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Papua New Guinea Budget 2025

"Securing Papua New Guinea in 2025 & Beyond"

Budget Alert

Executive Summary

Marking the 50th year of PNG's independence, the 2025 Papua New Guinea National Budget, under the theme "*Securing PNG in 2025 and Beyond*," reflects an ambitious roadmap for fiscal consolidation, economic recovery, and inclusive growth. While the budget demonstrates prudent planning and strategic priorities, the Government's ability to achieve the budget hinges on sustained strong revenue growth.

We are pleased to see a range of measures introduced aimed at alleviating cost of living pressures, investments in law & order and ease of doing business (such as accelerating processing of GST refunds).

The 2025 budget focuses on a 5.2% real growth rate in the non-resource sector, building upon a 4.8% increase in 2024. This sector, encompassing agriculture, manufacturing, services, and construction, is vital for inclusive economic development, as it engages a significant portion of the population.

Whilst we agree that there should be ongoing investment in the agricultural economy, there are significant challenges in growing productivity in this sector within PNG.

We would like to see PNG lock in its future growth through faster approval of oil & gas and mining projects. This would supercharge PNG's ability to prosper and increase the living standards for all Papua New Guineans.

Final thoughts…

The challenges facing the Government's fiscal position, particularly in the short to medium term are well known. The Government has consistently emphasised its commitment to a 13-year Budget repair plan, with the additional complexity of budget support requirements from development partners that often come with their own conditions. While revenue growth has been reported as strong, (projected at 15.8% for FY24 compared to FY23), expenditure growth, also significant at 9.3%, alongside an apparent cash shortage, underscores the inherent difficulties in managing the Budget.

Papua New Guinea's economic structure, heavily reliant on global commodity prices, makes it inherently more vulnerable to external shocks. This illustrates the importance of productivity-enhancing economic reforms and ensuring that the ease of doing business is a priority.

It also highlights the critical need for the Government to accelerate the commencement of major projects. While GDP growth does not solve all fiscal challenges, it plays a key role in addressing them. However, red tape remains a considerable barrier. Delays in implementing projects, especially in oil & gas, run the risk of missing an opportunity for transitional energy sources.

Other pressing issues persist. The ongoing foreign currency shortage and structured depreciation of the Kina continues to constrain businesses and deter investment. Law and order challenges remain a significant concern. Moreover, operational inefficiencies, such as delays in GST refunds by the Internal Revenue Commission, withdraw critical liquidity from the private sector, stifling its growth.

The looming grey listing by the Financial Action Task Force represents another major hurdle. Grey listing could bring significant implications, including reduced foreign investment, increased compliance costs, heightened scrutiny of financial transactions, and reputational challenges for PNG's financial and economic systems. While the exact effects will only become clear by 2026, proactive measures are needed to mitigate potential impacts and reassure both domestic and international stakeholders.

...final thoughts

There have been commendable steps taken in the right direction. Increased investment in policing, along with salary increases for teachers and health workers, is bolstering critical sectors that underpin productivity growth. However, with these sectors already under significant strain and a rapidly growing population, the ongoing question remains: will these efforts be sufficient to meet the scale of the challenge?

