

Kundu & Lali

September 2026

A quarterly South Pacific focused newsletter



Foreword

Welcome to the September 2026 edition of Kundu & Lali.

In this edition, we explore key developments shaping the business landscape across Papua New Guinea and the wider Pacific.

From the upcoming implementation of IFRS 18 and its implications for financial reporting, to insights from PNG's 2026 Supplementary Budget, the new arbitration framework, and the latest economic outlook from the Bank of Papua New Guinea, each article highlights the importance of preparedness, sound decision-making and resilience in a changing environment.

We hope these insights provide practical value for your organisation and support informed discussions as businesses navigate evolving economic, regulatory and reporting requirements across the region.

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South Pacific Practice Partner in Charge

IFRS 18 is coming: what Pacific organisations should do now

by Mehul Tailor, Partner, CFO Advisory, KPMG Fiji

Why this matters now

IFRS 18, Presentation and Disclosure in Financial Statements, will replace IAS 1 and apply for annual reporting periods beginning on or after 1 January 2027, with earlier application permitted. IFRS 18 will be applied retrospectively, meaning comparative information will need to be restated. Organisations should therefore assess their readiness well before their first IFRS 18 reporting date.

Although IFRS 18 does not change the recognition and measurement of transactions, it is more than a formatting exercise. It changes how organisations structure and explain financial performance and may affect financial statement templates, reporting systems, charts of accounts, internal controls, management reporting, board reporting and external communications.

What is changing?

A more structured statement of profit or loss

Income and expenses will generally be classified into operating, investing and financing categories, with income taxes and discontinued operations presented separately. Classification may require additional judgement where investing in assets or providing finance is a main business activity.

New required subtotals

Entities will present operating profit and profit or loss before financing and income taxes. These defined subtotals are intended to provide users with a more consistent basis for understanding and comparing performance.

Management-defined performance measures

Certain subtotals of income and expenses used in public communications to communicate management's view of financial performance may qualify as management-defined performance measures. These measures will need to be disclosed together in a single note, explained and reconciled to the most directly comparable subtotal or total specified by IFRS Accounting Standards. Clear ownership, consistent calculations, supporting documentation and appropriate controls will be important.

Aggregation and disaggregation

IFRS 18 introduces stronger principles for grouping and separating information in the primary financial statements and notes. Organisations should review whether line items and labels such as "other operating expenses" provide sufficiently

useful information and whether additional information should be presented separately.

What this means for Pacific organisations

The extent of change will depend on each organization's business model, current financial statement presentation and reporting environment. Pacific organisations with lean finance teams, legacy systems, spreadsheet-based reporting or multiple statutory, regulatory and group reporting requirements may face additional implementation pressures.

The transition also provides an opportunity to review consistency between external financial statements, management reporting, board reporting and public communications, while recognising that the purposes and requirements of those reports may differ. It can also support stronger governance over key accounting judgements, data, controls and approvals.

What should organisations do now?

Management should begin with an entity-specific impact assessment covering:

- Mapping material income and expense streams to the new categories and assessing specified main business activities;
- Identifying the complete population of potential management-defined performance measures and their owners;
- Reviewing financial statement line items, note disclosures and the use of broad labels such as “other”;
- Assessing comparative information, systems, data, chart-of-account and reporting-template requirements;
- Preparing accounting papers and establishing appropriate controls, responsibilities and approval processes; and
- Considering implications for regulators, lenders, shareholders and other stakeholders.
- A phased approach covering impact assessment, design, implementation, testing and embedding can help organisations manage the transition in an orderly manner. Systems and processes should support the comparative period, not only the first IFRS 18 year-end.

How KPMG can help

We have commenced IFRS 18 readiness and implementation support engagements for a number of clients across the region. This work is providing practical insights into the classification judgements, information requirements, systems and data considerations, and governance arrangements that organisations may need to address during implementation.

KPMG can assist organisations with IFRS 18 impact assessments, technical accounting judgements, financial statement and disclosure design, systems and data requirements, governance and controls, implementation planning and training, subject to applicable independence requirements.

Key readiness principle: systems and processes should support the comparative period, not only the first IFRS 18 year-end.

An Overview of the PNG 2026 Supplementary Budget by Rupert Maven, Consultant, Advisory, KPMG PNG

Overview

Papua New Guinea's 2026 Supplementary Budget was introduced alongside the 2026 Mid-Year Economic and Fiscal Outlook (MYEFO) after significant changes emerged during the first half of the year. The Government stated that stronger-than-expected revenue, particularly from Minerals and Petroleum Tax, together with new spending pressures, required changes to the original Budget.

The original 2026 Budget targeted revenue of K29.3bn, expenditure of K30.9bn and a deficit of K1.608bn, equivalent to 1.1% of GDP. Public debt was forecast at K66.2bn, or 45.5% of GDP.

The Supplementary Budget increases both revenue and expenditure by approximately K1.33bn. Total expenditure rises to K32.245bn, while the deficit remains unchanged at K1.608bn. As a share of GDP, the deficit is expected to improve slightly to around 1.0% due to higher nominal GDP.

What has changed

The largest new spending measures are:

- K1.11bn for fuel relief, including direct fuel subsidies and GST-related relief measures.
- K500m for a national El Niño response.
- K150m for preparations for the 2027 National Election.
- More than K50m in additional funding for police and defence.
- Funding for public sector wage commitments and other emerging priorities.

