300m and this will further reduce to 35% for 2026 onwards. However, for commercial banks with a taxable income of over K300m, the rate will reduce to 44% for 2025, with a further 1% reduction each year until it reaches 35% in 2034.

Increase in the first-time owner exemption thresholds

A very welcome change is an increase in the income tax and stamp duty thresholds applicable to first time homeowners. High house prices have made these concessions effectively redundant in recent years so these are much needed changes.

Employees will be exempt from income tax in respect of repayable amounts advanced by their employer to a first-time home buyer where the housing cost is K700k or less and where these advances have been debited against amounts owed in respect of recreation leave, furlough, superannuation or gratuity entitlements.

No stamp duty will apply to buyers of a PNG owner occupied principal private residence up to a value of K700k provided neither the buyer nor their spouse (if married) have previously purchased a residential property in PNG.

Exemption of income of representatives of NRL clubs

As part of the deal for getting a National Rugby League team, all Papua New Guinea NRL and NRL franchise club players (whether PNG citizens or non-citizens) and non-citizen staff and officials will be exempt from income tax in PNG for the eleven-year period from 1 January 2025 to 1 January 2036.

Amendment to adopt Country by Country standards

To align with the BEPS Action 13 (Country by Country Reporting) recommendations to PNG, it will be an offence and penalties not exceeding K2m will be imposed where an ultimate parent entity or a constituent entity fails to furnish a CbyC report as required. If convicted, a court may make an order that the organisation comply with the requirement to lodge the report. Although this measure has been introduced, the IRC has had a long-standing instruction that taxpayers should lodge the CbyC notifications only and not the CbyC reports as they had to put systems in place to facilitate these reports.

Under the existing legislation, multinational enterprises are exempt from lodging a CbyC report where the threshold of K2.3bn is not exceeded, however, the threshold is based on a fixed date of 1 January 2016. While the Budget commentary refers to the removal of the 1 January 2016 fixed date, so that the threshold would instead be an annual threshold, the actual Bill does not mention this.

Superannuation withdrawal exemption

A withdrawal from an authorised superannuation fund will be exempt from income tax where it is made in respect of contributions made on behalf of that employee, where -

- the contributions have been made for not less than 15 years; or
- the contributions have been made for not less than 7 years and the employee is either not less than 50 years of age or is subject to enforced early retirement; or
- the distribution is made as the result of the death or permanent disablement of the employee.

Previously a 2% rate applied to such withdrawals.

Increase in tax clearance threshold

As part of the banking process to make overseas remittances, companies or individuals are required to produce an IRC tax clearance certificate to the bank. A tax clearance certificate is not currently required if the aggregate remittances to non-tax haven countries during a calendar year do not exceed K500k. This threshold will be increased to K1.5m. This will be a welcome change for individuals and SMEs who are most likely to benefit from this change as it will at least remove one extra step from the long process of making overseas remittances.

Employee tax threshold for non-residents

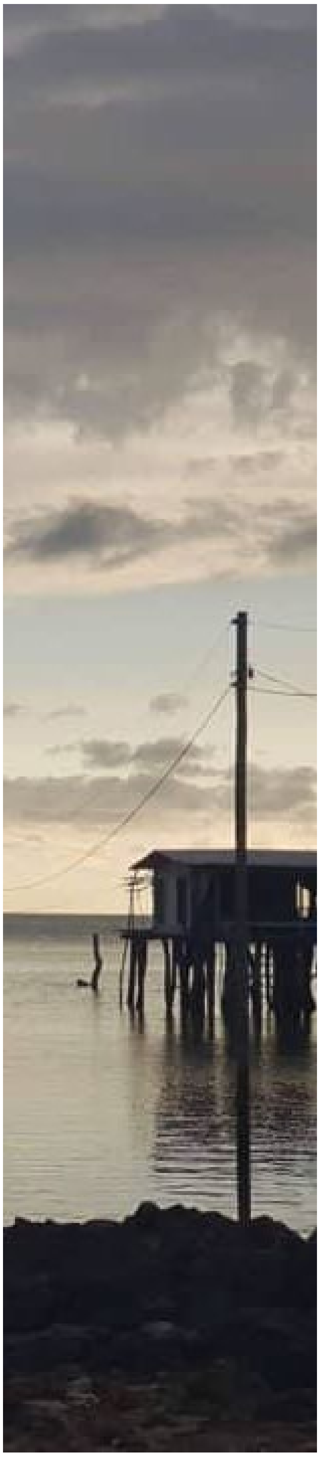
A correction has been made to formally remove the 22% tax bracket from the non-resident tax tables so as to effect previous policy decisions and intent. The tax rate of 30% applies up to K33k.

Retirement savings accounts

A "retirement savings account (RSA)" enables retirees to save a portion of their funds instead of withdrawing the entire balance at retirement. Retirees can contribute up to K250k into an RSA and receive after-tax distributions from ASF subject to applicable rules. Penalties apply to both the capital and interest in the account for non-compliance. To fix this, the penalty tax will only apply to the interest portion.

Fortnightly tax tables

A provision is introduced to allow the Commissioner General to issue the fortnightly tax tables including the dependant rebate administratively.



