



**Papua New Guinea**

**National**

**Budget**

**2026**

**Theme: Security with Growth**

25 November 2025

KPMG Papua New Guinea



# Contents

|                                     |           |
|-------------------------------------|-----------|
| <b>Executive Summary.....</b>       | <b>3</b>  |
| <b>Key Themes 2026 Budget .....</b> | <b>5</b>  |
| <b>Economic Analysis.....</b>       | <b>6</b>  |
| <b>Economic Assumptions.....</b>    | <b>7</b>  |
| <b>Fiscal Strategy .....</b>        | <b>11</b> |
| <b>Budget Revenue .....</b>         | <b>13</b> |
| <b>Expenditure .....</b>            | <b>16</b> |
| <b>Budget Financing .....</b>       | <b>19</b> |
| <b>Tax.....</b>                     | <b>22</b> |
| <b>Contact Us:.....</b>             | <b>26</b> |

# Executive Summary

**The 2026 Papua New Guinea National Budget, themed “Security with Growth,” builds on the Country’s 50<sup>th</sup> Independence Anniversary and aims to strengthen law and order and fiscal stability, while driving inclusive development.**

With projected revenues of K29.3bn and expenditures of K30.9bn, the 2026 Budget reduces the deficit to K1.6bn (1.1% of GDP) - the lowest since 2012. In 2026, PNG's internally generated revenues are expected to increase by K3.5bn to K27.4bn and Donor Grants are expected to increase by K1.9bn from the 2025 Budget. The K1.6bn deficit is expected to be financed through external financing sources currently being negotiated with Asian Development Bank, Asian Infrastructure Investment Bank and the International Monetary Fund, while the GoPNG continues its domestic borrowing program, which will focus on weekly and monthly Treasury Bills and Bond auctions. Public debt of K66.2bn is expected to stabilize at 45.5% of GDP.

## Highlights

The 2026 Budget is the largest in the nation’s history, aiming for a surplus by 2027 and debt repayment by 2034. In this budget the GoPNG prioritises several critical areas such as:

- security through major funding for police, defence, and justice systems.
- household relief with a K1bn assistance package.
- extended GST zero-rating.
- human capital development via record investments in education and health.

Central to the budget is the Budget Repair Plan. The plan emphasizes fiscal consolidation without compromising development spending, it aims for smarter expenditure, fair revenue collection, cheaper financing, and leveraging international support. Strategic priorities include stimulating non-resource growth, reforming state-owned enterprises, improving foreign exchange flows, and expanding the tax base through reforms like the modernized Income Tax Act and strengthened revenue administration.

In 2026, the Law and Justice Sector is earmarked to receive K2.5bn and National Security and Defence Agencies, K0.4bn, a substantial increase from the 2025 budget. The budget continues with the Household Assistance Package, allocating K1bn in 2026 to ease cost-of-living pressures. Measures include permanent previous increases in the tax-free threshold to K20,000, school fee subsidies, and stamp duty exemptions (increased to K0.7m) for first-home buyers and further extending GST zero-rating for 13 essential goods.

These initiatives aim to provide direct relief to families while supporting broader economic resilience. Additionally, the government maintains its commitment to infrastructure development through the Connect PNG Program, focusing on economic corridors and rural connectivity, and prioritising agriculture as a driver of rural development and food security.

Aligned with Vision 2050, the Medium-Term Development Plan IV (2023–2027), and the Sustainable Development Goals, the budget directs significant investments toward education, health, governance, and infrastructure. It seeks to double the economy to K200bn by 2030, create one million jobs, and ensure equitable resource distribution.

Institutional reform is expected to continue with the introduction of the new 2025 Income Tax Act and the operationalisation of the Tax Administration Act 2017. The new Act will impact the taxation of employees, the withholding tax treatment of suppliers and the calculation of income taxes for businesses. Of note is the formation of a new Oversight Board for the Internal Revenue Commission.

By combining fiscal discipline with growth-oriented policies, the 2026 Budget positions PNG well for long-term economic stability, improved living standards, and sustainable development.

Continuing the positive trend of recently strong commodity prices, the excise duty on beer has been frozen for another year.



**Pieter Steyn**

**Country Managing Partner**  
KPMG Papua New Guinea



# Key Themes 2026 Budget

## Fiscal Discipline and Budget Repair

- The 2026 Budget targets a deficit of K1.6bn (1.1% of GDP), the lowest since 2012, with a path to surplus by 2027 and debt repayment by 2034.
- Emphasis is on fiscal consolidation: smarter expenditure, fair revenue collection, and leveraging international support.
- Public debt is expected to stabilize at 45.5% of GDP, with a shift to longer-term, lower-cost external debt.

## Revenue Growth and Diversification

- GDP growth is projected at 4.0% in 2026, led by a strong non-resource sector (4.5% growth).
- Focus on stimulating non-resource sectors (agriculture, infrastructure, SMEs) and reforming state-owned enterprises.

## Human Capital and Service Delivery

- Record investments in education and health to build human capital.
- Education sector receives K4.9bn; health sector receives K3.2bn.
- Budget aligns with Vision 2050 and the Medium-Term Development Plan IV, aiming to double the economy by 2030 and create 1m jobs.

## Capital Investment

- GoPNG investment in Public Investment Program for capital growth receiving K2.6bn.
- Key investments include SME funding, land expansion program and agriculture investments.
- Increase in infrastructure tax credit rate to encourage private sector investment in public infrastructure projects.

## Social Protection and Household Relief

- K1bn Household Assistance Package to ease cost-of-living pressures.
- Extended GST zero-rating for 13 essential goods.
- Direct relief for families and support for broader economic resilience.

# Economic Analysis

**The 2026 Papua New Guinea National Budget is designed to strengthen national security, boost revenue collection, and safeguard the country's future through targeted investments and prudent fiscal management.**

Building on the Government's ongoing commitment to economic stability and growth, the budget prioritizes strategic investments in infrastructure, health, and education, while maintaining a disciplined approach to fiscal policy. This year's budget reflects a clear focus on enhancing living standards, supporting inclusive growth, and ensuring sustainable development, all underpinned by robust measures to improve governance, maximize value from key sectors, and modernize revenue systems. The Government's approach is characterized by a balance between stimulating economic activity and maintaining fiscal responsibility, with a strong emphasis on long-term stability and resilience in the face of global and domestic challenges.

Worldwide, economic growth is currently slow, and inflation is decreasing. Nevertheless, the economy is predicted to remain stable, even though there are notable risks such as persistent uncertainty, increasing trade tensions, and fiscal weaknesses. The global growth is projected to slow from 3.3% in 2024 to 3.2% in 2025 and 3.1% in 2026. Advanced economies are expected to grow at 1.6% while emerging markets and developing economies are approximately 4.0%.

The following key themes are present both in the domestic and international markets affecting the GoPNG budget and revenue collection.

- Key export commodities (gold, copper, LNG, Palm Oil) show mixed trends with the following: Gold and copper process remain strong, supporting the resource revenue; and Oil and LNG prices are stabilising after earlier volatility.
- Kina remains relatively stable against major currencies, supported by improved foreign exchange inflows from exports while the trade-weighted index shows slight appreciation, aiding import affordability.
- GDP growth is projected to be at 3.9% in 2026 driven strong performance in the non-resource sector at 4.5%, marking six consecutive years above 4%. The resource sector is expected to derive moderate growth due to stable production and commodity prices.
- Labour market growth is concentrated in education and health due to increased hiring in human capital investments. Construction and Infrastructure is also expected to have a large boost from capital projects. The informal sector remains significant, with policy focus on formalisation.
- BPNG has maintained an accommodative stance to support growth while managing inflation. Inflation forecast is approximately 5% driven by imported goods and fuel costs. The money supply is expanding moderately, aligned with credit growth for the private sector.
- In the external factors, the current account surplus is sustained by the resources exports while international reserves are adequate to cover more than 7 months of imports, ensuring external stability.

Overall, GoPNG is dedicated to reducing the budget deficit and breaking even in 2027. This is evident in the 2026 budget with a deficit of K1.6bn which is the lowest since 2012.

This Budget reflects GoPNG's dedication to sustainable economic development, fiscal responsibility, and improving living standards. However, GoPNG must remain vigilant and adaptable to global economic changes to achieve its fiscal targets and ensure sustained growth.

# Economic Assumptions

The Budget estimates are based on a range of assumptions including revenue collections, economic growth, and commodity prices.

Volatility in economic fundamentals presents significant risks for a comparatively narrowly based economy like PNG. Key assumptions underpinning the Budget are presented below.

