Threading the Needle

PwC's 2024 Budget insights

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Executive summary

National budgets are important for many immediate reasons - they paint a picture for what the coming year may look like in terms of the global economic environment, show the Government's spending and taxation priorities and project what the domestic economy may look like as a result. Getting these things right or wrong has immediate political consequences.

National budgets are also important for shaping outcomes over the longer term. While Budgets have immediate objectives, in a small economy so shaped by swings in global commodity prices and the development and operation of large scale extraction projects, a longer term perspective needs to also be considered. Particularly important is to look to how budgets set longer term incentives and signals to reduce the boom-bust cycle all too evident in PNG as new resource projects come along over time.

In handing down his 5th National Budget — **Securing Our Future** — the Treasurer, Hon Ian Ling-Stuckey, is trying to thread the needle regarding these immediate and longer term goals.

The Budget is set against the backdrop of the Government's 13-year Budget Repair Plan, released in 2021, which sets out to move government to a surplus budget in 2027, and maintain a debt to GDP ratio below 40% by 2029 (as required by the Fiscal Responsibility Act). This fiscal plan is based on moving to a reasonable growth rate for the non-resource parts of the PNG economy of 5% in real terms and is framed around four core objectives to support PNGs development strategy, over the medium term:

- Strong economy - budget repair to underpin lower inflation and great private sector development.
- Connect PNG - infrastructure to support industry development
- Going Rural - support to diversify and make resilient the agricultural sector
- Good Governance - to increase the capacity of the state to support effective development.

This is the policy context in which the 2024 Budget should be judged.

A slowing global outlook

The Budget is framed by a global economy in transition, recovering from the inflationary spike of the past two years. This is reflected in:

- a slowing global economy - growth forecasts have been progressively downgraded over 2023 such that global growth is now projected to slow from 3.5% in 2022 to 3.0% this year and 2.9% in 2024, well below the 2000–2019 average of 3.8%. In contrast, emerging market and developing economies are projected to have a modest decline in growth from 4.1% in 2022 to 4.0% in both 2023 and 2024.
- a continued high, but easing, inflationary outlook - global inflation is forecast to decline steadily, from 8.7% in 2022 to 6.9% in 2023 and 5.8% in 2024, due to tighter monetary policy aided by lower international commodity prices. Core inflation is generally projected to decline more gradually, and inflation is not expected to return to target until 2025 in most cases.

The domestic economic environment

A slowing global economy and lower commodity prices has obvious consequences for the PNG economy in 2024.

PNG's growth is moderating slightly in 2023 before being projected to continue its recovery in 2024.

Key outcomes from the 2024 Budget (with comparisons to the 2023 Budget outcomes) include:

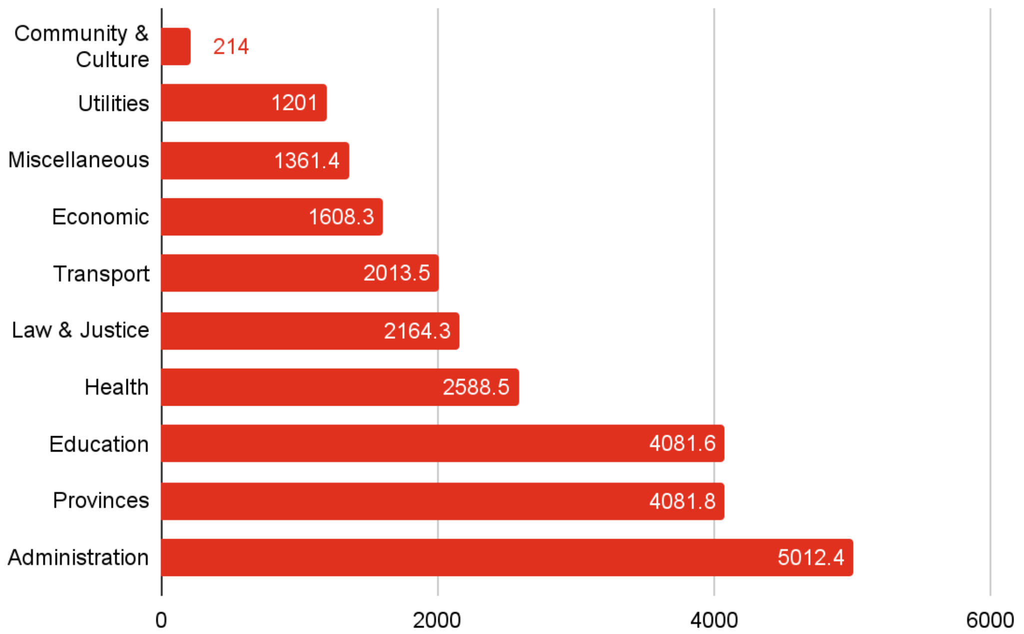
- economic growth — 5.3% (vs 2.7% in 2023). This growth is underpinned by a 20.5% increase in the Mining and Quarrying sector in 2024 given the expectation of the Porgera mine coming online, increased production from Ok Tedi and Lihir mines and additional LNG and Condensate production.
- inflation — 5.0% (vs 3.5% in 2023)
- debt as a percentage of gross domestic product (GDP) — 51.1% (vs 52.8% in 2023)
- net borrowing (i.e. a deficit) as a percentage of GDP — -3.3% (vs -4.4% in 2023).

Expenditure priorities

Government expenditure is set to reach K27,377 million in 2024, up K2,810 million on the 2023 expenditure levels.

Where the Government intends to spend (exclusive of debt servicing) is shown in Figure 1.

