



Finding balance - optimism and realism

PwC's 2026 Budget insights



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An aerial photograph of a coastal town. In the foreground, a large, dense cluster of small, colorful buildings on stilts is situated in the shallow water. To the right, a more modern development with larger buildings and a parking lot is visible on the shore. The background features rolling green hills under a clear blue sky with a few clouds.

01

Executive summary

Executive summary

With a year before the Government predicts its first operating surplus in over a decade, the budget's key question remains: 'can it succeed?'

The answer is unclear. While parts of the budget reflect realism, aspects like strong revenue growth projections seem optimistic.

Projected economic growth is strong at 4% in 2026, slightly down from 4.5% in 2025. Such growth would be enviable among advanced economies, but translating this into government revenue and achieving a surplus depends on various factors that drive government income.

Revenue growth is expected to jump 15.3% in 2026, surpassing both GDP and expenditure growth - the latter projected at 9%. The anticipated K5.4 billion revenue hinges on realising higher taxes and dividends from resource extraction, incomes, profits, and capital gains. This is a bold projection in a period of elevated global uncertainty. Conversely GST collections are expected to fall, possibly due to extending exemptions for essential goods until the end of 2026.

Expenditure growth focuses on enhancing essential services, including security, education, health, and agriculture.

The wild card is the proposal for a new path to debt repayment, offering the option of lower future surpluses in return for almost triple the funding for the Provincial Investment Plan. This would result in debt to GDP of 20 per cent by 2034, up from the planned 0 per cent.

Whether this option can be achieved all comes down to **finding the balance** between achieving the Government's development goals and sustainably funding them.





Global outlook

Global economic growth is expected to continue to decelerate modestly in 2026 to 3.1 per cent, following a decline from 3.3 per cent in 2024 to 3.2 per cent in 2025. Growth in advanced economies slowed from 1.8 per cent in 2024 to 1.6 per cent in 2025, while emerging markets and developing economies (EMDEs) moderated from 4.3 per cent in 2024 to 4.2 per cent in 2024, with risks remaining tilted to the downside.

While global inflation is expected to decline to 4.2 per cent in 2025 and 3.7 per cent in 2026, the United States (US) faces above-target inflation with upside risks, while much of the rest of the world experiences more subdued inflationary pressures. Trade policy uncertainty remains elevated following the US administration's introduction of tariffs earlier this year, with effective rates now between 10-20 per cent for most countries despite some moderation from original announced levels in April.

The global economy is adapting to a new landscape marked by greater protectionism and fragmentation. World trade volume growth is forecast at only 2.9 per cent in 2025-26, down from 3.5 per cent in 2024. Additional challenges include scaling back of international aid (forecast to decline by 9-17 per cent in 2025 following a 9 per cent drop in 2024), more restrictive immigration policies, and disruptions from commodity price spikes due to climate shocks and geopolitical tensions.

This environment of heightened **uncertainty** and trade fragmentation poses challenges for economies like PNG where resource and agricultural commodities are an important source of export income.



Domestic outlook

The PNG economy is estimated to grow by 4.5 per cent in 2025 and then 4.0% in 2026. This compares with the 2025 Budget estimate of 4.7 per cent in 2025 and 4.2% in 2026. Growth is broad-based and driven by non-resource sector growth. Even with the revisions down relative to the last budget, these growth rates are high by global standards and in line with rates seen across much of Asia, which is increasingly taking its place as the global growth engine.

The lower than previously projected growth is attributed to slightly weaker conditions in the non-resource sector, but overall growth remains relatively strong. Higher agriculture commodity prices, improved access to foreign exchange, stronger employment and government spending growth are supporting growth.

The projections for non-resource sector GDP are volatile: the 2025 Budget projected 5.2 per cent growth (above the IMF's 4.2 per cent), yet the 2026 Budget has revised this down to 4.6 per cent for 2025 and 4.5 per cent for 2026 - both falling short of the 13-year budget repair plan's target of at least 5.0 per cent annually



Top of Form

PNG's commodity sector presents a varied picture, with both price and volume trends showing mixed performance across sectors. Beyond the well-documented rise in gold prices, cash crops like cocoa and coffee saw solid gains, directly benefiting local families and communities. However, other key commodities like palm oil, copper, and LNG have been edging upwards at modest rates, remain relatively flat or have declined from recent peaks. These price movements align with PNG's export volume recovery, where most commodities have shown signs of stabilisation in the last year. LNG continues its sustained growth trajectory and coffee exports have rebounded after earlier declines, creating uneven economic benefits across different sectors and communities.

Initially, PNG's growth outlook appeared to be strong, but slowing imports in the second half of the year made achieving this stronger growth difficult without additional economic stimulus.¹

The announcement of final investment decisions for large resource projects could provide the catalyst for this additional economic boost, though timing remains uncertain.

The Government's 2025 deficit was set at K2,949.3 million, down from K3,983.8 million in 2024, with the deficit falling from 3.2 per cent of GDP in 2024 to 2.1 per cent in 2025 and a projected 1.1 per cent (K1,608 million) in 2026, putting PNG on track for a targeted surplus in 2027.

The Bank of Papua New Guinea's (BPNG) monetary policy shifted from the 2025 Budget's expectation of maintaining the Kina Facility Rate unchanged at 4.0 per cent throughout 2025. Instead, BPNG adopted an accommodative stance in September 2025, raising the KFR from 4.0 per cent to 5.0 per cent while reducing the Cash Reserve Requirement from 10.0 per cent to 9.0 per cent. This dual approach aims to control inflation while ensuring adequate banking sector liquidity, departing from the earlier anticipated stable policy settings based on expected stable global and domestic economic conditions.

Containing inflation at desirable levels in PNG, like much of the world, remains a work in progress. While inflation remains below the historic headline rate of around 6%, it is on track for 4.0% in 2025 and likely slightly higher in 2026 at 4.2%.

¹ Westpac, PNG Economic Update, November 2025



Expenditure priorities

Last year's expenditure priorities were framed around security, law and justice, with operational expenditure increases in health and education. These latter two portfolios collectively account for more than one-third of the budget's operational expenditures with significant increases in budget allocations to fund growing staff costs.

