

## Foreword

As KPMG is the only professional services firm in PNG with dedicated in-house specialists in all of the following areas: internal audit/risk, visa migration, corporate finance, management consulting, IT advisory, fraud investigation as well as tax and assurance, we are well placed to provide a truly multi-disciplined approach to business advisory. We hope you enjoy our regular KPMG Kundu.

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### KPMG comment on the supplementary budget by Wayne Osterberg, Director, Advisory Services

The new government put forward a supplementary budget following a budget review and due diligence undertaken by the International Monetary Fund (IMF). The review confirmed the view that there is a widening budget deficit from a growing gap between income and expenditure.

The original budget estimate for government revenues in 2019 was K14,266 million, and budgeted expenditure was K16,133 million. This anticipated a budget deficit of K1,867 million. Recent estimates indicated that the potential deficit had blown out to approximately K4.6 billion.

The budget review identifies revised budget allocations of K1,875 million and the supplementary budget identifies where these costs will be funded from in the current year.

Firstly K400 million will be saved from a reduction in operating expenditure appropriations. These savings are primarily various government departments.

Secondly an additional K1,082 million will be diverted from budgeted capital investment appropriations.

Thirdly, the review has made additional revenue assumptions of K393 million beyond the initial budget. Government emphasises that the supplementary budget reflects its commitment to “*live within our means*” by prioritizing its spending in a more targeted fashion than the previous budget.



## 2019 Supplementary Budget Allocation

Revised Budgeted expenditure	PGKm
Personal Emoluments	875
Capital Areas, Rentals and Utilities	521
Loan Interest	122
Economic Projects	100
Bougainville Infrastructure	100
Goods and Services	75
Missing Link Roads	50
Disaster Funds	50
<b>Total</b>	<b>1875</b>

Personal emoluments, at K857 million, represents 45.7% of the total and represents employment and pay increases particularly in health, education and, law and order sectors. The allocation to loan interest and areas (K643 million) illustrates government's commitment to paying its dues and maintaining its debt obligations. Spending allocated for economic projects and missing link roads are designed to provide funds to unlock potential economic activity.

Released in September 2019 by the Treasury, the Mid Year Economic and Fiscal Outlook (MYEFO) July 2019 report anticipates real GDP growth in 2019 to rebound from to -0.6% in 2018 to 4.4% in 2019. This envisages improved production in the extractive industries, particularly LNG production, although the improvement in sectors such as agriculture, forestry, fishing, and mining sectors is expected to remain weak. The World Bank's PNG Economic Update (July 2019) predicts a more aggressive real GDP growth rate of 5.6% in 2019, 1.2 percentage points higher than the MYEFO estimate.

Looking forward investors will be encouraged by spending and fiscal policies which underpin economic growth and enhance the capital base which generates future prosperity. That is the challenge for the government – to strike the right balance between recurrent spending and capital investment for growth. The 2020 National Budget scheduled for late November will provide further insight into the government plans beyond these changes which are essentially aimed at cost savings.

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## Launch of PNGX indices by Wayne Osterberg, Director, Advisory Services

PNGX, Papua New Guinea's national stock exchange will launch six indices for the PNG market on 1 November 2019.

The new indices distinguish between 'domestic' companies – being those incorporated in PNG, and cover the domestic companies listed and 'whole of market', which incorporate all securities listed on the PNGX, whether domiciled in PNG or offshore.

For each segment there is a market capitalisation index which uses the number of shares in issue multiplied by the market price.

The free float capitalisation index counts the value of only that percentage of shares which is tradeable and freely available for purchase by outside shareholders.

The equal weighing index provides an equal weighting to each listed security, regardless of its market capitalisation.

The indices all commenced 1 July 2019 at a level of 1000. The composition of the indices will be reviewed every six months on 31 March and 30 September with changes taking effect on 1 May and 1 November respectively.

The indices are summarised in the table below. We have given them our own acronyms to easily distinguish them.

