



DEPARTMENT OF TREASURY  
FINANCIAL MANAGEMENT DIVISION



## 2022 ANNUAL DEBT FINANCING PLAN

---

FMD/SEB/3-3.4/006

Wednesday 19<sup>th</sup> January 2022

### MEDIUM TERM DEBT STRATEGY (2018 - 2022)

Towards the end of 2021, the Government of the Independent State of Papua New Guinea through the Treasurer presented the 2022 National Budget. As part of the National Budget, the Medium Term Debt Strategy 2018-2022 (MTdS) was updated based on current economic conditions and events, taking into account the impact of COVID-19 and the debt relieve initiatives offered by both multilateral and bilateral donors. One of the key elements of the revised strategy over the medium term is to continue to build confidence in the PNG economy through transparent budgeting, in line with international standards. This will open up avenues to access low-cost concessional financing from both bilateral and multilateral sources, with an objective to keep debt at sustainable levels considering the cost-risk- trade-offs.

The revised Medium-Term Debt Strategy (MTdS) 2018-2022, 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:

*Maintaining debt at sustainable levels.* The revised Fiscal Responsibility Act (FRA) target band of Debt to GDP ratio of 45-60 percent applies to general Government Debt (including the state's contingent liabilities) at book value and includes valuation changes from exchange rate movements and incurring implicit and explicit state guarantees debt. The government will contain budget spending in order to remain in compliance with the prescribed band over the medium term 2022-2026. .

- **Maintaining financial risk at prudent levels.** Under the MTdS 2018-2022, the debt composition in the portfolio has changed. The share of foreign currency debt to total Government debt has increased from 30 percent in the previous strategy to 50 percent. The reduction in the domestic debt target relative to foreign debt is a trade-off between domestic liquidity and interest rate risk against foreign currency risk and to capitalise on the current concessional lending offered by both bilateral and multilateral lenders.
- The Government's heavy reliance on the domestic debt market has had an impact on the domestic interest rates. The current weighted average interest paid on external

loans is 2.8 percent while domestic weighted average interest is 8.5 percent showing interest rate differentials of 5.7 percent. Total interest cost as a share of Government revenue for 2022 is projected to be 17.5 percent.

- The Government will remain committed to maintaining its strategy by capitalizing on low interest rate external loan, and in doing so, it is anticipated that interest rate as a share of the Government Revenue (excluding grants) will remain around 17.0 percent from 2021-2022 then decline gradually over the medium term

Refinancing and rollover risks are the immediate concerns of the current MTdS. The repayment profile shows the bulk of debt that will mature in the next 5 years. Therefore, will require substantial level of refinancing, pertains to the costly domestic debt. Given this, the Government will consider debt switches at competitive or negotiated yields possibly with institutional investors to smooth out the domestic maturity profile.

- **Table 1: Percentage of Debt to GDP**

FRA Target Band	2018 Actual	2019 Actual	2020 Actual	2021 Est.	2022 Est.	2023 Est.	2024 Est.	2025 Est.	2026 Est.	2027 Est.
45-60%	31%	40%	49%	51%	52%	53%	53%	51%	49%	45%

*Source: Department of Treasury*

- **Table 2: Percentage of Foreign Currency Debt to Total Central Government Debt**

Target	2018 Actual	2019 Actual	2020 Actual	2021 Est.	2022 Est.	2023 Est.	2024 Est.	2025 Est.	2026 Est.	2027 Est.
50%	39%	43%	50%	51%	50%	50%	53%	51%	49%	45%

*Source: Department of Treasury*

- **Table 3: Average Maturity of the Domestic Debt Portfolio**

Target	2018 Actual	2019 Actual	2020 Actual	2021 Est.	2022 Est.	2023 Est.	2024 Est.	2025 Est.	2026 Est.	2027 Est.
5 Years	3.0	3.1	3.0	3.0	3.3	3.4	4.0	4.3	5.0	5.0

*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 in this area by; Improving communication with the market by the publication of a more detailed and timely borrowing plan will also be undertaken in 2022;

- **addressing a number of preconditions** for the development of the domestic bond market including:
  - (i). improving the efficiency of the primary market (the current manual and cumbersome processes will need to be changed to attract non-resident investors and encourage secondary trading);

- (ii). promoting money market and interbank transactions through repurchase agreements;
- (iii). developing automated clearing, settlement and custody facilities; establishing a bond market code of conduct with effective oversight by BPNG;
- (iv). promoting the establishment of pools of liquidity to allow small investors access to the market;
- (v). improved coordination between monetary, fiscal and regulatory authorities and market participants; and
- (vi). developing and maintaining a centralised source for bond market information and data.