This year expenditure that enhances essential services remains a expenditure priority, with notable additional spending on security (up 9.6%), health (up 15.8%) and education (up 11.3%). Additionally increased operational spending on agriculture – expenditures uplift for the Department of Agriculture, PNG Palm Oil Development Corporation, agricultural research, quarantine and the Cocoa Board - were highlighted in this budget.



An aerial photograph of a tropical coastline. The top half of the image shows a dense line of green trees and vegetation along a sandy beach. A few people are visible on the beach. The bottom half of the image shows clear, turquoise water with visible coral reefs and sandy patches. A small wooden boat with a person inside is anchored near the shore. A large orange number '02' is overlaid in the upper right corner.

02

Key Budget Assumptions



Key Budget Assumptions

Figure 1: Key Assumptions (last years in brackets)

Year	2020 Actual	2021 Actual	2022 Actual	2023 Est.	2024 Est.	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.	2029 Proj.	2030 Proj.
Economic Growth											
Total Real GDP (per cent)	-(3.2)	-(0.5)	(5.7)	(3.0)	(4.9) 3.8	(4.7) 4.5	(4.2) 4.0	(3.8) 3.9	(3.8) 4.1	(3.9) 4.0	3.9
Non-resource Real GDP (per cent)	-(0.4)	(4.2)	(5.9)	(4.7)	(4.5) 4.5	(5.2) 4.6	(5.0) 4.5	(5.0) 4.9	(5.0) 5.0	(5.0) 5.0	5.0
Inflation											
Average on Average (per cent)	(4.9)	(4.5)	(5.3)	(2.3)	(1.2) 0.6	(4.5) 4.0	(5.0) 4.2	(5.0) 5.0	(5.0) 5.0	(5.0) 5.0	5.0
Interest Rate											
Kina Rate Facility (KFR)	(3.5)	(3.0)	(3.1)	(3.3)	(2.9) 2.9	(2.9) 4.3	(2.9) 5.0	(2.9) 5.0	(2.9) 5.0	(2.9) 5.0	5.0
Mineral Prices											
Gold (US\$/oz)	(1,770.0)	(1,800.0)	(1,801.0)	(1,943.0)	(2,325.0) 2,387.0	(2,540.0) 3,657.0	(2,640.0) 3,540.0	(2,719.0) 3,657.0	(2,753.0) 3,657.0	(2,784.0) 3,657.0	3,667.0
Copper (US\$/ton)	(6,170.0)	(9,308.0)	(8,819.0)	(8,486.0)	(9,441.0) 9,142.0	(10,028.0) 9,648.0	(10,163.0) 9,940.0	(10,187.0) 10,047.0	(10,131.0) 10,128.0	(10,108.0) 10,175.0	10,289.0
Oil (Kutubu crude: US\$/barrel)	(39.5)	(67.9)	(94.3)	(77.6)	(80.0) 79.2	(76.4) 66.2	(73.5) 66.0	(72.0) 67.0	(70.0) 67.0	(69.0) 64.0	60.0
LNG (US\$ per thousand Cubic feet)	(8.3)	(10.8)	(18.3)	(14.4)	(14.8) 12.8	(14.2) 12.3	(13.6) 11.7	(13.3) 11.7	(13.0) 12.8	(12.8) 12.8	12.6
Condensate (US\$/barrel)	(39.5)	(67.9)	(94.3)	(77.6)	(80.0) 79.2	(76.4) 66.2	(73.5) 66.0	(72.0) 67.0	(70.0) 67.0	(69.0) 64.0	60.0
Nickel (US\$/tonne)	(10,639.0)	(17,147.0)	(20,532.0)	(21,527.0)	(15,076.0) 16,816.0	(15,231.0) 15,231.0	(15,998.0) 15,643.0	(16,570.0) 16,281.0	(16,907.0) 16,936.0	(17,807.0) 17,641.0	18,350.0
Cobalt (US\$/tonne)	(21,483.0)	(44,430.0)	(51,427.0)	(33,871.0)	(20,268.0) 26,327.0	(22,448.0) 31,022.0	(23,419.0) 34,123.0	(24,197.0) 34,323.0	(24,436.0) 34,323.0	(25,398.0) 34,323.0	34,323.0

An aerial photograph of a city, likely Port Moresby, Papua New Guinea, taken at sunset. The city is densely packed with buildings, mostly with flat roofs. In the background, a range of mountains is visible under a sky with scattered clouds. The lighting is warm, with orange and yellow hues from the setting sun. The number '03' is overlaid in large orange font in the top right corner.

03

Global Economic Outlook

Global Economic Outlook

The International Monetary Fund's October 2025 World Economic Outlook reveals a global economy facing policy shifts and mounting uncertainties, with growth prospects remaining "dim" despite apparent near-term resilience.

Global growth is projected to be modest (3.2 per cent in 2025 and 3.1 per cent in 2026), well below the pre-pandemic average of 3.7 per cent. This reflects headwinds from protectionist trade policies, elevated uncertainty, and structural challenges. EMDEs outperform advanced economies with growth of 4.2 per cent in 2025 and 4.0 per cent in 2026 versus 1.6 per cent in both years. However, EMDEs face deceleration due to higher US tariffs curtailing external demand and trade policy uncertainty dampening investment, while advanced economies maintain stable but with low growth as they adapt to the shifting trade landscape.²

The US is projected to slow to from 2.8 per cent (2024) to 2.0 per cent (2025) as tariffs weigh on growth with consumers and businesses moderating spending and investment. China is heading for slower growth, declining from 5.0 per cent (2024) to 4.8 per cent (2025), as tariffs worsen deflationary pressures. Policy responses remain modest, focusing on stabilising supply rather than boosting demand. ASEAN growth declined from 4.8 per cent (2024) to 4.5 per cent (2025) with Vietnam, Thailand, and Singapore most exposed to

US trade though AI-related equipment and facilities investment.