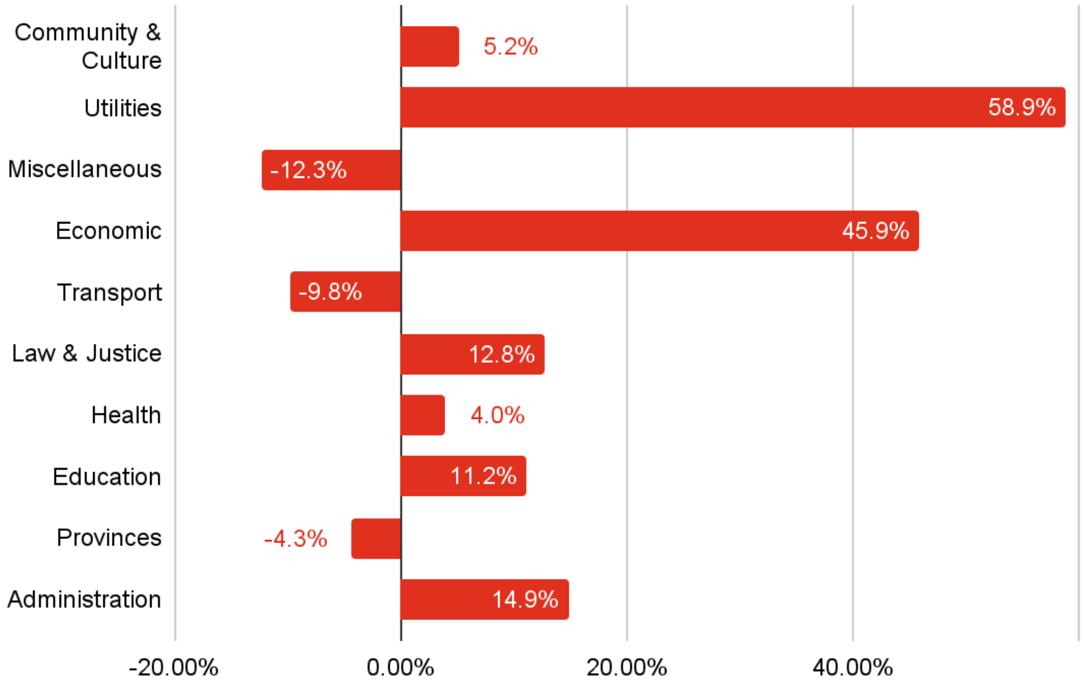
Figure 1: 2024 Expenditure by Sector (Kina, million)



Source: Budget 2024

Changes in spending priorities since the recent Supplementary Budget are shown in Figure 2. The big winners are the water and energy utilities, which see a 58.9% budget increase.

Figure 2: Government Spending by Sector, Excluding Debt Servicing (Kina, millions)



Source: Budget 2024

It is worth noting that, in addition to the expenditure categories identified above, debt servicing in 2024 is 3,050 million kina, up 9.8% from 2023. In effect, about 500 million kina more is spent on debt servicing than Health. This is the social cost of ongoing debt levels.

Tax

There are limited tax changes introduced as part of this year's Budget. Changes have been made to salary or wages tax, dependent rebates, export duties and customs and excise.

Nevertheless, with no significant new taxes introduced in the current Budget, tax revenues are expected to increase by 43.7% through to 2028 with fiscal expenditure increasing by only half this rate. The key driver of the expected increase in tax revenue is through the favourable economic growth that is forecast over the medium term which in turn will increase the tax take for personal income tax, company income tax, GST and dividend withholding tax. Other drivers include an increase in mining and petroleum tax from the PNG LNG project and the introduction of a 10% to 20% export tax on the fishing industry. Given the predominant driver of the increased tax revenue is through economic growth, the forecast increase of 43% seems ambitious. The budget appropriation for IRC and Customs is set to increase by a further K100 million and K113 million respectively in order to help drive the increase in tax collections.

Key budget assumptions

The major assumptions on which the budget has been based are summarised in Table 1. Historic indicators are also included for reference purposes.

Table 1: Key Assumptions

	2019	2020	2021	2022	2023	2024	2025	2026	2027
Economic growth									
Total Real GDP (%)	4.5	-3.5	0.1	4.6	4	3.6	3.7	3.7	3.8
Non-mining Real GDP (%)	1.6	-1.2	4.8	4.5	4.6	4.5	4.9	4.9	5
Inflation									
Average on Average (%)	3.6	4.9	4.5	5.3	3.5	5	5.1	5.1	5.1
Exchange rate									
Real Exchange Rate Index (2007 =100)	138.7	140.6	123.3	128.8	133.8	133.8	133.8	133.8	133.8
Interest rate									
Kina Rate Facility (KFR)	5.5	3	3	3.25	3.25	3.25	3.25	3.25	3.25
Mineral Prices									
Gold (US$/ton)	1392	1770	1800	1816	1812	1871	1926	1956	1985
Copper (US$/ton)	6006	6170	9308	8811	7910	7894	7877	7875	7915
Oil (Kutubu crude: US$/barrel)	57	39.5	68	95	83	77	73	71	69
LNG (US$ per thousand Cubic feet)	10.6	8.3	10.8	14.6	12.8	12.1	11.4	11.1	10.8
Condensate (US$/barrel)	57	39.5	67.9	94.8	82.5	77.4	73.2	71.1	69
Nickel (US$/tonne)	10960	10639	17147	20929	17602	17964	18100	18491	18629
Cobalt (US$/tonne)	22836	21483	44430	52532	43355	41968	40236	40164	40047

Source: Budget 2024

In this paper we briefly consider:

- how the international outlook has evolved (page 5)
- the PNG Government's revised fiscal position (page 12)
- specific tax changes set out in the Budget (page 17)
- observations for 2024 and beyond (page 19).

Economic outlook

In this chapter we discuss the global economic environment (section 1.1) and then consider the updated domestic economic outlook as presented in the 2024 Budget (section 1.2).

1.1 The global economic environment

The global economic environment is in the process of resetting following the post-COVID-19 pandemic inflationary spike.

Inflation rates soared across the globe from 2021, reflecting a range of drivers including commodity price increases, supply chain bottlenecks, rising transport costs, rebounding demand and COVID-related 'base effects'.

Energy and food prices played key roles in the exceptionally strong increases in headline inflation rates, aggravated by Russia's invasion of Ukraine, but core inflation rates also rose markedly.

However, price pressures are now receding. Although some energy prices have risen recently, the ongoing rebalancing of supply and demand is consistent with further and more gradual declines in consumer inflation over the next couple of years. Given concerted efforts to reduce inflationary pressures (e.g. tighter monetary policy), aided by lower international commodity prices, global inflation is forecast to decline steadily, from 8.7% in 2022 to 6.9% in 2023 and 5.8% in 2024.