Table 1: Key Economic Assumptions

| Economic Assumption                                                                                                        | Commentary                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | 2025 | 2026 |
|----------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|------|
|  <p><b>GDP Growth</b></p>               | <p>In 2025, the domestic economy is estimated to grow by 4.5% in real terms driven by non-resource sector growth of 4.6% and a resource sector growth of 4.3%. The non-resource sector growth is a downward revision from the 2025 MYEFO estimate of 4.7% and the 2025 Budget estimate of 5.2% reflecting lower GST collections, a weaker kina exchange rate and a general slowdown in imports. Non-resource sector growth is driven by higher agriculture commodity prices, improved access to foreign exchange, stronger employment and government spending growth. Agriculture, Forestry, and Fishery (AFF) sector is estimated to grow by 3.3% driven by higher palm oil production as the crop recovers following a period of heavy rainfall in 2024. Wholesale and Retail Trade sector is projected to grow by 4.0% reflecting weaker imports and GST collections in this sector. Growth in the Administrative and Support Services (5.0%), and Public Administrative and Defence (6.5%) sectors will be supported by steady growth in government spending. Construction sector (4.0%) continued to benefit from the Government's Connect PNG program and private sector capital investments. Information and Communication sector is projected to grow by 7.5% driven by increased investment and competition. Transport sector to grow by 6.8% driven by the commencement of the Air Niugini fleet replacement program. The resource sector is estimated to grow by 4.3%. Mining and Quarrying sector is estimated to grow by 12.2% in 2025 reflecting a significant downward revision by one of the smaller mines, while production estimates from major mines including Porgera remain unchanged from the 2025 MYEFO estimates. Oil &amp; Gas sector is estimated to grow by 0.4% in 2025.</p> <p>In 2026, the PNG economy is projected to grow by 4.0% of which the non-resource and resource sectors are set to increase by 4.5% and 2.5%, respectively. AFF is projected to grow by 3.1% driven by higher cocoa and copra oil production; Wholesale and Retail sector (4.8%) supported by continued improvement in access to foreign exchange; Administrative and Support Services (5.0%) and Public Administration and Defence (5.5%) are supported by continued growth in government spending; and Information and Communication is projected to grow by 8.0% supported by continued investment and increased competition in mobile communication.</p> <p>Over the medium-term, PNG's economy is projected to grow by 3.9% annually driven largely by the non-resource sector expansion.</p> | 4.5% | 4.0% |
|  <p><b>Real exchange rate index</b></p> | <p>The Kina continues to depreciate against major trading partner currencies including the USD and the AUD due to both global economic developments and domestic crawl-like exchange rate policy implemented by BPNG. In the year to Sept 2025 the Kina depreciated by 4.4% against the USD and 10% against the AUD. The PGK/USD exchange rate was estimated to be overvalued by 13% in Dec 2023. Following the reforms, the overvaluation was estimated to be around 3.0% by June 2025. The backlog of forex orders has dropped well below the USD1bn mark, and the waiting time reduced from around eight weeks to less than two weeks. In addition, the improvements in the foreign exchange market were also supported by high commodity prices during the year. The improvement in</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | n/a  | n/a  |

| Economic Assumption                                                                                                                                | Commentary                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 2025 | 2026 |
|----------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|------|
|                                                                                                                                                    | forex has also led to the resumption of FX interbank trading for the first time since 2013. The PGK is expected to continue depreciating against the USD under the ongoing crawl-like exchange rate arrangement, until it reaches equilibrium or market clearing rate. The depreciation against the AUD reflects cross-currency movements as the AUD gained against a weaker USD. On a trade weighted index basis, the Kina depreciated by 7.9% between January and June 2025 – reflecting its broad-based weakening against other trading partner currencies.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |      |      |
|  <p><b>Monetary Policy &amp; Kina Facility Rate</b></p>           | <p>BPNG increased the Kina Facility Rate (KFR) from 4% to 5% in September 2025 and lowered the Cash Reserve Requirement (CRR) from 10% to 9%. This represents an accommodative monetary policy stance, with the aim to address inflationary pressures whilst ensuring sufficient liquidity to address the liquidity imbalance within the banking sector. Broad money supply grew by 3% to K33.5bn in H1 2025 largely due to increased private sector credit and is expected to grow by 4.3% by the end of 2025. This reflects stronger business activity and increased competition among the commercial banks. Government borrowing is expected to increase in 2025 and reduce over the medium term in line with Government's fiscal consolidation plan.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 3.0% | 4.3% |
|  <p><b>Employment</b></p>                                       | <p>Total formal private sector employment grew by 2.6% through the year to June 2025, driven by employment growth in both the resource and non-resource sectors. Employment in the non-resource sector rose by 2.3%, reflecting the growth in the transport, retail, building and construction and manufacturing sectors except for AFF and financial, business and other services. Employment in the transport sector grew by 21.3%, reflecting additional recruitment by Air Niugini to support logistics, maintenance, and flight operations. Retail sector grew by 15.5%. Building and construction sector grew by 12.3%, driven by ongoing road maintenance, new construction projects, and fresh investments in buildings following disruptions from Black Wednesday.</p> <p>Manufacturing sector employment increased by 4.5%, mainly due to recruitment by a major tuna processing company to meet higher production, and additional recruitment by a beverage manufacturer for promotional and distribution activities across its branches. Employment in the financial, business and other services sectors fell sharply by 4.7% caused by staff reductions at a major security firm in NCD, influenced by rising operational costs, competition, and terminations. Employment in the AFF sector dropped by 3.9% reflecting lower agricultural production, falling global commodity prices, and the impact of higher round-log export levy on the forestry sector. Employment in the resource sector grew by 5.7% driven by retention of student trainees at the Porgera mine and additional hiring by other mines to support ongoing operations.</p> | 2.6% | n/a  |
|  <p><b>Inflation<br/>avg on avg</b></p>                         | <p>Average headline inflation is projected to increase from the 2024 outcome of 0.6% to 4.0% in 2025. Inflation is expected to be higher in the last two quarters of 2025 driven by the rebound in betelnut prices in Q4 2025. These price pressures are expected to be partly offset by lower oil prices and the impact of the Governments' Household Assistance Package. In 2026, headline inflation is projected to average around 4.2% driven by inflation from trading partners along with expectations of a further weakening of the Kina. Over the medium-term, headline inflation is projected to trend at around 5.0% consistent with GoPNG's budget repair plan.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | 4.0% | 4.2% |
|  <p><b>Balance of Payments &amp; International reserves</b></p> | <p>The overall balance of payments registered a deficit of K3.0bn in the six months to June 2025 with higher net financial outflows due to external debt repayments and offshore investment outflows including the PNG LNG project partners. Major drivers of the current and capital account surpluses were due to a positive performance in exports driven by gold, LNG and agricultural commodities. The current account in net terms recorded a surplus of K18.3bn during the first half of 2025. BPNG expects the overall balance of payments to shift to a modest surplus over the medium term based on favourable global commodity prices across PNG's</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | n/a  | n/a  |

| Economic Assumption                                                                                                      | Commentary                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | 2025  | 2026  |
|--------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|-------|
|                                                                                                                          | key export categories together with lower external debt servicing requirements. BPNG's Gross International Reserves (GIR) are projected to record a modest decrease of around 0.9% in 2025 reflecting expected lower PNG LNG project tax inflows, continued BPNG foreign exchange interventions and government external debt servicing. As of 30 June 2025, GIR stood at USD3.3bn - sufficient to cover 6.9 months of total imports. This outlook on gross reserves suggests that PNG's external buffers will remain sufficient to support external stability through 2025, underpinned by continued strength in export receipts and targeted reserve management by BPNG.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |       |       |
|  <p><b>Oil</b><br/>(USD/barrel)</p>     | <p>Crude oil prices have shown a downward trend in 2025 due to strong supply prospects and weak demand growth. The OPEC+ decision to unwind its production cuts together with expectations of strong production from non-OPEC countries has largely influenced the prices. These were further supported by sluggish demand due to slower global economic growth and growing uncertainty surrounding the ongoing geopolitical tensions in the Middle East, and trade wars including the imposition of tariffs and sanctions on oil exports between the US and its trading partners. Looking ahead, the oil price is projected to average at USD66 per barrel in both 2025 and 2026.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 66    | 66    |
|  <p><b>LNG</b><br/>(USD/MMBtu)</p>    | <p>LNG prices have generally eased in 2025 after experiencing strong gains in 2024 and H125 due to tighter market balance, higher prices and weaker demand. There was moderate consumption growth in Europe and North America, but natural gas demand remained subdued in Asia due to macroeconomic uncertainties and higher prices. Global LNG supply remained flat during the first half of 2025, due to strong production from a new LNG facility in the United States. This was partly offset by the cut in Russian piped gas deliveries to European customers, stronger storage needs in Europe and the war related fears from the Middle East.</p> <p>In 2026, LNG price is anticipated to experience a balanced market reflecting increases in both global supply and demand. Global supply is expected to be driven by the United States, Canada and Qatar's North Field East expansion project, which are expected to start operations in mid-2026. Gas consumption is also expected to rise amid increased consumption from the energy, residential, and commercial sectors across consumer regions. LNG prices are expected to average USD12.3 mmBtu in 2025, before balancing out at USD11.7 mmBtu in 2026.</p> | 12.3  | 11.7  |
|  <p><b>Gold</b><br/>(USD/oz)</p>      | <p>Gold prices have been strong in recent months, climbing above USD3,800/oz due to rising trade tensions, economic policy uncertainty, geopolitical tensions and the expectations of U.S Federal Reserve rate cuts. Gold prices are projected to remain elevated in 2025 and are expected to average around USD3,282/oz in 2025 before increasing further to USD3,540/oz in 2026. Furthermore, gold's traditional role as a hedge against inflation and an investment haven is expected to drive prices in 2026 amid the possibility of a weaker dollar, lower yields, and increased monetary policy easing. On the downside, improvements in global economic activity and the de-escalation of geopolitical tensions could restrain gold's price surge.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                               | 3,282 | 3,540 |
|  <p><b>Copper</b><br/>(USD/tonne)</p> | <p>Copper prices increased in 2025 amid the impact of trade tariffs, which led to increased stockpiling and front-loading activity, further supported by supply disruptions in major copper producing countries of Chile, Peru and Indonesia, and strong industrial demand from construction, electric vehicle and the renewable energy sector. Copper prices are expected to continue the uptrend in 2025 and 2026 driven by supply shortages amid persisting operational disruptions and project delays in major copper producing regions. Demand is also anticipated to increase due to the re-emergence of tariff-induced purchases, increased infrastructure spending from the green energy sector, and the electric vehicle industry. Given these, the copper prices are expected to average at USD9,648 per tonne in 2025 and USD9,940 per tonne in 2026.</p>                                                                                                                                                                                                                                                                                                                                                        | 9,648 | 9,940 |