These preconditions will underpin the goals of expanding the existing highly concentrated investor base and promoting a more liquid and efficient secondary market;

### **Managing Debt Portfolio Risk 2020-2025**

In supporting the debt and financing strategy operations, Treasury deploys the MTdS analytical toolkit developed by IMF and the 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 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 the 2022 Budget**

The total financing requirement for 2022 Budget is K5,984.7 million. The 2022 Budget deficit will be financed through the same financing strategy employed for the 2021 Budget. The external financing will be from the concessional budget support programs from the multilateral and bilateral creditors. Part of the deficit will be from the concessional loan drawdowns for projects. The domestic financing will comprise of Treasury Bonds and Treasury Bills issuance, including recently approved new commercial loan earmarked for infrastructure development.

In 2022, the Government will continue to utilize cheap and concessional avenues of financing by engaging actively with our multilateral and bilateral partners. A number of concessional project loans have already been signed and are on the queue for disbursements in 2022. The Australian Infrastructure Financing Facility for Pacific (AIFFP) will continue to roll out its infrastructure development projects next year and over the medium term.

The Government is also embarking on the third tranche of ADB SOE Budget Support of USD250.0 million (K877.23million) in 2022 and will continue to pursue negotiations with Other bilateral and multilateral partners for additional budget support.

The Government plans to drawdown K1,318.4 million from concessional loan facilities already available on planned projects. The concessional financing takes care of up to 16.2 percent of government's direct capital funding requirement for 2022.

Over and above, the Government's main amortization commitments for 2022 includes: K70.0 million for domestic commercial guarantee loan and K232.6 million from external extraordinary loans. The Government also plans to amortize K610.3 million in external concessional liabilities to reduce its interest obligations and exposure to expensive forms of debt. With the amortization and concessional financing plan for 2022, the Government is anticipated to save some interest costs over the medium term on these loans.

Together with the amortization, the Government's exposure to the domestic securities market for 2022 is estimated to be a net addition of K2,240.0 million that includes K1,750.0million in net issuance of Treasury Bonds, K260.1 million in Treasury Bills and net amortization of K2,929.9 million on domestic loans on infrastructure project.

### **Update on Domestic Market Conditions for Financing Deficit**

By end of 2021, the Government was able to secure few external Budget Support loans from the bilateral and multilateral partners, which provided some relief on the domestic market requirements in 2021. Towards the end of 2022, the Government is anticipating to receive external budget support funding from international agencies including the bilateral and multilateral partners. The external financing will ease further pressure on the domestic debt securities market and smoothen out foreign exchange imbalances.

The domestic debt market was able to provide the needed liquidity throughout the year backed by a quantitative easing by the Central Bank through a buy-back of government securities during the onset of COVID-19 Pandemic. However, throughout the remaining year the market was signaling increased appetite for the shorter-term Treasury Bills in the first and third quarters. Even though the Government was in a substantial net issuance position in both instruments in the first three quarters, the periodic undersubscription was an on-going feature.

The domestic market, which consists predominantly of the four commercial banks including two foreign banks and two superfunds, continue to have internal limits on lending to the Government. The lack of PMMR transfers, in part, contributed to the illiquidity on the main local banks. The Bank of PNG continues to redeem its government securities to remain in

compliance with its statutory end-year '*no lending to Government*' requirements in the Central Banking Act (CBA) and to meet the new Financial Reporting and Accounting Standards.

For 2022 financing, the Government will continue to refinance domestic maturities along with adding additional new issuance of Treasury Bills early in the year. Currently, planned external financing includes Budget Support loans from our bilateral and multilateral partners, including ADB and World Bank Budget Support loans. The remaining financing items will be signaled to the market immediately following conclusion of consultations.

With the anticipation of the large inflows of external budget support funds, reliance on the domestic market is expected to ease to allow the Government to restructure and smoothen out the maturity profile of its domestic debt portfolio.

### **2022 Government Debt Financing Plan**

The Government is projecting a net increase of K1,750.0 million in Inscribed Stock (Treasury Bond) in 2022. With the total maturity projected to be K959.3 million, the government once again through the budget deficit increased borrowing up to K5,984.7 million incorporating the debt to GDP increase of 51.9%. 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 K2,240.0 million. This includes a net increase of K1,750.0 million in Inscribed Stock (Treasury Bond) and K260.1 million in Treasury Bills and a net retirement of K70.1 million in Other Domestic Debt Service (Domestic Loans) which is still within the band of 45-60% Debt-to-GDP. With the external borrowing K3,744.7 million, 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, 4, 6, 7, 8, 9 and 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.