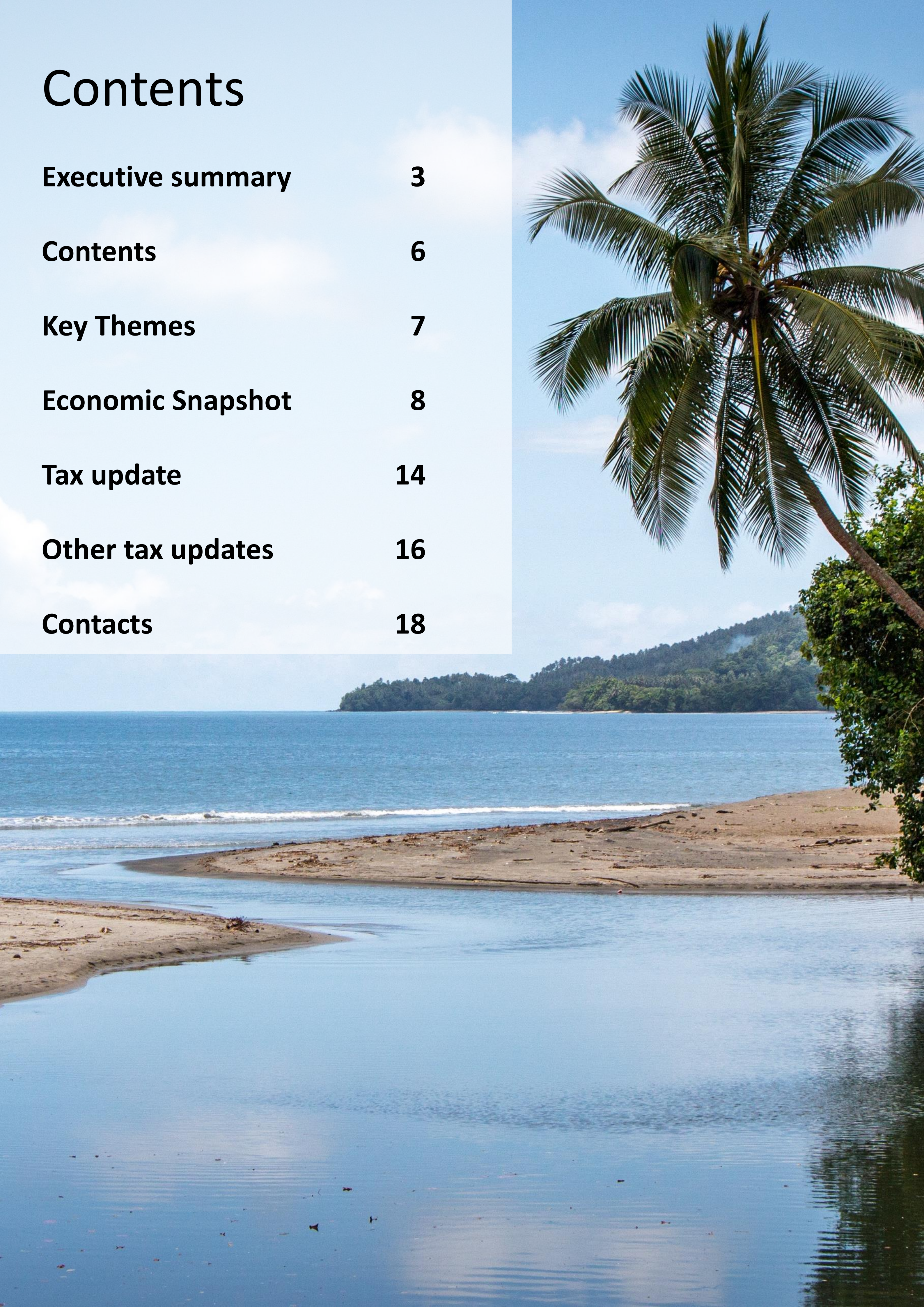
Infrastructure has also been a focus area, with the Government securing strong support from key partners to fund development in critical areas such as power, ports, roads, and air travel. While having infrastructure in place is essential, equally important, if not more so, is ensuring that the infrastructure, and the investments in it, are utilised to their full potential. For instance, PNG should maximise the benefits of the Coral Sea Cable and new connectivity opportunities such as Starlink, in addition to ensuring the effectiveness of special economic zones.

In the realm of reforms, the creation of a dedicated Monetary Policy Committee is a welcome development. Additionally, reforms in climate and carbon regulations are paving the way for what could become a significant and sustainable industry for Papua New Guinea. On the tax front, while the new Income Tax Act is planned for implementation from 1 January 2026, it does not introduce the broad-based tax reforms that could have been achieved given its modernisation mandate. Nonetheless, the changes it introduces represent an important step forward in tax reform. Staying on reform, although the budget mentions adjusting the banking tax by financial institution, we would like to see additional clarity on this.

As with any complex endeavour, the PNG Government faces ongoing challenges that require sustained focus and coordination. Much like a rugby league match, success depends on the team staying focused on the game plan rather than being distracted by individual roles.

On the topic of rugby league, the proposed PNG NRL team represents a significant investment in the PNG/Australia relationship. While it has clear elements of sport diplomacy, it also provides PNG with a unique opportunity to capitalise on this platform for a deepened relationship. With effective planning and execution, this initiative could lead to substantial benefits both on and off the field.

