



DEPARTMENT OF TREASURY

FINANCIAL MANAGEMENT DIVISION



2017 ANNUAL DOMESTIC DEBT ISSUANCE PLAN

FMD/SEB/3-3.4/004

Tuesday 24th January 2017

On 1st November 2016, the Government of the Independent State of Papua New Guinea through the Treasurer presented the National Government's 2017 National Budget. As part of the 2017 Budget, the Medium Term Debt Strategy 2013-2017 (the Debt Strategy) was updated, and the three existing strategies were reaffirmed:

1. Maintain Government Debt at sustainable levels.

- The Government continues to be cognisant of its requirement to meet debt to GDP targets as stipulated in the Fiscal Responsibility Act (FRA). The ratio is projected to remain below 30 per cent in the medium term for the next five years.

Table 17: Debt sustainability measures

Measure	2014 Actual	2015 Actual	2016 Est	2017 Proj	2018 Proj	2019 Proj	2020 Proj	2021 Proj
Debt to GDP %	27.0%	29.1%	29.4%	28.8%	28.9%	28.7%	28.1%	27.0%
Fiscal Responsibility Act Limit	35.0%	35.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%

Source: Department of Treasury.

- PNG has set itself a target of BBB rating over the medium to long term. A BBB rating means the Rating Agencies consider PNG as having adequate ability to meet its financial obligations. PNG's current sovereign credit rating rated by credit rating agencies is B+ and a negative outlook. The negative outlook emanated from the prolonged Fiscal and External imbalances continuing on from 2015.

2. Maintaining Financial Risks at prudent levels.

- Exchange Rate Risk
 - Limit foreign currency debt to around 40 per cent of the total Central Government debt portfolio by restricting the amount of new foreign currency

loans it enters into. The level of external debt includes the loan from Credit Suisse in 2016 and issuance of a Sovereign Bond in 2017.

Table 18: Percentage of Foreign Currency Debt to total Central Government Debt

Target	2013 Actual	2014 Actual	2015 Est	2016 Proj	2017 Proj	2018 Proj	2019 Proj	2020 Proj	2021 proj
Up to 40%	25.5%	23.0%	22.6%	32.4%	37.4%	37.0%	37.0%	33.9%	33.6%

Source: Department of Treasury.

- Interest Rate Risk
 - The government will manage its interest rate risk through structuring of the domestic debt portfolio by maintaining Treasury Bills within the range of 15 to 30 per cent of the domestic debt portfolio.
 - In the medium term the government aims to reduce the amount of short-term, variable rate debt (Treasury Bills) from end of 2016 of about 42 per cent of domestic debt to below 30 per cent by 2021 through debt restructuring options.

Table 19: Percentage of Treasury Bills to Domestic Debt Portfolio

Target	2013 Actual	2014 Actual	2015 Actual	2016 Est	2017 Proj	2018 Proj	2019 Proj	2020 Proj	2021 Proj
15 to 30%	47.5%	47.5%	48.1%	42.8%	41.8%	42.4%	39.7%	39.1%	38.1%

Source: Department of Treasury.

Note: Projection without Debt Restructuring option.

- Refinancing Risk
 - Managing refinancing risk by lengthening the maturity profile of total debt portfolio through maintaining weighted average term to maturity at about five years for the domestic debt portfolio and at about twelve years for foreign currency debt.
 - Review targets for the use of long-term bond (Treasury Bonds or Inscribed Stock) relative to short-term (Treasury Bills) fixed debt and reduce the level of Treasury Bills on issue to below 42 percent by the end of 2017. Further restructuring of domestic debt portfolio in outer years is projected to lead to reduction below 30 per cent after 2017 onwards.
- Operational Risk
 - Improve development and retention of skill staff and enhance updated information system on Government Cashflow with accurate projections and actuals and improve data and management accessibility and updated inputs. Government will focus on mitigating these operational risks.

3. Develop the domestic debt market.

- Government will continue to develop and maintain strong investor relationship with existing and potential or new investors including having regular consultation and meetings.
- Treasury seeks to be transparent and predictable in its debt issuance through providing information publically on debt issuance and periodically meeting investors.
- Intends to setup a project team to progress the key recommendations from a review of PNG's Government Bond and Capital Markets by development partners.