Global commodity prices are expected to decline by around 7 per cent in 2025, though this forecast masks significant divergence with LNG, gold, and coffee expected to outperform the broader trend. Major movers include US natural gas surging 60 per cent due to strong European LNG demand, oil falling 15.7 per cent, gold jumping 42 per cent to record highs, and coffee soaring 47.6 per cent due to production challenges.³

Top of Form

Risks to the global economy remain "tilted to the downside" with elevated policy uncertainty. Key vulnerabilities include escalating protectionism, fiscal sustainability concerns, labour supply shocks from immigration restrictions, potential AI asset repricing, and threats to central bank independence.⁴

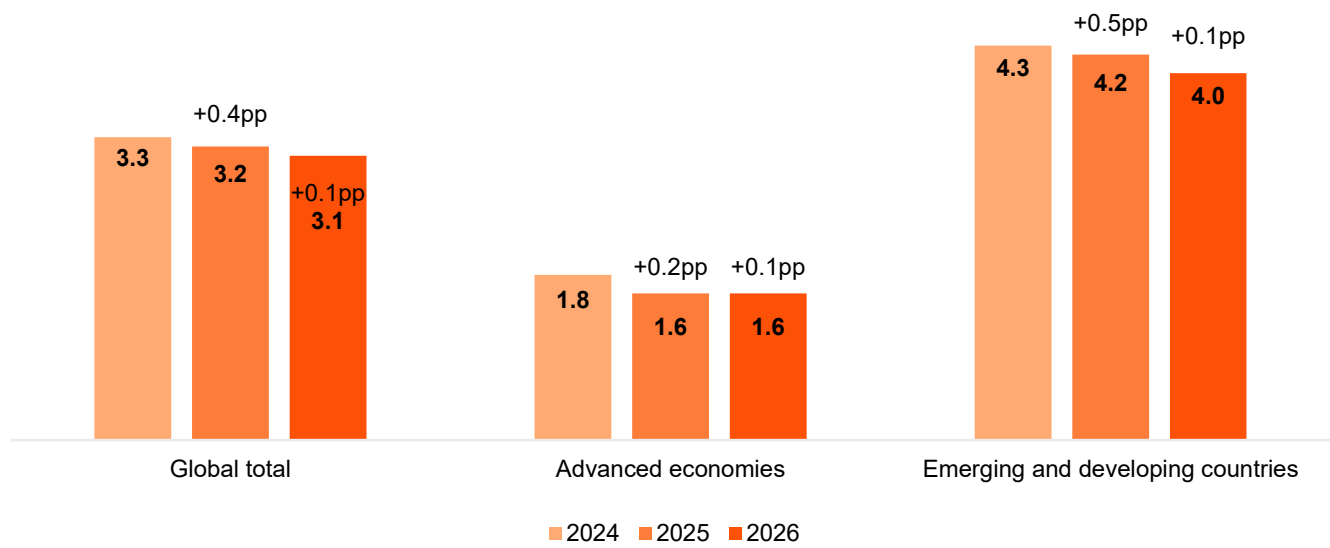
The IMF emphasises the need for "credible, predictable, and sustainable policy actions." Countries should establish transparent trade roadmaps, pursue fiscal consolidation while maintaining efficiency, and preserve central bank independence. For commodity exporters, IMF analysis shows that economic interconnectedness matters more than sector size, highlighting the importance of diversification and strong policy frameworks in navigating an increasingly fragmented global landscape.⁴

² IMF, Regional Economic Outlook – Asia and Pacific, October 2025

³ World Bank, Commodity Markets Outlook, October 2025

⁴ IMF, World Economic Outlook, October 2025

Figure 2: Economic growth, April vs October forecasts (per cent annual),



Source: IMF

An aerial photograph of a coastal village in Papua New Guinea. The foreground and middle ground are filled with numerous small, rectangular houses built on stilts over a body of water. The houses have various colored roofs, including grey, blue, and green. The water is a deep blue-grey color. In the background, a dense line of green trees and vegetation borders the water. The sky is filled with large, white, fluffy clouds.

04

The domestic PNG economy

The domestic PNG economy

Economic Growth

While government's emphasis is on lifting the non-resource components of the PNG economy, government revenues and national incomes are closely tied to the mining and resources sector, especially petroleum and gold. Volumes and prices for these commodities are therefore a key factor for the budget and the economy overall, including the operational performance of major projects.

Global commodity prices are surging across multiple sectors, with gold as the stand-out performer, presenting mixed outcomes for PNG. The positives include cashflow relief from Porgera mine operations a year and a half after restarting. Santos has completed its Angore project, adding to gas reserves and maintaining momentum in this important export sector. However, delayed final investment decisions on major gold projects like Wafi Golpu and Frieda River, along with several other major projects that remain in the pipeline with final investment decisions still pending and uncertain project timing, are preventing the country from fully capitalising on current favourable commodity price conditions, most notably gold.

According to the 2026 Budget, the PNG economy is expected to grow to K145 billion in 2026, reflecting a real growth rate of 4.5 per cent (broadly in line with 2025 growth of 4.2 per cent). The government has been targeting non-resource sector growth of 5.0 per cent annually, yet the 2026 Budget's forecasts for 2025 and for 2026 (4.5 per cent and 4.6 per cent respectively) both fall short of this.

In 2026, PNG's economy is projected to grow by 4.0 per cent, driven by non-resource sector growth while resource sectors are expected to grow at a slower pace of 2.5 per cent. Non-resource sector growth is led by Information and Communication (8.0 per cent), Public Administration (5.5 per cent), and Wholesale/Retail (4.8 per cent), while Agriculture, Forestry and Fisheries will grow 3.1 per cent driven primarily by increased cocoa and copra oil production.

