www.pwc.com/pg

Light at the end of the tunnel...

PwC's 2025 Budget insights

Contents

Executive summary

In 2010 Apple unveiled the first iPad, Instagram launched into the emerging world of social media, and the PNG Government last delivered a budget surplus. In nearly a decade and a half since the budget has been in deficit, peaking at PGK7.3 billion in 2020, or nearly 9 per cent of the country's gross domestic product (GDP). Government debt has similarly grown nearly nine-fold, from PGK6.9 billion in 2010 to PGK61.9 billion in 2024.

The 2025 PNG budget in many ways is modest in its fiscal ambition and largely reflects a continuation of the budget strategy of prior years – with a few notable expenditure and revenue policy changes, which we will return to below.

But what it does herald is the possible return, within the period covered by forward budget estimates, to a fiscal surplus. The 2025 Budget papers project a surplus of PGK82 million in 2027, just two short years from now. At the close of 2024, 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. But this vision of the future is far from assured. Achieving the budget surplus in the short term is dependent upon continuing the fiscal discipline of the past three years and recent reports of cash flow struggles act as a warning that execution will be challenging.

On the right track, but not quite there.

Global outlook

Global economic growth is expected to be stable yet modest – global GDP is expected to grow by 3.2% in each of 2024 and 2025 – but this masks uneven performance across different countries and regions (generally, developed economies growing less rapidly than emerging market and developing economies), and a range of risks tilted to the downside.

While inflationary outcomes and expectations globally have tended to moderate as monetary policy interventions take effect, geopolitical tensions and protectionist policies could disrupt trade and supply chains, and potential disruptions in China's property sector pose challenges that could directly and indirectly impact both PNG's economy and budget position.

Since the International Monetary Fund's (IMF) World Economic Outlook was published only in October economic forecasters have had to grapple with the potential impact of the trade, fiscal, regulatory and other policy changes that might be introduced by President-elect Trump. Protectionism was central to trade policy in Trump's first term, expanded further under Biden, and is likely to grow through both executive and legislative actions in a second Trump term.

Domestic outlook

The PNG economy grew by 4.9 per cent in 2024, and the Government is forecasting further real growth of 4.7 per cent in 2025. Interestingly, a larger share of this growth is expected to come from outside of the resources sector (5.2 per cent), with the resources sector growing at a more modest 3.4 per cent. These forecasts reflect an expectation of PNG's key export commodity prices remaining stable at 2024 levels, aside from a small uptick in export prices for gold and copper, along with a ramp-up in production for projects such as the Porgera mine (which has been slower than previously anticipated, and now will push out to 2026 the return to full production).

Inflation is projected to be 4.5 per cent in 2025, with a convergence of the underlying and headline inflation rates – the former excluding seasonal and price-controlled items, which resulted in a significant variance between the two inflation metrics in 2024.

Government borrowings continue to grow in nominal terms (from PGK61.9 billion in 2024 to PGK64.9 billion in 2025), reflecting the financing of accumulated budget deficits. However, with a growing economy the scale of borrowings as a share of GDP is expected to fall (to 47.4 per cent in 2025, from 50.5 per cent in the year prior).

Consistent with the 2025 Budget's anticipated stable global and domestic economic outlook, and a continuation of the existing Bank of PNG managed foreign exchange controls, the Kina Facility Rate (KFR) and Government bond yields are expected to remain unchanged in 2025, at 4.0 per cent and 7.0 per cent, respectively.

Expenditure priorities

At its core, a government's budget is about articulating the trade-offs between and amongst different revenue and expenditure priorities, and balancing those fiscal priorities over time. Those trade-offs are complex – is it better to spend more on education, health, security or infrastructure? should we borrow today and commit a share of future revenues to repay that debt? – and made more challenging by the dynamic settings in which budgets are framed, where future revenue outcomes are also uncertain.

Although framed around security and law and order, operational expenditure increases in the current budget also focus significantly on 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.

Key Budget Assumptions

Figure 1: Key Assumptions

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Economic growth											
Total Real GDP (%)	4.5	-3.2	-0.5	5.7	3.0	4.9	4.7	4.2	3.8	3.8	3.9
Non-mining Real GDP (%)	1.6	-0.4	4.2	5.9	4.7	4.5	5.2	5.0	5.0	5.0	5.0
Inflation											
Average on Average (%)	3.6	4.9	4.5	5.3	2.3	1.2	4.5	5.0	5.0	5.0	5.0
Interest rate											
Kina Rate Facility (KFR)	5.9	3.5	3	3.1	3.3	2.9	2.9	2.9	2.9	2.9	2.9
Mineral Prices											
Gold (US$/oz)	1,392	1,770	1,800	1,801	1,943	2,325	2,540	2,640	2,719	2,753	2,784
Copper (US$/ton)	6,006	6,170	9,308	8,819	8,486	9,441	10,028	10,163	10,187	10,131	10,108
Oil (Kutubu crude: US$/barrel)	57.0	39.5	67.9	94.5	77.6	80.0	76.4	73.5	72.0	70.0	69.0
LNG (US$ per thousand Cubic feet)	10.6	8.3	10.8	18.3	14.4	14.8	14.2	13.6	13.3	13.0	12.8
Condensate (US$/barrel)	57.0	39.5	67.9	94.3	77.6	80.0	76.4	73.5	72.0	70.0	69.0
Nickel (US$/tonne)	10960	10639	17147	20532	21527	15076	15231	15998	16570	16907	17807
Cobalt (US$/tonne)	22836	21483	44430	51427	33871	20268	22448	23419	24197	24436	25398