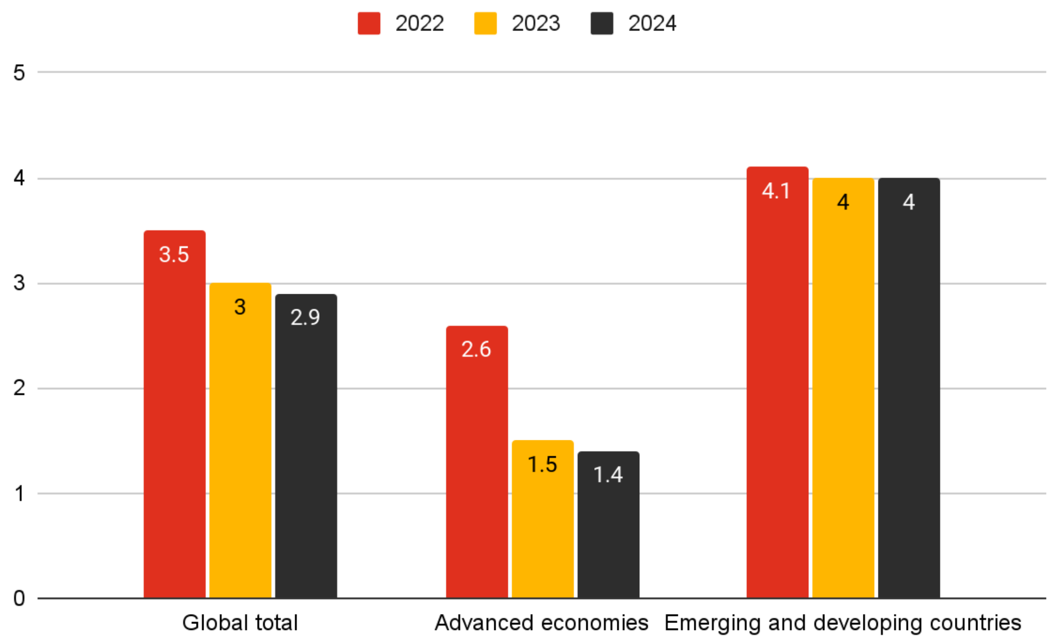
Notably, however, core measures of inflation are forecast to fall more gradually than headline inflation. Similarly, services inflation rates are expected to be relatively 'sticky', reflecting tight labor markets in many economies, and pent-up demand for tourism- and recreation-related services (e.g the 'Taylor Swift effect').

Given these factors, global consumer price inflation is forecast to fall back to 3% only by mid-2025.

With higher interest rates and conscious attempts to slow economic activity to reduce inflationary pressures, the natural consequence has been lower global economic growth. Hence, the IMF's baseline forecast is for global economic growth to slow from 3.5% in 2022 to 3.0% in 2023 and 2.9% in 2024, well below the long-run average of 3.8%.

Advanced economies are expected to slow from 2.6% in 2022 to 1.5% in 2023 and 1.4% in 2024 as policy tightening starts to bite. Emerging market and developing economies are projected to have a modest decline in growth from 4.1% in 2022 to 4.0% in both 2023 and 2024 (Figure 3, next page).

Figure 3: Economic growth (% annual)



Source: Budget 2024

1.2 The domestic PNG economy

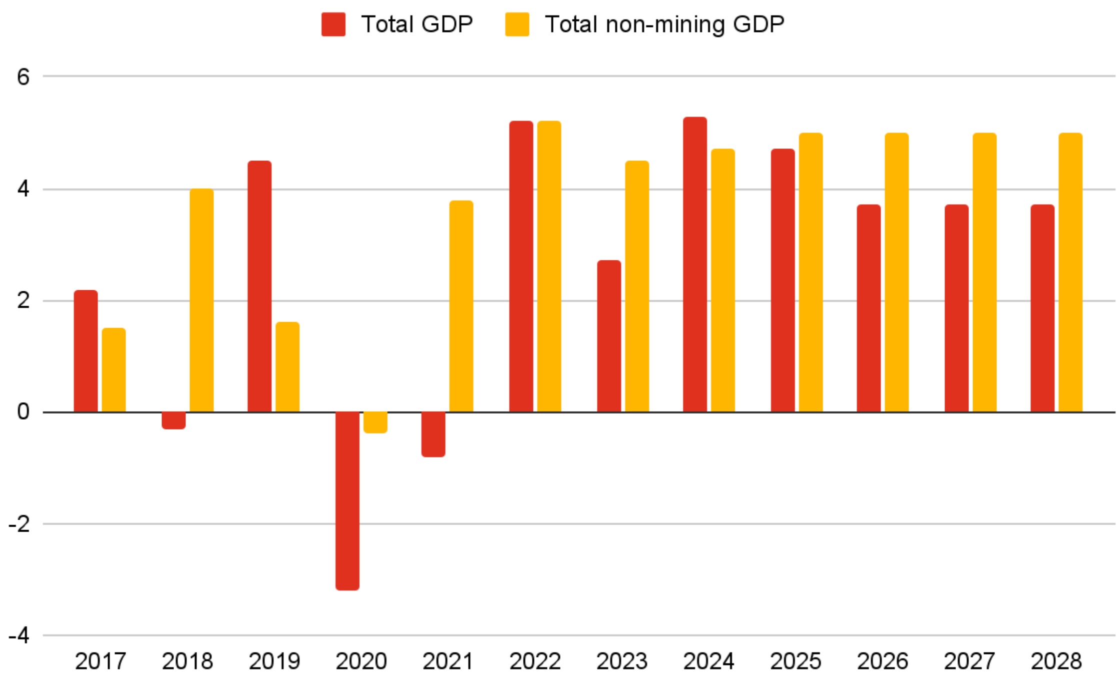
Economic Growth

The Budget projects a pickup in the economy from 2023 to 2024. Specifically, economic growth is projected to be 5.3% in 2024, almost double 2023's 2.7%. Such near-term growth will be largely driven by mining (see discussion below).

Over the longer term total GDP growth is expected to average 3.7%.

The Government is projecting that economic output in the non-mining sector, underpinned by increased government spending, will see growth increase from 4.5% in 2023 to 4.7% in 2024, and then 5% in 2025, and will remain at this level. The goal of diversifying the economy away from the resources sector has been an important one for successive governments and, if achieved, this 5% growth rate would be an important symbolic milestone.

Figure 4: PNG Gross Domestic Product (annual % growth)