| Economic Assumption                                                                                                          | Commentary                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 2025  | 2026  |
|------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|-------|
|  <p><b>Coconut Oil</b><br/>(USD/tonne)</p>  | <p>Coconut oil prices have increased significantly in 2025 mainly driven by supply constraints in the Philippines and Indonesia (world's largest producers), reflecting unfavourable weather, increased domestic demand and rising global market demand – especially from the food and cosmetic industries. These conditions are likely to remain in the coming months of 2025 and into 2026. In addition, climate-related impacts from the El Nino weather patterns and pest attacks coupled with the ongoing trade tariff uncertainties are expected to support prices. Nevertheless, downside risks include improved supply prospects, higher price pressure on consumer and favourable prices from substitutes. Coconut oil price in 2025 is expected to average around USD2,383 per tonne before easing to USD1,949 per tonne in 2026.</p>                                                                                                                                                                                                                                                                                                                         | 2,383 | 1,949 |
|  <p><b>Cocoa</b><br/>(USD/tonne)</p>        | <p>Cocoa prices have eased significantly in 2025 after hitting a record-breaking high in Dec 2024 driven by the gradual easing of supply constraints and improved production in West Africa – the world's largest cocoa producing region - and weaker global demand due to higher consumer prices. Expectations of ample global supply, together with softer demand from major consumer regions are expected to place downward pressure on prices. The cocoa price is projected to average at USD8,231 per tonne in 2025 before easing to USD7,148 per tonne in 2026. Overall, cocoa prices are expected to trend above historical averages before easing further in 2027 and beyond as the prices gradually adjust to previous levels.</p>                                                                                                                                                                                                                                                                                                                                                                                                                             | 8,231 | 7,148 |
|  <p><b>Coffee</b><br/>(USD per tonne)</p> | <p>Coffee prices generally have remained elevated in 2025 driven by a mix of bullish factors including persistent supply chain issues, robust demand, increased inventory drawdowns, weather volatility and currency fluctuations. The average year-to-date price at end-September was USD8,259 per tonne, 56% above the same period last year. Prices are projected to ease from their historical highs but are still expected to trend above previous levels, reflecting expectations of improved supply from Vietnam – second largest producer, and weaker demand amid higher consumer prices. However, the persistent supply deficits from Brazil, irregular rainfalls and inadequate inventories are expected to support prices in 2025. In 2026, prices are anticipated to ease reflecting improved supply conditions in Brazil and an output recovery in Colombia. Coffee demand is expected to remain moderate as inflationary pressures in major consumer nations – especially the U.S and Europe persist. Coffee prices are expected to average at USD8,400 per tonne in 2025, before easing to USD8,098 per tonne in 2026.</p>                               | 8,400 | 8,098 |
|  <p><b>Palm Oil</b><br/>(USD/tonne)</p>   | <p>Palm oil prices averaged USD982 per tonne in September 2025, 15% above the 2025 Budget estimate. This was largely due to supply constraints in Malaysia and export restrictions from Indonesia, offsetting moderate demand from the major consumers - India and China. Other factors including currency fluctuations and lower crude oil prices. Palm oil price is anticipated to remain strong for the remainder of 2025 amid Indonesia's export restriction policies and rising biodiesel demand in the Southeast Asia region. In 2026, palm oil price is projected to be driven by Indonesia's new B50 biodiesel program, expectations of unfavourable weather events, increased soybean oil consumption and the uncertainty surrounding the availability of export stocks. However, downside risks including expectations of lower crude oil prices, adequate vegetable stocks in major markets like China and India, together with a build-up in soybean oil stocks could keep prices from increasing further. Given these developments, palm oil prices are expected to average at USD1,012 per tonne in 2025 before easing to USD1,033 per tonne in 2026.</p> | 1,012 | 1,033 |

# Fiscal Strategy

**GoPNG remains committed to its thirteen-year plan incorporating a medium-term strategy to repair the financial position to a budget surplus by 2027.**

## 2025 Budget update

2025 revenue collections underperformed due to weaker GST, non-tax revenue, company and personal income tax, and a shortfall in PNG LNG tax revenue. However, higher mining and petroleum tax (MPT) receipts, driven by elevated gold and copper prices, partially offset this. Expenditure is being strategically managed to protect priority sectors and maintain the 2025 deficit target. Public debt is projected at K64.6bn (48.4% of GDP), below the legislated ceiling, with a path to reduce the debt-to-GDP ratio below 45% by 2027 and below 40% by 2030.

## 2026 Budget strategy

The 2026 Budget reinforces inclusive growth, macroeconomic stability, and responsible fiscal management, aligned with the 13-Year Plan and national development strategies.

In terms of revenue, total revenue and grants are projected at K29.3bn (20.1% of GDP), a 15.3% increase over 2025. Key drivers include:

- Higher resource dividends from SOEs, especially as PNG LNG project debt is repaid.
- Implementation of the Non-Tax Revenue Administration Act (NTRA) 2022.
- Enhanced GST collections and tax compliance, including the new Income Tax Act 2025.
- K650m in NTRA agency revenues now recognised for transparency.

In terms of Expenditure, total expenditure and net lending are projected at K30.9bn (21.2% of GDP), up 9% from 2025. Operational spending rises to support health, education, and law and order, while capital investment increases to maintain and operate expanded infrastructure.

The deficit is budgeted at K1.6bn (1.1% of GDP), the lowest since 2012, with a positive primary balance for the first time since 2011. 2026 financing needs are K1.6bn, with 96% from external borrowing (prioritising concessional loans) and 4% from domestic sources. Public debt is expected to rise modestly to K66.2bn, but the debt-to-GDP ratio will fall to 45.5%, its lowest since 2019. The government is shifting towards longer-term, lower-cost external debt to reduce refinancing risks and enhance debt sustainability.

## Medium term outlook and strategy

GoPNG's medium-term fiscal outlook will maintain fiscal support for growth-driving investments, strengthen revenue mobilisation, and improve spending quality. Fiscal consolidation continues, with the deficit projected to fall from 2.2% of GDP in 2025 to 1.1% in 2026, and a surplus targeted for 2027. The debt-to-GDP ratio is forecast to decline steadily, reaching 42% in 2027 and 26.5% by 2030. The primary balance turns positive in 2026 and is expected to strengthen further, indicating that current revenues will exceed current expenditures, with deficits reflecting only interest costs.

The 13-Year Plan aims for a surplus by 2027 and the option to repay all public debt by 2034. Key pillars are:

- Strengthen revenue compliance and broaden the tax base.
- Boost non-tax revenue.
- Reprioritise expenditure to high-impact capital projects and essential services (health, education, law and order).
- Control recurrent spending, especially wages and transfers.
- Eliminate inefficiencies (e.g., reduce arrears, retire eligible public servants, audit payrolls, control rentals/utilities).
- Enhance monitoring of constituency development funds.

GoPNG will continue to allocate resources for infrastructure, security, and human capital, with ongoing support for police, defence, and election preparations.