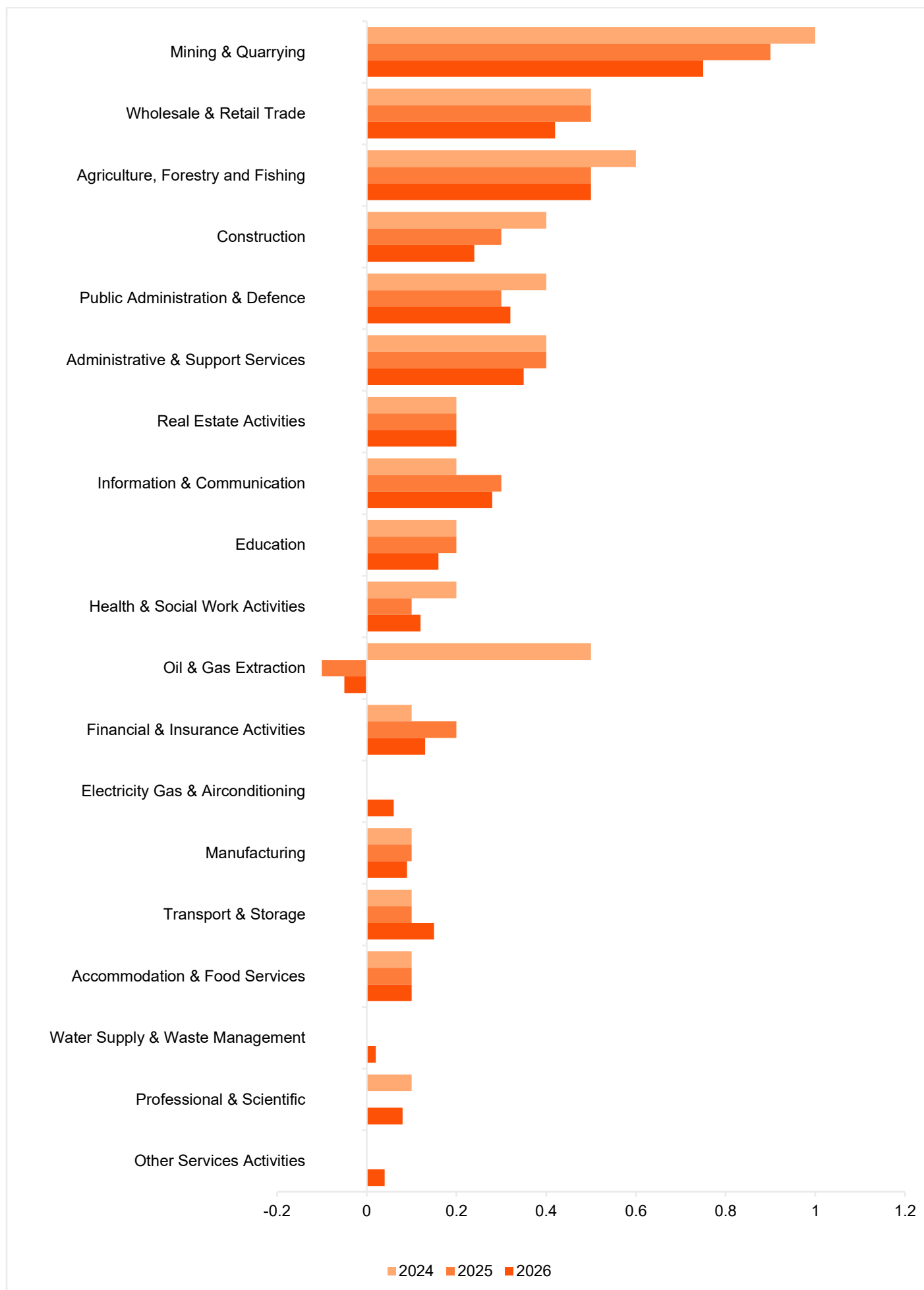
The resources sector will expand 2.5 per cent overall, with mining and quarrying surging 8.3 per cent due to higher gold production from the Porgera mine and increased copper output, offsetting a 0.7 per cent decline in the oil and gas sector. This growth pattern reflects PNG's economic diversification away from traditional oil resources toward mining, agriculture, and services sectors.

Most sectors show declining contributions to growth (Figure 3), with Mining & Quarrying, Wholesale & Retail Trade, and Construction all experiencing notable decreases in their economic contributions. However, several sectors demonstrate resilience or improvement, including Transport & Storage showing strong growth, Oil & Gas Extraction recovering from negatives.

The LNG sector shows mixed signals, with export utilisation dropping to 92 per cent in October⁵, though Santos has completed its Angore project expansion. Several major projects including Papua LNG await final investment decisions that could significantly boost economic growth. Overall, the economy is forecast to grow 4.7 per cent in 2025, supported by strong commodity performance and signs of broader domestic momentum.

⁵ Westpac, PNG Economic Update, November 2025

Figure 3: Industry contribution to GDP (ppts of growth)



