

# 2010 Papua New Guinea

National Budget

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The Minister for Treasury and Finance, the Honourable Patrick Pruaitch, MP handed down the 2010 National Budget on 17 November 2009.

## Executive summary

The theme of the 2010 Budget is “Promoting sustained economic growth by empowering and transforming the rural economy”. This is the same theme as that for the 2009 Budget. The Government acknowledges that PNG has been impacted by global economic conditions but considers PNG well positioned to continue its recent economic growth.

Key components of the 2010 Budget include:

- It is expected this budget will deliver a balanced budget in 2010 (the 2009 Budget originally forecast a deficit of K10.3m - the revised estimate indicates a deficit of K86.0 million in 2009).
- It is expected that Government revenues and expenditure will both increase in 2010 when compared to 2009.
- Economic growth is forecast to be 8.5% in 2010 (revised 2009 estimate is 4.5%), while inflation is forecast to increase to 9.5% in 2010.
- There are no new taxes, increases in existing taxes or additional tax concessions proposed.
- There is a continued spending focus on development of the rural sector in PNG.
- For the first time the budget makes allowance for the PNG LNG Project and this is noted by the Government as being the most significant assumption underlying the 2010 Budget. The Government notes that the PNG LNG Project alone is forecast to contribute 3.0% of the forecast GDP growth of 8.5%.

## Key budget assumptions

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

Principal economic indicators	2004 actual	2005 actual	2006 actual	2007 actual	2008 est.	2009 proj.	2010 proj.	Average (2004 – 2009)
Real GDP Growth (%)	2.7	3.6	2.3	7.2	6.7	4.5	<b>8.5</b>	4.5
Non-mining GDP Growth (%)	3.2	3.4	3.9	8.1	7.6	5.2	<b>8.1</b>	5.2
Inflation (year average) (%)	2.1	1.8	2.4	0.9	10.7	7.4	<b>9.5</b>	4.2
Oil price (US\$ per barrel)	42	53	64	71	97	57	<b>67</b>	64
Gold price (US\$ per ounce)	409	445	604	697	881	930	<b>860</b>	661
Copper Price (US\$ per pound)	1.30	1.67	3.05	3.23	3.16	2.11	<b>2.36</b>	2.42
Interest rates % (yearly average 182 days T-Bill)	9.0	4.5	5.0	5.0	5.9	8.0	<b>8.0</b>	6.2

## Financing the budget

The following table summarises the financing requirements arising as a result of the estimated balanced budget for 2010 and also includes historic information for reference purposes.

Financing the budget (K millions)	2007 (actual)	2008 (actual)	2009 (revised)	2010 (projection)
Total revenue and grants	7,028	7,073	6,640	7,490
Total expenditure and net lending	6,552	7,551	6,726	7,490
Budget surplus/(deficit)	476	(478)	(86)	0
Budget surplus/(deficit) as a % of GDP	2.5%	(2.2%)	(0.4%)	0.0%

The key points in relation to financing the 2010 Budget are:

- Total new external borrowings, in the form of additional draw-downs on concessional loans, of K268.9 million are expected to be undertaken in 2010. No new commercial loans are proposed in 2010.
- The net proceeds from concessional loans of K85.1 million (after amortisation of commercial loans and extraordinary financing) are required to meet the net domestic funding requirements in 2010.
- The net domestic funding requirements in 2010 of K85.1 million consists of K1,878.8 million in new borrowing and amortization of K1,963.1 million. No receipts from asset sales have been factored into financing the 2010 Budget.

## Revenue and grants

The total budgeted revenue and grants for 2010 are expected to be derived from:

Revenues and grants (K millions)	2008 (actual)	2009 (estimate)	2010 (projection)
Taxation revenue	5,756.1	4,828.6	5,735.3
Non-taxation revenue	282.6	739.0	400.5
Infrastructure tax credits	32.6	40.0	60.0
Project support grants	1002.0	1,032.1	1,293.9
Total	7,073.3	6,639.7	7,489.7

Taxation revenue is forecast to increase by K906.7 million (18.8%) in 2010 to return it to 2007 and 2008 levels after an estimated decline in 2009. Non-taxation revenues are forecast to “normalise” in 2010 following a peak of K739.0 million in 2009 largely attributable to a K500 million injection into the Budget from funds held in Trust Accounts (those funds had previously been set aside to fund the State’s equity participation in gas commercialisation projects).