Contents



Key Themes

Budget Repair – Debt and Deficit

The 2025 Budget aims to continue the Government's Budget repair and reconstruction, with a 2025 debt to deficit ratio of 2.2%. While the forecasted level of debt has not peaked, the debt to GDP ratio has. Surplus forecast for 2027.

Revenue – Revenue raising not from new taxes

Tax revenue is expected to grow by an ambitious 13.4%, with this expected to come from increased compliance activities and economic growth. Despite this, total revenue growth is at a lower 8.6%, which is impacted by a decrease in grant income.

Focus on infrastructure– Priority given to capital expenditures

Increased debt is going to CAPEX Budget. Focus on priority investments with favorable economic returns including connecting missing link road corridors.

Education, Health and Security – Key sectors remain priority

Strong spending remains in these areas. This is against a population growth rate of 4.8%.

Household assistance– Current Livings Standards well below a decade ago

With food prices increasing by 50% over the last 10 years, the household assist package will remove GST on essential goods from 1 July 2025.

Risks – Fiscal and debt related

Revenue projections not materializing, upgrades in country risks, exchange rate and commodity price risks, managing the current debt levels and new geopolitical trade wars.

Funding support risks

Debt financing will skew towards international sources in 2025. Bilateral funds come with their own conditions and these will need to be met to be unlocked.

Monetary Policy

Fiscal deficit of K2,949,3 million for 2025, 2.2% of GDP

Economy expected to grow strongly at 4.7%

Economic snapshot

The economy is expected to exceed K136 billion in 2025. This is K12 billion higher for 2025 than was expected when the 2022 Budget forecasts were made. The Government firmly believes that they are on target for a K200 billion economy by 2030, a K300 billion by 2035, and Kina one trillion economy by 2048.

PNG is forecast to benefit from its longest run of sustained real growth in the non-recourse economy of over 4% in its history. PNG has had real non-resource growth of 4.2% in 2021, 5.9% in 2022, 4.7% in 2023 and forecasting 4.5% in 2024 and 5.2% in 2025. This growth is supported by higher gold and copper prices, improved agriculture production, improvements in forex and increased government spending. However, even with record economic growth real non-resource GDP per capita fell by 11% between 2012 and 2018.

Wider Economic Reforms

Other economic reforms are mentioned in this budget. Due to ongoing concerns regarding the 45% banking tax this will be phased down to 35%, while a review will be held into how to encourage stronger financial inclusion for banks. Other reform measures mentioned will be a new Monetary Policy Committee, GST compliance simplifications, increasing Tax Clearance Certificate threshold to K1.5 million per annum, and the recent BPNG Directive on foreign exchange. The Income Tax Act is estimated to be effective 1 January 2026.

Key facts and figures

Table 1: Key macroeconomic indicators (Source: Department of Treasury)

	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Est	2025 Proj	2026 Proj	2027 Projl	2028 Proj	2029 Projl
Economic Growth										
Total real GDP (%)	-3.2	-0.5	5.7	3.0	4.9	4.7	4.2	3.8	3.8	3.9
Non-resource Real GDP (%)	-0.4	4.2	5.9	4.7	4.5	5.2	5.0	5.0	5.0	5.0
Inflation										
Year Average (%)	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)	3.5	3.0	3.1	3.3	2.9	2.9	2.9	2.9	2.9	2.9
Inscribed Stock (3-year yield)	9.0	9.0	0.0	4.7	7.0	7.0	7.0	7.0	7.0	7.0
Mineral Prices										
Gold (US$/oz)	1,770	1,800	1,801	1,943	2,325	2,540	2,640	2,719	2,753	2.784
Copper (US$/tonne)	6,170	9,308	8,819	8,486	9,441	10,028	10,163	10,187	10,131	10,108

Economic snapshot

Table 2: Overall Budget balance (Source: Department of Treasury)