The table reflects GoPNG's plans to reduce their fiscal deficit through increased revenues – forecast to grow at 17% per annum as against average cost growth of 11% per annum. This may be challenging.

Table 2: Fiscal Strategy by Budget Item

| Budgetary Item                          | 2025           | 2026           | 2027          | 2028          | 2029          | 2030          |
|-----------------------------------------|----------------|----------------|---------------|---------------|---------------|---------------|
| <b>Total Revenues and Grants</b>        | <b>25,408</b>  | <b>28,657</b>  | <b>31,464</b> | <b>34,348</b> | <b>39,240</b> | <b>43,081</b> |
| Taxes                                   | 21,201         | 22,141         | 24,715        | 27,342        | 31,766        | 35,099        |
| Income, profits, & capital gains        | 13,708         | 14,879         | 16,054        | 17,473        | 20,614        | 22,440        |
| Payroll & workforce                     | 1              | 2              | 3             | 3             | 3             | 3             |
| Goods & services                        | 6,553          | 6,358          | 7,579         | 8,575         | 9,670         | 10,935        |
| International trade & transactions      | 939            | 901            | 1,080         | 1,291         | 1,480         | 1,721         |
| Grants                                  | 1,500          | 1,943          | 1,993         | 2,043         | 2,093         | 2,143         |
| Other Revenue (Non-Tax)                 | 2,707          | 4,574          | 4,755         | 4,963         | 5,381         | 5,839         |
| <b>Expenditures</b>                     | <b>28,354</b>  | <b>30,265</b>  | <b>31,450</b> | <b>32,969</b> | <b>34,536</b> | <b>36,326</b> |
| Compensation of Employees               | 7,718          | 8,103          | 8,483         | 8,967         | 9,529         | 10,181        |
| Use of goods and services               | 6,845          | 7,628          | 7,849         | 8,261         | 9,109         | 9,517         |
| Interest                                | 3,461          | 3,628          | 4,009         | 4,042         | 3,428         | 3,739         |
| Grants                                  | 4,535          | 3,678          | 3,692         | 3,901         | 4,102         | 4,193         |
| Social benefits                         | 102            | 90             | 93            | 99            | 107           | 112           |
| Other expenses                          | 145            | 163            | 167           | 176           | 192           | 200           |
| Net Acquisition of non-financial assets | 5,548          | 6,975          | 7,157         | 7,522         | 8,071         | 8,385         |
| <b>Surplus (Deficit)</b>                | <b>(2,947)</b> | <b>(1,608)</b> | <b>13</b>     | <b>1,379</b>  | <b>4,704</b>  | <b>6,755</b>  |

Source: Department of Treasury & KPMG Analysis

The fiscal budget projects a K13m surplus in 2027. The surplus is largely driven by a 10% increase in revenue while costs are increasing at 4%. Over the outlook period, the budget is projected to reach K6.7bn surplus. This is driven by a year-on-year increase of approximately 10% peaking at 14% in 2029.

Total expenditure is projected to increase by 5% year on year which is equivalent to CPI. This suggests that GoPNG does not expect an expansion in expenses despite inflation and brings into question the achievability of the budget surplus. Additionally, the average annual revenue increase on the budget from 2026 to 2030 is 11% which should be underpinned by economic growth from both resource and non-resource sectors. Currently PNG's GDP is projected to grow at 4% for 2026 and around that level in subsequent years.

# Budget Revenue

## Total Revenue and Grants

Total Revenue and Grants for 2026 is estimated to grow to K29.3bn in 2026 with a 15% increase in tax revenue (K3.8bn); and an 18% increase in non-tax revenue (K2.5bn). Tax revenue remains the major contributor at 76% of total revenue due to higher commodity prices, the completion of the amortisation of Kumul Petroleum Holdings Ltd (KPHL) financing for PNG LNG project, improved compliance and ramped up production at the Porgera mine.

Non-tax revenue is expected to increase by K2.5bn, being a 93% increase, with its share increasing from 11% to 18% of total revenue. The significant increase is driven by the projected dividends due to the implementation of the new dividend policy (the increased dividend policy is driven by favourable mineral prices and the ending of the repayment of PNG LNG partners on the debt borrowed).

Tax revenue is projected to increase by 4% to K22.2bn. This is underpinned by improved taxes on income, profits and capital (9% up) and mining and petroleum taxes (17% up). Tax on Goods and Services is estimated to decline by 3% to K6.4bn in 2026, on the back of GST (down 10%), Import Excise (up 21%) and gaming machine turnover tax (down 20%).

Grant revenue is expected to increase by 30% to K1.9bn due to increased support from PNG's major donor partners from priority areas. Estimates for donor grants are also subject to movements in the exchange rate.

*Table 3 Revenue Components (Tax Revenue and Non-Tax Revenue)*

| Revenue Components (Km) *                   | 2025          | 2025<br>MYEFO | 2026          | Change       | %<br>Change | % of<br>Total |
|---------------------------------------------|---------------|---------------|---------------|--------------|-------------|---------------|
| <b>Tax Revenue</b>                          | <b>21,201</b> | <b>19,994</b> | <b>22,139</b> | <b>938</b>   | <b>4%</b>   | <b>76%</b>    |
| Taxes on Income, Profits & Capital Gains    | 13,708        | 13,627        | 14,879        | 1,171        | 9%          | 51%           |
| Taxes on Goods and Services                 | 6,553         | 5,565         | 6,358         | (195)        | (3%)        | 22%           |
| Taxes on International Trade & Transactions | 939           | 801           | 901           | (38)         | (4%)        | 3%            |
| <b>Non-Tax Revenue</b>                      | <b>2,707</b>  | <b>2,456</b>  | <b>5,224</b>  | <b>2,517</b> | <b>93%</b>  | <b>18%</b>    |
| <b>Grants</b>                               | <b>1,500</b>  | <b>1,774</b>  | <b>1,943</b>  | <b>443</b>   | <b>30%</b>  | <b>7%</b>     |
| <b>Total Revenue and Grants</b>             | <b>25,408</b> | <b>24,224</b> | <b>29,306</b> | <b>3,898</b> | <b>15%</b>  | <b>100%</b>   |

Source: Department of Treasury & KPMG Analysis

**Personal Income Tax (PIT)** is expected to increase by 4.8% to K4.9bn in 2026. This growth is driven by the increase in public service salaries, strong employment growth and improved tax compliance efforts by the IRC. Additionally, the resumption of the Porgera mine to near full capacity should improve collections. The new minimum wage is unlikely to affect PIT collections, as earnings remain below the K20,000 tax-free threshold and employer compliance is uncertain; however, it should positively impact GST.

**Company Income Tax (CIT)** is expected to grow by 1.6% to K4.0bn in 2026, supported by continuous strong corporate earnings on the back of robust non-resource sector growth.

**Mining and Petroleum Tax (MPT)** is expected to increase by 17.2% from K4.1bn in 2025 to K4.8bn in 2026. This increase is attributed to expected increase in mineral commodity prices (except for oil and LNG) and production volumes. The mining sector has mitigated the shortfall from PNG LNG with higher-than-expected payments largely due to higher gold and copper prices.

**Dividend Withholding Tax (DWT)** is expected to increase by 15.4% to K0.6bn. The increase is attributed to strong economic growth and the ongoing DWT payments to non-resident companies and individuals since 2024.

**Taxes on Payroll** and workforce training levy collection continues to deliver back payments from delayed filings although the tax was repealed in the 2018 Budget.

**Tax on Goods and Services** is estimated to decrease by 3% to K6.4bn in 2026, due to the decline in GST, GMT, Departure tax and Customs Sundry Taxes supported by steady consumption and trade growth and improved compliance with IRC and PNG customs.

**Total GST** collection is projected to fall 10% to K3.7bn, mainly due to the extension of the zero-rating GST relief package for another six months ended December 2026 with an expected loss in revenue of K210m. IRC's ongoing compliance and enforcement efforts such as the implementation of Section 65A notices to government services is expected to minimise the impact of the revenue loss.

**Inland Excise** is projected to increase by 15% to K1.5bn in 2026. The increase is attributable to a six toea increase in the excise rate for diesel from K0.23 per litre to K0.29 litre – this is expected to raise K30m. Moreover, the reinstatement of the bi-annual excise rate indexation on certain alcohol and tobacco products will support collections in 2026.

**Import Excise** is expected to increase by 20.9% to K0.6bn. The increase reflects the higher collection trend in 2025, supported by PNG's customs compliance efforts in improving its valuation database for imported excisable items.

**Gaming Machine Tax (GMT)** collection is projected to decrease by 19.6% to K0.3bn. This is attributed to a lower-than-expected collection trend which could suggest an increase in illegal gambling.

