Kundu & Lali

March 2025
A quarterly South Pacific focused newsletter

Foreword

On a quarterly basis, starting this month, our monthly PNG focused Kundu newsletter will be replaced with Kundu & Lali, a newsletter focused on the investment and business landscape of the South Pacific region.

In this edition, we explore the rise in the Business Processing Outsourcing (BPO) sector in Fiji. Over the past decade, Fiji has emerged as a competitive player in the global BPO market, leveraging its strategic advantages to carve out a niche in this dynamic industry. The establishment of the Fiji BPO Council (BPOC) and the expansion of services beyond call centres have been pivotal in this growth.

We also explore the recent developments in Papua New Guinea's monetary policy and the implications of the new Income Tax Bill 2025. The Bank of Papua New Guinea's Monetary Policy Committee (MPC) has made significant strides in promoting transparency and addressing inflationary conditions. The new Income Tax Bill represents a comprehensive modernization of the country's tax framework, aligning it with international standards while addressing PNG-specific economic conditions.

Whether you are an experienced investor or new to the market, we hope this newsletter will inspire and inform your investment and business decisions. We are committed to providing you with the latest insights and analysis to help you navigate the opportunities and challenges in the South Pacific region.

The Business Process Outsourcing (BPO) Sector in Fiji: A Promising Industry

by Anare Manulevu, Partner, Advisory Services

Over the past decade, Fiji has emerged as a competitive player in the global Business Process Outsourcing (BPO) market, leveraging its strategic advantages to carve out a niche in this dynamic industry. In 2017, stakeholders formed the Fiji BPO Council (BPOC), also known as Outsource Fiji, to guide the industry's development. The BPOC, led by the private sector with governmental support, initially focused on call centre services but has since expanded to include a wide range of services such as Voice Technology, Back Office Operations, Airline Reservations, Freight Shipping, Building and Infrastructure, Government, Insurance, Banking & Finance, Debt Collection, Virtual Human Resource, Telecommunication, and Sales & Marketing. This expansion is driven by the increasing number of businesses choosing to use outsourced services to reduce costs, access specialised expertise, and enhance operational flexibility.

The Market Development Facility (MDF) estimates that in 2022, Fiji's outsourcing industry contributed between 1-2% to the country's GDP and accounted for 5.4% of its foreign exchange earnings. According to the World Bank's Fiji Country Private Sector Diagnostic (CPSD) report, there is further potential for the sector to tap into a global market worth nearly $1 trillion USD which could see current employment numbers rise from 8,000 to 25,000 over the next decade. This rapid growth and diversification make Fiji's BPO sector a fascinating case study for understanding how small economies can successfully compete in the global market.

Current State and Competitive Advantages

Fiji’s competitive advantages make it an attractive destination for outsourcing services.

1. Strategic Location and Time Zone: Fiji's overlap with key markets and geographical proximity to Australia and New Zealand, with a time zone only two hours ahead of AEST, makes it ideal for nearshore outsourcing and real-time collaboration.

2. Skilled and English-Speaking Workforce: With a high literacy rate of 96% and approximately 9,000 new graduates entering the workforce annually, Fiji provides access to a highly skilled talent pool. English is the primary language in Fiji, and the country's education system mirrors those of Australia and New Zealand, ensuring that the workforce is well-prepared to serve businesses in these regions.

3. Cost-Effective Operations: Fiji offers a cost-competitive environment for BPO operations. While introducing more sophisticated mechanisms for countering tax avoidance, the lower cost of living and favourable exchange rates translate into significant cost savings for businesses outsourcing to Fiji.

Companies can benefit from reduced labour costs while maintaining high-service

4. Robust Infrastructure and Connectivity: Fiji has made substantial investments in its telecommunications and infrastructure, ensuring reliable and high-speed internet connectivity. The Southern Cross Cable, linking Fiji directly to the United States, Australia, and New Zealand, provides fast, direct, and secure high-capacity services. Additionally, the recent partnership with Google to establish the Bulikula and Tabua Cable will further enhance digital connectivity, adding capacity, reducing latency, and improving reliability for users in Fiji and the Pacific region. The development of business parks and modern office spaces tailored for BPO operations further enhances the industry's appeal.

5. Government Incentives: Fiji offers several tax incentives to attract BPO operations, including a 20-year tax holiday, duty-free equipment used in outsourcing centres, the ability to carry forward losses up to eight years, a 25% investment allowance for renovation of buildings, a 100% tax deduction for employer superannuation contributions, and no stamp duty.

Future Opportunities

The opportunities for Fiji's BPO sector are vast. The sector has the potential to create substantial employment opportunities, particularly for youth and women. By enhancing marketing efforts, upgrading workforce skills through specialized training and university courses, and improving ICT infrastructure, Fiji can further strengthen its position as a regional hub for outsourcing services. Additionally, the establishment of special economic zones (SEZs) and data centres in strategic locations, along with the strengthening of data protection laws, can help Fiji tap into the growing global demand for outsourcing services.

MPC Meeting March 2025: Key Decisions and Transparency
by Avhatakali Mugeri, Manager, Advisory Services

The first meeting of the Bank of Papua New Guinea’s Monetary Policy Committee (MPC) was held in March 2025 and the detailed minutes shared publicly. This reflects the greater transparency promoted under the recent amendments to the Central Banking Act.

Key issues covered were:

Kina Facility Rate (KFR) maintained at 4% - MPC noted to previous policy settings while responding to current inflationary conditions, which do not warrant an increase in the policy rate. The Governor’s casting vote resulted in the KFR being maintained at 4.0% against a potential increase to 4.5%.