Source: Budget 2024

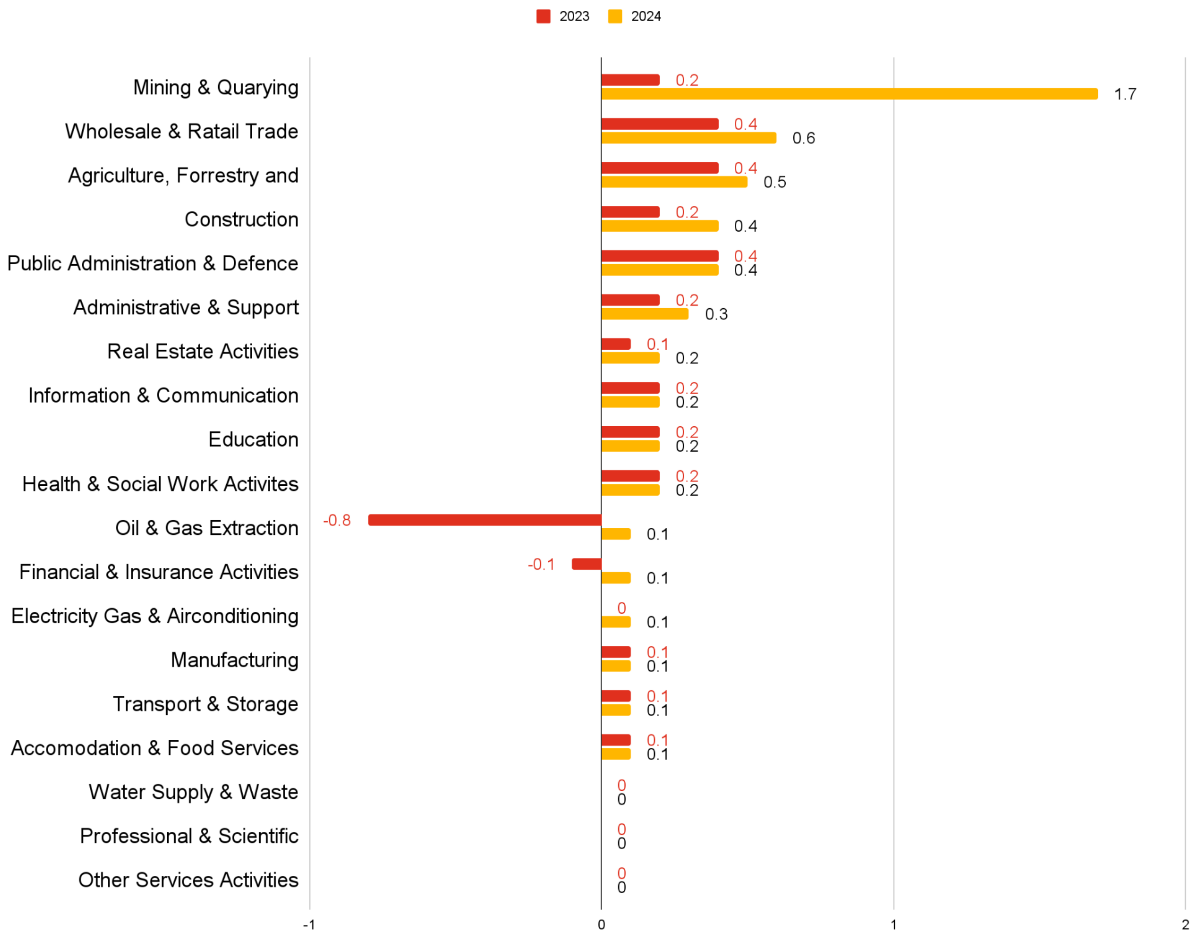
The Mining and Quarrying sector is projected to grow at 20.3% from 2023 to 2024. This reflects the expectation that the:

> … Porgera mine comes online, and increased production from Ok Tedi and Lihir mines as a result of better access to high grade ores. In addition, LNG and Condensate production is expected to increase, with the onset of production from two (2) new wells being drilled at Angore.

In some respect the 2024 numbers reflect the poorer than expected outcomes from 2023 which suffered from moderating commodity prices and global demand.

The industry contributions to growth in real GDP is shown in Figure 5. It demonstrates the significant increase in economic activity expected from the Mining and Quarrying sector

Figure 5: Industry Contribution to GDP (percentage Points of Growth)



Source: Budget 2024

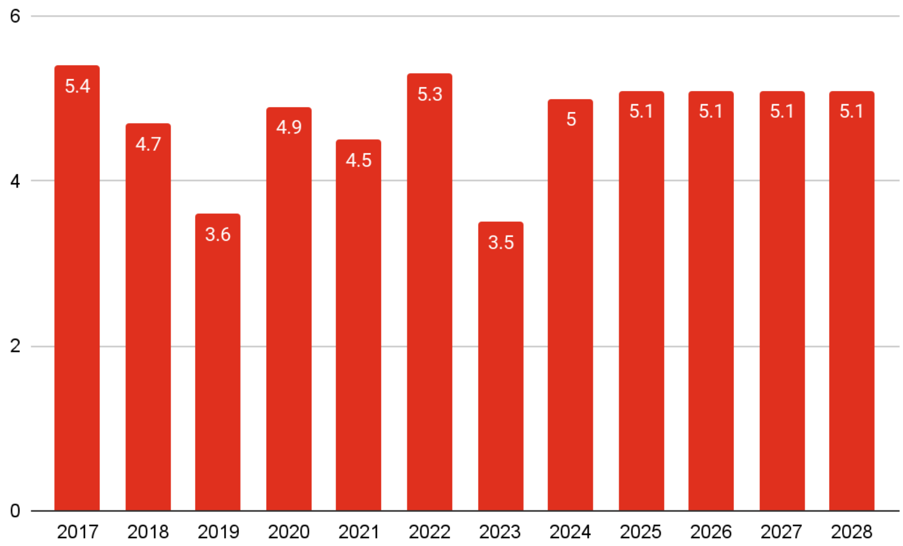
Inflation

High inflationary pressures will linger longer for PNG.

PNG's inflation spiked to an estimated 5.3% in 2022, driven by global supply chain disruptions, high global energy and commodity prices, and increasing imported price pressures from key import sources such as Australia and New Zealand. Additionally, the country's narrow production base and need to import a large amount of goods means the continued depreciation of the kina has driven up shipping costs for the near term.

Inflationary pressures are projected to have eased slightly in 2023 as global partners work to control inflation, but it will likely remain elevated, from 2024

Figure 6: Inflation (%, average-on-average)



Source: Budget 2024

With already relatively high inflation projected over the medium term, the risk is that if new resource projects do come on line then higher inflationary outcomes may result.