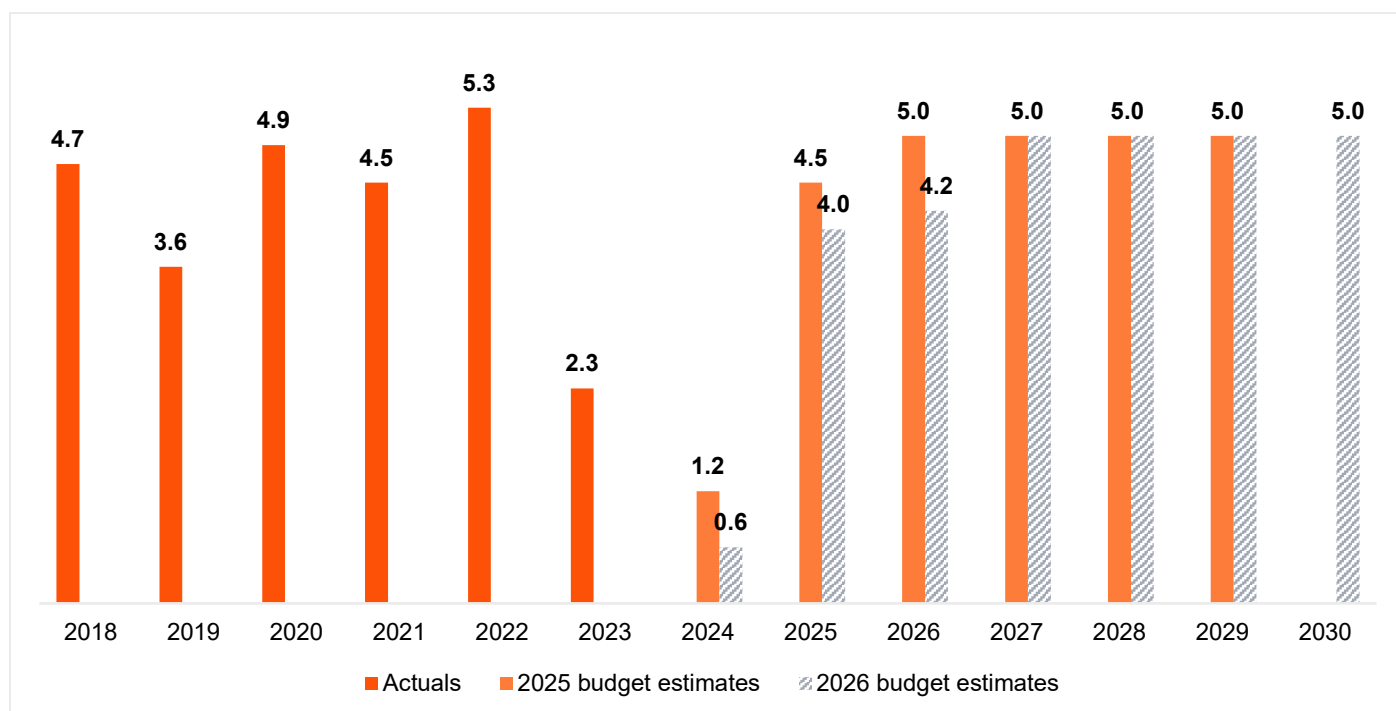
Inflation

High inflation erodes household purchasing power and living standards. The IMF projects global inflation to decline from 5.8 per cent (2024) to 4.2 per cent (2025) and 3.7 per cent (2026). EMDEs are projected to experience higher but declining inflation rates from 7.9 per cent (2024) to 5.3 per cent (2025) and 4.7 per cent (2026). This easing occurs amid a fragmented global economy as the overall impact of US tariffs have been smaller than initially feared due to trade diversion, supply chain adaptations, and front-loading. Central banks have adopted divergent stances, with many emerging markets tightening policy earlier and more aggressively than advanced economies.

PNG's headline CPI rose 5.3 per cent year-on-year in the March 2025 quarter, led by a 6.3 per cent increase in Food and Non-Alcoholic Beverages and a 14 per cent rise in Alcoholic Beverages, Tobacco and Betel Nut. Underlying inflation moderated to 3.1 per cent in March 2025 from 5.4 per cent in the previous quarter. Betel Nut prices, known for extreme volatility due to supply-chain issues, surged 17.5 per cent and were a key driver of headline inflation. The Bank of Papua New Guinea responded by raising the Kina Facility Rate and Central Bank Bills rate from 4.00 per cent in August to 5.00 per cent in September, aligning interest rates with the exchange rate anchor due to ongoing managed depreciation of the PGK and resulting inflationary pressures.

Forecasts for inflation have been revised downwards in this budget for 2024 (now 0.6%), 2025 (now 4.0%) and 2026 (now 4.2%), with the years beyond that still projected at 5%. Even with these downward revisions, and at levels below the historical level of around 6%, vigilance will need to be maintained to achieve these levels.

Figure 4: PNG annual headline inflation (per cent)



Employment

The PNG economy can broadly be simplified into two parts – the resources sector which accounts for the majority of export earnings, and the composite of agriculture, forestry and fishing which tends to employ the majority of the labour force (including a large fraction of informal employment, which is, by definition, hard to capture in economic statistics).

According to the 2026 Budget formal private sector employment grew by 2.6 per cent through the year to June 2025, down from 2.9 per cent the last year and only slightly more than the rate of population growth. This suggests that formal employment is struggling to keep pace with increase in potential labour resources, particularly in regional and rural areas where the majority of Papua New Guineans live. Though as noted above there is a large fraction of the population in the informal labour-market, therefore not visible in formal labour statistics.

Exchange Rates

The Kina continued to depreciate in 2025 against both the US and Australian currencies, which represent the currencies used by PNG's largest trading and investment partners. The budget restates the view of the Bank of PNG that the Kina remains overvalued, although recent currency depreciation has moderated that somewhat. Budget papers make clear the Government's objective remains to return to a fully market-based, convertible currency, though the timeframe for this is unspecified.

A full-page background image showing a sunset over a body of water. The sky is a gradient of orange and yellow, with the sun low on the right horizon. The water reflects the light, creating a shimmering effect. In the foreground, a person is silhouetted against the water, standing on a dark beach. The overall mood is serene and contemplative.

05

Fiscal Outlook

Fiscal Outlook

At the close of 2026, about a third of the way into the PNG Government's 13-year fiscal repair plan set out in 2022, the first budget surplus since 2010 is almost within grasp. While the budget will remain in deficit in 2026 at K1.6billion, looking only two short years further forward, the Treasurer's projections are for a surplus of PGK13 million in 2027 – less than 0.01 per cent of GDP, but a surplus nonetheless.

Figure 6: Key fiscal indicators (last years in brackets)

Category	2024 Actuals	2025 Budget	2025 MYEFO	2026 Budget	2027 Proj.	2028 Proj.	2029 Proj.	2030 Proj.
Revenue & Grants (K,million)	(22,931.0) 20,826.3	(25,408.0) 24,225.2	24,225.2	(27,897.0) 29,307.1	(31,216.0) 32,191.7	(34,406.0) 35,163.7	(37,871.0) 40,153.7	44,103.9
Expenses (K,million)	(26,915.0) 24,757.0	(28,357.0) 28,357.2	27,174.0	(29,505.0) 30,915.2	(31,135.0) 32,178.0	(32,138.0) 33,784.0	(33,631.0) 35,499.0	37,349.0
Deficit (K,million)	-(3,984.0) - 3,930.7	-(2,949.0) - 2,949.3	-2,948.8	-(1,608.0) - 1,608.2	(81.0) 13.0	(2,268.0) 1,379.0	(4,240.0) 4,704.0	6,755.0
Deficit per cent GDP	-(3.2) -3.2	-(2.1) -2.2	-2.2	-(1.1) -1.1	(0.0) 0.0	(1.3) 1.2	(2.2) 2.2	3.0
Gross debt (K,million)	(61,928.0) 61,658.2	(64,877.0) 64,876.8	64,607.5	(66,485.0) 66,215.6	(66,404.0) 66,202.6	(64,136.0) 64,823.6	(59,896.0) 60,119.7	53,364.7
Debt to GDP ratio	(50.0) 50.9	(47.4) 48.4	48.4	(44.8) 45.5	(41.5) 42.0	(37.2) 37.6	(32.1) 32.2	26.5
Interest costs (K,million)	(3,051.0) 2,952.5	(3,523.0) 3,460.6	-	(3,524.0) 3,628.2	(3,612.0) 4,008.7	(3,466.0) 4,042.1	(3,206.0) 3,427.5	3,738.9

Source: Department of Treasury

Revenue

Revenue growth outpacing expenditure is perhaps the simplest fiscal repair strategy, but when applied consistently it is an effective one. The strategy is more difficult when tax revenues are geared to volatile commodity prices and other macroeconomic factors. For instance, in 2007 the PNG Government's revenue was nearly one-quarter of GDP, but fell to less than 15 per cent by 2020, largely due to falls in resources sector earnings over this period.