Of the K5,735.3 million expected to be derived in the form of taxation revenue in 2010, K4,029.7 of this balance is forecast to be in the form of taxes on income and profits comprised of:

Taxes on income and profits (K million)	2010 (projection)	%	2009 (estimate)	2008 (actual)
Personal income tax	1,420.2	35.2%	1,250.0	1,108.8
Company tax	1,107.7	27.5%	976.3	888.1
Mining and petroleum tax	1,088.8	27.0%	744.5	1,961.8
Dividend withholding tax	180.5	4.5%	165.2	189.9
Other direct tax	104.6	2.6%	88.9	99.0
Gaming tax	102.9	2.6%	89.4	82.3
Interest withholding taxes	25.0	0.6%	25.0	22.7
<b>Total</b>	<b>4,029.7</b>		<b>3,339.3</b>	<b>4,352.6</b>

Taxes on income and profits are forecast to increase by K690.4 million (20.7%) in 2010 with mining and petroleum taxes expected to contribute K344.3 million of that increase (an increase on 2009 mining and petroleum taxes of 46.2%). Consistent with 2009, personal income taxes are forecast to be the largest contributor to all taxes in 2010. The growth in personal income tax (13.6%) and company tax (13.5%) are largely attributable to the forecast impact of the PNG LNG Project in 2010 and continued domestic economic growth in 2010 contributing to profit and employment growth.

## Recurrent and development expenditure

The total appropriation for 2010 comprises:

Recurrent and development expenditure budget (K millions)	2008 (actual)	2009 (estimate)	2010 (projection)
Recurrent budget	3,766.7	3,952.9	4,095.9
Development budget	1,630.1	2,595.7	2,891.8
Reappropriation in Trust Account	0.0	177.0	0.0
Additional priority expenditure	2,155.0	0.0	502.0
<b>Total</b>	<b>7,551.8</b>	<b>6,725.6</b>	<b>7,489.7</b>

Recurrent and development expenditure is forecast to increase during 2009 with total expenditure forecast to return to a level similar to that of 2008. The budget for Additional Priority Expenditure first featured in the 2007 Budget and again in the 2008 Budget. It features again in the 2010 Budget in the form of expected additional minerals revenues, however unlike prior years in 2010 it will be spent through the Development Budget.

### The recurrent budget

Total recurrent expenditures are forecast to increase by K143.0 million (3.6%) to K4,095.9 million from K3,952.9 million in 2009. In addition to expenditure on wages and goods and services by government of K3,305.4 million, the 2010 recurrent budget provides for funding increases to priority areas including:

- **Increased funding to individual agencies of K170.8 million**

Increased funding will be provided to a number of individual agencies for specific projects and to meet increased personnel and operating costs. Increases are being provided to Health (K52.4 million), Hospital Management Services (K41.6 million), Police (K16.2 million), Lands and Physical Planning (K12.3 million), Electoral Commission (K8.2 million), Defence (K6.9 million) and National Parliament (K5.1 million).

- **Education subsidies of K144.3 million**  
To assist the Government's policy of providing universal basic education additional funding has been provided to subsidise school fees. The budget papers note that this particular funding increase in 2010 will allow free elementary education in PNG in 2010.
- **Superannuation obligations of K118.0 million**  
This funding is allocated to allow the Government to meet its employer superannuation obligations.
- **Settlement of legal claims of K50 million**  
This funding is allocated to facilitate the payment of a backlog of legal claims against the State awaiting payment.
- **LNG project support of K20 million**  
As in 2009, K20 million has again been allocated to fund the activities of the Gas Project Coordination Office and other LNG related costs.
- **One-off Government expenditures**  
The 2010 Budget is providing an additional K15.5 million to fund a series of mostly one-off expenditures by Statutory Bodies, including a contribution to the PNG Sports Commission of K2.7 million and UNITECH of K2.3 million.
- **Funding for new government departments and agencies**  
Funding to new government departments and agencies includes Customs (K12.4 million), Immigration (K5.8 million), Border Development Authority (K4.0 million), Department of Public Enterprise (K3.0 million), Office of Public Prosecutor (K1.4 million) and Office of Tourism, Arts and Culture (K1.5 million).

## The development budget

The development budget for 2010 is K3,393.8 million, which is K798.1 million or 30.7% higher than the revised estimate for 2009 and is a record size development budget. All sources of funding for the development budget are expected to increase in 2010, however the direct government funding includes K502.0 million of additional minerals revenues that had previously formed part of the additional priority expenditure budget.

Funding source for the development budget (K millions)	2008 (actual)	2009 (estimate)	2010 (projection)
Direct government funding – “ordinary”	511.2	1,385.9	1,269.0
Direct government funding – additional minerals revenue	0.0	0.0	502.0
Infrastructure tax credits	32.6	40.0	60
Concessional loans	84.3	137.7	268.9
Commercial loans	0.0	0.0	0.0
Project grants from donors	1,002.0	1,032.1	1,293.9
<b>Total</b>	<b>1,630.1</b>	<b>2,595.7</b>	<b>3,393.8</b>

The 2010 Budget again provides for substantially increased funding to the Development Budget to pursue development priorities, however as noted above this has been achieved, in part, through the inclusion of what had previously been classified as additional priority expenditure.

The contribution of project grants from donors is forecast to remain relatively constant from 2009 to 2010 at 38.1% of the total funding for the development budget. Australia is expected to continue to be the largest project grant donor providing K881.3 million or 68.1% (72.4% in 2009) of this component of the Development Budget in 2010.