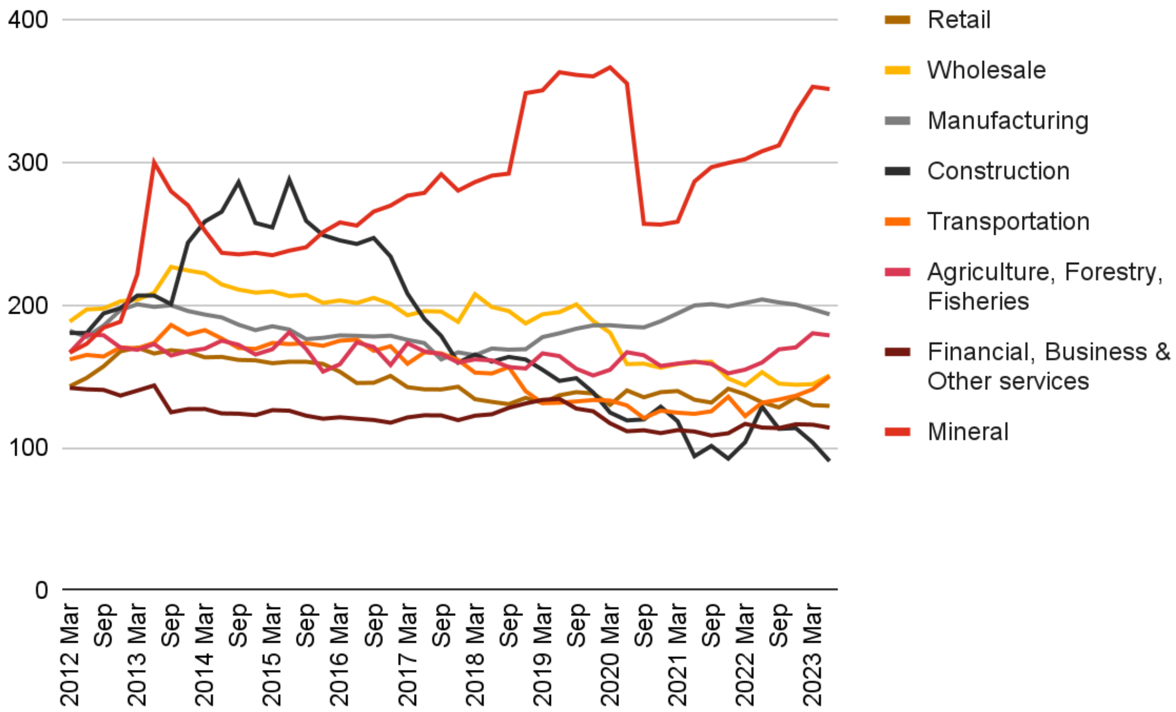
Employment

The Budget does not make projections about employment, but instead notes the changes in employment outcomes through to June 2023.

As shown in Figure 7, in the 12 months through to June 2023 employment in the mineral sector increased by 14.2% (up from 7.4% the previous year), reflecting in part the pre-re-opening recruitment for the Porgera mine.

In contrast, employment in the non-mineral sector grew by 2% (compared to 2.8% in the previous 12 months).

Figure 7: Employment ('000) by Industry



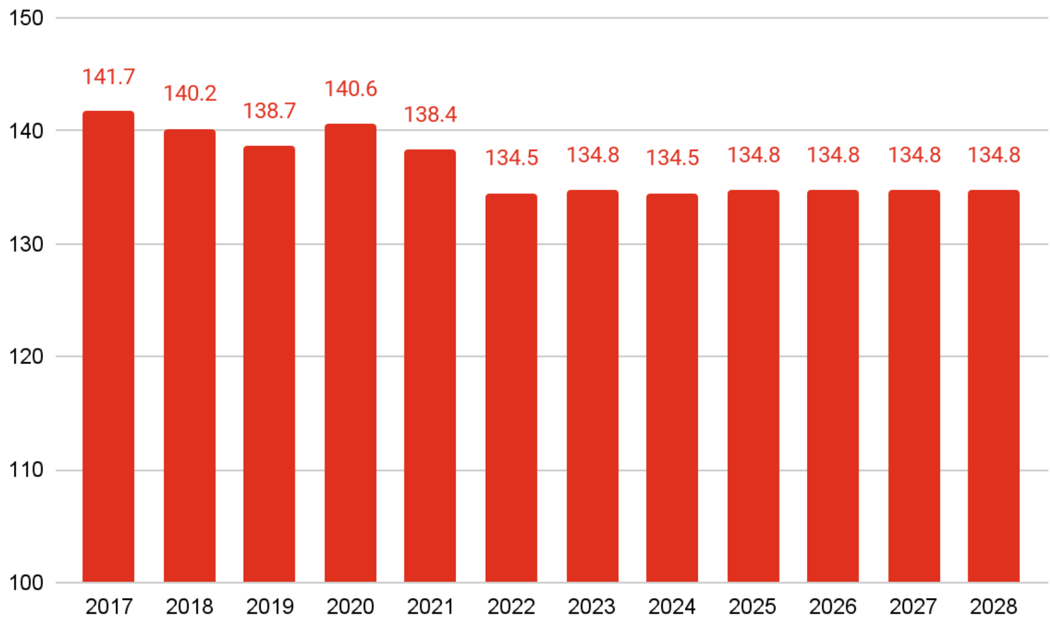
Source: Bank of PNG

Exchange rates

In general, the kina moves in line with major trading partners' currencies (e.g. Australia, New Zealand and Japan), which are all expected to stay in a somewhat weaker position as tighter monetary conditions in the US and investor flight to safety props up the strength of the US Dollar. Thus, it is reasonable to assume that the kina should continue depreciating due to the flight to safe-haven currencies in the face of global uncertainties and tighter monetary conditions.

Figure 8 shows the Government's projection for the kina to remain at current levels.

Figure 8: Real Exchange Rate Index (2007=100)



There is also some hope of a near-term reprieve in the shortages of foreign-exchange reserves, thanks to the Government's last international bond issuances and plans for fiscal consolidation. The Budget specifically notes that:

> A key development is that under the next stage of the IMF program, the level of releases of foreign exchange reserves is expected to increase significantly higher than current releases of US$100 million per month on average. The focus has moved to reducing the size of the outstanding FX order book for imports, although there will be continuing restrictions on external capital inflow.

The expectation is that improved foreign-exchange access for smaller firms will improve access to imports of capital and consumer goods, potentially unleashing some pent-up demand.

Fiscal Outlook

The country's fiscal balances have remained in considerable deficit in recent years as volatile revenue collection has been paired with poor fiscal restraint.

The 2024 budget is PNG's largest thanks to across the board spending growth, with a total K27.377 billion in expenditure.

Despite the spending growth, net borrowing as a percentage of GDP is projected to fall from 4.4% in 2023 to 3.3% in 2024 (i.e. the deficit will contract by a quarter) on the back of much stronger revenue collection derived from higher commodity prices. We caution, however, that future deficit reductions are predicated on heroic and sustained growth in tax collections, and that past and ongoing tax administration challenges demonstrate the risks of such a strategy, especially adding in the government's historical issues with spending restraint.

Table 2: Key fiscal indicators

	2023 Budget 2023	MYEFO 2023 2023	2024 Budget 2023	2024 Budget 2024
Revenue (K,million)	19,582.0	21,196	20,499	23,393.8
Expenses (K,million)	24,566.9	26,181.1	24,468	27,377.5
Deficit (K,million)	(4,984.9)	(4,984.9)	(3,969.5)	(3,983.8)
Deficit % GDP	-4.4	-4.4%	-3.3	-3.3
Gross debt (K,million)	59,142.6	58,664.8	63,111.2	62,597.7
Debt % GDP	52.3	52.2	52.2	51.1
Interest costs (K,million)	2,511.0	2,324.4	2,615	3,050.8

Source: Budget 2024

Revenue

An objective of successive governments has been to raise the level of taxes collected to better enable PNG to invest in physical and human capital to advance development goals.

Table 3 indicates that PNG's tax revenue is expected to increase by 14.5% amounting to K18,694.8 in 2024 on the back of stronger than anticipated commodity prices.

