DEPARTMENT OF TREASURY
FINANCIAL MANAGEMENT DIVISION

2023 DEBT FINANCING PLAN

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MEDIUM TERM DEBT STRATEGY (2023 – 2027)

Towards the end of 2022, the Government of the Independent State of Papua New Guinea through the Treasurer presented the 2023 National Budget. As part of the National Budget, the Medium Term Debt Strategy (MTdS) 2023-2027 has been formulated based on the current economic conditions and events presented in the 2023-2027 Medium Term Fiscal Strategy (MTFS), which focuses on maintaining fiscal support for economic recovery from the COVID-19 pandemic as well as fostering fiscal consolidation over the medium term. The MTdS is aligned with the FRA, the goals of maintaining debt at sustainable levels, maintaining financial risks at prudent levels and developing the domestic debt market. The strategy has a strong focus on managing risk exposure embedded in the debt portfolio, that is, the potential variations in the cost of debt servicing and its impact on the budget over the medium term by identifying how cost and risk vary with the composition of the debt.

The MTdS 2023-2027, operationalizes these objectives in order to achieve the desired composition of the Government's debt portfolio, which captures the Government's strategy with regard to the cost-risk trade-offs. The major strategies to support the debt management objective comprises the following:

Cost and Risk of Current Debt Portfolio.

PNG remains at high risk of debt distress (according to the recent IMF and World Bank's Debt Sustainability Analysis), although this analysis indicates that the overall and external debt position is sustainable, conditional on the implementation of the government plans for further fiscal consolidation and conservative financing strategies.

The level of central government debt has been increasing in recent years to around 51 percent of GDP at the end of 2021, from 47 percent in 2020, reflecting the need for Government to cover additional health-related expenditures and the slowdown of economic activity during that period.

The current debt portfolio reflects risks resulting from the large share of domestic debt and concessional external loans. Based on the recent history of stable exchange rate movements and overall exposure to foreign currency debt, foreign exchange risk in the government debt portfolio remains relatively high. Foreign currency debt amounted to 24.7 percent of GDP and its short-term debt component represented 7.0 percent of international reserves.

Refinancing risk is high, with the share of debt maturing in one year amounting to 14.6 percent of GDP or 29.1 percent of total debt. When measured by debt re-fixing in 1 year, 50.0 percent of the portfolio is exposed to interest rate changes owing to the share of external debt portfolio at variable rate. In terms of borrowing costs, a predominance of domestic debt instruments with an average cost of 6.9 percent makes the portfolio's borrowing cost relatively high at 4.9 percent.

The Domestic market is currently a major source of financing for the government. Marketable securities are issued in the form of Treasury Bills and Treasury Bonds. An additional source of domestic financing is loans from domestic commercial banks. In the recent years, the Government has also increased its reliance on domestic loans as domestic bank financing terms match the timeline of projects. However, to mitigate the risk of variable rate exposure and hefty costs associated with domestic borrowing, the Government had to be cautious.

Debt Strategy Operations & Targets

In line with the Government's overall objectives of cost minimization with prudent levels of risk and the development of the domestic debt market, the following strategies are set out to operationalize the new debt policy:

- Lessen reliance on Treasury Bills to mitigate risk of refinancing or rollover risk.
- Reduce variable interest rate borrowing to increase ATR
- Reduce commercial borrowing to help minimize annual interest cost bills
- Prioritize concessional financing from external sources in order to secure the necessary financing for its development objectives
- The government will continue to develop the domestic debt market to improve its depth, liquidity and efficiency. As part of this effort, it will develop closer engagement with the existing domestic investor base and aim to expand it in order to reduce dependency on few investors.

To minimize the impact of costs and risks to the Government, the following indicators shall be used as a guideline to provide measurable and quantifiable targets for monitoring purposes:

Table 1: Key targets 2022-2027

	Current	Target
Domestic debt ATM (years)	2.3	Above 2 years
Domestic Debt refixing in one year (%)	46.2	Below 40 percent
FX debt as percentage of total debt	49.2	below 60 percent
Debt to GDP (%)	50.3	Below 60 percent

Source: Department of Treasury

Debt Strategy will continue to focus on broadening, deepening the market in domestic securities, improving the market infrastructure to achieve effective, and efficient domestic debt market. The Government will endeavour to improve communication with the market by publicizing more detailed and timely borrowing plan in 2023.