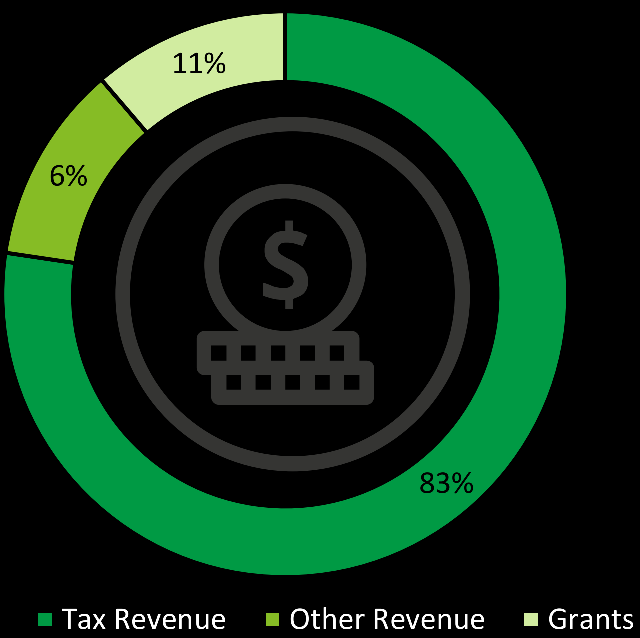
	2023 Actual	2024 Budget	2024 MYEFO	2025 Budget
Revenue	19.810.0	23.393.8	22,930.8	25,408.0
Expenditure and Net Lending	24,614.6	27,377.5	26,914.4	28,357.1
Net deficit	-4,804.6	-3,983.7	-3,983.8	-2,949.1
% of GDP	-4.3%	-3.3%		-2.2%
Government debt (% GDP)	52.0%	50.5%		47.4%

Expenditures are estimated to grow by 3.6% in 2025 while revenue growth expectation is 8.6%. The budget repair continues and as part of this another K1,035 million reduction in deficit bringing the forecasted deficit for 2025 to K2,949 million. Expenditure restraint comes from Government consolidating government agencies and introducing additional controls on expenditure. Budget surplus still planned for 2027 with an option of no debt by 2034.

In 2025, PNG's internally-generated revenues (excluding Grants) are expected to increase by 12.8% of which the tax revenue is expected to increase by 13.4%. The key assumption underlying this expected increase is higher economic growth and improved compliance.

The Non-Tax Revenue Act 2022 (NTRA) represents 33.2% of total non-tax revenue and projected to generate a revenue of K900 million. Non-tax revenues will be moved to Treasury from the Department of Finance.

Chart 1: Where does PNG's revenue come from? (Source: Department of Treasury).



Non-Tax revenue is projected to increase by 8.5% while the Grants from donors are expected to fall by K705 million. The other revenue growth comes from increased dividend collections from State Owned Entities.

Overall Total Revenue and Grants are projected to be K25,408 million which is 18.6% of GDP.

Economic snapshot

2025 Highlights

Table 3: Tax revenue by source (Source: Department of Treasury)

Tax Revenue (PGK million)	2023 Actual	2024 Budget	2025 Budget
Personal Income Tax (PIT)	4,149.8	4,341.0	4,729.0
Company Tax (CIT)	3,031.6	3,761.2	3,959.0
Mining and Petroleum Taxes (MPT)	3,906.5	3,550.0	4,136.6
Withholding and Other Income Taxes	642.3	803.4	883.1
GST (collection less refunds)	3,598.6	3,236.4	4,186.4
Stamp Duties	18.9	46.3	79.1
Excise Duty	896.5	1,326.4	1,271.1
Import Excise	327.6	300.0	503.0
Bookmakers' and Gaming Machine Turnover Tax	357.4	405.2	479.9
Other Taxes on Goods and Services	27.9	34.8	34.0
Import Duty	386.2	455.0	539.0
Export Tax	281.4	433.8	400.0
Training Levy	2.0	1.2	1.0
Grand Total	17,626.7	18,694.7	21,201.2

