KPMG Kundu

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Foreword

This edition of KPMG PNG Kundu provides a concise overview of the key economic, fiscal, and geopolitical developments shaping Papua New Guinea as it moves into 2026.

With improving economic fundamentals, advancing resource projects, and an evolving regulatory landscape, PNG continues to strengthen its position as an attractive environment for investment and sustainable growth. Now, we just need to get those long-awaited wins on the board.

We trust that these insights will support your planning and decision-making in the year ahead.

Pieter Steyn
Managing Partner

Enjoy the read this month and reach out to Karen at kmcentee@kpmg.com.au if you have any enquiries or would like to see KPMG cover specific topics in future editions.

PNG enters 2026 with renewed confidence and balanced growth ambitions

Papua New Guinea has begun 2026 with strengthened investor confidence, improved economic fundamentals, and clear progress across its major development corridors. This momentum was on full display when Prime Minister James Marape positioned PNG as a competitive emerging-market destination during the 2026 World Economic Forum (WEF) in Davos. Highlighting its strategic location between East and West, Marape underscored PNG's consistent economic growth—exceeding 4% annually for the past five years—alongside controlled inflation and a determined shift toward a more diversified economic base beyond traditional extractive industries.

This optimistic messaging aligns with assessments from major financial institutions which have acknowledged PNG's improving fundamentals heading into 2026, citing firmer commodity prices, healthier foreign-exchange liquidity and strengthened business conditions. Their outlook suggests a rise in business sentiment, supported by progress on major resource projects and easing operational bottlenecks. While the FATF grey-listing, which have been earmarked to be announced around 14 February 2026, will increase compliance demands, analysts note it could drive long-term institutional reform and financial-system resilience.

Having said that, with PNG largely being an import country, a number of businesses are facing some tough challenges caused by the adverse effects of the weakening kina which is currently hovering around 0.317 sell-rate to the AUD. The rate is expected to further weaken over the coming months.

The gold price has recently reached new heights, and this has boosted PNG mining profits. Progress within PNG's resource sector continues to bolster economic confidence. The government confirmed that several flagship projects remain active and are advancing toward key milestones. The Papua LNG project, for instance, has undergone significant cost optimisation while ongoing engagement with TotalEnergies positions the project toward a potential final investment decision. Meanwhile, the Wafi-Golpu gold-copper project is nearing the conclusion of an independent peer review to resolve earlier technical concerns, with the State reaffirming its intention to hold a 30% equity stake

Confidence in the sector was further buoyed by the early retirement of approximately US$16 billion in bank loans by PNG LNG. This milestone enhances PNG's credibility among global investors. To date, PNG LNG has generated more than K33 billion in national economic benefits through employment, royalties, equity returns and tax revenues.

The government's push for balanced economic development, highlighted during WEF discussions, adds further strategic clarity. Major LNG projects such as Papua LNG and P'nyang LNG anchor development in the south, while northern initiatives including Wafi-Golpu and the Frieda River project are expected to stimulate regional growth. Offshore exploration activity in Central Province and the Gulf, driven by Pasca A, Pasca B and Mailu-area programmes, continues to diversify PNG's long-term resource pipeline.

With rising international visibility, advancing project pipelines and resilient economic fundamentals, Papua New Guinea enters 2026 as an increasingly attractive destination for investment and sustainable growth.

Top ten geopolitical risks for 2026

Each January, Eurasia Group, KPMG's global alliance partner, publishes its assessment of the most significant geopolitical risks shaping the year ahead. The 2026 outlook points to a world facing deeper political fragmentation, rising economic interventionism, and growing pressure on global systems that were once taken for granted. Below is our summary of the top ten geopolitical risks for 2026 as cited by Eurasia Group, adapted for Kundu readers.

Risk 1: US political revolution

Political conflict in the United States has intensified in 2026 as the administration pursues significant changes to government institutions and decision-making processes. With traditional checks and balances under strain, policy direction has become increasingly unpredictable. Given the US's central role in global politics and markets, domestic instability is now creating substantial international economic and geopolitical spillovers.

Risk 2: Overpowered – the technology divide

The defining technologies of the modern economy run on electricity (electric vehicles, advanced manufacturing, robotics, energy storage) and artificial intelligence. China has built deep capabilities across this "electric stack," while the United States has focused more heavily on fossil fuel based and traditional industrial systems. In 2026, this divergence becomes harder to ignore, with competitiveness, supply chains, and industrial leadership increasingly shaped by who controls the technologies of electrification.

Risk 3: The Donroe Doctrine

The Trump administration has scaled back its appetite for global leadership but is asserting itself far more aggressively in the Western Hemisphere. This updated version of the Monroe Doctrine combines military pressure, economic leverage, and selective partnerships to reinforce US dominance closer to home. While intended to deter rivals such as China and Russia, this approach raises the risk of overreach, diplomatic backlash, and unintended escalation across the Americas.

Risk 4: Europe under siege

Europe's political centre is under intense strain. France, Germany, and the United Kingdom all enter 2026 with weak or unpopular governments facing pressure from populist movements on both the left and right. At the same time, the continent is grappling with economic stagnation and a reduced US security commitment. Europe's ability to respond effectively to the war in Ukraine and broader global instability is increasingly constrained by domestic political fragility.

Risk 5: Russia's second front

While the war in Ukraine continues with no clear resolution in sight, the greatest danger in 2026 may lie beyond the battlefield. Russia is expanding its use of cyber operations, infrastructure sabotage, election interference, and other forms of "grey zone" conflict against NATO countries. For the first time, NATO is beginning to push back more assertively, increasing the risk of miscalculation and direct confrontation.