Managing Debt Portfolio Risk 2020-2025

In supporting the debt and financing strategy operations, Treasury deploys the MTdS analytical toolkit developed by IMF and World Bank. This is to manage and monitor the debt portfolio and evaluate the costs and risks of competing financing options for the government. These risks will be mitigated through:

- managing the currency composition of external debt, especially as the share of foreign debt as a share of total debt has increases well above the target of 40 percent. The composition should also be aligned with export receipts and foreign exchange reserves;

- continuing through the year practice of accumulating funds in the dedicated debt repayment account to pay debt service and redemptions when falling due and to cover issuance shortfalls;

- smoothing out the maturity and repayment profile of the domestic debt service schedule, within the projected financing envelopes, through debt switches and buybacks and establishing a reduced number of more liquid benchmark issues. To facilitate this measure, the Loans Securities Act 1960 and the T-Bills Act 1974 will need to be amended to clearly state the authority for Treasury to actively manage Government debt.

FINANCING REQUIREMENTS FOR 2023 BUDGET

The total net financing requirement for Fiscal Year (FY) 2023 as per the National Budget is estimated to be K4,984.9 million. The government will pursue a mixture of domestic and foreign currency borrowing to finance the 2023 Budget deficit.

From the total deficit, K1,465.7 million will be from domestic financing, through issuance of Treasury Bonds and Treasury Bills, including a recently approved new commercial borrowing from local commercial bank earmarked for infrastructure development. K3,519.2 million will be financed through external budget support loans from our multilateral and bilateral creditors and as well the concessional loan drawdowns of secured loan projects.
The Government is projecting a net increase of K945.0 million in Treasury Bond. This includes K2,078.1 million gross issuance approved in 2023 budget and K1,133.1 million in principal repayments. There is also an estimated net increase of K525.7 million in Treasury Bills.

The Government will continue to utilize cheap and concessional avenues of financing by engaging actively with our multilateral and bilateral partners. A number of new concessional project loans have already been signed and will commenced drawdowns in 2023. The Australian Infrastructure Financing Facility for Pacific (AIFFP) will continue to roll out its infrastructure development loan projects over the medium term.

The Government has been is in discussion with World Bank with a new Development Policy Operation (DPO) for an expected USD100 million (K352 million). Bilateral budget support finance to be K1,418.8 million. However, the Government will consult other bilateral and multilateral partners for additional budget support to cover the balance.

The Government plans to drawdown K1,156.0 million from concessional loan earmarked for planned projects. Additional drawdowns to come from the commercial financing of K20.0 million for other infrastructure projects. The concessional financing makes up 26.0 per cent of the total government's external financing requirement for 2023.

The amortization commitments for 2023 includes: K125.0 million for domestic commercial loans and K295.9 million for external extraordinary loans. The Government also plans to amortize K640.3 million in external concessional liabilities to reduce interest obligations and exposure to expensive forms of debt. With the amortizations and concessional financing planned for 2023, the Government anticipates to reduce some interest costs over the medium term on these loans.

The financing requirement for 2023 Budget will result in total Government debt reaching K59,142.6 million by end of the year, equivalent to 52.3 per cent of GDP. This is within the current band of 45-60 per cent of GDP as per the 2020 amended Fiscal Responsibility Act (FRA). Moreover, the planned debt portfolio maintains the domestic share of financing at 49.8 per cent of total debt stock. The external financing mix in 2023 is planned to improve with concessional sources of financing accounting for at least 23.2 per cent of total debt stock.

UPDATE ON DOMESTIC MARKET CONDITIONS FOR FINANCING DEFICIT

In 2022, there was an increase in net borrowing from both Treasury Bills and Treasury Bonds. The increase in the domestic net financing is attributed to the need to raise funds weekly to finance the cash flow, and the need to raise funds to settle Treasury Bonds maturities and large coupons payments during the year. Expected timing in accessing the proposed budgetary support loans is another attributing factor towards the increased issuance of Government Securities. Nevertheless, the domestic debt market was able to provide the needed liquidity throughout the year.