**Stamp Duty** collection is expected to increase by 18.1% to K0.1bn which represents the ongoing sale of properties and improvement in collections. This is despite the expected revenue loss of K15.0m from the increase in stamp duty exemption for first-time buyers as introduced in the 2025 Budget.

**Taxes on International Trade and Transactions** are projected to decrease by 4% to K0.9bn, which reflects the decline in log export volumes. In 2026, Import Duty is projected to increase by 1.4% to K0.5bn. Growth in import duty will be driven by increased consumption and an improvement in trade activities. Moreover, the continued depreciation of the Kina is expected to improve collections in nominal terms. Export Duty is expected to continue to decrease by 11% to K0.4bn underpinned by the decline in log export volumes due to weak demand in China.

**Non-Tax Revenue** is projected to increase by 93% to K5.2bn due to higher dividend payments from state-owned resource companies and collections from departmental fees and charges. GoPNG is expecting Kumul Petroleum Holdings (KPH), Kumul Consolidated Holdings (KCH) and Kumul Mineral Holdings (KMH) to pay a combined total of c. K1.5bn projected dividend revenue. In 2026, K1.3bn is expected to be collected from the implementation of the NTRA Act 2022 representing 24.9% of the total non-tax revenue.

**Total Donor Grants** are estimated to increase by 29.5% to K1.9bn in 2026. The increase reflects the support from PNG's major donor partners towards the GoPNG's medium term investment expenditure priority areas. Donor Grants estimates are subject to movements in the exchange rate.

Table 4: Revenue Components Detailed Analysis

| Revenue Components (Km) *                           | 2025          | 2025<br>MYEFO | 2026          | Change       | % Change  | % of total |
|-----------------------------------------------------|---------------|---------------|---------------|--------------|-----------|------------|
| <b>Tax Revenue</b>                                  | <b>21,201</b> | <b>19,994</b> | <b>22,139</b> | <b>938</b>   | <b>4%</b> | <b>76%</b> |
| <b>Taxes on Income, Profits &amp; Capital Gains</b> | <b>13,708</b> | <b>13,627</b> | <b>14,879</b> | <b>1,171</b> | <b>9%</b> | <b>51%</b> |
| Personal Income Tax                                 | 4,729         | 4,629         | 4,955         | 226          | 5%        | 17%        |
| Company Tax                                         | 3,959         | 3,759         | 4,023         | 64           | 2%        | 14%        |
| Mining and Petroleum Taxes                          | 4,137         | 4,337         | 4,850         | 713          | 17%       | 17%        |
| Royalties & Management Tax                          | 84            | 84            | 141           | 57           | 68%       | 0%         |
| Dividend Withholding Tax                            | 549           | 549           | 634           | 85           | 15%       | 2%         |
| Interest Withholding Tax                            | 240           | 240           | 261           | 21           | 9%        | 1%         |
| Non-Resident Insurers Withholding Tax               | 7             | 14            | 15            | 8            | 116%      | 0%         |
| Sundry IRC Taxes & Income                           | 2             | 0             | 0             | (2)          | (100%)    | 0%         |
| Training Levy                                       | 1             | 15            | 1             | (0)          | (30%)     | 0%         |

| Revenue Components (Km) *                              | 2025          | 2025<br>MYEFO | 2026          | Change       | %<br>Change | % of total  |
|--------------------------------------------------------|---------------|---------------|---------------|--------------|-------------|-------------|
| <b>Taxes on Goods and Services</b>                     | <b>6,553</b>  | <b>5,565</b>  | <b>6,358</b>  | <b>(195)</b> | <b>(3%)</b> | <b>22%</b>  |
| GST                                                    | 4,186         | 3,246         | 3,767         | (419)        | (10%)       | 13%         |
| Stamp Duties                                           | 79            | 79            | 93            | 14           | 18%         | 0%          |
| Excise Duty                                            | 1,271         | 1,271         | 1,467         | 196          | 15%         | 5%          |
| Import Excise                                          | 503           | 503           | 608           | 105          | 21%         | 2%          |
| Bookmakers' Turnover Tax                               | 52            | 52            | 57            | 5            | 9%          | 0%          |
| Gaming Machine Turnover Tax                            | 428           | 389           | 344           | (84)         | (20%)       | 1%          |
| Departure Tax                                          | 8             | 8             | 3             | (6)          | (69%)       | 0%          |
| Motor Vehicle Tax                                      | 5             | 5             | 5             | 0            | 8%          | 0%          |
| Other taxes                                            | 2             | 2             | 3             | 1            | 30%         | 0%          |
| Other taxes on goods and services                      | 19            | 10            | 11            | (8)          | (43%)       | 0%          |
| <b>Taxes on International Trade &amp; Transactions</b> | <b>939</b>    | <b>801</b>    | <b>901</b>    | <b>(38)</b>  | <b>(4%)</b> | <b>3%</b>   |
| Import Duty                                            | 539           | 501           | 546           | 7            | 1%          | 2%          |
| Export Tax                                             | 400           | 300           | 355           | (46)         | (11%)       | 1%          |
| <b>Non-Tax Revenue - Other revenue</b>                 | <b>2,707</b>  | <b>2,456</b>  | <b>5,224</b>  | <b>2,517</b> | <b>93%</b>  | <b>18%</b>  |
| Property Income                                        | 1,638         | 1,687         | 3,404         | 1,766        | 108%        | 12%         |
| Dividends                                              | 1,531         | 1,580         | 3,100         | 1,569        | 102%        | 11%         |
| Rent                                                   | 107           | 107           | 104           | (3)          | (3%)        | 0%          |
| Sales of goods and services                            | 17            | 17            | 26            | 9            | 54%         | 0%          |
| Fines, penalties and forfeits                          | 3             | 3             | 2             | (1)          | (27%)       | 0%          |
| Transfers not elsewhere classified                     | 1,050         | 750           | 1,791         | 741          | 71%         | 6%          |
| <b>GRANTS</b>                                          | <b>1,500</b>  | <b>1,774</b>  | <b>1,943</b>  | <b>443</b>   | <b>30%</b>  | <b>7%</b>   |
| From Foreign Governments                               | 1,150         | 1,374         | 1,454         | 304          | 26%         | 5%          |
| From International Organizations                       | 350           | 275           | 291           | (59)         | (17%)       | 1%          |
| <b>Total Revenue and Grants</b>                        | <b>25,408</b> | <b>24,224</b> | <b>29,306</b> | <b>3,898</b> | <b>15%</b>  | <b>100%</b> |

\* Note - not all line items are reflected - minor amounts not reflected and accordingly columns may not sum

Source: Department of Treasury & KPMG Analysis

# Expenditure

The 2026 Budget is guided by GoPNG's updated 13-year fiscal plan setting the expenditure at K30.3bn with the objective of repairing the budget by 2027. The K1.6bn budget deficit is the lowest since 2012.

The 2026 Budget strives to strengthen security and maintain order; invest in education and health; enhance revenue collection efforts to improve fiscal sustainability and strengthen good governance and accountability.

Total expenditure includes K19.4bn in operational expenditure, K10.8bn in capital expenditure, and K0.7bn will be retained by the NTRA agencies for their operational and project investment needs. The total expenditure consists of three components: K27.1bn from GoPNG, K1.9bn from donor funds and K1.2bn from concessional loans.

The 2026 Budget is framed around the theme "Security with Growth". In line with this theme, the operational budget has increased by 13% to K19.4bn driven mainly by:

- Funds allocated to employee compensation and good and services. The increase in the operational budget reflects the importance of servicing and maintaining previous infrastructure and capital development spending including teachers for schools and universities, nurses and doctors for hospitals and maintenance for new roads and courts facilities.
- The 2026 Capital Investment Budget (CIB) supports Vision 2050 and reflects GoPNG's commitment to MTDP IV, funding programs and projects in key sectors under the 12 Special Priority Areas (SPA) and broken down into 71 Deliberate Intervention Programs (DIPs) to support infrastructure development and economic growth.

Table 5: Budget Components Expenditure Summary

| Budget Components (Km)       | 2025 Budget   | 2026 Budget   | Change in 2026 | % of total |
|------------------------------|---------------|---------------|----------------|------------|
| <b>Operational</b>           | <b>18,015</b> | <b>19,399</b> | <b>7.69%</b>   | <b>64%</b> |
| Compensation of Employees*   | 7,801         | 8,194         | 5.03%          | 27%        |
| Goods and Services           | 4,842         | 5,438         | 12.31%         | 18%        |
| Debt Interest Payment        | 3,523         | 3,723         | 5.69%          | 12%        |
| Provincial Functional grants | 706.1         | 770           | 9.05%          | 3%         |
| GST & Book Makers Transfers  | 1,142.4       | 1,274         | 11.52%         | 4%         |
| <b>Capital</b>               | <b>10,343</b> | <b>10,866</b> | <b>5.06%</b>   | <b>36%</b> |
| GoPNG                        | 7,617         | 7,697         | 1.05%          | 25%        |
| Concessional Loans           | 1,226         | 1,226         | 0.01%          | 4%         |
| Donor Grants                 | 1,500         | 1,943         | 29.53%         | 6%         |

Source: Department of Treasury & KPMG Analysis

The 2026 Budget continues to point out Expenditure Efficiency Measures to be undertaken:

- Organisational Staffing Personnel Emoluments Audit Committee (OSPEAC): OSPEAC will continue its efforts to address overruns in the Compensation of Employment (CoE) budget. OSPEAC's initiatives focus on enhancing payroll efficiencies by examining the public service pay bill, identifying the root causes of overspending, and implementing corrective measures.