More holistically, the 2024 Budget projects total revenue (i.e. taxes, grants and non-tax revenue) to grow by 10.1% to K23,393.8 million or 19.1% of GDP in 2024 (see Table 3).

Revenue is also projected to increase at a faster rate than economic growth to be around K34.7 billion by 2028. In effect, the Government is expecting total revenue (including grants) to increase by 48.5% over the next four years.

Table 3: 2024 Budget Revenue Details (Kina, million)

	2023 Supp. Budget	2024 Budget	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.
Total Revenues and Grants	20,403.0	23,393.8	25,826.4	28,491.7	31,360.2	34,745.8
Total Revenue (as % of GDP)	18.3	19.1	19.5	20.1	20.6	21.3
Taxes	16.320.7	18,694.8	20,834.5	23,066.0	25,321.6	28,233.6
Taxes on income, profits, and capital gains	10,683.3	12,455.6	12,687.9	13,272.4	14,152.5	15,534.7
Taxes on payroll and workforce	1.2	1.2	1.2	1.3	-	-
Taxes on goods and services	4,882.1	5,349.1	6,968.8	7,955.9	8,897.3	9,970.5
Taxes on International trade and transactions	754.0	888.8	1,176.5	1,836.4	2,271.8	2,728.4
Grant	2,024.9	2,205.0	2,255.0	2,305.0	2,355.0	2,405.0
Other Revenue (Non-Tax)	2,057.4	2,494.0	2,736.9	3,120.7	3,683.6	4,107.2
Total Revenue (excluding grants)	18,378.0	21,188.8	23,571.4	26,186.7	29,005.2	32,340.8

Source: Department of Treasury

Expenditure

The 2024 Budget projects expenditure to grow to be K27.4 billion or 22.3% of GDP. Expenditure is projected to grow **slightly slower** than the pace of economic growth to be around K32.3 billion or 19.3% of GDP by 2028. See Table 4. This in essence is the central plank of the current Government's fiscal strategy, containing expenditure growth while growing the revenue pie.

Table 4: 2024 Budget Expenditure Details (Kina, million)

	2022 Actual	2023 Supp. Budget	2024 Budget	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.
Total Expenditure	**24,390**	**25,337.9**	**27,377.5**	**28,480.6**	**29,805.9**	**31,131.1**	**32,268.1**
% of GDP	21.9	22.8	22.3	21.5	21.0	20.4	19.3
GoPNG Expenditure	**22,917.9**	**23,313.0**	**25,172.5**	**26,225.6**	**27,500.9**	**28,776.1**	**29,863.1**
% of GDP	21.0	21.0	21.0	20.0	19.0	19.0	18.0
Operational Component (PE and G&S)	**10,816.8**	**11,299.9**	**12,091.3**	**12,458.2**	**13,099.8**	**13,968.1**	**14,042.2**
% of Total Expenditure	44.3	44.6	44.2	43.7	44.0	44.9	43.5
Interest Payment	**2,578.7**	**2,784.0**	**3,050.8**	**3,293.4**	**3,454.2**	**3,356.2**	**3,184.2**
% of Total Expenditure	11.0	11.0	11.0	12.0	12.0	11.0	10.0
Capital Investment Component	**9,871.9**	**9,795.9**	**10,699.8**	**11,016.8**	**11,342.8**	**11,678.2**	**12,668.3**

Source: Department of Treasury

Table 5 shows expenditure as a share of the total budget. It is important to note that debt servicing costs are now around 10% of the budget, significantly larger than spending on Education and spending on Health. To meet development goals this needs to reverse. The Government is aware of this and is currently in the process of attempting to achieve better outcomes. The Budget is an important document that allows us to check in on how the government's achievements stack up against the objectives. Ideally, Table 5 should show lower debt interest costs and higher spending on education and health in order to increase the productive capacity of the economy and the PNG people.

Table 5: Expenditure by Sector as a % of the Total Budget

	Budget 2020	Budget 2021	Budget 2022	Budget 2023	Budget 2024
Administration/ Miscellaneous	21.5	27.3	30.2	28.7	23.3
Community and Culture	0.7	0.5	0.7	0.8	0.8
Debt Services	12.5	12.0	10.8	10.2	11.1
Economic	4.8	3.4	4.4	4.0	5.9
Education	9.0	5.6	6.6	6.7	14.9
Health	10.4	8.9	11.9	9.5	9.5
Law & Justice	9.7	6.5	6.5	7.3	7.9
Provinces	23.7	20.1	19.8	20.9	14.9
Transport	6.4	11.0	6.7	9.1	7.4
Utilities	1.2	2	2.3	2.8	4.4

Source: Budget 2019-2022

Debt

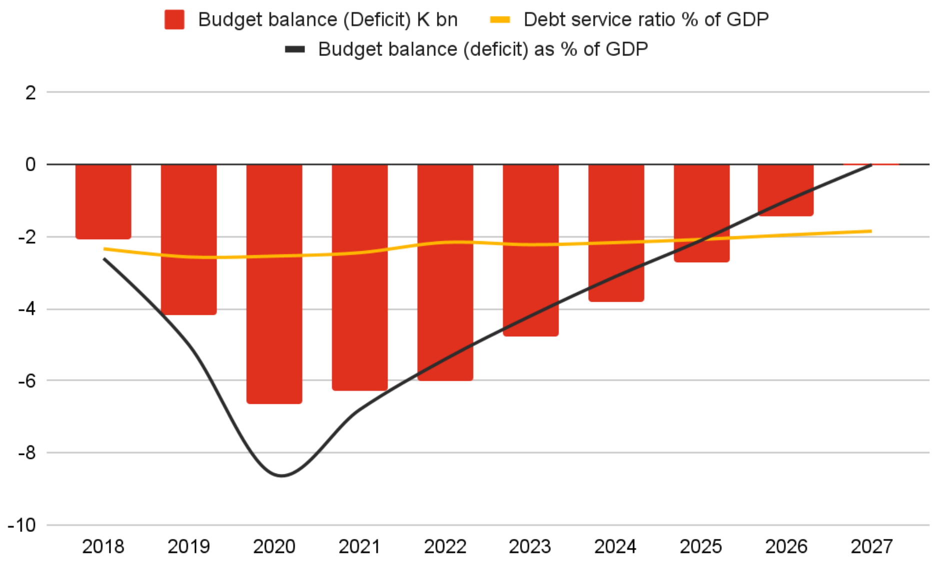
Cost of debt has decreased in recent years as the Government has focused on meeting requirements for concessional loan agreements, this has helped to bring down the costs of domestic borrowing with a falling yield curve at longer end maturities.

In 2024, with total revenue of K23,394 million and total expenditure of K27,378 million, the resulting fiscal deficit is K3,984 million (or 3.3 % of GDP).

