

# 2023 PNG Budget Commentary

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## Executive Summary

- Against a backdrop of gloomy world economy the Minister for Treasury, Hon. Ian Ling-Stuckey handed over the **2023 Papua New Guinea Budget** on behalf of Marape Rosso Government, at the Parliament on this 29<sup>th</sup> day of November 2022.
- This is the **first annual budget** presented by the newly elected government. Theme of this year budget is “**Implementing the vision**”. The framework which directs this budget is the “13-year Plan”, that is guided by **Five National Goals and Directive Principles**<sup>1</sup>.
- The 2023 Budget will continue to be guided by the doctrines of development espoused by **Vision 2050**, PNG Development Strategic Plan (**DSP (2010-2030)**), the Medium-Term Development Plan (**MTDP II and III**), the National Strategy for Responsible Sustainable Development (**StaRS 2017**), and the Fiscal Responsibility Act 2006 (**FRA**) as amended in 2019.
- The new Medium-Term Fiscal Strategy 2023-27 drawing from the “13-year Plan” adopts four core objectives in the medium term such as strong economy, connect PNG, going rural and good governance and continues to guide this budget, with its underlying **principles**, i.e., *Spend wisely, Raise revenue fairly, Finance debt cheaply, Focus on sustainable investment options, Reform program for State Owner Enterprises (SOE), Grow non-revenue growth above 5%, Ease foreign exchange, etc*
- This budget is first among many parameters such as **first to see three successive years of real growth in non-resources sector**, **first to see inflation dropping back to manageable levels**, first to project a **forex reserve of K13 billion**, first to project **more revenue growth over expenditure** growth, first to **project surplus budget by 2027**, **largest budget till date** etc.
- 2022 budget will continue the repair and reconstruction path pursued since 2019 and focus on five key sectors like **health, education, law and order, infrastructure, agricultural and economic sector**.
- Global economic growth is projected at 3.2% and 2.7% for 2022 and 2023, respectively. PNG economy is expected to grow at 4.6% and 4% respectively, for above periods.
- **Budget** presented at **K24.56 billion**, as compared to 2022 supplementary budget estimate of K23.37 billion.

<sup>1</sup> I integral human development; equality and participation; national sovereignty and self-reliance; wise use of natural resources and the environment; and Papua New Guinean ways