Table 6: Expenditure by Sector Analysis

| Expenditure by Sector (Km)                                                 | Operational | Capital | 2026 Total | % of total | Comment & Major Projects                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|----------------------------------------------------------------------------|-------------|---------|------------|------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Administration</b>                                                      | 1,598       | 3,011   | 4,610      | 15%        | This allocation reflects an increase of K193.6m or 4.4% compared to the 2025 Budget. Of this allocation, K1.6bn is designated for operational expenditure, comprising of K1.0 bn for CoE and K09.6bn for G&S. Additionally, K3.1bn is allocated for capital investment expenditure, which includes K2.0bn in direct financing from the GoPNG, K0.9bn in grants, and K57.1m in concessional funded project loans.                                                                                                                                                                          |
| <b>Community &amp; Culture</b>                                             | 72          | 261     | 333        | 1%         | This allocation reflects an increase of 8.7% compared to the 2025 Budget. Of this allocation, K71.9m is designated for operational expenditure, comprising of K56.4m for CoE and K15.5m for G&S. Additionally, K261.0m is allocated for capital investment expenditure, which includes K218.0m in direct financing from GoPNG, and K43.0m in grants. The major impact programs funded in the 2026 Capital Budget include: PNG NRL Bid (K100.0m), PNG Grassroots Games in Mendi (K20.0m), Church-State Partnership programme (K20.0m) and District Community Development Centres (K20.0m). |
| <b>Cross cutting</b>                                                       | 1,986       | 0       | 1,968      | 7%         | This allocation reflects an increase of 4.2% compared to the 2025 Budget. Of this allocation, K1.9bn is designated for operational expenditure, comprising of K431.4m for CoE and K1,554.2m for G&S.                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>Economic &amp; Infrastructure (Renewable and non-renewable sectors)</b> | 460         | 992     | 1,452      | 5%         | This allocation reflects a decrease of 6.1% compared to the 2025 Budget. Of this allocation, K460.0m is designated for operational expenditure, comprising of K265.4m for CoE and K194.5m for G&S. Additionally, K0.9bn is allocated for capital investment expenditure, which includes K0.9bn in direct financing from GoPNG, K77.0m in grants, and K55.1m in concessional funded project loans. The decrease is driven by the reduction of capital funding, specifically, SME funding has been reduced from K200.0m to K150.0m.                                                         |
| <b>Education</b>                                                           | 4,326       | 610     | 4,935      | 16%        | This allocation reflects an increase of 11.3% compared to the 2025 Budget. Of this allocation, K4.3bn is designated for operational expenditure, comprising of K3.1bn for CoE and K1.2bn for G&S. Additionally, K609.5m is allocated for capital investment expenditure, which includes K390.0m in direct financing from GoPNG, K170.5m in grants, and K49.0m in concessional funded project loans.                                                                                                                                                                                       |
| <b>Health</b>                                                              | 2,347       | 858     | 3,205      | 11%        | This allocation reflects an increase of 15.8% compared to the 2025 Budget. Of this allocation, K2.3bn is designated for operational expenditure, comprising of K1.4bn for CoE and K0.9bn for G&S. Additionally, K0.9m is allocated for capital investment expenditure, which includes K474.0m in direct financing from the GoPNG, K277.0m in grants, and K107.1m in concessional funded project loans.                                                                                                                                                                                    |
| <b>Law, Justice, and National Security</b>                                 | 2,301       | 468     | 2,499      | 8%         | This allocation reflects an increase of 9.6% compared to the 2025 Budget. Of this allocation, K2.0bn is designated for operational expenditure, comprising of K1.3bn for CoE and K0.8bn for G&S. Additionally, K468.0m is allocated for capital investment expenditure, which includes K378.0m in direct financing from the GoPNG, and K90.0m in grants.                                                                                                                                                                                                                                  |

| Expenditure by Sector (Km) | Operational   | Capital       | 2026 Total    | % of total  | Comment & Major Projects                                                                                                                                                                                                                                                                                                                                                                              |
|----------------------------|---------------|---------------|---------------|-------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Provinces</b>           | 2,620         | 2,101         | 4,720         | 16%         | This allocation reflects an increase of 9.2% compared to the 2025 Budget. Of this allocation, K2.6bn is designated for operational expenditure, comprising of K450.0m for CoE and K2.2bn for G&S. Additionally, K2.1bn is allocated for capital investment expenditure, which includes K1.9bn in direct financing from the GoPNG, K79.5m in grants, and K167.6m in concessional funded project loans. |
| <b>Transport</b>           | 160           | 2,033         | 2,193         | 7%          | This allocation reflects an increase of 10.7% compared to the 2025 Budget. Of this allocation, K160.1m is designated for operational expenditure, comprising of K133.0m for CoE and K27.0m for G&S. Additionally, K2.0bn is allocated for capital investment expenditure, which includes K1.1bn in direct financing from GoPNG, K263.0m in grants, and K579.0m in concessional funded project loans.  |
| <b>Utilities</b>           | 77            | 532           | 609           | 2%          | Of this allocation, K77.4m is designated for operational expenditure, comprising of K64.1m for CoE and K13.3m for G&S. Additionally, K532.1m is allocated for capital investment expenditure, which includes K307.0m in direct financing from the GoPNG, K14.0m in grants, and K211.1m in concessional funded project loans.                                                                          |
| <b>Debt services</b>       | 3,723         | 0             | 3,723         | 12%         | K3.7bn has been allocated for debt interest payments, representing 12.0% of the total expenditure budget. This allocation is consistent with the prior year at K3.5bn.                                                                                                                                                                                                                                |
| <b>Total expenditure</b>   | <b>19,399</b> | <b>10,866</b> | <b>30,264</b> | <b>100%</b> |                                                                                                                                                                                                                                                                                                                                                                                                       |

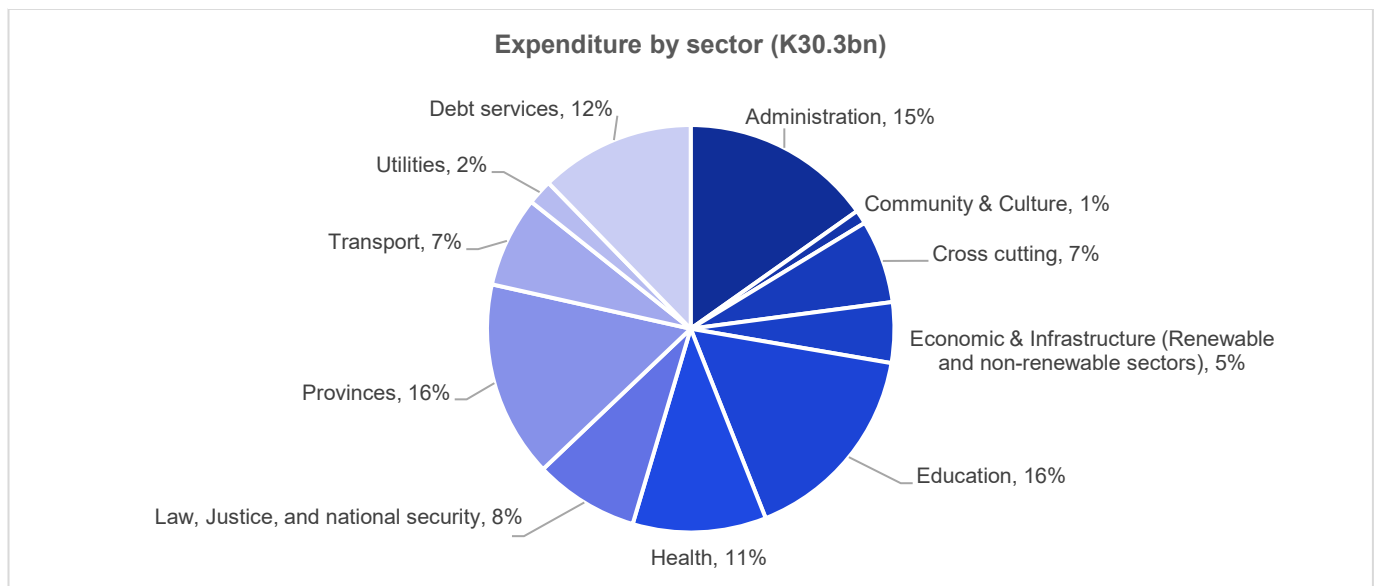


Figure 1: Expenditure by Sector (Source: Department of Treasury & KPMG Analysis)

# Budget Financing

**The 2026 Budget continues GoPNG's 13-year fiscal plan in line with its Medium-Term Debt Strategy, focusing on minimising borrowing costs, managing risk and supporting the market. Government debt is budgeted to peak at K66bn in 2026 and trending down in the forward forecasts to K53bn in 2030.**

Financing the 2026 budget deficit is in line with the government's medium term debt management policy and 13-year Budget Repair Plan. The focus is on minimising borrowing costs, managing risk and supporting a well-functioning domestic debt market. GoPNG is facing many competing pressures, including high and prolonged global inflation and economic uncertainty and adjustments required to arrive at a fully convertible Kina.