The key government funded initiatives from the development budget with funding of K50 million and greater are:

Key government funded development budget initiatives	K millions
District services improvement program	178.0
Infrastructure development grant (Umbrella Benefits Sharing Agreement)	120.0
National agriculture development program	89.0
2010 National Census	66.0
Business development grant (Umbrella Benefits Sharing Agreement)	60.0
National bridges maintenance	50.0
Coastal vessels program	50.0

## The medium term development strategy

The *'Medium Term Development Strategy 2005 – 2010'* in part guides the allocation of funds from both the recurrent and development budgets to seven priority areas. The seven priority areas, allocation and source of funding for each area in 2010 are:

Expenditure priority area (K millions)	Government funding	Donor grant funding	Total
Transport rehabilitation and maintenance	686.3	214.5	900.8
Income earning opportunities	448.2	76.5	524.7
Basic education	82.1	197.3	279.4
Primary and preventative health care	73.8	200.4	274.2
Law and justice	94.1	72.2	166.3
HIV / AIDS prevention	11.6	105.4	117.0
Development oriented adult education	26.0	6.9	32.9
Unallocated MTDS expenditure	113.6	0.0	113.6
<b>Total</b>	<b>1,535.7</b>	<b>873.2</b>	<b>2,408.9</b>

68% of the total Development Budget is directly targeted at the seven MTDS priority areas (57% of the 2009 Development Budget was directed to those areas). The key areas of focus for donor grant funding in the expenditure priority areas relative to government funding are basic education, primary and preventative health care and HIV / AIDS prevention. The budget theme of promoting sustainable economic growth through empowering and transforming the rural economy is supported via the expenditures to be allocated to transport rehabilitation and maintenance and income earning opportunities.

## Taxation developments and amendments

A distinguishing characteristic of the 2010 Budget is that it was not accompanied by any taxation developments or amendments (other than a minor technical amendment discussed below). There have been no changes to existing taxes or any additional tax concessions introduced.

It has been the Government's practice (and that of previous Governments) to announce taxation developments and amendments as part of the annual budget, particularly where those developments and amendments support fiscal initiatives. It is possible that taxation development and amendments will be announced during the course of 2010.

## Corporate and personal tax rates

There has been no change to the general corporate income tax rates of 30% for residents and 48% for non-residents. There has also been no change to personal tax rates (these rates were last changed with effect from 1 January 2008).

From 1 January 2010 the rates for residents will continue to be as follows:

Taxable income	Tax thereon (K)	Rates on tax on excess (%)
7,000	Nil	22
18,000	2,420	30
33,000	6,920	35
70,000	19,870	40
250,000	91,870	42

From 1 January 2010 the rates for non-residents will continue to be as follows:

Taxable income	Tax thereon (K)	Rates on tax on excess (%)
Nil	Nil	22
18,000	3,960	30
33,000	8,460	35
70,000	21,410	40
250,000	93,410	42

## Tax concessions

The 2010 Budget does not contain any new tax concessions. However, the Government has restated its intent to continue encouraging and facilitating future investment in PNG. The Government is also continuing an awareness program to inform stakeholders of the existing tax concessions.

The significant tax concessions available in PNG include:

- Depreciation incentives for manufacturing, tourism, fishing and agricultural plant
- Double deduction for export market development costs
- Tax exemption for income derived from the export of certain manufactured goods
- Tax exemption for new business developments in prescribed rural areas
- Reduced income tax rates for certain tourism and primary production developments

- Indefinite carry forward period for losses incurred in carrying on a primary production business
- 150% deduction for approved agricultural extension service costs
- 150% deduction for approved research and development expenditure
- Double deduction for certain staff training costs, including tourism staff training
- Wage subsidies for manufacturers of certain goods
- Provision for the temporary import of goods on a duty free basis

Further specific concessions have been extended to the resources sector (mining, oil and gas in PNG):

- Incentive income tax rates for certain petroleum projects
- Exemptions from dividend withholding tax for dividends paid out of assessable income from petroleum or gas operations
- Reduced rate of dividend withholding tax (10%) for dividends paid by a company engaged in mining operations
- Exemption from income tax and interest withholding tax where interest is paid by a resource project to a non-resident lender
- Double deduction for certain minerals exploration expenditure
- 25% diminishing value basis of deduction for certain capital (including development) expenditure of mining projects.
- In addition to the above items specific project exemptions apply in some instances.

## Indirect taxation amendment

The only proposed technical amendment as part of the 2010 Budget is to amend the *Inter-Governmental Relations (Functions and Funding) Act, 2009* to replace an incorrect reference to Section 19 of the *Bookmaking Act, 2007* with a reference to Section 221 of *The Gaming Control Act* and correct other typographical errors. The 2010 Budget papers indicate this amendment has no cost to the State's revenue.

The PNG Budget commentary has been prepared to provide a prompt overview of the general issues raised in the 2010 Budget. It does not cover exhaustively the subjects discussed. When specific issues occur in practice it is necessary to refer to the laws and regulations and to obtain appropriate professional advice.

While every care has been taken in the preparation of this publication, no warranty is given as to the correctness of the information it contains and no liability is accepted for any statement or opinion, nor for any error or omission.

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