The Government is implementing its Medium-Term Revenue Strategy (2023-2027) aiming to increase internal revenue collections to 17.9 per cent of GDP by 2027, though current projections suggest this target will be exceeded, reaching 19.1 per cent by 2027. Despite total revenues and grants being revised down by K1.18 billion from original 2025 Budget estimates due to lower tax and non-tax collections, they are still expected to reach K24.2 billion in 2025 - representing a 16 per cent increase from the prior year and lifting tax revenues as a proportion of GDP from 17.2 per cent in 2024 to 18.2 per cent in 2025.

The budget also restated the Government's commitment to its K1,010 million Household Assistance Package, extending the existing GST exemption on certain essential goods, personal tax reductions, stamp duty waivers for first-home buyers of eligible dwellings and support with school fees for a further 6 months to the end 2026.

Offsetting the growth in tax revenues (across income, profit and capital gains taxes, as well as taxes on goods and services) and other revenues (including dividends from state-owned enterprises), is an expected reduction in grant income as COVID-19 support ends.

Figure 7: 2026 Budget Revenue Details (Kina, million) (last years in brackets)

	2024 Actual	2025 Budget	2025 MYEFO	2026 Budget	2027	2028	2029	2030
Total Revenues and Grants	20,826.2	(25,408) 25,408.0	24,225.2	(27,897) 29,307.1	(31,216) 31,463.5	(34,406) 34,347.9	(37,871) 39,240.1	43,080.9
Total Revenue (as per cent of GDP)	17.2	(19) 19.1	18.2	(19) 20.1	(19.5) 19.9	(20) 19.9	(20) 21.0	21.4
Taxes	18,447.0	(21,201) 21,201.0	19,995.7	(23,662) 22,140.5	(26,566) 24,715.3	(29,372) 27,341.7	(32,499) 31,766.2	35,098.8
Taxes on income, profits, and capital gains	12,364.8	(13,708) 13,707.6	13,626.9	(14,494) 14,879.3	(15,987) 16,053.6	(16,832) 17,473.0	(18,221) 20,613.5	22,439.9
Taxes on payroll and workforce	0.3	(1.0) 1.0	2.5	(1.0) 2.3	(0) 2.5	(0) 2.8	(0) 3.1	3.3
Taxes on goods and services	5,320.2	(6,553) 6,553.4	5,565.4	(7,184) 6,358.0	(8,145) 7,579.1	(9,566) 8,575.2	(11,115) 9,669.8	10,935.0
Taxes on International trade and transactions	761.8	(939) 938.9	801.0	(1,984) 901.0	(2,434) 1,080.2	(2,975) 1,290.7	(3,164) 1,479.8	1,720.7
Grant	1,180.6	(1,500) 1500.0	1,774.0	(1,550) 1,943.0	(1,600) 1,993.0	(1,650) 2,043.0	(1,700) 2,093.0	2,143.0
Other Revenue (Non-Tax)	1,198.6	(2,707) 2,707.0	2,455.5	(2,684) 5,223.6	(3,050) 4,755.3	(3,384) 4,963.3	(3,672) 5,380.9	5,839.0
Total Revenue (excluding grants)	19,645.6	(23,908) 23,908.0	22,451.2	(26,347) 27,364.1	(29,616) 29,470.5	(32,756) 32,304.9	(36,171) 37,147.1	40,937.9

Expenditure

The Treasurer opened the 2026 Budget speech noting that spending was expected to be K30.9 billion in 2026, which he described as once again record figures, though acknowledged represent only K2,882 per person across PNG's 2026 estimated population of 10.7 million. Across the 2026 Budget, this only K430 per person for all our education expenditure, only K268 per person for health, only K219 per person for all our police, defence and court systems, and less than K200 per person for all our roads and wharves and airports."

The 2026 Budget was themed "Security with Growth," reflecting a strategic approach that balances immediate security imperatives with economic development objectives. The budget delivers substantial funding increases to law and justice sectors, with a 9.6 per cent increase including significant boosts to police operational funding (34 per cent increase in goods and services), judiciary operating costs (19 per cent increase), and defence services (29 per cent increase in goods and services). Education and health receive increases of 11.3 per cent and 15.8 per cent respectively, while the Public Investment Program reaches a record K7.7 billion - which the Treasurer noted is 277 per cent higher than the K2.0 billion invested in 2018. Of the total K30.9 billion allocation, K19.4 billion supports operational expenditures and K10.9 billion funds capital investment.

Figure 8: 2026 Budget Expenditure Details (Kina, million) (last years in brackets)

	2024 FBO	2025 Budget	2026 Budget	2027	2028	2029	2030
Total Expenditure	24,757	(28,357) 28,357	(29,505) 30,915	(31,135) 32,178	(32,138) 33,784	(33,631) 35,449	37,349
per cent of GDP	20.4	(20.7) 21.3	(19.9) 21.2	(19.4) 20.4	(18.6) 19.6	(18.0) 19.0	18.6
GoPNG Expenditure	23,577	(26,857) 26,857	(27,955) 28,972	(29,535) 30,185	(30,488) 31,741	(31,931) 33,356	35,206
per cent of GDP	19.5	(19.6) 20.1	(18.8) 19.9	(18.4) 19.1	(17.7) 18.4	(17.1) 17.9	17.5
Operational Component (PE and G&S)	11,697	(12,643) 12,644	(13,384) 13,632	(14,448) 14,031	(14,536) 14,778	(15,419) 15,641	16,609
per cent of Total Expenditure	47.2	(44.6) 44.6	(45.4) 44.1	(46.4) 43.6	(45.2) 43.7	(45.8) 44.1	44.5
Interest Payment	2,964	(3,523) 3,523	(3,524) 3,723	(3,612) 4,048	(3,466) 4,025	(3,206) 3,822	3,739
per cent of Total Expenditure	12.0	(12.4) 12.4	(11.9) 12.0	(11.6) 12.6	(10.8) 11.9	(9.5) 10.8	10.0
Capital Investment Component	8,581	(10,343) 10,343	(10,557) 10,866	(10,775) 11,005	(11,546) 11,768	(12,104) 12,318	12,893