The domestic market participants, continued to have limits on lending to the Government. The main players of the Government's securities market are the four major commercial banks and the two superfunds including few corporate and individual investors absorbing much of the Government's domestic debt issuance.

The increased appetite in the government securities in 2022 was mainly attributed to the high liquidity level in the market. Investors tend to increase their investments on government securities thereby influencing the interest rates to drop drastically over the year. Although, the Government experienced large net issuance (higher borrowing than repayments), periodic rolling over and partial retiring of Government Securities were an ongoing feature of the Government Securities auctions.

For 2023 financing, to sustain the short-term domestic borrowing, the Government opt to refinancing its maturities in the shorter-term Treasury Bills along with additional new issuance of Treasury Bills and Treasury Bonds throughout the year.

2023 GOVERNMENT DEBT FINANCING PLAN

The Government is projecting a net increase of K945.0 million in Inscribed Stock (Treasury Bond) in 2023. With the total maturity projected to be K1,133.1 million, the government once again through the budget deficit increased borrowing up to K4,984.9 million incorporating the debt to GDP increase of 52.3%. The budget deficit aims to keep the domestic debt level to a sustainable level to maintain the Medium

Term Debt Strategy. One of the strategy is to shift the borrowing to external and lower domestic borrowing with the net increase in domestic borrowing of K1,465.7 million. This includes a net increase of K945.0 million in Inscribed Stock (Treasury Bond) and K525.7 million in Treasury Bills and a net retirement of K5.0 million in Domestic Loans which is still within the band of 45-60% Debt-to-GDP. External borrowing will be K3,519.2 million (as budgeted). The government also considers the foreign exchange risk that may keep the State at stake.

The Government will continue to meet and foster relationship with investors to find out their preference for Treasury Bond tenures of 2 to 10 years respectively and be more flexible to meet investors demand. Under Treasury Bills, there is more demand in the longer tenure, which also helps ease the pressure on the refinancing risks.

2023 REPAYMENT AND NEW BORROWING

Outlined below is the indicative debt issuance plan for 2023. It provides updated details compared to those shown in Chapter 8 (Financing and Debt Management Strategy) and Appendix 2 of Volume 1 of the 2023 National Budget document. This information is available on the website:
http://www.treasury.gov.pg/html/national_budget/2023.html

Summary of Repayments and New Issuance in 2023 (Kina million)

Financing Source	Estimated Balance 31-Dec-22	Projected Repayment 2023	Projected Borrowing 2023	Projected Balance 31-Dec-23	Net Change 2023
DOMESTIC DEBT	**27,497.6**	**14,445.7**	**15,911.4**	**28,963.3**	**1,465.7**
Debt Securities	**26,140.1**	**14,320.7**	**15,791.4**	**27,610.8**	**1,470.7**
Treasury Bills	*13,556.7*	13,187.6	13,713.3	14,082.4	**525.7**
Treasury Bonds	*12,583.4*	*1,133.1*	2,078.1	13,528.4	**945.0**
Loans	**1,357.5**	**125.0**	**120.0**	**1,352.5**	**-5.0**
EXTERNAL DEBT	**26,660.2**	**971.5**	**4,490.7**	**30,179.4**	**3,519.2**
Monetary Gold & SDR'S	**1,244.1**	**0.0**	**0.0**	**1,244.1**	**0.0**
Debt Securities	**1,750.0**	**0.0**	**0.0**	**1,750.0**	**0.0**
Loans	**23,666.1**	**971.5**	**4,490.7**	**27,185.3**	**3,519.2**
Concessional	*11,648.0*	*640.3*	1,156.0	12,163.8	**515.7**
Commercial	*211.7*	*35.3*	20.0	196.4	**-15.3**
Extraordinary	*11,806.3*	*295.9*	3,314.7	14,825.1	**3,018.8**
TOTAL	**54,157.70**	**15,417.20**	**20,402.10**	**59,142.70**	**4,984.90**

Budget Deficit	K4,984.9. million
Financing Source	(a) Debt : K4,984.9 million (b) Asset Sales : K0.0 million
Total Debt to GDP	52.3%