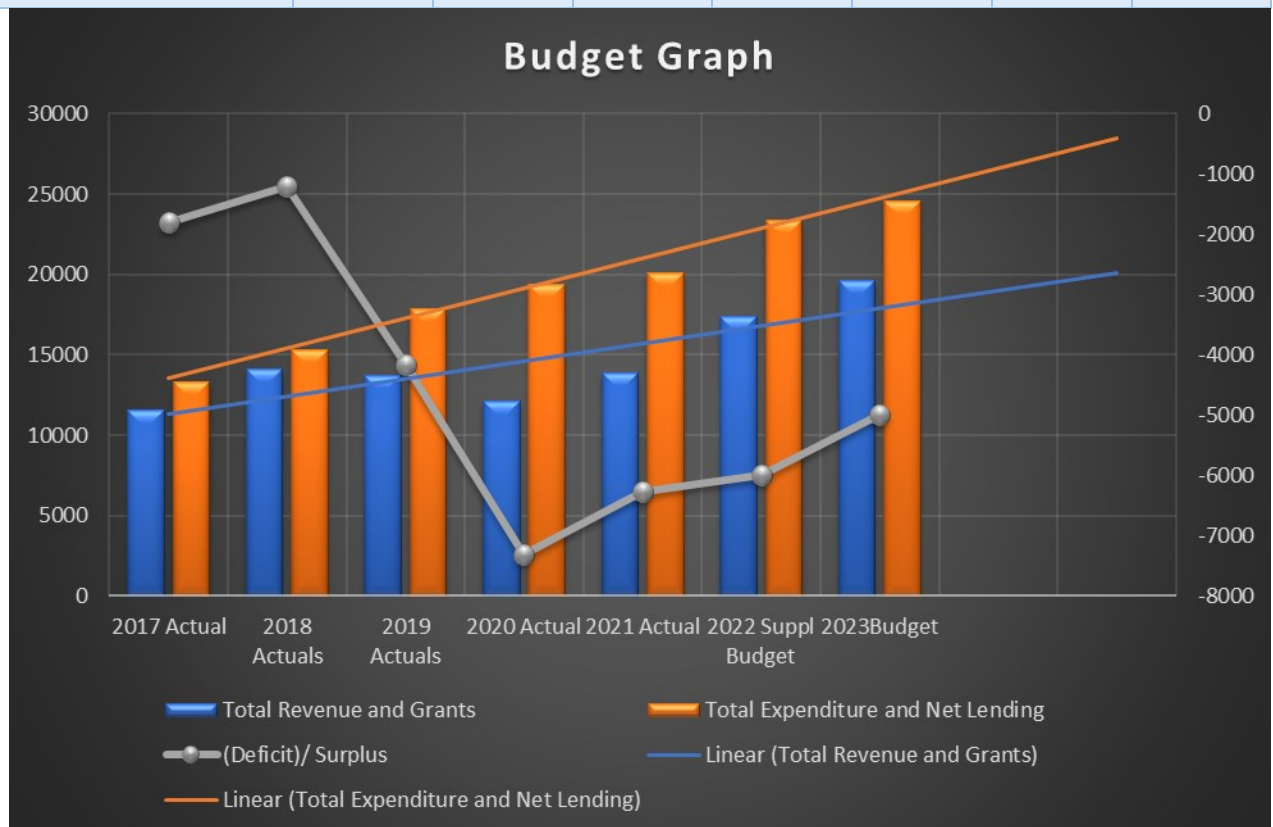


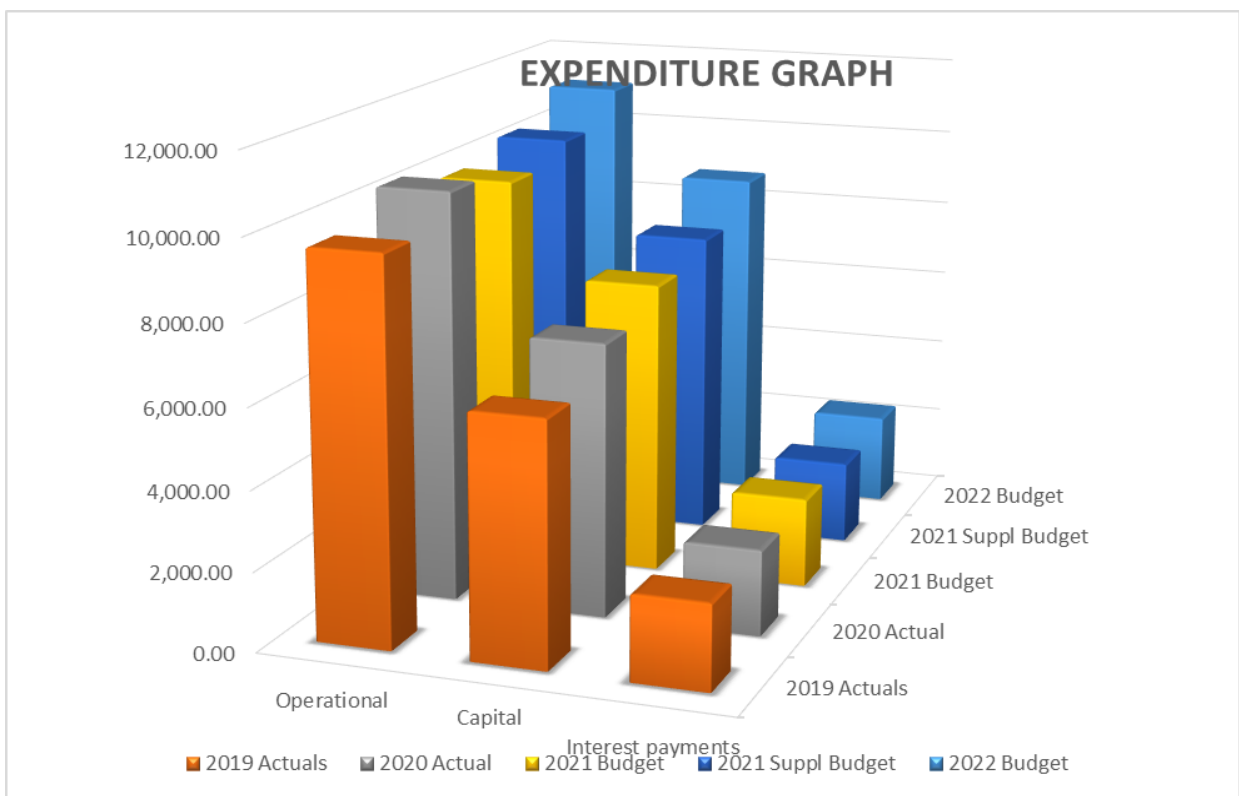
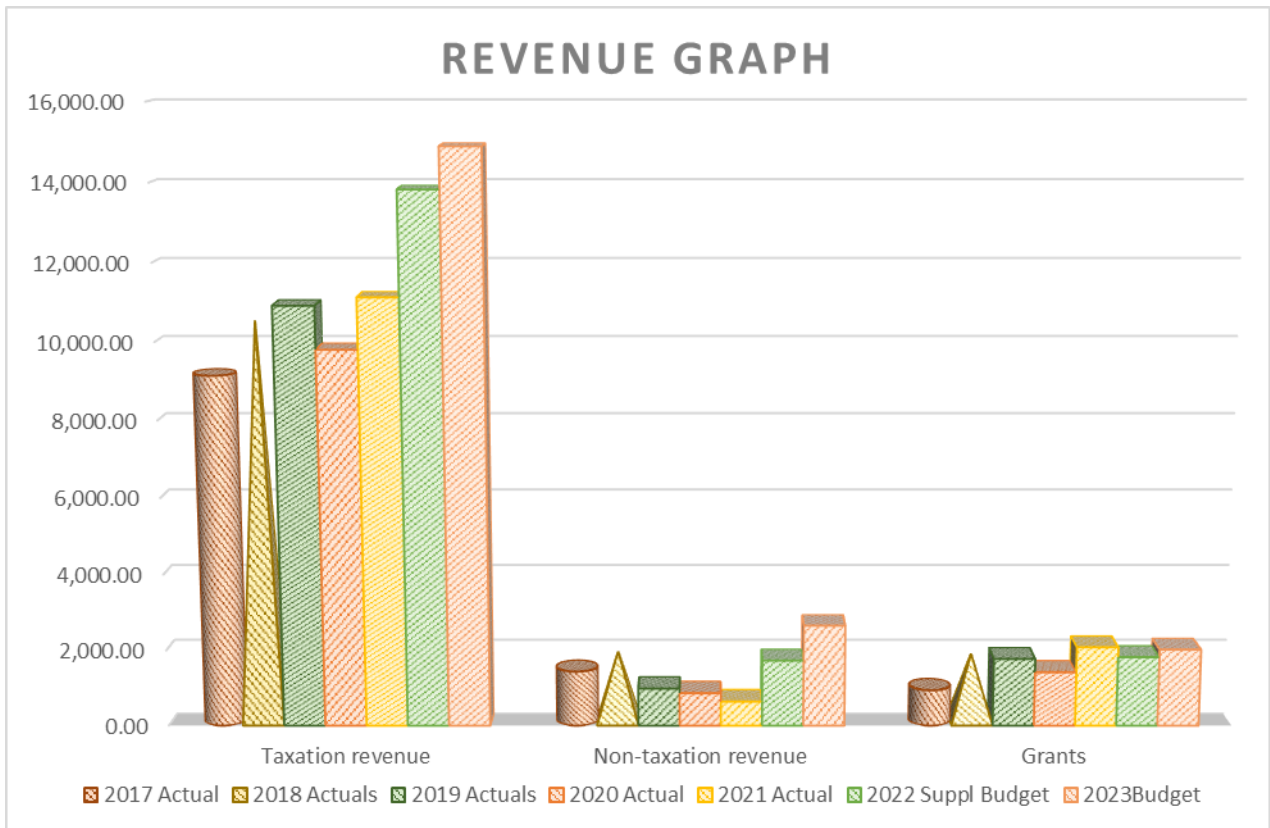
- Total budgeted expenditure consists of, **K10.8 billion for operational expenditure, K9.79 billion for capital expenditure, K2.51 billion for interest payments** and **K1.46 billion for provinces** as compared with K10.75 billion, K8.99 billion, K2.32 billion and K1.31 billion respectively, from 2022 supplementary budget.
- Total revenue and grants are estimated at **K19.58 billion in 2023** with increase of **K2.19 billion** from 2022 supplementary budget estimate of K17.39 billion.
- Tax revenue is estimated at **K14.89 billion** more than K1.06 billion and non-tax revenues are estimated at **K2.65 billion** more than K924 million, from 2022 supplementary budget estimates of K13.83 billion and K1.73 billion, respectively.
- Budget deficit works out to **K4.98 billion** with deficit approximately amounting to 4.4% of GDP.
- The **inflation level** expected to reduce from a high of 6.6% in 2022 to **5.7%** in 2023.
- **No major tax measures** are introduced other than **temporary relief provided by increasing minimum tax-free threshold for 2023, increase in corporate tax rate for commercial banks,** reduction in fuel prices and some other changes necessitated.
- Major non-tax measure is **introduction of Non-Tax Revenue Administration Bill, 2022** which effectively replaces the erstwhile Public Money Management Regularisation Act 2017. This is expected to streamline all non-tax revenue into a consolidated revenue fund, and this will allow all government agencies to be funded through normal budget process. Once functional, more than K500 million is expected to be collected in 2023.