The 2026 Budget is projected to require a net borrowing of K1.6bn (2025: K2.9bn), financed by a mix of multilateral and bilateral lenders, with a priority to concessional lenders.

## Financial requirements for 2026

The 2026 GoPNG budget will finance the borrowing requirement via external sources to the amount of K1.5bn and domestic sources of K0.1bn.

External borrowings are expected to be raised from the following main sources:

- ADB budget support loan (USD150m).
- AIIB budget support loan (USD100m); and
- IMF budget support under the ECF and EFF programs (USD338m).

Domestic borrowings are expected to be raised from the following main sources:

- Treasury bills (K13.4bn); and
- Treasury bonds (K3.1bn).
- The amortisation commitment for 2026 is projected at K19.1bn.

*Table 7: Financing Instruments*

| Financing Instrument                      | FX = USD'm | K'm    |
|-------------------------------------------|------------|--------|
| <b>External Borrowings</b>                |            | 3,704  |
| Extraordinary                             | 588        | 2,478  |
| <i>WB, ADB, Bilateral</i>                 | 150        | 632    |
| <i>AIIB</i>                               | 100        | 421    |
| <i>IMF Budget Support (ECF &amp; EFF)</i> | 338        | 1,424  |
| Concessional Project Loans                |            | 1,226  |
| Commercial Loans                          |            | 0      |
| <b>Domestic Borrowings</b>                |            | 17,037 |
| Treasury Bills                            |            | 13,369 |
| Treasury Bonds                            |            | 3,069  |
| Commercial Loans                          |            | 600    |
| <b>External Repayments</b>                |            | 2,163  |

| Financing Instrument           | FX = USD'm | K'm    |
|--------------------------------|------------|--------|
| Domestic Repayments            |            | 16,970 |
| External Net                   |            | 1,541  |
| Domestic Net                   |            | 67     |
| Total Net Financing of Deficit |            | 1,608  |

Source: Department of Treasury & KPMG Analysis

## Domestic market conditions

Interest costs are returning to lower levels due to the liquidity in the domestic market. GoPNG intends to focus on weekly Treasury Bill auctions and maintaining the monthly issuance of Treasury Bond auctions.

GoPNG had repaid 77.2% of its expected external principal repayments budgeted for 2025 by the end of October 2025. For the same period however, only 35.7% of budgeted external borrowings had been drawn down.

GoPNG expects to raise a net amount of K0.1m through domestic borrowing in 2026, primarily through issuing treasury bills.

## Overall objective of 2023-2027 Medium Term Debt Strategy

GoPNG is now two years into its Medium-Term Debt Strategy (MTDS). The MTDS is for the period 2023-2027 and focuses on maintaining fiscal support for economic recovery and fostering fiscal consolidation over the medium term and managing the risk exposure embedded in the debt portfolio.

The Minister of Treasury emphasises the relatively strong debt % of GDP with 45.5% forecast for 2026.

Table 8: Debt Instruments

| Debt Instruments                 | 2024 Actual    | 2025 MYEFO     | 2026 Budget    | 2027 Proj      | 2028 Proj      | 2029 Proj      |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Domestic Debt</b>             | <b>29,949</b>  | <b>30,810</b>  | <b>30,893</b>  | <b>31,910</b>  | <b>34,005</b>  | <b>31,126</b>  |
| Treasury Bills                   | 12,763         | 12,876         | 11,898         | 12,938         | 16,075         | 14,256         |
| Treasury Bond                    | 16,309         | 17,293         | 17,927         | 17,469         | 16,540         | 15,611         |
| Loans                            | 877            | 641            | 1,068          | 1,502          | 1,390          | 1,260          |
| <b>External Debt</b>             | <b>31,709</b>  | <b>33,798</b>  | <b>35,323</b>  | <b>34,294</b>  | <b>30,818</b>  | <b>25,948</b>  |
| Monetary Gold & SDRs             | 1,244          | 1,244          | 1,244          | 1,244          | 1,244          | 1,244          |
| Debt securities                  | 1,897          | 1,897          | 1,897          | 1,897          | 0              | 0              |
| Concessional                     | 12,596         | 12,889         | 12,739         | 12,462         | 11,868         | 11,686         |
| Commercial                       | 122            | 177            | 123            | 71             | (78)           | (78)           |
| Extraordinary                    | 15,851         | 17,591         | 19,320         | 18,620         | 17,784         | 17,784         |
| <b>Gross Debt* (ex. Arrears)</b> | <b>61,658</b>  | <b>64,608</b>  | <b>66,216</b>  | <b>66,202</b>  | <b>64,824</b>  | <b>60,120</b>  |
| % of GDP (without Arrears)       | 50.9%          | 48.4%          | 45.5%          | 42.0%          | 37.6%          | 32.2%          |
| <b>GDP</b>                       | <b>121,171</b> | <b>133,365</b> | <b>145,601</b> | <b>157,771</b> | <b>172,615</b> | <b>186,694</b> |

Source: Department of Treasury & KPMG Analysis

## Debt strategy operations

The projected deficit profile indicates GoPNG's commitment to achieving sustainable debt levels, with the annual deficit expected to decline and the debt-to-GDP ratio to fall below 40%. Total Central Government Debt Stock is expected to remain below K66.5bn over the medium term, reflecting the deficit reduction and debt repayment plans.

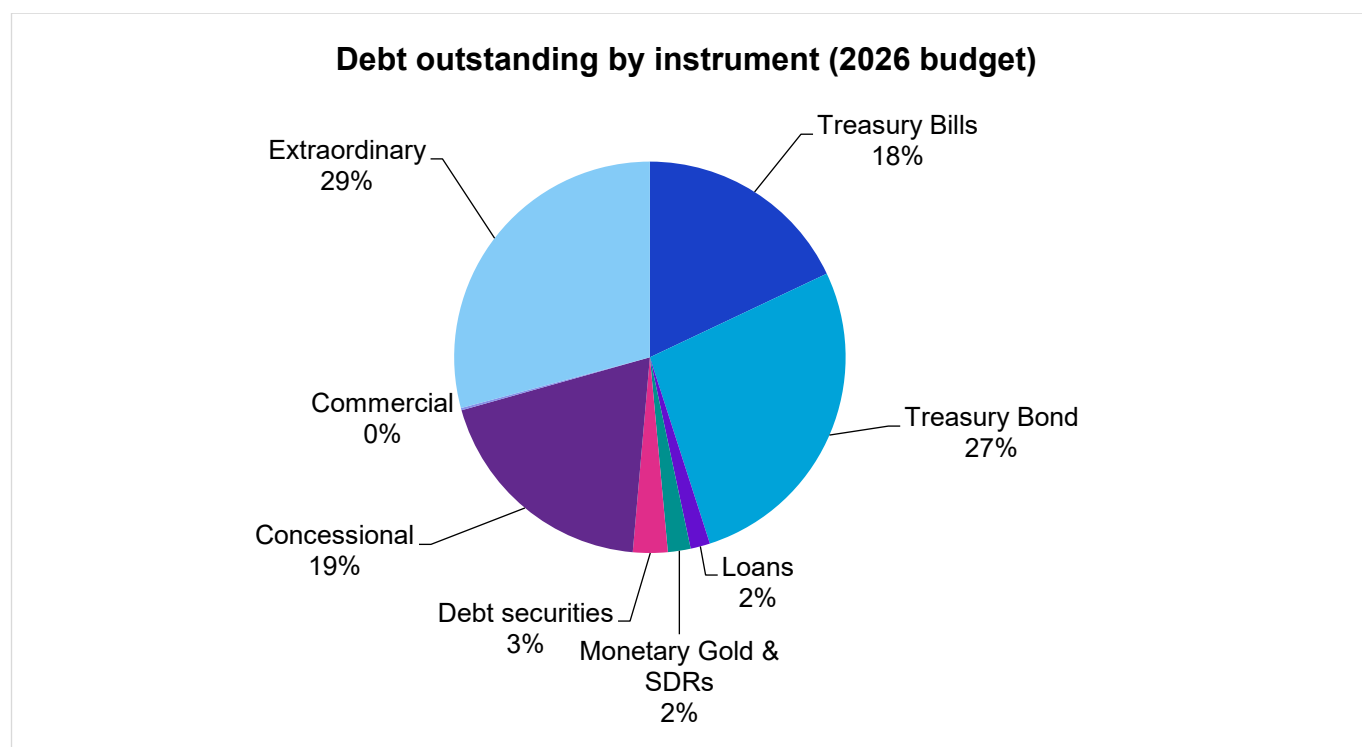


Figure 2: Debt outstanding by instruments (2026 Budget) (Source: Department of Treasury & KPMG Analysis)