Treasury Bills

Treasury Bills will be auctioned on Wednesdays, and settled two days later on the Friday. Department of Treasury determines the amount of Treasury Bills required to ensure there are sufficient cash balances in the Government's bank account to fund Government's expenses that are due. Bank of Papua New Guinea in its role as the debt management issuing agent for the Department of Treasury will announce to investors by close of business on Tuesdays the amount and term of Treasury Bills to be sold. The Government will continue to issue mainly 6 months, 9 months and 12 months (1year) Treasury Bills, but will also consider the investor demand for shorter term investment preferences by issuing under 91, 63 and 28 days in co-ordination with Bank of Papua New Guinea who are issuing the Central Bank Bills under the short-term.

Treasury Bonds (Inscribed Stock)

1. For the 2023 Treasury Bond Issuance, the series of Treasury Bond is planned to be issued over eight (8) auctions starting from April to November (monthly issuance). Issuing on a monthly basis will ensure:

   i. Adequacy of the government's cash flow is met in a timely manner to fund most of the priority expenditures over the first half of 2023 given the uncertain timing in accessing the proposed external budgetary support loans;

   ii. Funds are raised in a timely manner to finance debt servicing including settlement of the Treasury Bonds maturity and coupon payments. The huge Treasury bonds maturities and coupon payments normally fall due in February, May, August and November which the proposed issuance plan is specifically framed to coincide with these routine payments; and

   iii. Smoothening out the maturity profile as and when it matures. Issuing huge amount of Treasury Bond in a particular month will put pressure on the future cash flow during its maturity.

All Treasury Bonds will be auctioned on the third Tuesday of each month and settled three days later on the Friday. The amounts to be issued each month will range from K150.0 million to K400.0 million starting in April 2023. A quarterly review will be conducted on performance of tender results and a revised amount depending on underlying investor demand and cash needs will be updated and conveyed to investors at least two weeks prior to the first tender of each quarter. The Bank of Papua New Guinea, will announce to investors during the first two business days of each month the amount of each Treasury Bonds series to be auctioned (each series has a specific maturity and coupon). Refer to the issuance calendar below for more information.

2023 Domestic Issuance Calendar – Treasury Bonds (Inscribed Stock)

2023 Treasury Bond Issuance Schedule		
Tender Date	**Amount on Offer (K'million)**	**Maturities and Coupon Rate**
Tue, 18th Apr 2023	400.0	Market will be advised before the tender date
Tue,16th May 2023	350.0	Market will be advised before the tender date
Tue, 20th Jun 2023	300.0	Market will be advised before the tender date
Tue, 18th Jul 2023	300.0	Market will be advised before the tender date
Tue, 15th Aug 2023	200.0	Market will be advised before the tender date
Tue, 19th Sep 2023	200.0	Market will be advised before the tender date
Tue, 17th Oct 2023	210.0	Market will be advised before the tender date
Tue, 21st Nov 2023	118.1	Market will be advised before the tender date
Total Issuance	**2,078.1**	

Note: the tentative issuance schedule is subject to change

Share of Issuance by Tenor		
Treasury Bond Tenors	**Issuance Volume (K'million)**	**Share of Offer Volume**
2Year Bond	200.00	10%
3Year Bond	300.00	14%
4Year Bond	300.00	14%
6Year Bond	300.00	14%
7Year Bond	300.00	14%
8Year Bond	200.00	10%
9Year Bond	200.00	10%
10Year Bond	278.10	13%
Total Issuance	**2078.10**	**100%**

The above issuance plan is based on 2023 Budget projections. If there are any changes, investors will be notified accordingly.

By the beginning of each quarter, Treasury will announce:

- The amount of Treasury Bills that mature over the next three months and the likely amount of Treasury Bills to be offered at tender; and

- The series (maturity and coupon) of Treasury Bonds to be auctioned over the next ten months (monthly basis).

Additional information

Further information on the historical results of auctions is available on the Public Debt folder of the Department of Treasury's website: www.treasury.gov.pg If you have any questions please contact the Securities Execution Branch on telephone numbers: 313 3570, 313 3622, 313 3787 or 313 3799.

JEFFREY WALUA
Acting First Assistant Secretary
Financial Management Division