### Budget Highlights

Budget	2017 Actual	2018 Actuals	2019 Actuals	2020 Actual	2021 Actual	2022 Suppl Budget	2023 Budget
Total Revenue and Grants	11,525.1	14,085.2	13,680.4	12,093.3	13,860.4	17,389.1	19,582.0
Total Expenditure and Net Lending	13,319.1	15,297.5	17,852.4	19,397.8	20,130.7	23,373.6	24,566.9
(Deficit)/ Surplus	(1,794.0)	(1,212.3)	(4,172.0)	(7,304.5)	(6,270.3)	(5,984.5)	(4,984.9)
Taxation revenue	9,141.4	10,475.9	10,918.1	9,802.1	11,129.4	13,831.5	14,899.6
Non-taxation revenue	1,439.9	1,835.70	986.8	866.2	643.0	1,732.7	2,657.4
Grants	943.8	1,773.60	1,775.5	1,425.0	2,088.0	1,824.9	2,024.9

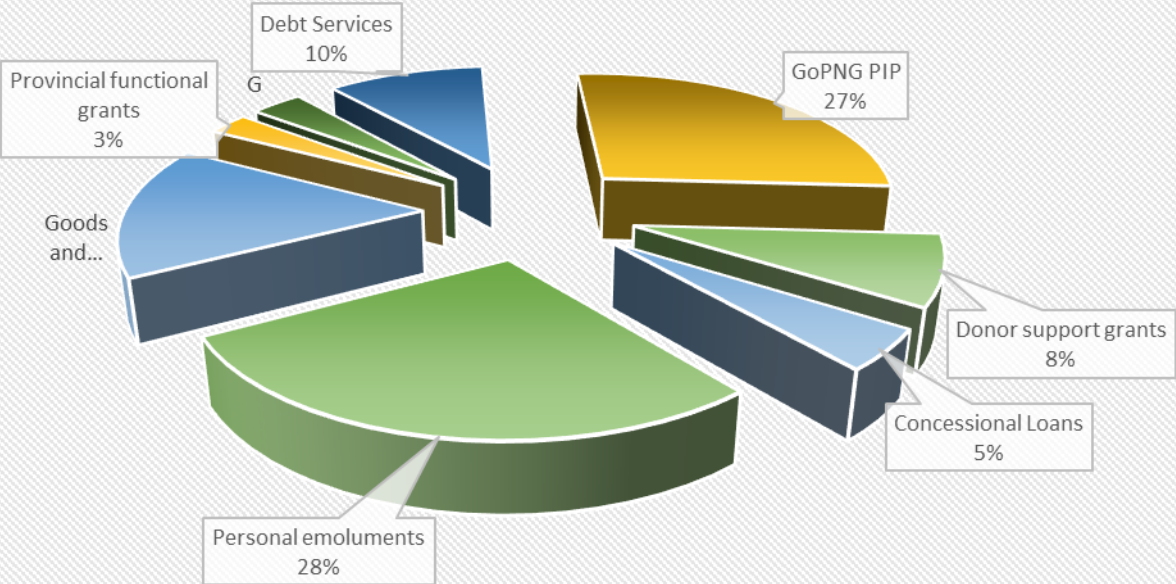
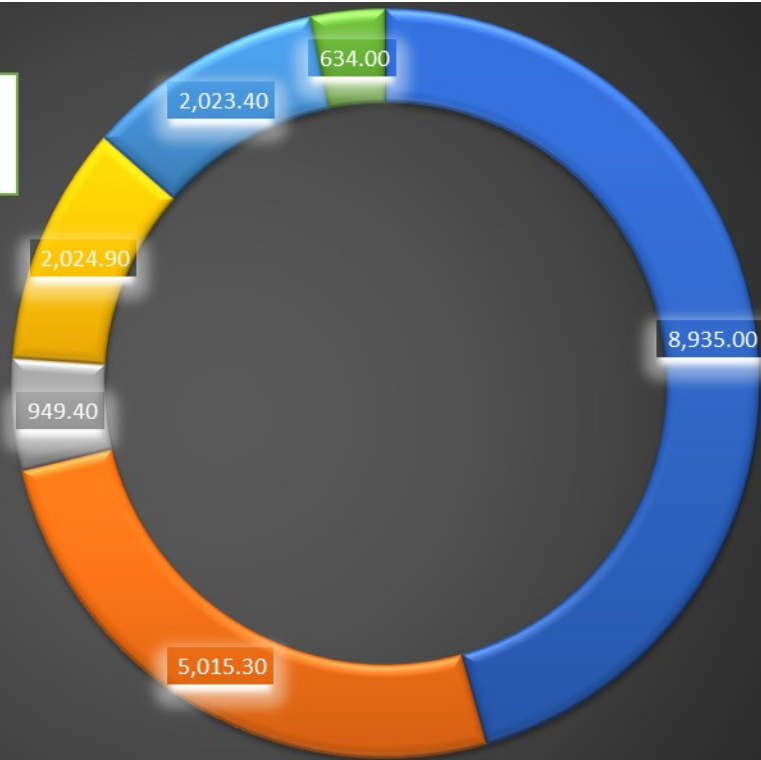






### Where will Kina come from?

- Income Profits and Capital Gains
- GST
- International trade and transactions
- Grants
- Dividends
- Others