Global Economic Outlook

The International Monetary Fund's (IMF) October 2024 World Economic Outlook observed that the global economy has demonstrated resilience "but this masks uneven performance across regions and lingering fragilities".

Global economic growth is expected to be modest (3.2% in 2024 and 2025), with advanced economies recovering faster than emerging market and developing economies (EMDEs), which face more permanent economic scars from pandemic-related economic dislocation and disruption. EMDEs have tended to be more adversely impacted by production cuts, shipping disruptions, conflicts, and civil unrest, particularly affecting the Middle East, Central Asia, and sub-Saharan Africa. Conversely, emerging Asia, which includes major economies such as China, India, Indonesia, Malaysia, the Philippines, Thailand, and Vietnam, has shown resilience and stronger near-term growth prospects. This region's economic performance is bolstered by robust demand in the technology sector, particularly semiconductors and electronics.

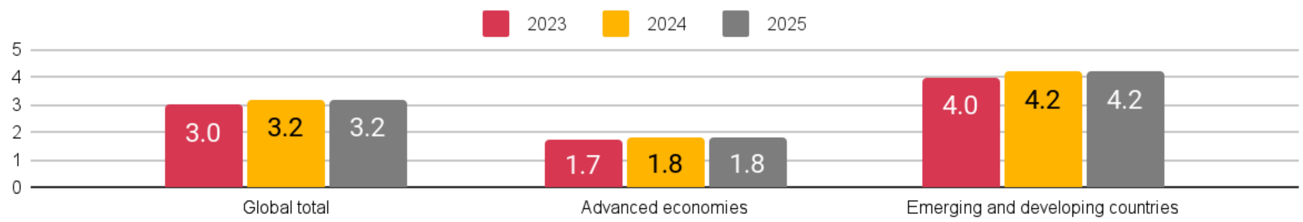
Papua New Guinea (PNG), both through location and trading connections with emerging and developing Asia, is influenced by global and regional trends. The country's economic outlook is shaped by its reliance on non-fuel primary products, which are critical to its export earnings. International demand for these commodities, coupled with regional economic dynamics and PNG's success in maintaining stability and minimising disruptions to commodity production and shipping, will play a significant role in shaping PNG's economic prospects.

Globally, the inflation dragon seems to have been tamed, with headline inflation to fall from 6.7% (2023) to 5.8% (2024) and 4.3% (2025). Most advanced economies (except Australia) are returning to their inflation targets sooner than EMDEs.

Risks to the global economy, however, are "tilted to the downside amid elevated policy uncertainty", with even this assessment pre-dating the recent US election. Geopolitical tensions and protectionist policies could disrupt trade and supply chains, while potential disruptions in China's domestic economy and its property sector pose particular challenges – directly for those economies with dominant trade ties to China, but more broadly given the now significant extent to which the global economy is enmeshed with China's.

How should countries and governments respond? Fiscal policies need adjustment to ensure debt sustainability and to rebuild fiscal buffers, while structural reforms are needed to address flagging productivity – crucial to medium-term growth prospects. Amidst a fracturing world grappling with social instability and technological disruptions, these reforms will not be easy or quick. Equally difficult will be the multilateral cooperation that is essential to address climate change.

Figure 2: Economic growth (% annual)