Figure 9 shows the path of projected deficits in millions of Kina and as a percentage of GDP. We have also included the debt servicing ratio as a per cent of GDP (averaging a little over 2 per cent of GDP in 2023, before declining to a little under 2 percent of GDP by 2027.

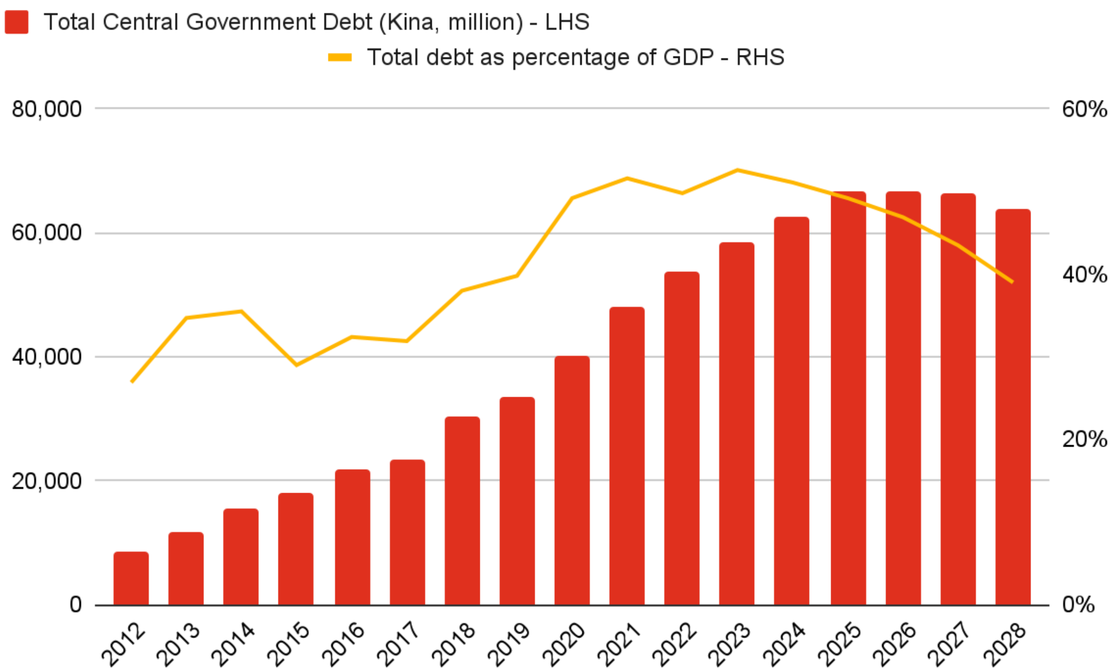
This is an ambitious path of debt and deficit reduction (see Figure 10). It relies upon a combination of debt growing slower than GDP, and ultimately outright reductions in debt levels.

Figure 9: Net borrowing (Kina, million and % of GDP)



Source: Budget 2024

Figure 10: Government Debt



Source: Budget 2024

Importantly, the goal to reduce debt will over time reduce the burden of interest costs as a share of the nominal economy. However, despite refinancing using lower cost financing options, the global rise in interest rates has offset what otherwise would have been lower debt servicing costs (see Table 6).

Table 6 Debt servicing costs

	2022	2023	2024	2025	2026	2027	2028
Debt servicing (Kina million)	**2,578.7**	**2,784.0**	**3,050.8**	**3,293.4**	**3,454.2**	**3,356.2**	**3,184.2**
Debt servicing as a % of total expenditure	11.0	11.0	11.0	12.0	12.0	11.0	10.0

Source: Budget 2024

Taxation Developments

The 2024 Budget continues to be framed in the context of the Medium Term Fiscal Strategy, and with the ongoing goal of strengthening revenue collection to support the overall goal of deficit reduction. Attaining a surplus by 2027 will rely on revenue collection increasing at a higher rate than expenditure. In broad terms for 2024, the Treasurer is aiming at allowing growth in the expenditure side of the budget at approximately 11.44% (against the 2023 budget), and matching this with almost 17% growth in revenue (against the 2023 budget). However, with the final revenue outcomes for 2023 expected to exceed the 2023 budget, the growth from the supplementary budget is anticipated as a more modest 9.5%.

Tax revenues are expected to increase by 43.7% through to 2028 with expenditure increasing at a significantly lower rate of 21.72%. The key driver of the expected increase in tax revenue is through the expected favourable economic growth over the medium term which in turn increases the tax take for personal income tax, company income tax, GST and dividend withholding tax. Other drivers include an increase in mining and petroleum tax from the PNG LNG project and the introduction of a 10-20% export tax on the fishing industry, applying to unprocessed fish exported from PNG from 1 July 2024. The rationale behind the proposed new fishing tax is to increase tax collections and create an incentive to encourage more downstream processing in PNG. This tax will be subject to consultation with the NFA and the fishing industry prior to introduction.

The budget appropriation for IRC and Customs is set to increase by a further K100m and K113m respectively in order to help drive the increase in tax collect

Legislative changes

There are limited tax changes introduced as part of this year's budget. Changes have been made to salary or wages tax, dependent rebates, export duties and customs and excise.

Permanent extension of tax free threshold

The tax free threshold for salary or wages tax was initially increased as part of the cost of living measures that were introduced in 2022 from PGK12,500 per annum to PGK17,500 per annum. The 2023 budget further extended this relief (on a temporary basis) to PGK20,000 through to 31 December 2023. The 2024 Budget sets the tax free threshold permanently at PGK20,000. This has an estimated cost to collections of K280m per annum.

Repeal of dependent rebates

From 1 January 2024 the rebates that apply to salary and wages tax applicable to employees with dependents will be repealed. The Budget commentary suggests the basis for this is to reduce compliance costs and simplify administration. This is expected to provide savings of K20m per annum.

While in 2023 individuals benefited from the temporarily higher tax free thresholds as well as dependent rebates, the result of the two changes to salary and wages tax will mean an increase in the tax being paid by individuals whose income exceeds the tax free threshold in 2024 compared to 2023.

Export duties

As part of the government's undertakings to move to more downstream processing for the forestry sector, the export duty on unprocessed logs increased from 50% to 70% (on average) in the 2023 Budget.

The 2024 Budget will temporarily reduces the progressive log export tax back to 50% on average from 1 January 2024. This is following concerns raised by the forestry industry sector around low export demand for logs, bad weather affecting production and the unfavourable tax regime. This will allow the forestry sector to plan and develop capacity for downstream processing consistent with the Government's objective to ban export of unprocessed logs by 2025.

Excise

Within the scope of sin taxes, the tier-2 tobacco excise regime was introduced in 2019 as a pilot project to assist legitimate tobacco businesses to compete with the sale of illicit tobacco products.