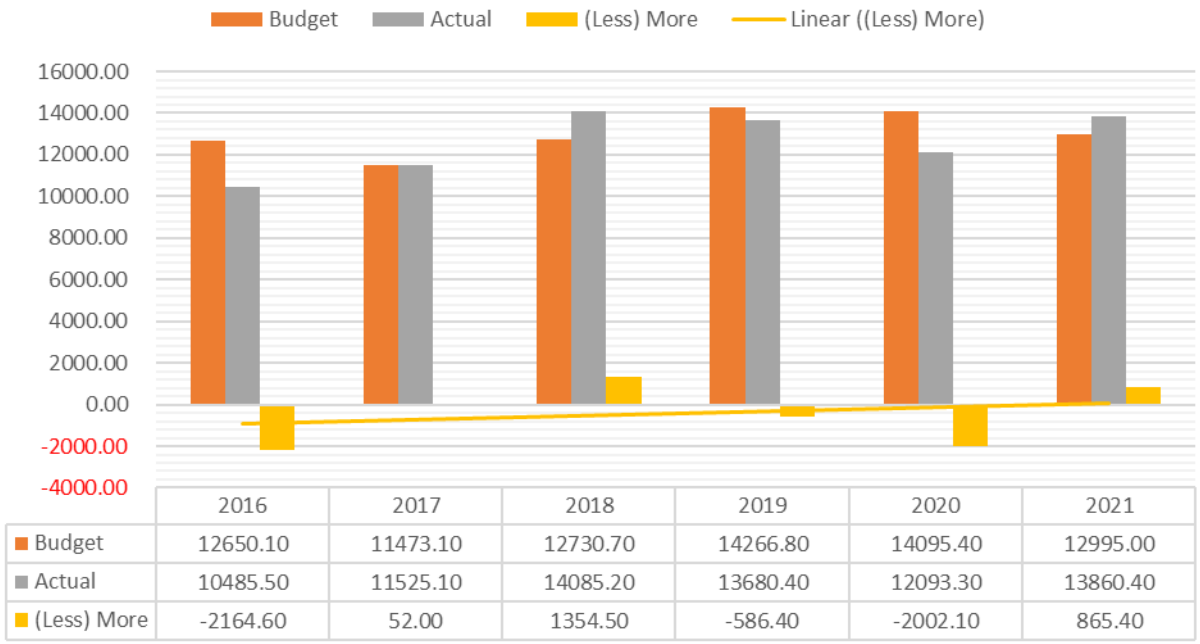


### Where will Kina go

x



### Graph measures actual revenue against budgeted revenue







## Key Economic Assumptions

This year's budget has been built on the following key assumption and economic parameters

Parameters	2019 Actual	2020 Actual	2021 Est	2022 Proj	2023 Proj
<b>Economic Growth</b>					
GDP Growth (PNG)	4.5	(3.2)	0.1	4.6	4.0
Non-Mining GDP(PNG)	1.6	(0.4)	4.8	4.5	4.6
<b>Exchange Rate</b>					
Real Exchange rate Index (2007=100)	125.8	128.1	123.3	128.8	133.8
<b>Inflation</b>					
Year average (%)	3.6	4.9	4.5	6.6	5.7
Dec on Dec (%)	2.7	5.1	5.7	6.7	5.2
<b>Interest Rates</b>					
Kina Rate Facility (KFR)	5.5	3.0	3.0	3.3	3.3
Inscribed Stocks (3-year Yield)	10.5	9.0	9.0	6.0	6.0
<b>Mineral Prices</b>					
Gold US\$/oz	1,392.0	1,770.0	1,800.0	1,816.0	1,812.0
Copper US\$/ton	6,006.0	6,170.0	9,308.0	8,811.0	7,910.0
Oil Kutubu crude US\$/barrel	57.0	39.0	68.0	95.0	83.0
LNG US\$ per 000 cu. ft	10.6	8.3	10.8	14.6	12.8
Condensate US\$/barrel	57.0	39.5	67.9	94.8	82.5
Nickel US\$/tonne	10,960.0	10,639.0	17,147.0	20,929.0	17,602.0
Cobalt US\$/tonne	22,836.0	21,483.0	44,430.0	52,532.0	43,355.0
<b>Agricultural Prices</b>					
Coffee US\$/ton	3,019	3,628	4,200	4,601	5,445
Palm Oil US\$/ton	543	640	1,012	905	896
Cocoa US\$/ton	2,342	2,373	2,439	2,556	2,285
Copra Oil US\$/ton	733	994	1,470	1,470	1,588



## New Medium Term Fiscal Strategy (MTFS) 2023-2027

The new MTFS is redrawn from the “13-year plan” with the aims to support medium term development plans and maintain macro-economic stability and is composed of three major components

- **Medium term revenue strategy** (MRTS) that aims to build revenue base capable of financing government medium- and long-term expenditure plans. These includes **policy reforms** consisting of *simplified small business regime, review of tax exemptions/incentives, review of excise and export duties, tax base broadening, rebalance tax composition from income to consumption based* and **legal reforms** consisting of simplify and consolidate existing Acts, obtain economic value from international agreements, establishment of asset registers, bank secrecy codes amendments, public agencies and **administration reforms** aimed at *managing compliance risks, improve systems/process and develop strategic leadership and management*
- **Medium term expenditure strategy** aims to reduce total expenditure to GDP ratio by 2027, reallocate expenditure mix from personnel emoluments and goods and service to priority capital allocations
- **Debt management strategy** that delivers low-cost financing within prudent risk levels at same time ensures macroeconomic stability and allows flexible funding to government.

The 2023 Budget strategy is framed within the new MTFS that sets out government plan of ongoing budget repair and reconstruction plan and based on following principles

- spend the money we have more wisely,
- raise the revenues more fairly,
- finance the debt more cheaply,
- leverage friendly international support more intelligently,
- focus on growth in the agriculture, forestry and fishing sector, SMEs and the informal economy,
- distribute resource benefits more equitably,
- stimulate non-resource growth back to at least 5.0 per cent annually,
- comprehensive Government SOE reform program for cheaper energy, internet and water,
- getting foreign exchange flowing more freely, and
- create at least 10,000 jobs annually



## Direct Taxation measures

The tax measures introduced in the budget were mainly to provide temporary relief against the backdrop of increasing fuel prices and resultant cost of living aimed at increasing collection, driving efficiency, and making tax laws easier to comply.