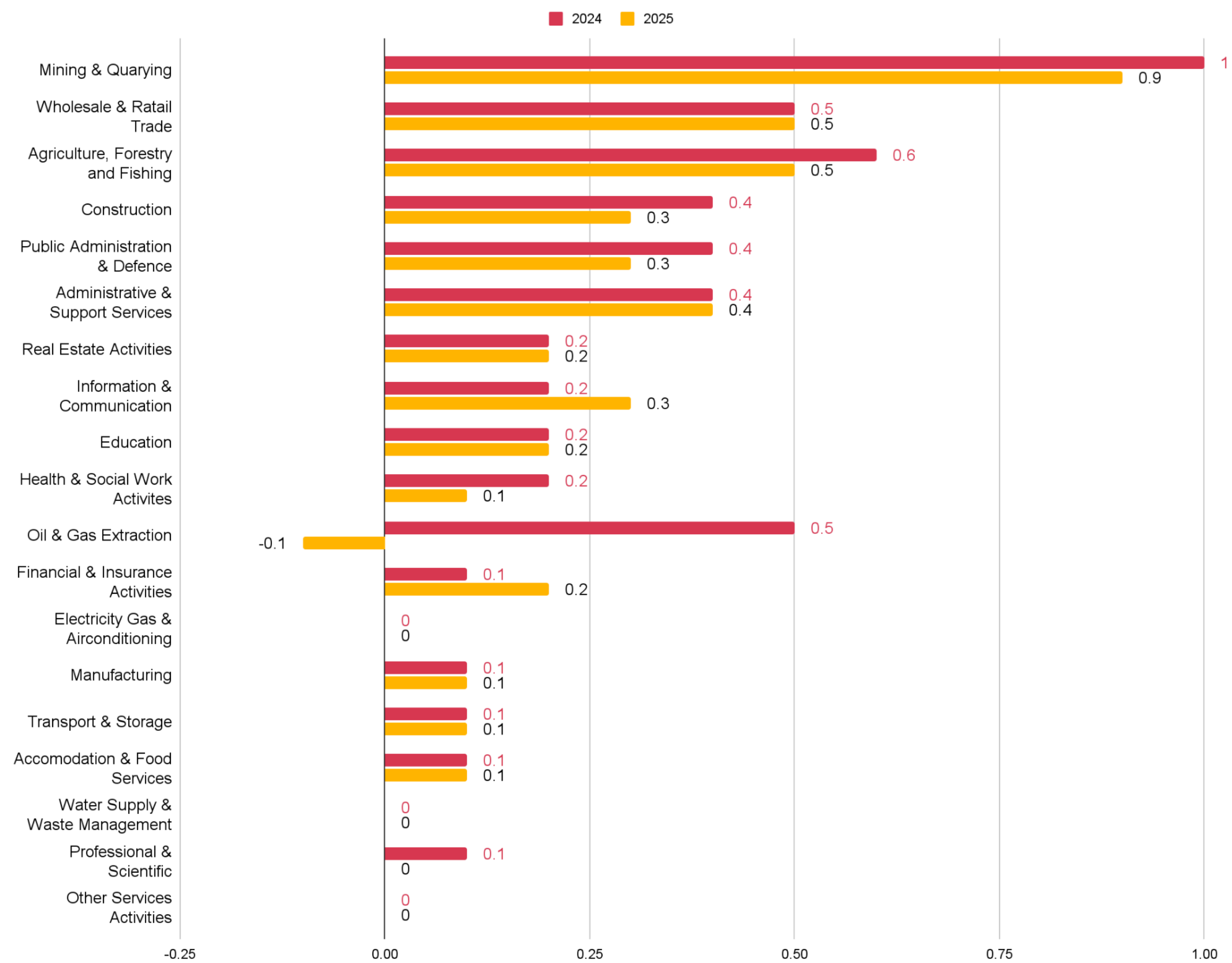
The domestic PNG economy

Economic Growth

The PNG economy remains hard-wired to the fortunes of the mining and resources sector, especially gold and oil and gas. This means the economy is exposed to both volume and price risks for these commodities, as well as specific factors such as the performance of major projects – for instance, completion of PNG LNG's Angore expansion in 2025 will increase production volumes significantly, while the continued (but delayed) ramp-up of production at the Porgera gold mine similarly will help boost growth.

According to the 2025 Budget, the PNG economy is expected to grow to PGK136 billion in 2025, reflecting a real growth rate of 4.7 per cent (broadly in line with 2024 growth of 4.9 per cent).

Figure 3: Industry Contribution to GDP (percentage Points of Growth)



