



Government Crowding out: Public sector Participation & Private Sector Expectations in 2026

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What do we mean by “Government Crowding out”?

Crowding out occurs when public sector spending, borrowing and policies suppress private sector activities. This generally occurs in one of four channels:



Fiscal Dominance – When government borrowing absorbs domestic liquidity, leaving less credit available for businesses



State-led investment - SOEs overshadow the private sector by undertaking projects that private firms could deliver



Regulatory or policy uncertainty - Frequent policy changes or unclear economic direction lead investors to delay or cancel projects



SOE inefficiency slowing private sector performance - Poorly performing SOEs increase business costs and reduce competitiveness

The Current PNG Context

PNG's economic environment entering 2026 is shaped by several factors:

- Major resource projects such as Papua LNG, P'nyang, Wafi Golpu continue to influence investor sentiment.
- The government has increased borrowing to finance infrastructure, service delivery, and budget support.
- SOEs remain central players across key sectors, yet reforms continue to lag.
- Private sector credit growth remains modest in comparison to public borrowing.
- There is rising expectation for better fiscal discipline, especially as the government pursues development goals.

As a result, the private sector is highly sensitive to how government actions shape the investment climate.

Balancing Public vs Private Investment

Government involvement is essential in:

- National-Building Infrastructure
- Health and Education
- Security and Governance
- Public goods
- Enabling major resource projects

However, the balance tips negatively when:

- Government becomes the main borrower in the domestic financial market
- Public sector projects crowd out local contractors and financing options
- SOEs enter commercial spaces that the private sector can service
- Delays or uncertainty around regulation deter private capital flows

The objective is not to reduce government involvement but to balance it - A healthy economy requires that government sets the stage, but the private sector performs.

What would the Private Sector like from GoPNG in 2026 and beyond?

1. More Predictability & Stability
2. Enabling Infrastructure
3. Efficient regulatory framework
4. SOE reform & competition
5. Clear PPP pathways



Predictability and stability – clear policy direction on the following



Tax stability



Foreign exchange management



SOE restructuring



Public–private partnership (PPP) frameworks



Resource sector agreements

Unpredictability is the most significant deterrent to private capital

Enabling infrastructure – not competing infrastructure



Power reliability



Transport and logistics



ICT expansion



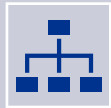
Law and order strengthening

Private sector wants GoPNG to invest in these areas but not compete with private firms in areas like commercial transport, retail, real estate, fuel distribution, or telecommunications

Faster and More Efficient Regulatory Processes



Faster permit processing



Less bureaucracy



Clearer investment rules



Functional digital systems

The expectation is that if PNG wants more private investment, the cost of compliance must fall.

Private sector expects:

- Digital systems
- Faster approvals
- Reduced bureaucracy
- Clear investment pathways

SOE reform which enables competition



Improve governance



Allow private investment in SOE-led sectors



Remove monopolistic barriers



Improve reliability of essential services

SOEs should focus on their core mandates

A reformed SOE environment is one of the strongest signals to international investors

Public-Private Partnership and Co Investment Opportunities



Provide clarity on PPP models



Share project risks intelligently



Create blended finance structures



Use government guarantees judiciously



Open more sectors to private capital

The shift should be from government as operator to government as enabler

Key Question Answered

What is the private sector's expectation for PNG government participation in 2026?

The private sector wants a government that enables, not replaces, market activity — a government that focuses on core public goods, creates predictable economic policy settings, reforms SOEs, reduces domestic borrowing, and collaborates meaningfully with investors to unlock PNG's full economic potential.

PNG's greatest opportunity in 2026 is to crowd in private investment, not crowd it out.

Thank You