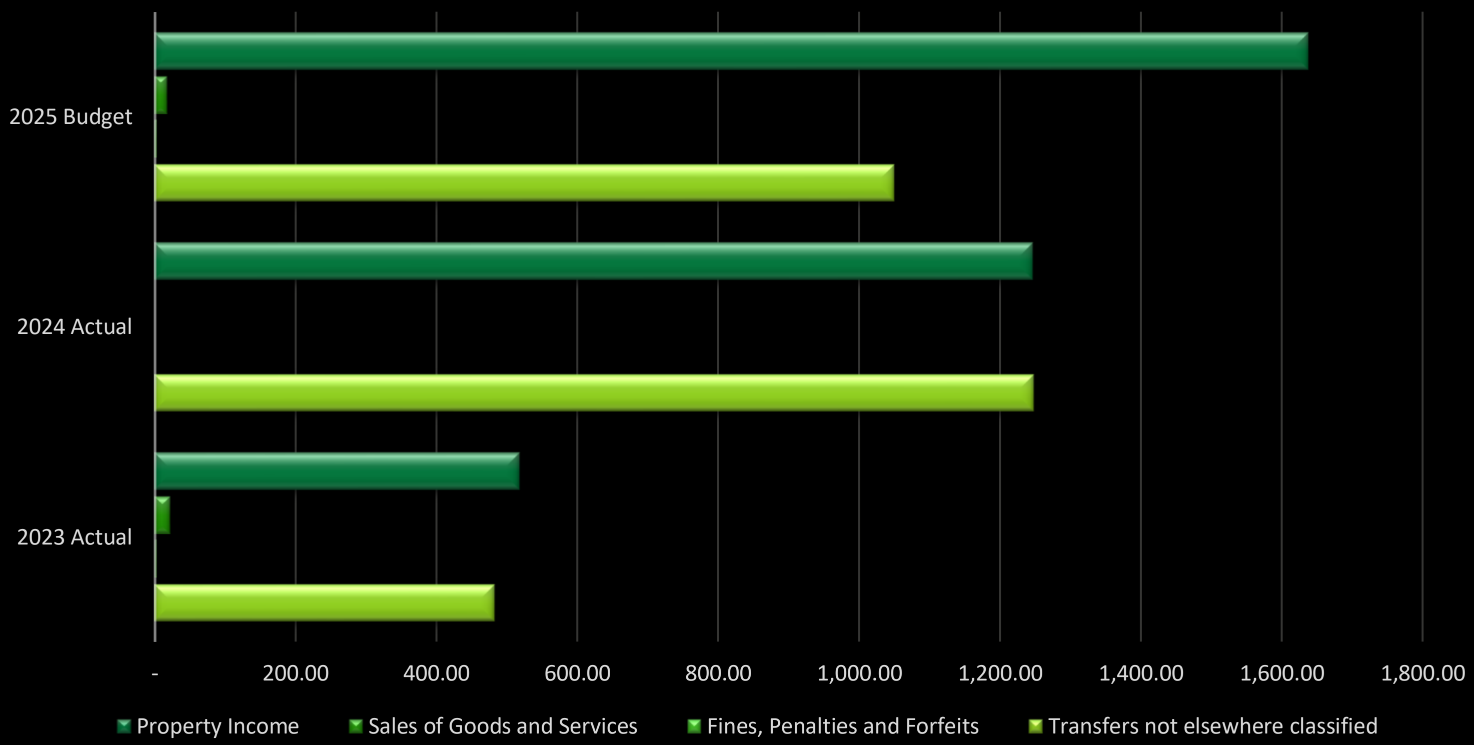
8.9% increase expected in PIT which is expected to be driven by a favourable economic growth outlook, strong employment growth and improved tax compliances efforts. Near full capacity operations at Porgera mine is predicted to yield higher PIT collections, although we note from the budget papers it may take longer to ramp up to full production.

MPT is expected to increase as a result of PNG LNG project reductions in capital expenditure deductions. A ten-year useful life predicted for PNG LNG assets.

Introduction of new GST Monitoring System (GMS) by the IRC in the retail and wholesale sector is expected to increase GST collections by K100 million. Total GST collections projected to increase by 29.4% and the surge is attributed to the IRC's ongoing tax compliance and enforcement efforts. Implementation of Section 65A notices appears to be a major contributing factor.

Economic snapshot

Chart 2: Other revenue by source (Source: Department of Treasury)



	2023 Actual	2024 Budget	2025 Budget
Grand Total	1,024.4	2,494.0	2,707.0
Transfers not elsewhere classified	483.0	1,248.0	1,049.6
Fines, Penalties and Forfeits	2.1	0.0	2.7
Sales of Goods and Services	21.4	0.0	16.7
Property Income	517.8	1,246.0	1,638.0

Revenue, expenditure and net deficit figures are in PGK million

Property income predominantly consists of dividend revenues. be enforced and the funds repatriated to the Consolidated Revenue Fund (CRF).