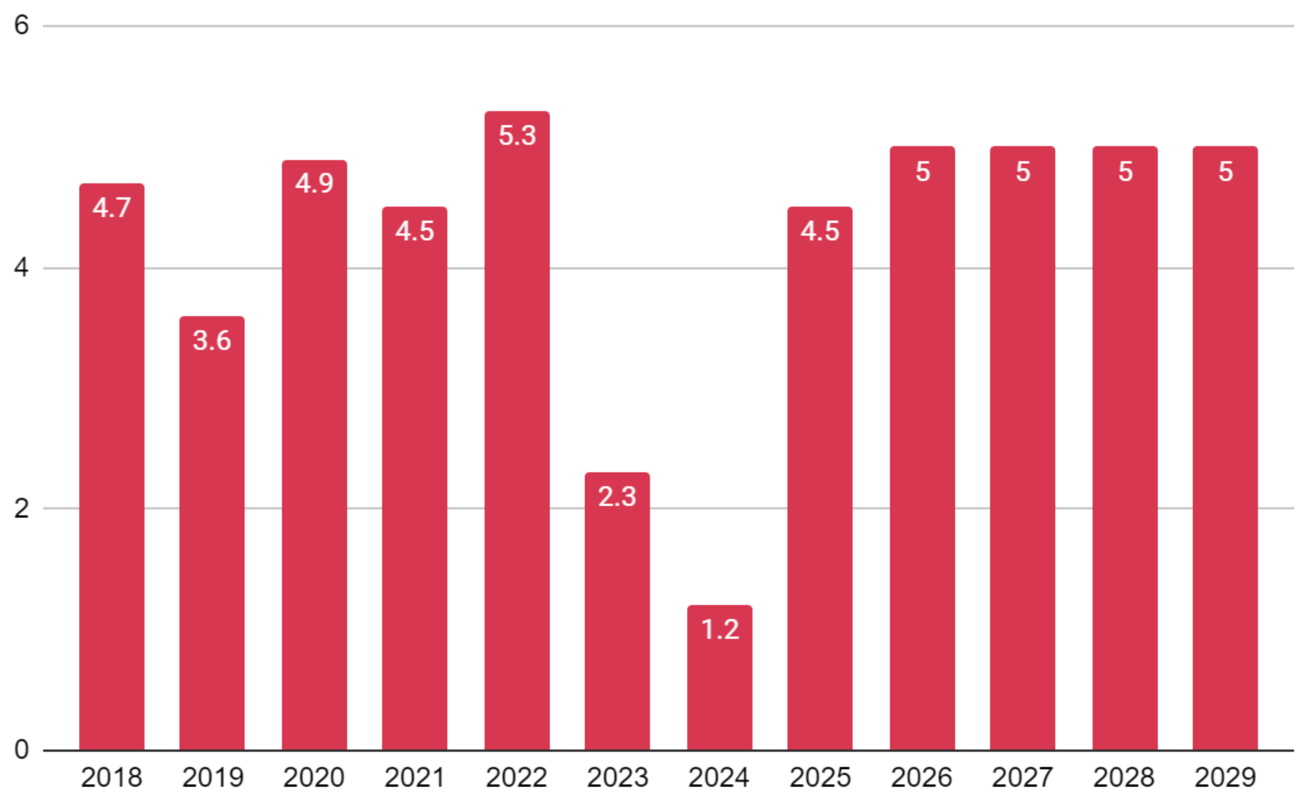
Inflation

High inflation is pernicious, eroding household purchasing power and living standards. Globally, elevated inflation has become one of the most important policy challenges for governments, with most central banks ramping up policy interest rates to help pull down the rate of price growth. This has seen global headline rates of inflation fall from 6.7% (2023) to 5.8% (2024) and 4.3% (2025). (Importantly, moderating inflation rates does not mean that price levels return to pre-inflationary levels – prices still "feel" high because they are significantly elevated, just the *rate* of price increase has ameliorated.)

Reliably measuring rates of price change in PNG is complicated by both different technical ways in which inflation can be represented, and the timeliness and accuracy of underlying economic data. This was evident in 2024, with headline inflation printing at 1.2 per cent, yet underlying inflation (which excludes seasonal and price-controlled items, including some items covered by the Government's PGK685 million Household Assistance Package, which will continue and be expanded to new items in 2025) materially higher at 4.4 per cent.

For 2025, the Treasurer is projecting a convergence of headline and underlying inflation to 4.5 per cent. Over the balance of the budget forecast period inflation is expected to remain stable at 5.0 per cent.

Figure 4: Inflation (%, average-on-average)