Goods and Services Tax (GST)

Introduction of an Electronic Monitoring System

As previously flagged by the Commissioner General, IRC intend to introduce a GST Tax Monitoring System to help combat alleged tax evasion in the retail sector. The system will allow for the automated documentation, collection and reporting of transactional data such as invoices, receipts and other data at the point of sale.

An amendment has been made to the GST Act to allow the Commissioner General to implement such a system and also, to issue a notice requiring a company to operate an electronic monitoring system. The Commissioner expects the systems to be procured and installed during the first half of 2025. Regulations will be introduced in due course to prescribe the matters and processes required to effect the new system.

While IRC may compel a “company” to operate the system, other taxpayers such as sole traders or partnerships were not mentioned giving rise to a potential gap in the effectiveness of the legislation.

Zero rating of certain basic food items

To alleviate the rising cost of living for consumers the GST rate for some basic food items will be reduced from 10% to 0% from 1 June 2025 to 30 June 2026. The list covers baby diapers, soap, biscuits, cooking oil, flour, chicken, noodles, rice, sanitary pads and tampons, tea, coffee, tinned fish and tinned meat. Treasury advised that the ICCC will be checking to ensure the GST benefits are actually passed on to consumers.

International trade and customs

Excise duty on alcohol and tobacco

The bi-annual excise rate indexation will be frozen for alcohol and tier-1 tobacco products for a period of 12 months from 1 December 2024 to 30 November 2025.

A Tier-2 regime was introduced in 2019 whereby the excise tax for tobacco was set at a concessional rate to encourage smokers to switch from illicit to legally produced cigarettes. The current methodology used when calculating the second-tier tobacco quota will now be based on 50% of the combined actual sales of the main Tier 1 and Tier 2 tobacco products from the previous year. This measure will be effective 1 December 2024.

For the 2025 Budget, the Government is creating a new tariff item to regulate the importation of e-cigarettes. Excise tax of K20 per millilitre and K400 per kg will be introduced for e-cigarettes and the tobacco sticks for use in e-cigarettes respectively.

Excise duty for hybrid and fully electrical vehicles

A 10% excise duty rate will apply on hybrid vehicles while 0% excise duty will apply to fully electrical vehicles.

Technical

Insertion of World Customs Organisation Harmonise Systems amendments to headings 8701 to 8704 in the excise schedule.

Key Insights

- The Treasurer acknowledged that people are “doing it tough”. Tax changes such as first-time home buyer incentives and zero-rated GST on 13 basic food items are an attempt to alleviate this.
- GST changes such as the electronic tax monitoring system, reduced GST refund time limits and S65A penalties reflect IRC’s long held belief that taxpayers are non-compliant particularly in the GST space.
- The effectiveness of the GST tax monitoring system may be limited if IRC can only compel companies, but not sole traders or partnerships to use it.
- While some concessions have been made on the previously introduced 45% tax rate for banks, it appears Treasury are expanding their sights in 2025 to include financial institutions and those banks lacking a financial inclusion strategy.

Announced Measures Not Yet Enacted

The government has flagged further measures. Here are the new policy development areas not yet implemented

Banking – promotion of financial inclusion?

A review is planned for 2025 to assess whether higher tax rates or alternative measures should be introduced for banks that lack financial inclusion strategies targeting the unbanked.

Higher tax rates for financial institutions?

The planned 2025 banking review will also consider the potential application of specific tax arrangements for large financial institutions.

Private schools in Papua New Guinea

In 2025 the Department of Treasury and IRC will develop an appropriate rebate regime for private schools. A detailed report on the proposed regime with key recommendations is expected to be ready for approval by the NEC by June 2025.

Duty on printed and non-printed polymers

A review is proposed in 2025 of duty tariff policy applicable to printed and non-printed polymers versus non-polymers used in local manufacturing so as to promote domestic manufacturing activities. The proposal is that no duty tariff will apply on the intermediate goods including polymers printed for manufacturer's packaging. The current 10% duty will continue to be applied to finished products as polymers printed for other use.

CFO / Head of Tax checklist

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

01 **New Income Tax Act**
Monitor announcements for the potential passing by Parliament of new Income Tax Act Rewrite Act in early 2025 and prepare for future changes. The new Act will not be effective until 2026.

02 **Retailers**
Watch out and prepare for the new GST Tax Monitoring system. Ensure the zero-rating changes to 13 basic food items from July 2025 are passed on to consumers.

03 **Banks**
Plan for the change in income tax rates and factor into deferred tax balances if necessary. Adjust systems to allow for the increase in the tax clearance threshold to K1.5m. Watch out for and participate in the proposed sector review in 2025 and ensure financial inclusion policies are in order.

04 **Employers**
Update or consider implementing a Citizen First Time Home Buyer Scheme to avail of the increased property value threshold.

05 **Superannuation Funds**
Prepare for the change to the tax rate for superannuation fund withdrawals.

06 **Tobacco Industry**
Prepare for the changes in the excise duty rates for e-cigarettes.

07 **Financial institutions**
Watch out for and participate in the proposed sector review in 2025 around financial inclusion and the potential increase in tax rates.

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