The tier-2 regime has been deemed successful and has been made permanent. However, the tier-2 excise rate will increase by 20%, with indexation of 2.5% thereafter. An increase in the wholesale selling price will apply to allow the industry to pass the changes onto consumers.

Customs

To encourage domestic production and protect local employment, several items that are predominantly used in the manufacturing industry will be exempt from import tariffs (from 1 January 2024). Some of these items include soap noodles, chocolate, yoghurt and milk drinks, bulk and packing containers and timber logs (not downstream processed).

Income Tax Act reform

The rewritten Income Tax Act that was proposed back in 2019 was not in the Bills presented to Parliament. The timing of the future legislative passage remains unknown.

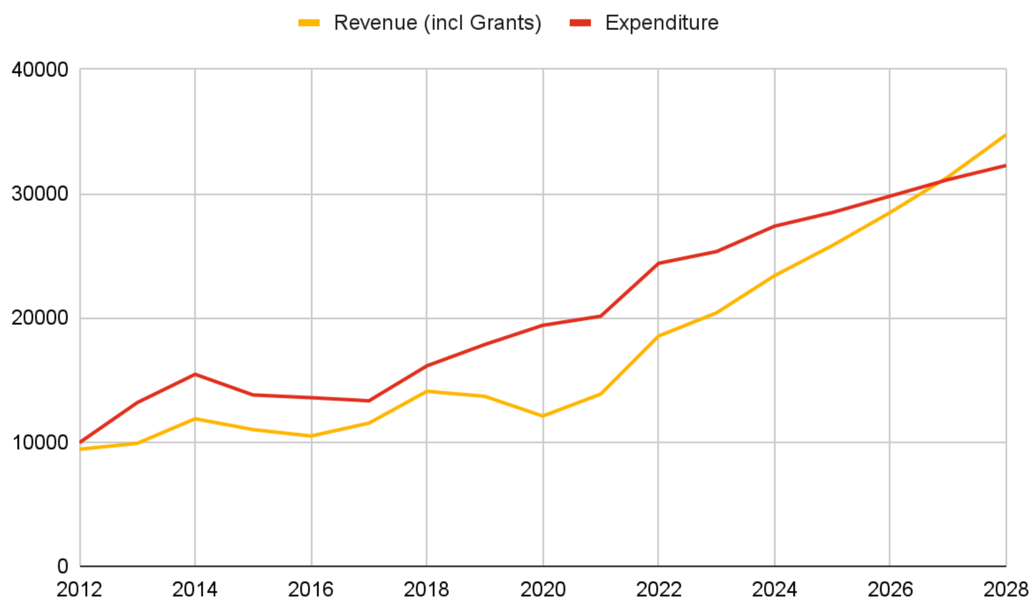
Tax expenditure

As in prior years, the Budget papers have included some estimates of tax expenditure. A tax expenditure is the tax foregone through the grant of a concession to certain taxpayers. The data provided includes the outcomes from 2022. For a number of concessions there is little to no use of the incentives and therefore no measurable tax expenditure. However, the resources sector generated a significant benefit from the use of provisions to allow the use of certain exploration deductions from outside the project ring fence. Other major tax expenditures include accelerated depreciation.

Observations for 2024 and beyond

Consistent with the Government's 13-year Budget Repair Plan, Budget 2024 sets projections that show the budget coming into surplus by 2027 (see Figure 11).

Figure 11 Total Budget Revenue and Expenditure (Kina, million)



Source: Budget 2024

During the Budget Lockup the Treasurer was at pains to point out that since the Marape-Rosso Governments revenue forecasts have been achieved, and that this observation should provide comfort that revenue forecasts shown in Figure 12 were therefore also achievable.

While continued unprecedented and sustained revenue growth will be a challenge, the greater challenge shown in Figure 12 is restraining government expenditure to half the rate of growth of tax.

In effect, the Budget paints a rosy picture of the economy over the next half-decade. Indeed, if all goes well and the possible major resources come on line and are managed appropriately, the medium term forecasts may indeed be conservative.[1]

[1] See ANZ Research (2023), Papua New Guinea: Rapid Economic Development in Sight, November.

That said, the downside risks are also real. Most significantly, we are concerned that the estimates are optimistic in the medium term, designed to fit the narrative of budget repair. Specifically, we view cautiously the claims that:

- tax revenues will consistently grow at twice the rate of government expenditure
- debt, which has remained stubbornly high, will fall to below 40%.

The IMF recently summarised the outlook in the following manner:

> The medium-term outlook is positive but subject to both large upside and downside risks. PNG is vulnerable to both domestic and external shocks, which is exacerbated by the buildup in public debt, ongoing FX shortages and capacity constraints that impact the government's ability to formulate and implement economic stabilization and development policies. On the upside however, the start of the construction of major resource projects, which are not yet in the baseline scenario, could yield additional economic growth in the short to medium run, as well as gains in exports and fiscal revenues once they enter into operation.

The priorities that we see to deliver on the upside of this Budget are:

1. **Improved foreign exchange availability**. The current foreign exchange restrictions are a significant drag on the PNG economy, suppressing investment and consumption activity. There is significant upside potential for the economy from the release of pent-up demand in the near term as currency backlogs are cleared.
2. **More effective tax administration**. Revenue growth is planned to outstrip growth in expenditure to support the return to a budget surplus, but without the introduction of significant new taxes. Broadening the taxpayer base and improving the efficiency of the Internal Revenue Commission (IRC) will continue to be critical to meet ambitious revenue targets. Increased funding for revenue agencies will need to be wisely used.
3. **Commencement of planned resources projects in a timely manner**, supported by skills and infrastructure projects aligned with industry need. Delays in project commencements will endanger the requisite growth in activity and the associated taxation.
4. **Fiscal restraint as tax revenues increase**. The past resources boom saw the PNG GDP double, and government expenditure boom, unsustainably as GDP subsided. Budget 2024 contains a number of initiatives to address budget overruns for public staff costs; this will need to be an ongoing focus.

Contact us for more information

Jonathan Seeto
Managing Partner
jonathan.seeto@pwc.com

Peter Burnie
Partner
peter.burnie@pwc.com

Jason Ellis
Partner
jason.b.ellis@pwc.com

Teresa Kenny
Partner
teresa.x.kenny@pwc.com

Jonathan Grasso
Partner
jonathan.a.grasso@pwc.com

Peter Buchholz
Partner
peter.l.buchholz@pwc.com

Chris Wickenhauser
Partner
christopher.r.wickenhauser@pwc.com

Michael Collins
Partner
michael.j.collins@pwc.com

Our Location
PwC Haus, Level 6
Harbour City, Konedobu
Port Moresby, NCD 125

T: (675) 305 3100 | 321 1500
F: (675) 321 1428

www.pwc.com/pg

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