Economic snapshot

2025 Capital budget

Table 4: Development Partner Contributions

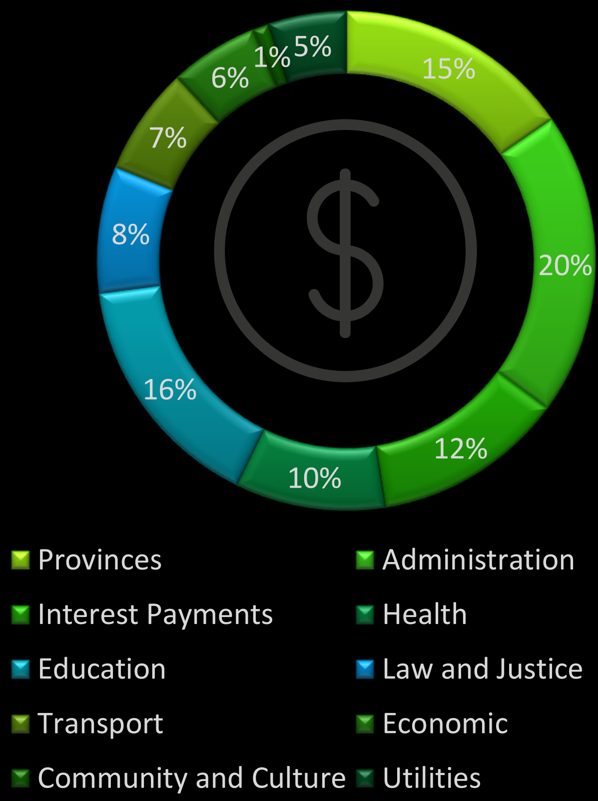
Development Partner (PGK million)	Grants	Loans	GoPNG Counterpart
ADB	19.3	429.4	56.0
CESKA	-	20.0	10.0
EU	89.0	-	-
UN	189.0	-	-
Australia	868.4	-	15.0
China	157.0	165.6	107.0
Indian EXMIN	-	47.0	10.0
Japan	48.3	-	19.0
New Zealand	44.2	-	-
AIFFP	32.0	168.3	9.0
Korean EXIM Bank	-	20.0	-
EIB	40.0	-	5.0
World Bank	-	357.5	24.0
IFAD	-	18.1	2.0
France	12.7	-	-
Total	1,500.0	1,225.9	257.0

The donor financing has reduced by K693.0 million which is predominantly grant financing. Australia, US, China and United Nations continues to be the largest grant financiers. ADB, World bank and AIFFP continues to provide the largest concessional loans. Support finance is mainly to fund the infrastructure, health and administrative sectors.

Economic snapshot

Chart 3: Where does PNG's expenditure go? (Source: Department of Treasury)

Expenditure by Sector	2024 (PGK million)
Provinces	4,364.6
Administration	5,583.1
Interest Payments	3,522,5
Health	2,768.4
Education	4,435.3
Law and Justice	2,334.1
Transport	1,980.7
Economic	1,621.3
Community and Culture	306.2
Utilities	1,441.0
Miscellaneous	
Total	28,357.2



The sector allocation was guided by the five Medium Term Development Plan IV (2023-2027) Growth Triggers with an intention to creating one million jobs and growing the economy to K200.0 billion by 2030.

Tax Update

Background - New Income Tax Act

The focus on tax reform this year was centred all around the Income Tax Act Rewrite and a new Income Tax Act with new Regulations were expected to be passed in the 2025 Budget sitting. Unfortunately, it didn’t quite get there. The Treasurer mentioned the new Income Tax legislation is now expected to be passed in the first Parliament sitting of 2025, with a 1 January 2026 remaining the intended commencement date.

Many of the tax reforms that did make it aim to address the rising cost of living for households in Papua New Guinea. This is under the Government’s Household Assistance Package. While the interventions offer much needed support, the effectiveness of their implementation will be key.

Increase in The First Home-Owner Exemption Thresholds

The Government has increased the exemption threshold for the cost of a home, where repayable amounts are advanced to a first-time home buyer and these amounts are drawn from recreation leave and superannuation entitlements. The housing cost threshold has moved from K400,000 to K700,000.

We understand that the threshold applied to citizen first-time home buyer scheme exemption, for which IRC approval is required, will also be aligned to the new threshold of K700,000.