### Amendments to Income tax provisions

- Temporary increase in minimum tax threshold from current K17,500 to K20,000 (works out to K769.23 fortnightly). This will provide an additional tax benefit of K550 for all taxpayer earning income above K20,000.
- The below table provides a bird's eye view of the proposed amendment, the shaded cells are tax free incomes

Taxable income (in kina)	1 January to 31 May 2022	1 Jun to 31 December 2022	1 January to 31 December 2023	Beyond 31 December 2023
0-12,500	Tax free income	Tax free income	Tax free income	Tax free income
12,501-17,500	22%	Tax free income	Tax free income	22%
17,501-20,000	22%	22%	Tax free income	22%
20,001-33,000	30%	30%	30%	30%
33,001-70,000	35%	35%	W35%	35%
70,001-250,000	40%	40%	40%	40%
Above K250,000	42%	42%	42%	42%

- Corporate income tax payable by licenced commercial banks increased from 30% to 45% (effective 1 January 2023)
- Repeal of market concentration levy introduced in last budget effective 1 January 2023, however the tax and litigations for levy in 2022 to continue.



## Indirect Taxation measures

### Amendment to Customs provisions

- Increase log export duty by 20% with an aim to discourage export of unprocessed logs and encourage downstream processing (effective 1 January 2023)
- Proposed revenue of K30 million is expected to be generated as a result of this amendment in 2023 and this will be utilised for ongoing commitment to Biodiversity and Climate Trust Fund by the United Nations for PNG
- Tariff item 44.03 introduced to tax most items except for plantation logs and certain species. (effective 1 January 2023)
- PNG Customs Harmonised System (HS) proposed to be updated from HS2017 to HS2022 with the objective to include advancement in technology, new product streams, changing trade patterns, environmental considerations, health and safety concerns, fight terrorism and facilitate international conventions. This has resulted in amendment of both the import and export duty items classifications and rate. (retrospective from 1 December 2022)

### Amendment to Excise Tariff

- In a bid to continue temporary relief to Papua new guinea citizens and residents, the temporary exemption of excise duty on fuel items will continue till 30 June 2023. Table below indicates the details

Tariff item	Description	Duty per litre from 1/1/23 - 30/6/23	Duty per litre > 30/6/23
2710.19.10	Diesel	Free	K0.23
2710.12.10	Petrol	Free	K0.61
2710.19.90	Zoom	Free	K0.02

- Insertion of a table indicating the resource companies, international freight operators and power producers who are not eligible for exemption proposed for above fuel items.
- Increase in excise rate on mixed drinks not for medicinal purposes having high alcohol content. The amendment is proposed to be applied retrospectively from 1 December 2022 until 30 June 2023 and another rate amendment is proposed on 30 June 2023.



## A comprehensive suite of our services

### Accounting and Outsourcing

- maintenance of books of accounts
- payroll processing, including tax computation and remittance and filing associated returns with the IRC
- accounts payable/ receivable processing
- banking support
- preparation of Final Accounts
- audit support
- secretarial support
- migration advisory and assistance

### Direct Tax Services

- direct tax and regulatory advisory & statutory compliances
- international tax advisory & planning
- inbound investment advisory & entity set-up
- outbound investment & cross-border transaction advisory
- tax health check-ups
- tax due diligence
- expatriate tax advisory & compliance services
- Transfer pricing
- Tax audits

### Indirect Tax Services

- advisory & strategic consulting in relation to GST, Customs, Excise, Stamp Duty and other allied legislations
- compliance assistance
- representation
- review/ health check/ GST audit
- tax due diligence
- GST audit and refund audits

### Secretarial Services

- regulatory advice and support under
  - Central Banking Act
  - Investment Promotion Act
  - Companies Act
- A to Z services from incorporation to winding up for companies, trusts and other business groups, including provision of registered office, director services, resident agent services.
- business certification services

### Financial advisory services

- financial structuring and advice
- financial valuation
- financial due diligence
- financial credit arrangements
- financial training

## Contact us

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