Cash Reserve Ratio (CRR) reduced to 11% - Noting the uneven distribution of liquidity the reduction will assist constrained banks and provide commercial banks greater flexibility in managing their liquidity.

Foreign exchange (FX) rate crawl recommences at 6% p.a. - BPNG entered into a 38-month IMF program in March 2023, where they agreed to structural reforms aimed at improving monetary policy transmission and exchange rate flexibility. BPNG adopted a crawl like arrangement to allow the currency to reach market entry level with the adjustments calculated every 6 months. The Kina remains overvalued, with the MPC recommending the crawl to continue at 6% until 30 June 2025. MPC noted that exchange price stability is the primary monetary objective and in the short term the crawl like arrangement would affect the price stability but would be beneficial in the long run. The MPC also emphasised the importance of supporting exports while implementing the crawl. With the implementation of the crawl, outstanding FX orders have reduced from 1-3 months to less than week (with the FX backlog down from approx. K2bn to K700m). This will improve the trading conditions and facilitate efficient payments for businesses.

Liquidity Overview - Repo and Reverse Repo margins have been maintained at 1.5% as no change is required at this time. The 28-day Central Bank Bills (CBB) auction volume was increased to complement the CRR reduction and absorb the additional liquidity.

Macroeconomic overview

- Annual headline Inflation rose by 0.7% in Q424 compared to a 0.9% decline in the previous quarter, while quarterly inflation increased by 2.5%. Core inflation remains higher than headline inflation.
- The overall Balance of Payments showed a K238m surplus for the 12 months to Dec24 with a K18.7bn surplus in the current and capital account from higher trade surpluses; and a K11.2bn deficit in the financial account from external debt servicing and offshore fund flows for foreign investments.
- Gross Foreign reserves were at K14.2bn covering 7 months of total imports and 22.3 months of non-mineral imports.
- The Kina depreciated by 0.5% against the USD in Feb25 due to excess demand and controlled depreciation with a 0.6% appreciation against the AUD due to cross currency movements.
- The government cumulative cash flow was at deficit for K486m as at Feb25.
- The KFR and 7-day CBB remained constant at 4% with mixed movements in T-bill rates and a widening of the interest rate spread to 7.8%.
- The broad money supply decreased by 5.9% to K31.6bn due to a decline in net domestic assets of depository corporations. Liquidity in the banking system remains elevated at K13.8bn; and private sector credit increased 3.3% y-o-y to Dec23, driven by real estate and the wholesale/retail sector.

The release of the minutes provides greater transparency and allows a better sense of the factors impacting the MPC’s decisions.

Income Tax Bill 2025
by Karen McEntee, Partner, BTA

The Papua New Guinea Income Tax Bill 2025 was passed in Parliament on 20 March 2025. It is yet to be certified into law. The Bill represents a comprehensive modernisation of the country's tax framework. Effective from 1 January 2026, following a cooling off period, the new legislation introduces significant structural changes to align with international standards while addressing PNG-specific economic conditions.

While the initial objective had been a simplification and consolidation of the Income Tax Act 1959, one of the oldest Income Tax Acts in the world, many policy changes have made their way into the new Bill. The number of sections have been halved, the length reduced by 80% and the language simplified. The modernization includes major policy reforms, minor policy reforms and technical amendments. Some changes may even benefit taxpayers.

The legislation will be supported by Regulations providing administrative mechanisms, substantiation requirements, and practical implementation frameworks. The Regulations have not yet been published. Comprehensive transitional provisions ensure business continuity while enabling the shift to the new system. Updates are required to the Tax Administration Act to ensure it aligns with the Income Tax Act – these are to follow at a later date.

A major advantage of the Act is that it brings together into one place various disparate exemptions and treatments previously codified in some cases in legislation other than the Income Tax Act. In our view, the new Income Tax Act attempts to strike a balance between international best practice and local economic realities. it maintains important concessions for key sectors and provides clear pathways for compliance.

Our guide to the Bill is available on our website.

With 2026 looming, taxpayers, and the Internal Revenue Commission, will need to be prepared for the implementation of the new Act and Regulations.

Mining Bill 2025

The Mining Bill 2025 was presented for public consultation in PNG. The government has initiated a six-week consultation period, ending on April 4, 2025, during which industry stakeholders, landowners, and citizens are invited to provide feedback.
The Bill marks a significant shift from the current concessional regime to a hybrid production-sharing model. This policy aims to secure for PNG a greater share of the wealth generated from its rich mineral resources.

Contact US

Zanie Theron
ztheron@kpmg.com.au

Karen McEntee
kmcentee@kpmg.com.au

Pieter Steyn
psteyn@kpmg.com.au

Ces Iewago
ciewago@kpmg.com.au

Brett McDermott
bmcdermott@kpmg.com.au

Christian Angelopoulos
cangelopoulo@kpmg.com.au

Wayne Osterberg
wosterberg@kpmg.com.au

Lisa Apted
lapted@kpmg.com.au

Steve Nutley
snutley1@kpmg.com.au

Anare Manulevu
amanulevu@kpmg.com.au

Meliki Tuinamuana
mtuinamuana@kpmg.com.au

Mohammed Khan
mkhan@kpmg.com.au

Marissa Apted
mapted@kpmg.com.au

Sharvek Naidu
snaidu@kpmg.com.au

kpmg.com.pg