Code	KPMG Acronym	Short name	Index as at 22 October 2019	% move from 1 July 2019
<b>Domestic</b>				
PNGXD	DFI	Domestic Freefloat	1017.87	1.8%
PNGXDC	DCI	Domestic Capitalisation	1016.53	1.7%
PNGXDE	DEI	Domestic Equal Weight	996.52	-0.3%
<b>Whole of Market</b>				
PNGXI	AFI	All Companies Freefloat	824.6	-17.5%
PNGXIC	ACI	All Companies Capitalisation	825.83	-17.4%
PNGXIE	AEI	All Companies Equal Weight	854.32	-14.6%

We note that the Domestic indices have held their value well since the start of indexing with a gain of between 1.7% and 1.8%. The All share indices have dropped around 17% in the almost four months since commencement.

In the domestic indices, Oil Search Ltd makes up 81% of the DFI, 78% of the DCI and 11% of the DEI.

In the All Companies indices, Newcrest Mining makes up 65% of the AFI, 64% of the ACI and 8% of the AEI. If Oil search is added to Newcrest, these two companies make up around 93% of the weighted indices. It is likely that the domestic indices will be of most interest to PNG investors as the All Share indices are dominated by Newcrest Mining which has a large part of its operating activities outside of PNG. The weighted indices may give a more accurate reflection of economic conditions generally in a relatively small and illiquid market such as PNG.

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## Quarterly global economic outlook 2019

by Brendan Rynne, Chief Economist

An escalation in geopolitical risks over the past quarter is creating increased uncertainty in the short term outlook of global economic growth.

**Australia:** The Australian economy continued to remain weak in Q2 2019 with gross domestic product (GDP) growth falling to 1.4 percent year on year. Consumer and business confidence did not improve despite recent stimulus, but is expected to lift over the outlook period. Housing-related sentiment in September became relatively mixed after clear positive reactions to the rate cuts observed in June, July and August.

Strong nominal government tax receipts due to rising commodity prices and the extension of Australian Taxation Office's (ATO) Tax Avoidance Taskforce contributed to a near balanced Budget for FY19.

The unemployment rate in August increased slightly to 5.3 percent from the preceding month, despite employment growth of nearly 35,000 new jobs being created. Labour demand and supply indicators pointed to persistent spare capacity in the market.

**United States:** Elevated uncertainty continues to drag on manufacturing and business investment in the US. The Fed expressed concerns over the challenge of incorporating trade policy uncertainty into the FOMC's framework.

**United Kingdom:** While a legislation to stop a no-deal departure from the EU was passed, the possibility of a no-deal Brexit cannot be completely ruled out. Indicators pointed to a contracting production sector and deteriorating economic sentiment in the UK.

**China:** The Chinese economy has continued to face softening domestic demand. The automotive sector suffered further shrinkage in production and sales of both passenger cars and commercial vehicles.

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## 2020 National Budget

The 2020 National Budget is currently expected to be held on 26 November 2019. KPMG will be in attendance at the Budget lock up and we will be issuing our KPMG Budget Commentary by email the night of the Budget with a copy put on our website.

The Prime Minister recently flagged that the focus of future budgets would be in stimulating economic growth of the agriculture, tourism and SME sectors. The Government intend to inject K200m a year for the next ten years into the SME sector with tax concessions expected for qualifying companies or individuals.

Other matters in the pipeline, either for 2020 or 2021, include the new capital gains tax regime. We will keep you posted.

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## New visa fees

From 1 November 2019 all entry visa fees will be payable in USD. A business short term multiple entry visa will be USD350 while a short term single entry visa will be USD190.

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## Papua LNG

Parliament recently passed ten Papua LNG Amendment Bills which are required by the project gas agreement. The Bills include amendments to income tax, GST, customs and excise, stamp duty, insurance, resources contracts fiscal stabilisation and price regulation.

Meanwhile the Minister for Petroleum announced that the P'nyang gas field in Western will be developed together with Train Three as an integrated stand-alone gas project under the terms of a separate Gas Agreement.

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## ICCC Act – M&As, group reorganisations and farm ins

The requirements for an ICCC reporting process kick in where the merger or acquisition involves a transaction of greater than K50 million or a resulting market share of greater than 50%. What is interesting is that transactions potentially affected include internal group reorganisations and, potentially farm ins. We understand that the ICCC is pretty conservative when considering whether something needs to be reported. There can be substantial penalties for non-compliance.

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