Source: Department of Treasury

Figure 9: Expenditure by Sector as a per cent of the total budget

	Budget 2021	Budget 2022	Budget 2023	Budget 2024	Budget 2025	Budget 2026
Administration/ Miscellaneous	27.3	30.2	28.7	23.3	19.7	15.2
Community and Culture	0.5	0.7	0.8	0.8	1.1	1.1
Debt Services	12.0	10.8	10.2	11.1	12.4	12.0
Economic	3.4	4.4	4.0	5.9	5.7	4.8
Education	5.6	6.6	6.7	14.9	15.6	16.3
Health	8.9	11.9	9.5	9.5	9.8	10.6
Law & Justice	6.5	6.5	7.3	7.9	8.2	8.3
Provinces	20.1	19.8	20.9	14.9	15.4	15.6
Transport	11.0	6.7	9.1	7.4	7.0	7.2
Utilities	2.0	2.3	2.8	4.4	5.1	2.0

Debt

The Government's 2026 Budget deficit is projected at K1.6 billion, which the Treasurer noted represents K150 more per person than revenues but emphasised this is significantly better than the K520 per person deficit inherited in 2019. This improvement follows a challenging 2025 where the budget deficit was K2.9 billion, financed through K2.2 billion in external borrowing and what was planned as K760.8 million in domestic borrowing - though actual domestic borrowing reached K2.3 billion by October 2025 to address financing gaps inherited from 2024.

The Treasurer highlighted the substantial progress in budget repair, with the deficit falling from 8.9 per cent of GDP in 2020 to just 1.1 per cent in 2026, putting PNG on track for a targeted surplus in 2027. This improvement has been supported by enhanced domestic financial market conditions, including BPNG's reduction of the Cash Reserve Requirement and Treasury's awareness programs, which have driven down Treasury Bills rates from 8.6 per cent in January 2025 to 6.8 per cent currently. As debt grows slower than the economy, the debt-to-GDP ratio is expected to drop from 48.4 per cent in 2025 to 45.5 per cent in 2026, with the Government maintaining its preference for cheaper external concessional financing from development partners while ensuring monetary and fiscal policies work together to promote macroeconomic stability.



06

Taxation Developments



Taxation Developments

Since the passing of the new Income Tax Act 2025 (ITA25) in March 2025, the State and taxpayers alike have been preparing for the 1 January 2026 effective date. The most recent milestone being the formal certification of the ITA25 in October 2025.

As was widely anticipated, there are very limited changes made to the legislation which passed Parliamentary reading in March. Our [Income Tax Act 2025 commentary](#) published in March provides a summary of some of the key changes to the current tax regime. Notably, this includes changes in the taxation of certain employee benefits such as motor vehicles, and how non-residents are taxed on PNG sourced income.

Infrastructure Tax Credit Scheme

The principal tax changes in the budget are adjustments to the Infrastructure Tax Credit scheme.

Interestingly, these ITC changes are also included as changes to the text of the existing Income Tax Act 1959. Although the 1959 Act will become inapplicable in 2026, certain parts of the act will continue to be grandfathered into 2026 and beyond. The changes to the Infrastructure Tax Credits appear to be brought within the scope of these continuing provisions. Main changes to the 1959 Act that will be effective for the year ending December 2025 also bring the changes into play for 2025 assessable income.

These amendments seek to both broaden the scope of the applicable target of the scheme – principally by extending the geographic reach of the highlands highway that can be supported through the scheme but the amendments also provide a clearer mechanism for participants to be able to claim credits on a periodic basis while undertaking multi year projects through obtaining interim certificates of completion.

The standard proportion of assessable income available for the ITC scheme applicability has also been increased from 2 per cent to 3 per cent - but requiring an allocation of 0.5 per cent to projects to be implemented in Autonomous Regional of Bougainville.

Tax credits for Petroleum Levy

The contributions required from petroleum producers to finance the National Petroleum Authority will be permitted to be treated as tax credits by those subject to the levy. The structuring of the levy as a tax credit is to maintain commitments under fiscal stability arrangements while also implementing the requirements of National Petroleum Authority Act introduced in 2025.

Tax on superannuation withdrawal

There was also a single “fix” implemented for ITA25 before it becomes effective in January 2026 in the form of a reinstatement of the concessional tax rate applicable to certain superannuation payments. However, a number of other technical errors identified in ITA25 have not been addressed.

Ongoing matters – supporting detail to the ITA25

While the ITA25 itself has largely remained in its same form, there remain a number of matters that are yet to be addressed. Supporting legislation to the ITA25, the Regulations and the Tax Administration Act will need to be brought into effect. Both of these items are referenced in the Budget papers. There remains the intention to implement new regulations although no final version has been released. For the Tax Administration Act, the budget papers acknowledge that the TAA 2017 will be operationalized through a gazettal notice. We comment further on this issue further below.

As the Regulations provide additional detail to taxpayers on several important matters such as the valuation of employee benefits and various procedural and documentation matters, this remains a key point of focus so that businesses can be informed on their tax obligations.

In addition, the IRC has advised that guidance documents on key topics are currently a work in progress. This is a critical need for new legislation, as there are various questions on how various provisions are to be interpreted and applied. For example, how businesses are to apply the revised rules on motor vehicle benefits, notably the concessions contemplated in the legislation to reduce the value of the taxable benefit based on “business use” (a term which does not currently have a detailed definition).

Tax Administration Act 2017 into 2025

The budget describes the process of introducing a TAA as through operationalising the original 2017 version through a gazettal notice. This would appear to indicate that there will be no amendments to the old act other than those to align it with the ITA25.