# Tax

**As the 2026 Budget comes on the back of the recent certification of the Income Tax Act 2025 it was not expected to, and does not in fact, include extensive tax changes.**

The stated tax focus of this Budget is on:

- improving governance
- maximising value from the petroleum and gas sector
- strengthening tax administration and compliance
- easing on-going cost of living pressures and
- prioritising the expansion and upgrade of essential infrastructure

Winners from this Budget include the PNG public who may benefit from the provision of additional infrastructure projects by the private sector, PNG consumers, long serving retiring PNG employees and for the second year running, the beer and tobacco industries and their consumers.

All changes will be effective 1 January 2026 unless stated otherwise.

## Administration and Governance

### Establishing Internal Revenue Commission Oversight Board

An Internal Revenue Commission (IRC) Oversight Board will be introduced to strengthen governance, strategic direction and institutional performance within the IRC. This was one of the recommendations of the Sir Nagora Bogan Taxation Review and it also aligns with advice from the IMF.

The Oversight Board will include departmental heads for treasury, finance, the Governor of BPNG, the Commissioner General, an experienced member of the business sector, a non-resident and recognised tax administration expert and a board chairperson.

The Oversight Board will provide strategic leadership by monitoring organisational performance, setting long-term priorities, approving the Commission's budget and ensuring that operations remain aligned with legislative and regulatory requirements. To support strong governance the board will be backed by key committees including an Audit and Risk Committee, Governance Committee and Budget Committee.

This reform requires an amendment to the IRC Act 2014 to formally establish the Oversight Board. It is due to come into effect 1 January 2026.

### Operationalizing the Tax Administration Act 2017

The Tax Administration Act 2017, which addressed administrative matters such as registration, filing, assessments, audits and compliance, was not previously operationalised. As the Income Tax Act 2025 will be effective 1 January 2026, it is imperative that the Tax Administration Act is operational by then to ensure the effective administration of the legislation.

Due to time challenges the original Tax Administration Act 2017 will be operationalised by way of Gazettal notice effective 1 January 2026. A suite of amendments will subsequently be made to the Tax Administration Act 2017 during Q1 2016.

The 2026 Budget includes minor amendments to Income Tax Act 2025 to ensure appropriate cross referencing between that Act, the Tax Administration Act 2017 and the Income Tax Act 1959.

## Income Tax Regulations

The Income Tax Regulations, mentioned in Income Tax Act 2025, are expected to be Gazetted prior to 1 January 2026 so they are in effect when the Income Tax Act 2025 commences.

## Income and Personal Taxes

### Introducing tax credits for petroleum levy

The 0.5% levy on the gross revenue of all petroleum producers introduced by the National Petroleum Authority Act 2025 will be treated as a tax-deductible expense across the sector. To honour the commitments under existing fiscal stability provisions eligible companies can instead treat their levy payments as tax credits. This will ensure compliance with existing fiscal stability agreements.

The amendment will also enable the National Petroleum Authority (NPA) to receive an annual allocation of up to K100m from the 0.5% levy collections. The levy will be collected by the IRC and remitted to the NPA. Any revenue collected above this threshold will be withheld by IRC and transferred to the Government's Consolidated Revenue Fund.

### Superannuation withdrawal exemption

The 2025 Budget introduced a change whereby a withdrawal from an authorised superannuation fund would be exempt from income tax where it is made in respect of contributions made on behalf of that employee, where the contributions have been made for not less than 15 years. However, the Income Tax Act 2025 retained the previous 2% tax rate in error. The 2026 Budget restores the 2025 Budget exemption.

### Infrastructure tax credit scheme amendments

A key development priority is to expand and upgrade essential infrastructure to support economic growth and improve living standards. The current 2% infrastructure tax credit (ITC) rate has become a limiting factor as eligible companies have reached their allowable expenditure cap. To encourage the rollout of key provincial and national infrastructure priorities this Budget makes amendments to the ITC scheme as follows:

- *Increase ITC standard rate:* The standard ITC rate will increase from 2% to 3% of assessable income.
- *Increase special ITC rate for PNG LNG:* The special ITC rate is increased from 1.25% to 3%. Any amount in excess of the tax payable becomes a debt owed rather than a credit for refund.
- *Compulsory 0.5% of assessable income ITC expenditure in the AROB:* The Government is introducing a compulsory requirement for eligible taxpayers undertaking prescribed infrastructure development expenditure to allocate 0.5% of the 3% ITC rate threshold to the Autonomous Region of Bougainville. This is an interesting requirement given that one-sixth of the spend must be incurred in a region with which the private sector company may have no connection. The specific types of projects to be undertaken will be determined by the Treasurer through Income Tax Regulations.

Other changes include empowering the NEC to approve scheme projects and establishing a Prescribed Infrastructure Development Board, with the Department of Treasury as chairman, to screen project proposals, ensure alignment with government plans and issue completion certificates.

## Goods and Services Tax (GST)

### Extended application of the GST Electronic Monitoring System

In 2024, Parliament enacted Section 5A of the GST Act (GSTA) 2003, granting the Commissioner General authority to monitor GST compliance through real-time electronic systems called the GST Monitoring System (GSM). The system is intended to help combat alleged tax evasion in the retail sector by allowing for the automated documentation, collection and reporting of transactional data such as invoices, receipts and other data at the point of sale. Fiji has been operating a similar system for several years.

Last year we identified a potential weakness as while a "company" could be compelled to operate the system, other taxpayers such as sole traders or partnerships were not caught. To combat this, the 2026 Budget extends the scope of the GST Monitoring System to all taxpayers allowing more comprehensive monitoring of sales transactions. The full implementation of the system will be enabled through a regulation and will be operationalised upon issuance of a Gazette Notice by Head State via advice from the National Executive Council. IRC advised the system will be rolled out sector by sector commencing Q2 2026.

## **Zero rating of certain basic food items**

To alleviate the rising cost of living for consumers last year's Budget reduced the GST rate for some basic food items from 10% to 0% from 1 June 2025 to 30 June 2026. The list covers baby diapers, soap, biscuits, cooking oil, flour, chicken, noodles, rice, sanitary pads, tampons, tea, coffee, tinned fish and tinned meat.

To continue supporting families, the Government will extend the 0% rate for a further six months from 1 July 2026 to 31 December 2026.

## **International trade and customs**

### **Excise freeze on beer and tier -1 tobacco products**

The 2.5% bi-annual excise rate indexation will be frozen for beer and tier-1 tobacco products for a further 12 months from 1 December 2025 to 30 November 2026. The freeze is intended to combat the sale of low-priced illicit products. However, excise indexation will continue to apply to other alcohol categories and tier 2 tobacco products. These measures will come into effect on 1 December 2025.

### **Increase excise on high carbon content fuel**

To support Papua New Guinea's climate commitments, the Government is introducing a targeted increase in excise on high-carbon-content fuels. The diesel excise rate will increase from K0.23 per litre to K0.29 per litre.

## CFO / Head of Tax checklist

Leaders within finance and tax functions should consider the impact of the following measures:



### Be prepared for Income Tax Act 2025

The new Act will become effective 1 January 2026. It will impact the taxation of taxable benefits for employees, the application of withholding taxes to suppliers and the calculation of taxable income by businesses. It is critical that businesses are prepared for the upcoming changes.

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### Retailers be aware of GST changes

Retailers should continue to apply the zero rating of GST to certain specified basic household items throughout the 2026 calendar year. IRC and the ICCC have been monitoring retailers to ensure the GST saving is passed on to consumers. Be prepared for the implementation of the GST Monitoring Scheme by IRC which will result in real time monitoring of sales.

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### Tobacco and alcohol industries

Implement the indexation of excise rates to Tier 2 tobacco products and alcohol products other than beer. Excise rates on Tier 1 tobacco products and beer will continue to be frozen.

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### Infrastructure projects by private sector

Determine whether any benefit to the company from the increase in the infrastructure tax credit rates available.

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