Summary of 2017 Debt Issuance Plan

Set out below is an outline of the indicative debt issuance plan for 2017. It provides more up-to-date details compared to those shown in Chapter 7 (Financing and Budget Strategy) and Appendix 3 of Volume 1 of the 2017 National Budget Papers. This information is available on the website: http://www.treasury.gov.pg/html/national_budget/2017.html

Summary of Repayments and New Issuance during 2017 (Kina million)

Financing Source	Estimated Balance 31 Dec 16	Estimated Repayment 2017	Estimate Borrowing 2017	Projected Balance 31 Dec 17	Net Change 2017
Treasury Bills	5,720.7	7,485.6	7,423.5	5,658.7	-62.1
Treasury Bonds (Inscribed Stock)	7,648.6	682.3	900.0	7,866.3	217.7
Domestic Debt	13,369.4	8,167.9	8,323.5	13,525.0	155.6
International Agencies	4,759.5	269.8	398.4	4,888.1	128.6
Commercial	1,655.8	0.0	54.4	1,710.2	54.4
Sovereign Bond	0.0	0.0	1,500.0	1,500.0	1,500.0
External Debt	6,415.3	269.8	1,952.8	8,098.3	1,683.0
Total Debt	19,784.7	8,437.7	10,276.3	21,623.3	1,838.6

GDP	67,300.1	74,986.4
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Debt to GDP	29.4%	28.8%
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Budget Deficit K1,876.6 million

Financing Source: (a) Debt K1838.6 million (b) Asset Sales K38 million

Treasury Bills

Treasury Bills will continue to 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 so as to pay the Government's expenses that are due. Bank of Papua New Guinea in its role as the debt management issuing agent of 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 month and 12 month Treasury Bills, but will also consider the investor demand for shorter term investment preferences by issuing under 91 days and introducing issuance of 9 month securities during the year.

Treasury Bonds (Inscribed Stock)

All Treasury Bond will be auctioned on the third Tuesday of each month and settled three days later on the Friday. The amounts issued each month will issue ranging from K70 million to K110 million each month starting in February 2017. The higher amounts tendered are on the months of Treasury Bonds when coupon payments and maturity are due while the lower amounts tendered are on the non-coupon payment and maturity months. 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 before the first tender of each quarter. The Bank of Papua New Guinea, in its role as the debt management issuing agent of the Department of Treasury, 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.

2017 Issuance Calendar – Treasury Bonds (Inscribed Stock)

Issue Date	Amount on Offer	Maturities & Coupon Rates
Tue, 21 Feb 2017	K110 million	To be announced at start of month
Tue, 21 Mar 2017	K70 million	To be announced at start of month
Tue, 18 Apr 2017	K70 million	To be announced at start of month
Tue, 16 May 2017	K100 million	To be announced at start of month
Tue, 20 June 2017	K70 million	To be announced at start of month
Tue, 18 July 2017	K70 million	To be announced at start of month
Tue, 15 Aug 2017	K100 million	To be announced at start of month
Tue, 19 Sep 2017	K70 million	To be announced at start of month
Tue, 17 Oct 2017	K70 million	To be announced at start of month
Tue, 21 Nov 2017	K100 million	To be announced at start of month
Tue, 19 Dec 2017	K70 million	To be announced at start of month
Total Issuance	K900 million	

Updates of the debt issuance plan

The above issuance plan is based on projections in the 2017 Budget, and if there are any changes, they will be made as part of a Supplementary Budget in 2017. The plan is subject to change and investors will be notified accordingly if changes are made.

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 three months.

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 3675, 313 3547, 313 3634 or 313 3746.

Major Activities for first six months of 2017

- By the beginning of March 2017 Treasury will seek formal feedback from major investors and provide them with a summary of the Government's debt management activities for 2017. Treasury will develop and distribute to investors a summary of the feedback received, and the major activities that Treasury and BPNG will undertake in the second half of 2017.

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