To keep the tax concessions aligned, the stamp duty free threshold has also been increased from K500,000 to K700,000 to reflect this change.

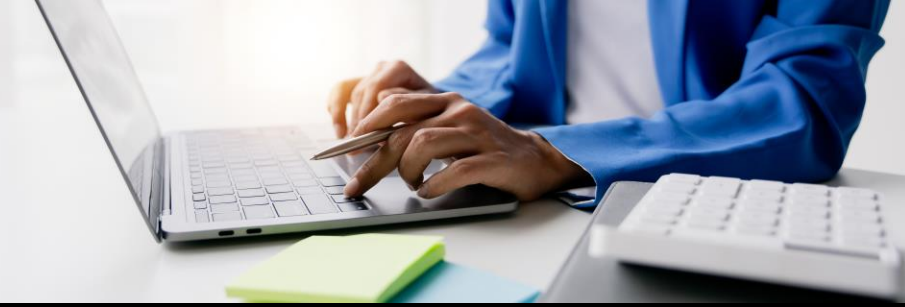
Household Assistance Package

Changes to Non-Resident Salary & Wages Tax Rate

The Government has formally removed the 22% tax bracket from non-resident salary and wages tax rates, which applied to non-residents on income up to K20,000. Non-residents are now taxed at 30% for income up to K33,000. For those earning above this it represents a not insignificant increase in tax of K1,600 per annum. The new brackets are:

Column 1 **Parts of Taxable Income**	**Column 2** **Percentage**
The part of the taxable income that -	
< K33,000	30%
>K33,000 but <K70,000	35%
>K70,000 but <K250,000	40%
>K250,000	42%

Tax Update



Goods & Services Tax Relief

The Government has provided temporary GST relief, being for 12 months, on 13 essential household items as part of its household assistance package.

Effective 1 July 2025, the following household items will be zero-rated for GST purposes for a 12-month period: baby diapers, soap, biscuit, cooking oil, flour, chicken, noodles, rice, sanitary pads and tampons, tea, coffee, tinned fish and tinned meat. While this is an effective relief measure, given interpretation may vary, clarification on what fits into the above categories is likely to be required, while other measures may be needed to ensure the benefits are passed onto consumers. The proposed GST Monitoring System should help with this.

Confusingly, the new rules were put in the Exempt Supplies section of the GST Act. This appears to be in error as the new subsection says zero-rated, not exempt.

GST Relief

Superannuation

Exemption of Superannuation Payouts for Retirees

Superannuation distributions that were taxed at the concessional rate of 2% are now exempt from salary and wages tax.

This includes where: the retiree has contributed for 15 years or more; has contributed for 7 years and is at least 50 years old or is subject to enforced early retirement; or distributions made as a result of death or permanent disablement.

Adoption of Country-by-Country Reporting Standards

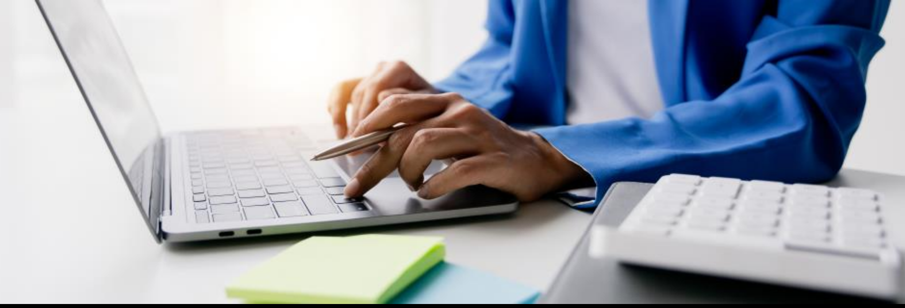
To align with recommendations given to Papua New Guinea on BEPS Action 13, the Government has announced the following:

- Removal of the fixed date of 1 January 2016 for calculating total consolidated group revenue in the definition of exempt Multinational Enterprises (MNE). While this is stated in the explanatory memorandum, the amending legislation itself does not include it in the draft bill provided.

- Penalties to enforce the effective lodging of Country-by-Country reports. Despite this, we note at present only Notification is required by the IRC to declare an entity is part of an MNE group above the annual threshold of K2.3 billion.