However, while the function of a TAA is to outline primarily procedural and administration matters, such as collection of information, provisions on how the IRC will administer action regarding any tax offences and penalties, and registration matters (e.g. taxpayer TIN requests, and tax agent registrations), it was anticipated that a new version of the act would include some notable additions that were expected to introduce avenues for certainty for taxpayers in the future. A draft bill had been previously shared, although it is now predict how the tax administration will come into effect.

The anticipated version of the TAA included provisions that contemplate public and private rulings from the IRC. Initial indications from consultations with the IRC suggested that a public rulings process was to be introduced with more ‘immediate effect’, while a private rulings process was a longer term goal. However, the TAA2017 does not contain provisions that would support the issue of rulings. It is hoped that this facility will form part of plans for the TAA.

Oversight of the Internal Revenue Commission

In a further significant change to taxation administration, the budget introduces amendments to the legislation establishing the IRC that create an oversight board. The memberships of the board has been defined to include representatives from Treasury, Finance, Bank of PNG and a member that will represent the business sector as well as an expert on tax administration. This change could see far reaching impacts as the board’s scope for oversight is wide.

GST changes

Zero-rating of household goods

The 2025 Budget introduced a significant tax relief feature, with confirmation that 13 basic household items were to be zero rated for GST purposes for a period of 12 months from 1 June 2025 through to 30 June 2026. These items are: baby diapers, soap, biscuits, cooking oil, flour, chicken, noodles, rice, sanitary pads and tampons, tea, coffee, tinned fish, and tinned meat.

The 2026 Budget extends the applicable period for this regime to 31 December 2026. The explanatory notes addressing the extension of this period as a continuation of a relief measure to address inflation. While this will be welcomed by consumers, it also highlights the importance of administration of the GST regime to deliver the benefits to consumers in a manner that retains effectiveness for business as having variable GST rates applicable to selected goods only requires a more complex monitoring system.

GST Cash Register Monitoring System (GMS)

The GST Bill introduced as part of the 2026 Budget also extends the scope of the GMS, to cover additional taxpayers from 1 January 2026. As a system introduced by the IRC to track GST revenue at the point

of sale, how widely the extension is implemented is yet to be seen.

Excise tax changes

In prior years, excise taxes on alcohol and tobacco have been automatically indexed to increase every six months. However, these automatic increases

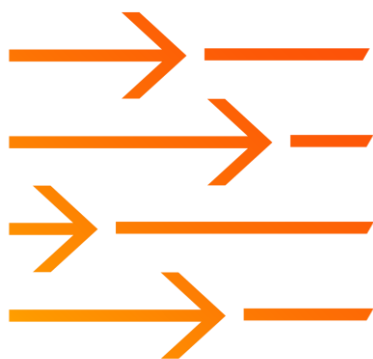
were suspended in 2025 as part of cost-of-living concessions. This suspension has been extended to 2026.

However, in a continuing move to reduce the gap between the excise on petrol and diesel – the excise applicable to diesel has been increased, although the level remains below that applicable to petrol.

A large blue container ship is sailing on the water, carrying many colorful shipping containers. In the background, a city skyline is visible across the water. The sky is blue with some clouds.

07

Looking
forward to
2030 and
beyond



Looking forward to 2030 and beyond

The Government's fiscal strategy of moderate expenditure growth, outpaced by increases in tax and other revenues, is on track to return the budget to surplus by 2027. This would allow Government debt to peak in 2026. Beyond 2027 the Treasurer's medium-term projections are that Government debt could be repaid entirely by 2034, unless the Government is supported to pursue an alternative strategy – such as directing more funds to the Provincial Investment Plan (lifting it to K28.8 billion) and settling at a debt to GDP ratio of 20%.

The continued commitment of the PNG Government to its fiscal strategy is commendable, even if there remains some question about the achievability of next year's surplus if it relies on the realisation of the substantial projected uplift in taxation revenue.

If the surplus is realised, maintaining expenditure discipline will require additional political will to prioritise debt reduction over pressing immediate community expenditure demands. The proposal to potentially raise the target debt level to 20% by 2034 could potentially reflect these pressures for the Government.

PNG is endowed with abundant natural resources, a young and rapidly growing population, and proximity to fast-growing east Asian markets. The Government has an aspiration to lift PNG to be an upper middle-income country by 2030, with an economy exceeding PGK200 billion.⁶

Recent economic performance shows signs of improvement, supported by strong gold production and exports. The surge in global gold prices, driven by economic uncertainty and concerns about US dollar stability, has provided significant benefits to PNG's mining sector, particularly with the Porgera mine generating strong cashflows since its restart.

However, major projects like Wafi Golpu and Frieda River remain stalled with pending investment decisions, preventing PNG from maximising returns during this favourable price environment.

The IMF has reached a staff-level agreement with on the policies needed to complete the fifth reviews under the Extended Credit Facility (ECF) and Extended Fund Facility (EFF) and the second review under the Resilience and Sustainability Facility (RSF). Upon approval, this will unlock around \$220 million in funding, with the IMF forecasting 4.5 per cent growth for PNG in 2025. However, living standards measured by real per capita income remain below historical peaks, and inflation, while having eased to 3.6 per cent in June 2025, continues to create cost of living pressures alongside persistent law and order concerns.

Expenditure in health, education and security, as articulated in the 2025 budget and continued in 2026, is needed to facilitate the economy's transition towards a higher reliance on human and physical capital, rather than resources. This is well-recognised as the best and most sustainable pathway to improve economic and community outcomes for emerging market and developing countries.

The PNG economy remains challenged by its exposure to macroeconomic volatility, including global trade tensions and commodity price fluctuations, low productivity growth, and high reliance on the resources sector. Major projects like the Papua LNG await final investment decisions that could significantly boost economic growth. However, the focus needs to be on the efficient and effective delivery of well-directed public expenditure programs, to ensure the community

⁶ IMF

benefits from the commitment of finite Government financial resources.

While it is encouraging that the PNG government remains committed to its fiscal strategy and appears on target to achieve budget balance by 2027, policymakers must now shift focus beyond maintaining fiscal discipline to developing strategies that will drive economic growth and improve living standards beyond. The challenge ahead is not just reaching upper middle-income status by 2030 but creating a pathway for continued prosperity and development that lifts PNG to higher income levels in the following decade.



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