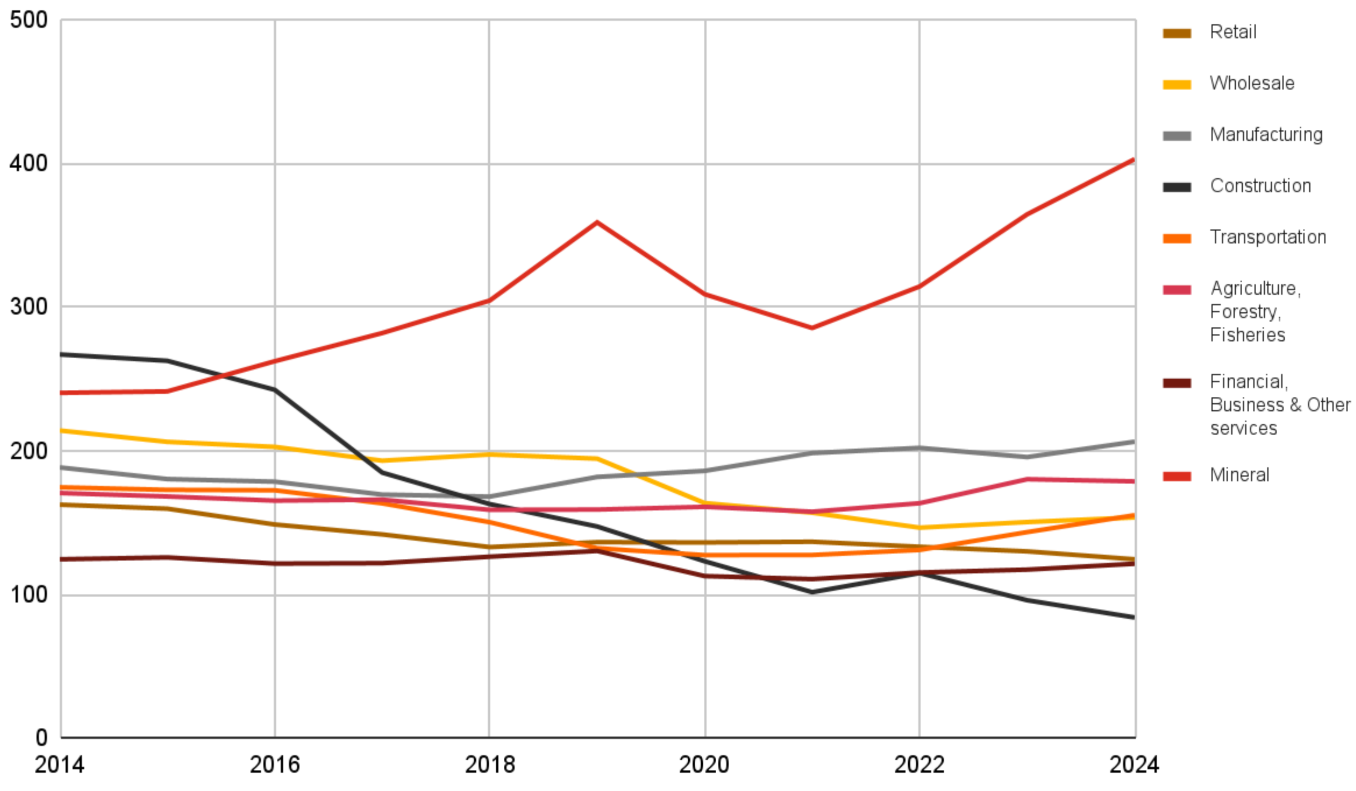


Employment

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).

The Department of National Planning and Monitoring has reported PNG's unemployment rate at 4.7 per cent (2024), though as noted above there is a large fraction of the population in the informal labour-market, and not visible in formal labour statistics. According to the 2025 Budget (formal) employment grew at 2.9 per cent. Although this is an increase on the prior year, it is 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.

Figure 5: Employment ('000) by Industry



Exchange Rates

The Kina continued to depreciate in 2024 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.

Fiscal Outlook

At the close of 2024, 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 2025 (to the tune of PGK2.9 billion), looking only two short years further forward, the Treasurer's projections are for a surplus of PGK82 million in 2027. A slim 0.01 per cent of GDP, but a surplus nonetheless.

Figure 6: Key fiscal indicators

	2023 FBO	2024 Budget	2025	2026	2027	2028	2029	2030
Revenue (K,million)	19,810	23,394	25,408	27,897	31,216	34,406	37,871	41,758
Expenses (K,million)	24,615	27,378	28,357	29,505	31,135	32,138	33,631	35,556
Deficit (K,million)	(4,805)	(3,984)	(2,949)	(1,608)	81	2,268	4,240	6,202
Deficit % GDP	-4.3	-3.2	-2.1	-1.1	0.0	1.3	2.2	3.0
Gross debt (K,million)	57,943.7	61,927.5	64,876.7	66,485.3	66,403.8	64,136.2	59,896.3	53,694.4
Debt % GDP	52.0%	50.5%	47.4%	44.8%	41.5%	37.2%	32.1%	26.5%
Interest costs (K,million)	2,770	3,051	3,523	3,524	3,612	3,466	3,206	3,122

Source: Budget 2025

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.

Total revenues and grants are expected to increase to PGK25.4 billion in 2025, an increase of around 11% on the prior year. This represents a small uplift in tax revenues as a proportion of the economy (to 13.4 per cent, 2025), reflecting projections of slightly higher commodity prices and an expectation of improved tax compliance.

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: 2025 Budget Revenue Details (Kina, million)

	2023 FBO	2024 Budget	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.	2029 Proj.
Total Revenues and Grants	19,810	23,394	25,408	27,897	31,216	34,406	37,871
Total Revenue (as % of GDP)	17.9	18.6	18.6	18.8	19.5	19.9	20.3
Taxes	17,626.9	18,694.8	21,201.0	23,662.4	26,565.8	29,372.1	32,498.7
Taxes on income, profits, and capital gains	11,730.4	12,455.6	13,707.7	14,494.1	15,987.4	16,831.7	18,220.5
Taxes on payroll and workforce	2	1.2	1	1	-	-	-
Taxes on goods and services	5,227	5,349.1	6,553.4	7,183.7	8,144.6	9,565.6	11,114.6
Taxes on International trade and transactions	667.6	888.8	939	1,983.5	2,433.8	2,974.8	3,163.6
Grant	1,158.6	2,205.0	1,500.0	1,550	1,600	1,650	1,700
Other Revenue (Non-Tax)	1,024.4	2,017.3	2,707.0	2,684.3	3,050.4	3,384.0	3,672.1
Total Revenue (excluding grants)	18,651	21,189	23,908	26,347	29,616	32,756	36,171

Expenditure

The Treasurer opened his 2025 Budget speech noting that spending was expected to be PGK28.4 billion in 2025, the largest in PNG's history. Similar claims of "record" spending are commonplace amongst the world's Treasurers and Finance Ministers, and with growing economies and positive inflation pushing up nominal costs, increasing budgeted spending year-on-year is mathematically unremarkable. It is however the quality of the spending that matters, as much as the quantum.