Country-by-Country Reporting

Tax Update



Exemption of Income of Representatives of Clubs, etc

To help attract the necessary talent to the proposed Papua New Guinean team in the National Rugby League competition, the Government has agreed to provide for the exemption of salary and wages tax for all players, and non-citizen officials and staff.

The intent is to apply the income tax exemption to employment income of persons that are not taxed on that employment income in another jurisdiction.

NRL

Banks

Reduction of Company Tax Rate for Commercial Banks

The Government has reduced the annual company tax rate for all commercial banks. For taxable income below K300 million, the rate will reduce 40% effective from 1 January 2025, with a further 5% reduction from 1 January 2026 taking the rate to 35%.

For the taxable income of commercial banks that is above K300 million, the rate will be reduced to 44% effective from 1 January 2025 and will continue to reduce annually by 1% until 2034 where it will remain at 35%.

A review will be held into whether the new taxing arrangements should be extended to some large non-bank financial institutions.

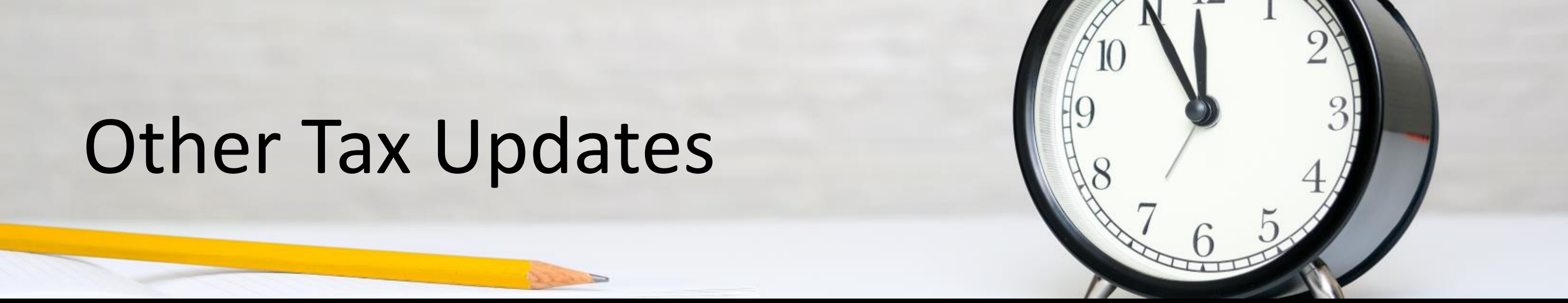
Tax Clearance Certificate Threshold

The Government has increased the threshold required for tax clearance certificate (TCC) from K500,000 to K1.5 million for non-tax haven countries.

Taxpayers are now required to apply for TCC where the total annual offshore transfers made exceeds K1.5million.

We hope that this measure will free-up capacity of IRC staff to process remaining TCCs faster.

Tax Clearance



Other Tax Updates

Goods & Service Tax

- The Government has introduced the authority for the operation of a Goods & Services Tax Monitory System (GMS) to improve data and GST collection. This amendment also gives the IRC the power to require that a company operate this system.
- The Government has increased the maximum annual turnover threshold to K1.5 million, such that taxpayers under this threshold can be given a longer GST return period, being a period up to but not exceeding 3 months.
- The Government has increased the penalty for non-compliance with a section 65A notice from K500 and K5,000 and replacing these with K5,000 and K50,000 respectively. This change is ahead of an expected increase in section 65A notices being issued by the IRC.
- Currently the timeframe allowed for taxpayers to request a GST refund is limited to 8 years immediately after the end of the taxable period. The Government has reduced this timeframe by 1 year to 7 years after 31 December 2026. This will continue to further reduce by 1 year from 2027 until it comes to 4 years. The 4-year limit will come into effect from 1 January 2030 onwards.

Excise Tariff

- The Government will be freezing the 2.5% Excise Indexation rate for a period of 12-months on alcohol and Tier-1 tobacco products.
- The Government has introduced an excise tax on e-cigarettes and the tobacco sticks design for use in e-cigarettes at the rates of K20 per millilitre and K400 per kilogram respectively.
- The Government is imposing a 10% excise duty that will apply on hybrid vehicles. The rate is 0% for fully electrical vehicles.

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