The Government stated that these measures will be funded through:

- Higher revenue collections, particularly Minerals and Petroleum Tax.
- Higher dividend payments, especially from Kumul Petroleum. The Government expects at least K1.67bn in dividends from Kumul Petroleum during 2026.
- Reductions in travel, allowances and other non-essential spending.
- Deferral of lower-priority projects and other expenditure reallocations.

While the new spending measures are substantial, they are partly offset by expenditure reductions and project deferrals. As a result, the net increase in expenditure is approximately K1.33bn.

Economic context

The MYEFO reported that 50.1% of the Budget had been implemented by 30 June 2026, the highest mid-year implementation rate since 2012.

Revenue performance was mixed. Minerals and Petroleum Tax collections are expected to exceed the original Budget estimate by more than K3bn. However, several other tax categories are

performing below expectations and dividend payments from state-owned enterprises were below budget at mid-year.

The economic outlook has also changed since the original Budget. Real GDP growth has been revised down from 4.0% to 3.2%, mainly due to weaker growth in the resource sector. Inflation is now expected to average 4.5%, compared with 4.2% in the original Budget. Higher commodity prices have increased nominal GDP, helping improve fiscal ratios.

The Supplementary Budget was also introduced in response to rising international fuel prices, increasing cost-of-living pressures and the emerging El Niño event affecting agriculture, water supply and rural communities.

The deficit remains at K1.608bn despite the additional spending. Public debt is now expected to be around K70.1bn, compared with K66.2bn in the original Budget. However, the debt-to-GDP ratio is expected to fall to about 43.6% because nominal GDP is now higher than previously forecast.

KPMG commentary

From KPMG's perspective, the most important feature of the Supplementary Budget is that the Government has maintained its deficit target despite introducing significant new spending measures. This means the additional spending is expected to be funded through stronger revenue collections, higher dividend receipts and expenditure reprioritisation rather than a larger fiscal deficit.

For households, the fuel support measures and GST relief are intended to reduce the impact of higher fuel prices and ease cost-of-living pressures. For businesses, lower fuel costs may help reduce transport and operating expenses.

The additional spending may support economic activity through fuel assistance, disaster response measures and election-related spending. However, because the package is largely funded by higher revenues and offset by expenditure reductions elsewhere, its overall impact on economic growth is likely to be smaller than the headline spending figures suggest.

The fuel support measures may also help reduce inflation pressures in the short term by limiting the direct impact of higher international fuel prices. However, inflation risks remain from El Niño-related food shortages, exchange rate movements and global commodity markets.

From a fiscal sustainability perspective, maintaining the deficit target supports the Government's budget repair strategy. However, achieving this outcome depends on higher revenue collections, expected dividend payments and the successful implementation of expenditure reductions and project deferrals.

Key risks

The main risks to the revised fiscal position are:

- Delivery of the expected increase in state-owned enterprise dividends, particularly from Kumul Petroleum
- Revenue volatility due to changes in commodity prices and resource-sector tax collections.

- More severe El Niño impacts, which may require additional government support.
- Further increases in global fuel prices, which could increase the cost of maintaining fuel support measures.
- Challenges in delivering expenditure reductions, project deferrals and spending discipline ahead of the 2027 National Election.

Overall assessment

Overall, the 2026 Supplementary Budget provides targeted support for fuel costs, the El Niño response and other emerging priorities while maintaining the Government's deficit target of K1.608bn. The package reflects stronger resource-sector revenues, higher expected dividend receipts and expenditure reprioritisation, allowing additional spending measures to be introduced while preserving the broader fiscal consolidation strategy.

PNG's new arbitration framework

Papua New Guinea has taken an important step towards improving its investment climate with the introduction of the International Arbitration Act 2024 and Domestic Arbitration Act 2024. The new laws provide businesses with a modern, efficient and confidential alternative to resolving disputes through the courts.

The reforms were a key topic at a seminar hosted by the Business Council of Papua New Guinea and the Asian Development Bank's Pacific Private Sector Development Initiative (PSDI) on 17 September 2026.

Unlike traditional litigation, arbitration allows parties to select decision-makers with relevant industry expertise, resolve disputes more quickly and keep proceedings private. Importantly, arbitration awards are enforceable in more than 170 countries under the 1958 New York Convention, providing greater certainty for businesses operating internationally.

For investors, the new framework signals PNG's commitment to a stable and predictable business environment. For local businesses, it offers a practical way to resolve disputes while preserving valuable commercial relationships.

A key takeaway is the importance of considering arbitration clauses in commercial contracts. With a modern arbitration regime now in place, PNG is better positioned to support investment, trade and economic growth.

BPNG outlook signals resilient growth in PNG

The Governor of the Bank of Papua New Guinea (BPNG) presented the September 2026 Economic Outlook to the business community, highlighting a resilient economy despite growing global and domestic challenges.

BPNG has revised its 2026 GDP growth forecast upward to 3.5%, supported by stronger mineral production, infrastructure spending and service sector activity. However, rising business costs and the developing El Niño weather pattern continue to pose risks, particularly for non-mineral sectors.

Inflation remains a key concern, with headline inflation reaching 5.3% in June. BPNG expects inflation to average 5.0% in 2026

and rise further in 2027 before easing. The Bank also warned that a severe El Niño could reduce growth and place additional pressure on prices.

Strong export earnings have strengthened foreign exchange reserves and improved FX availability for businesses. The Monetary Policy Committee has maintained the Kina Facility Rate at 5.0% and the Cash Reserve Requirement at 9.0%.

The outlook reflects cautious optimism, with BPNG continuing reforms aimed at strengthening financial markets, increasing banking sector competition and supporting long-term economic stability.

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