The budget was themed "Securing PNG in 2025 and Beyond", and included significant new funding commitments to police, the defence forces and judiciary. It also allocated additional funding across a range of other portfolios, notably education and health which now collectively account for more than one-third of the Budget's operational expenditures.

Figure 8: 2025 Budget Expenditure Details (Kina, million)

	2023 FBO	2024 Budget	2025 Budget	2026 Proj.	2027 Proj.	2028 Proj.	2029 Proj.
Total Expenditure	24,615	27,378	28,357	29,505	31,135	32,138	33,631
% of GDP	22.1	22.3	20.7	19.9	19.4	18.6	18
GoPNG Expenditure	**23,456**	**25,173**	**26,857**	**27,955**	**29,535**	**30,488**	**31,931**
% of GDP	21.1	20.5	19.6	18.8	18.4	17.7	17.1
Operational Component (PE and G&S)	**11,237**	**12,091**	**12,643**	**13,384**	**14,448**	**14,536**	**15,419**
% of Total Expenditure	45.7	44.2	44.6	45.4	46.4	45.2	45.8
Interest Payment	**2,770**	**3,051**	**3,523**	**3,524**	**3,612**	**3,466**	**3,206**
% of Total Expenditure	11.3	11.1	12.4	11.9	11.6	10.8	9.5
Capital Investment Component	**9,258**	**10,700**	**10,343**	**10,557**	**10,775**	**11,546**	**12,104**

Source: Department of Treasury

The budget also restated the Government's commitment to its PGK685 million Household Assistance Package, which includes a combination of GST relief on certain essential items, personal tax reductions, stamp duty waivers for first-home buyers of eligible dwellings and support with school fees.

Figure 9: Expenditure by Sector as a % of the Total Budget

	Budget 2021	Budget 2022	Budget 2023	Budget 2024	Budget 2025
Administration/ Miscellaneous	27.3	30.2	28.7	23.3	19.7
Community and Culture	0.5	0.7	0.8	0.8	1.1
Debt Services	12.0	10.8	10.2	11.1	12.4
Economic	3.4	4.4	4.0	5.9	5.7
Education	5.6	6.6	6.7	14.9	15.6
Health	8.9	11.9	9.5	9.5	9.8
Law & Justice	6.5	6.5	7.3	7.9	8.2
Provinces	20.1	19.8	20.9	14.9	15.4
Transport	11.0	6.7	9.1	7.4	7
Utilities	2	2.3	2.8	4.4	5.1

Debt

Total PNG Government borrowings are expected to grow to PGK64.9 billion in 2025, increasing further the next year before starting to fall with the anticipated budget surplus in 2027.

Borrowing costs continue to drag on the budget, consuming around PGK3.5 billion in 2025, up more than 15 per cent from 2024. Although an increase in domestic borrowing costs was a contributing factor, with more than half the Government's debt denominated in foreign currencies, it remains exposed to future currency depreciation increasing its debt servicing burden.

Taxation Developments

The fiscal landscape in which Budget 2025 is framed continues to be challenging. Despite the potential for overall economic uncertainty, the Government is forced to continue along its projected path towards a budget surplus in 2027, in line with the 13 year deficit reduction plan and the Medium Term Fiscal Strategy.

Moving towards a surplus budget in 2027 continues to rely on increasing the revenue side of the budget more quickly than expenditure. For the 2025 budget, this ambition sees the total planned growth in tax revenue of 13.4% against the 2024 budget, and this also includes a range of tax reductions grouped under cost of living support measures and a reduction in the tax rates applicable to the banking sector.

Without new taxes, or without a clear broadening of the tax base, the expectation remains that the growth in tax revenue collections will arise from general economic growth as well as a continued expectation of efficiency dividends through enhanced collection by the IRC. This has been the same basis for much of the success to date in the growth in tax collection, however the goal of continued double-digit growth in collections will remain challenging.

The heavy lifting for growth in tax revenues is expected across most heads of taxation, with an increase of approximately 10% planned for SWT, income tax, dividend taxes etc. However, GST collections are expected to grow by more than 20% against 2024 number - primarily through the application of Section 65A GST notices to government agencies and departments and despite the current cost of living relief measures that have been implemented and are projected to reduce collections by K210 million.

Legislative changes for 2025

Perhaps somewhat surprisingly given the narrow fiscal pathway for the economy and the budget there is a wide range of planned changes to take effect for 2025. Some of these include amendments to tidy up some prior year changes and minor technical fixes. However, there are also some more substantive changes to GST, income tax applied to banks, and the regular updates to excise taxes. There are also a series of amendments that provide more flexibility and powers to the IRC in areas of tax administration, for example to allow the implementation of a GST monitoring system and vary the filing periods for GST (potentially allowing smaller taxpayers to file less frequently). Many taxpayers will also be pleased to see the increase in the threshold for the requirement to obtain a tax clearance certificate (increasing from K500,000 to K1,500,000) as well as an increase in the threshold for first home buyer concessions.