Risk 6: State capitalism, American style

The US economy is experiencing its most interventionist phase since the New Deal. Unlike previous industrial policies that targeted specific strategic sectors, the current approach is more personal and transactional. Businesses that align closely with the administration benefit from regulatory relief and access, while others face growing uncertainty. Over time, this blurring of political power and economic decision-making risks reshaping markets, investment behaviour, and corporate strategy.

Risk 7: China's deflation trap

China enters 2026 stuck in a prolonged deflationary cycle. Falling property prices, weak consumer confidence, and industrial overcapacity are weighing on growth, yet Beijing remains reluctant to implement the reforms needed to boost domestic demand. Instead, China is attempting to export its way out of trouble, flooding global markets with low cost goods. This strategy increases trade tensions and places additional strain on the global economy.

Risk 8: AI eats its users

Artificial intelligence continues to deliver impressive advances, but commercial pressures are pushing some AI firms to prioritise revenue over safeguards. As with social media, business models that maximise engagement risk amplifying misinformation, political polarisation, and social instability – only at far greater speed and scale. Inconsistent regulation and uneven adoption mean the benefits of AI are real, but so are the systemic risks.

Risk 9: Zombie USMCA

North American trade relations are stuck in limbo. The United States Mexico Canada Agreement is neither renewed nor dismantled, leaving businesses and governments facing ongoing uncertainty. President Trump prefers bilateral leverage over multilateral commitments, keeping Canada and Mexico guessing while extracting concessions without offering long term clarity. The result is a trade framework that continues to function, but without stability.

Risk 10: The water weapon

Water scarcity is becoming a critical national security issue. Population growth, climate change, urbanisation, and rising energy demand are placing unprecedented pressure on shared water systems.

With no effective global governance framework, water is increasingly used as a tool of coercion between states and by non state actors exploiting weak institutions. What was once a humanitarian concern is now a geopolitical flashpoint.

Red Herrings – what not to overstate in 2026

"Tariff man" at large: While fears persist that Donald Trump's trade war will escalate sharply in 2026, this risk is often overstated. Although the administration remains unilateralist on security and domestic politics, its leverage on global trade is more constrained than before. Trump is likely to recognise these limits, reducing the likelihood of runaway tariff escalation.

Deglobalisation: Global trade has stagnated and tariff levels are elevated, reflecting a weakening multilateral trading system and a more fragmented world. However, this does not signal a full reversal of globalisation in 2026. Instead, trade patterns are adapting and re routing rather than collapsing, as economies adjust to a less coordinated but still interconnected global system.

Spheres of influence: Speculation is growing that global politics is reverting to rigid spheres of influence, with major powers dominating their regions. While competition is intensifying, the world remains too complex and interconnected for clean geopolitical carve ups. Power dynamics are increasingly fluid and contested, making a return to simple, 19th century style spheres both unlikely and unstable.

Sell America: Concerns that the United States is becoming non-investable intensified after market volatility and a weaker dollar. While some US policies have damaged credibility, investor confidence proved resilient. Capital flows recovered, and the dollar regained safe haven status. The US remains the world's most attractive major investment destination, even though its relative advantage is gradually narrowing.

Update on the Income Tax Act 2025, Regulations and IRC administration

Papua New Guinea's tax landscape has entered a significant period of transition, with the Income Tax Act 2025 (the Act) effective from 1 January 2026. The Act is supported by a Tax Administration Act and Income Tax Regulations. As mentioned in our recent edition, the Tax Administration Act 2017 has been operationalised effective 1 January 2026 as the new Tax Administration Act was not ready in time – it is expected that the Tax Administration Act will be replaced or substantially amended in Q1 2026.

The Act should also be supported by Income Tax Regulations however, as of 27 January 2026, we understand the Regulations have been approved by the NEC but not yet signed/released. Given significant detail is included in the Regulations to support the Act it is important that these are released as soon as possible – most notably as the detail regarding salary packaging, which impacts a substantial percentage of employees in PNG, is included in the Regulations.

Technical guidance notes and rulings had also been expected from IRC to assist taxpayers in interpreting the legislation. In early January IRC released for consultation a draft ruling regarding the tax treatment of company motor vehicles – the final ruling has not yet been released.

IRC's collaborative stance on the motor vehicle ruling was appreciated by stakeholders – the goal of all should be a system that provides clarity and minimises confusion. IRC separately advised us that they are working on c. 50 products/rulings, two of which should issue shortly. IRC issued statements in late December and early January stating that it acknowledged taxpayer concerns regarding payroll implementation and indicated that if employers make genuine and best efforts to comply with the new legislation then IRC would take a fair and reasonable compliance approach and not unfairly penalise taxpayers during a transition phase to 31 March 2026.

In our view, this is not to say that taxpayers should do nothing and just apply the legislative changes from 1 April 2026. Instead, taxpayers should actively ensure they are complying with the new legislation based on the information available to hand. In particular, we would expect that employers have started using logbooks to monitor the business/private use of company cars in line with the draft IRC ruling on motor vehicles and are applying the new taxable benefit rules under the Act.

Hopefully, by the release of our next Kundu newsletter, the Income Tax Regulations, some of the IRC rulings/guidance, and clear IRC instructions regarding the monthly compliance forms to use for the 21 February 2026 deadline, should have been issued.

Our social media presence

As usual, you may access our regular multi-disciplined thought leadership pieces, newsletters, and updates on our KPMG PNG LinkedIn page. Also, connect via our webpage www.kpmg.com.pg and Facebook https://www.facebook.com/pngkpmg/

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