



## **Summary of Discussions Between Department of Treasury and Domestic Investors of Government Securities September - October 2012**

The Department of Treasury (DoT), through its Financial Management Division (FMD), held its second round of 2012 semi-annual investor meetings throughout September and October. The meetings were held after the release of the 2012 Mid Year Economic and Fiscal Outlook Report (MYEFO) which was used to update the 2012 Debt Issuance Plan.

Staff of FMD met with senior management of various domestic investors and stakeholders to update them on the revised 2012 Debt Issuance Plan, the budget and economy as well as to receive their feedback on the revised plan and other issues of concern.

Presented below is a summary of the discussions and issues or views raised.

### **1. 2012 Revised Debt Issuance Plan and Government Securities**

The 2012 Mid Year Economic and Fiscal Outlook (MYEFO) Report indicated a projected budget deficit of K513.1 million compared to an initial projection of a balanced budget. The deficit was due to a shortfall in revenue receipts and overspending. Consequently, the 2012 Annual Debt Issuance Program was revised to capture the projected deficit, that is, an expected additional increase in public domestic debt by K513.1 million.

Government public debt net issuance is expected to increase from K700 million to K1, 213.1 billion. This comprises LNG funding of K700 million combined with the projected deficit of K513.1 million. Treasury Bills (T-bills) as a short term financing instrument will be used to fund the deficit.

Year-to-date demand for Government Securities has seen more appetite for Inscribed Stock (Bonds) over T-bills as a result of declining T-bill rates. Year to date coverage ratios saw six T-bill auctions undersubscribed whilst all Inscribed Stock tenders have been oversubscribed. The general response from investors was that investment in Inscribed Stock yielded much higher returns compared to very low returns on T-Bills.

Excess liquidity combined with limited investment opportunities have resulted in declining rates. Treasury has no control/influence on rates as it is a price taker. Further approaches to diffusing high liquidity in the market include the creation of new Trust Accounts at BPNG, BPNG's TAP Facility and the funding of the State's equity shortfall in the PNG LNG project.

### **2. Development of PNG's Domestic Financial Market**

#### **a) Bond Market Development Committee**

The ADB Technical Assistance offered to Treasury for the development of a domestic bond market was completed in 2011. The Report for this assistance was released in April 2011 and presented the following key areas for development: (i) developing a secondary market, (ii) the issuance of a Kina denominated bond by the Asian Development Bank, and (iii) listing Government securities on the Port Moresby Stock Exchange.

A working Committee which comprise key stakeholders and major investors will be formed by the end of the year. The Committee may prioritize the development of a secondary market as it is a necessary step to achieving the other development areas.

## **b) Repurchase Agreement Facility**

Investors continue to emphasize the importance of establishing a Repurchase Agreement Facility (RAF) to increase liquidity in the IS market. Flexibility to temporarily liquidate the long term paper is essential to meet pressures from depositors. Treasury understands that BPNG is currently working on an electronic real-time payment system. This system will take into account RAF transactions hence work on the RAF cannot progress until the payment system has been completed.

## **c) Other feedback**

- **Electronic Registry of Stock** – investors viewed this as an important platform in providing relevant market information to find investment options.
- **Consistency in Bond Amounts on offer** – some investors noted that the 2012 Bond Issuance Program was inconsistent as larger volumes were issued earlier in the year compared to what was officially announced. Treasury noted this valid concern and advised that its Bond programs are usually consistent however, because the State was funding some of its equity shortfall for the PNG LNG project via Bonds, the amounts on offer had to be changed to meet cash call requirements. Information received for the State's equity cash calls came in after the Bond program was officially announced.
- **Foreign Investment/Sovereign Bond Issuance** – PNG's financial market is purely domestic and still developing. To expose the market to foreign investment will require a well developed market with proper policies, regulation, and payment/settlements infrastructure in place. The Government may require the assistance of the private sector to assist in this form of trade.

## **3. Other Discussions**

### **a) K6 billion Chinese Loan**

Numerous queries were raised by several investors on status of this loan funding. Consequently, we advised that the Government visited China on a "fact finding mission" early this year to identify possible funding sources for its development plans. The K6 billion loan is a potential funding option, however to-date nothing concrete has eventuated as further discussions is required to secure the loan and therefore might not be ready for inclusion in 2013 Budget.

### **b) State Superannuation – K2 billion unfunded liability**

The Government's K2 billion unfunded superannuation liability remains outstanding.

### **c) PNG LNG Project**

Work on the LNG Project is on track with first production expected in 2014. Some investors raised concerns that revenue tied to infrastructure development should be put away from political influence.

### **d) Bank of PNG TAP Facility**

BPNG has re-introduced its TAP Facility where only non-registered bidders are eligible. The maturity terms on offer are 63 days and 91 days. Interest is applicable at a 1 per cent margin above the corresponding Central Bank Bill term rate.