GST changes

Growing the tax take through GST has been a significant focus for the past several years and Budget 2025 continues this theme. Varying the application of GST has also been the area in which the Government has sought to introduce cost of living relief in prior years, and this is also continued for 2025.

The most significant tax relief feature in this year's budget is the identification of 13 basic household items that will be zero rated for GST purposes for a period of 12 months from 1 July 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.

Presumably, the start date being scheduled for 1 July 2025 will provide time for those in import, wholesale, and retail to be able to react to the change in GST rates for these goods. It could also be expected that the IRC may issue some further explanatory material on the goods themselves as the scope of the application may need further clarification. We also note that while the intent of the amending provision is clear (to zero rate these items), the amendment act proposes to include this in the section of the GST Act dealing with exempt supplies.

Other more administrative changes that have been included in the legislation include:

- Providing the ability for the implementation of a GST electronic monitoring system to be introduced and for taxpayers to be obliged to use as directed. This will allow the IRC to move forward with its planned GMS technology aimed at collecting real time transactional data from the retail sector in particular.
- The IRC will have the ability to allow taxpayers whose taxable supplies do not exceed K1.5 million per annum to potentially move away from monthly GST returns to longer periods (potentially quarterly). This would have the benefit of reduced compliance costs and process for both taxpayers and the IRC.
- Penalties for non compliance with Section 65A notices have been increased. Those operating under a Section 65A notice are primarily government departments and agencies
- The timeframe for the request for a refund of GST is to be reduced. Currently claims should be lodged within 8 years and the plan to reduce this to 4 years by 2029.

Income tax on banks to change

The banking sector will be enjoying a progressive reduction in the rate of income tax being applied to their operations. After being increased to a flat 45% effective from 1 January 2023, the plan is now to move to a hybrid system. The hybrid system applies different rates on a two tier level of taxable income for the bank. There is also a plan to continue to reduce the tax rates applicable to banks.

For 2025, the first K300 million of taxable income will be taxed at a rate of 40% and amounts above this level will be taxed at 44%.

For 2026 and future fiscal years, the first K300 million of taxable income will be taxed at a rate of 35%. The tax rates applicable to amounts above that level will then drop by 1% per annum from 43% in 2026, through to 35% in 2034.

Updates to first home buyer thresholds

There are two amendments that aim to make the tax concessions applicable to the Citizen First Home Buyers scheme more relevant for 2025 and beyond. The concessions available are delivered through stamp duty exemption and also for income tax concessions based on the approval of schemes by the IRC. The current maximum value of the house that could be purchased under these schemes is being increased to K700,000.

Tax exemption support for PNG's NRL team members

As part of the plan to introduce a PNG based team into the National Rugby League (NRL) competition, full income tax exemption is planned to be introduced for the income of all players as well as international staff and officials earned in representing the club. This is scheduled to be introduced from 1 January 2025 and will continue up until 1 January 2036.

Some budget commentary attempts to describe some conditionality for this exemption - for example that the recipient is tax resident in PNG and not tax resident in any other country. However, this conditionality does not directly appear to be reflected in the legislative arrangements. The legislation as drafted states the provision only applies to staff or officials that are non-citizens of PNG while the commentary applies a residence test.

Furthermore, while the legislation refers to representatives of the PNG NRL and NRL franchise clubs, the commentary provides that the legislation is to only apply to representatives of the PNG based club participating in the NRL competition.

Salary and wages tax adjustments

The existing thresholds, rates and application of tax for resident individual taxpayers remain broadly unchanged. However, there have been a number of amendments, including:

- The removal of the 22% threshold from the non-resident tax table, clarifying the existence of a single tax band of 30% for the first K33,000 of annual income
- The distribution from an authorised superannuation fund for employees with 15 years of contributions will be exempt from salary and wages tax (currently this is the element that is subject to SWT at 2%)
- The IRC has been given administrative powers to issue fortnightly tax tables in accordance with the rates in place. This amendment appears to allow the IRC to clean up the issue associated with the changes and subsequent reversion to the status quo of the dependent rebates in last year's budget. The tax tables can now be updated formally to acknowledge the dependent rebate.

Alleviating the need for tax clearance certificates

The threshold for the requirement to apply for a Tax Clearance Certificate (TCC) has been increased from K500,000 to K1,500,000. This should have a significant impact on the number of TCCs that are required to be lodged each year. This reduction in the administrative burden for taxpayers and the IRC will be welcomed.

County by Country reporting

As part of ensuring PNG continues to play its role in the multi national efforts on Base Erosion and Profit Shifting (BEPS) rules, the budget commentary makes references to two changes. The first is to capture new qualifying multinational enterprises on a year by year basis by linking the turnover threshold (K2.3 billion) to an annual test, rather than the enterprise's turnover in 2016. The second change is to impose a penalty regime (a fine up to K2 million) for failing to lodge a country by country report where required.

However, it appears that the legislative amendments included only deal with the second of these intended changes and the fate of the updating the testing period to being based on current year turnover is unclear.