### **2022 REPAYMENT AND NEW BORROWING**

Outlined below is the indicative debt issuance plan for 2022. It provides updated details compared to those shown in Chapter 8 (Financing and Debt Management Strategy) and Appendix 2 of Volume 1 of the 2022 National Budget document. This information will be made available on the website:

[http://www.treasury.gov.pg/html/national\\_budget/2022.html](http://www.treasury.gov.pg/html/national_budget/2022.html)

## Summary of Repayments and New Issuance during 2022 (Kina million)

Financing Source	Estimated Balance 31-Dec-21	Projected Repayment 2022	Projected Borrowing 2022	Projected Balance 31-Dec-22	Net Change 2022
<b>DOMESTIC DEBT</b>	<b>23,256.60</b>	<b>13,431.20</b>	<b>15,671.20</b>	<b>26,455.60</b>	<b>2,240.00</b>
<b>Debt Securities</b>	<b>22,282.00</b>	<b>13,361.10</b>	<b>15,371.20</b>	<b>25,245.30</b>	<b>2,010.10</b>
<i>Treasury Bills</i>	<i>11,019.40</i>	<i>12,401.80</i>	<i>12,661.90</i>	<i>12,661.90</i>	<i>260.10</i>
<i>Treasury Bonds</i>	<i>11,262.60</i>	<i>959.30</i>	<i>2,709.30</i>	<i>12,583.40</i>	<i>1,750.00</i>
<b>Loans</b>	<b>974.60</b>	<b>70.1</b>	<b>300</b>	<b>1,210.30</b>	<b>229.90</b>
<b>EXTERNAL DEBT</b>	<b>23,206.80</b>	<b>884.80</b>	<b>4,629.40</b>	<b>26,310.10</b>	<b>3,744.60</b>
<b>Debt Securities</b>	<b>1,700.70</b>	<b>0</b>	<b>0</b>	<b>1,700.70</b>	
<b>Loans</b>	<b>21,506.10</b>	<b>884.80</b>	<b>4,629.40</b>	<b>24,609.40</b>	<b>3,744.60</b>
<i>Concessional</i>	<i>10,772.40</i>	<i>610.3</i>	<i>1,318.40</i>	<i>11,643.30</i>	<i>708.10</i>
<i>Commercial</i>	<i>149.40</i>	<i>41.9</i>	<i>22.2</i>	<i>135.5</i>	<i>-19.70</i>
<i>Extraordinary</i>	<i>10,584.30</i>	<i>232.6</i>	<i>3,288.80</i>	<i>12,830.60</i>	<i>3,056.20</i>
<b>TOTAL</b>	<b>46,463.40</b>	<b>14,316.00</b>	<b>20,300.60</b>	<b>52,765.70</b>	<b>5,984.60</b>

Budget Deficit K5,984.7 million

Financing Source: (a) Debt : K5,984.7 million (b) Asset Sales : K0.0 million

Total Debt to GDP: 51.9%

### 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 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, 9 month and 12 month 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)

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 K200.0 million to K1,000.0 million starting in February 2022. 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.

### 2022 Domestic Issuance Calendar – Treasury Bonds (Inscribed Stock)

<b>Tender Date</b>	<b>Amount on Offer (K'million)</b>	<b>Maturities &amp; Coupon Rates</b>
Tue, 15th Feb 2022	700.00	Market will be advised before the tender date
Tue, 22nd Mar 2022	700.00	Market will be advised before the tender date
Tue, 19th Apr 2022	250.00	Market will be advised before the tender date
Tue, 24th May 2022	150.00	Market will be advised before the tender date
Tue, 21st Jun 2022	130.00	Market will be advised before the tender date
Tue, 19th Jul 2022	300.00	Market will be advised before the tender date
Tue, 23rd Aug 2022	120.00	Market will be advised before the tender date
Tue, 20th Sep 2022	120.00	Market will be advised before the tender date
Tue, 18th Oct 2022	120.00	Market will be advised before the tender date
Tue, 22nd Nov 2022	119.30	Market will be advised before the tender date
<b>Total Issuance</b>	<b>2,709.30</b>	

<b>Treasury Bond Tenors</b>	<b>Issuance Volume (K'million)</b>	<b>Share of Offer Volume (K'million)</b>
2Year Bond	380.30	14%
4Year Bond	450.00	16%
5Year Bond	220.00	8%
6Year Bond	400.00	15%
7Year Bond	400.00	15%
8Year Bond	280.00	10%
9Year Bond	320.00	12%
10Year Bond	259.00	10%
<b>Total Issuance</b>	<b>2709.30</b>	<b>100%</b>

\*Tentative issuance schedule subject to change.

### Updates of the debt issuance plan

The above issuance plan is based on 2022 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](http://www.treasury.gov.pg) If you have any questions please contact the Securities Execution Branch on telephone numbers: 313 3675, 313 3622, 313 3634 or 313 3720.

### **HERMAN PAHAU**

Acting First Assistant Secretary  
Financial Management Division