Excise amendments

The excise system has for some years had automated increases based on an indexation rate applicable to alcohol and tobacco sectors on a six monthly cycle. However, the budget announces a freeze on this indexation for alcohol and Tier 1 tobacco products. Tier 2 tobacco products bear a lower excise burden, but the application of the Tier 2 rates are subject to a quota. The current budget modifies the methodology for determining the amount of Tier 2 product.

Other new excise categories include:

- Introduction of an excise on e-cigarettes and associated items
- Update of the harmonised systems to align for the treatment of electric and hybrid vehicles. A 10% duty applies to hybrids and zero rating for fully electric vehicles.

Alignment of commentary and policy with legislative action

Ultimately, giving effect to the policy statements explained in the budget papers and the speeches that accompany proposed fiscal amendments is done through the drafting of new or amending legislation. This process is complex, in particular given the complex historical background of the primary income tax legislation - which has been in existence for over 60 years. It is not uncommon for some technical drafting challenges to potentially thwart the announced legislative intent of different tax measures.

This year appears to be no exception to this challenge. The budget 2025 papers contain five separate amending acts for the income tax elements of this year's changes, and further bills for GST and excise. There appear to be a number of areas in which the intent of the measures may require further legislative amendments in order to give effect to parliament’s intent. Having a simpler legislative structure in the future continues to be a policy aim for the government, and has been one of the drivers of the process of rewriting the Income Tax Act.

The new income tax act deferred

It was heavily reported that budget 2025 would see the introduction of what will be arguably the most significant tax legislative change in more than 60 years with the presentation of the new Income Tax Act 2024 (the new act). However, the new act does not form part of the bills presented to parliament during this budget session. While still anticipated to come into effect from 1 January 2026, the introduction of new legislation has been further delayed. The plan is now to present the bill in the first parliamentary session in 2025. The government appears to remain committed to the prospect of the new act and has been taking steps to socialise the range of changes at the cabinet level.

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 the year prior (at around PGK66.5 billion), and fall each year thereafter. Beyond 2027 the Treasurer's medium-term projections are that Government debt could be repaid entirely by 2034 – within a decade!

The continued commitment of the PNG Government to this fiscal strategy is commendable, even if there remains some question about the reliability of the budget's forecasts. The 2024 budget outcome was plagued by unbudgeted expenditures and other commitments, which fortuitously were offset by similarly unbudgeted revenue gains. Without those unbudgeted and unexpected revenue gains, the credibility of the Government's fiscal strategy would have been in jeopardy.

Realistically, maintaining expenditure discipline once a budget surplus has been achieved will prove difficult, requiring political will to prioritise debt reduction over pressing immediate community expenditure demands. A more sustainable fiscal strategy would be to define some policy guard-rails around the sustainable level of Government borrowings, allowing a future PNG Government flexibility to continue to invest in infrastructure and other initiatives which support economic growth, and which can then be repaid from that growth dividend.

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.

Unfortunately, the reality of living standards for Papua New Guineans in recent times has fallen short of this ambition. As measured by real per capita non-resource sector GDP, today's living standards are only half-way back to the level they were in 2012. While inflation has eased, cost of living pressures remain sharply felt, and law and order continues to be a significant community (and business sector) concern.

The PNG economy remains challenged by its exposure to macroeconomic volatility, low productivity growth and a high reliance on the resources sector, and indeed to the fortunes of specific projects within the resources sector.

Expenditure in health, education and security, as articulated in the 2025 budget, 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 economies.

However, the focus needs to be on the efficient and effective delivery of well-directed public expenditure programs, to ensure the community benefits from the commitment of finite Government financial resources. The Treasurer acknowledged this in his remarks at the Budget Lock-Up, observing that "all of this high level work of budget allocations must now be converted to the hard work of effective and efficient implementation". What is needed to support this is a continued focus on building capable institutions with strong governance, to give the community confidence that budget expenditure commitments are being faithfully and effectively delivered.

Contact us for more information

Jonathan Seeto
Managing Partner
jonathan.seeto@pwc.com

Peter Burnie
Partner
peter.burnie@pwc.com

Teresa Kenny
Partner
teresa.x.kenny@pwc.com

Michael Collins
Partner
michael.j.collins@pwc.com

Jonathan Grasso
Partner
jonathan.a.grasso@pwc.com

Peter Buchholz
Partner
peter.l.buchholz@pwc.com

Chris Wickenhauser
Partner
christopher.r.wickenhauser@pwc.com

Jordan Yen
Partner
jordan.j.yen@pwc.com

Shanol Jokhan
Partner
shanol.j.jokhan@pwc.com

Our Location
PwC Haus, Level 6
Harbour City, Konedobu
Port Moresby, NCD 125

T: (675) 305 3100 | 321 1500
F: (675) 321 1428

www.pwc.com/pg

About PwC and this publication

At PwC, our purpose is to build trust in society and solve important problems. We are a network of firms in 157 countries with more than 223,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com/pg