



DEPARTMENT OF TREASURY

FINANCIAL MANAGEMENT DIVISION



2016 ANNUAL DOMESTIC DEBT ISSUANCE PLAN

Friday 26th February 2016

The Government of the Independent State of Papua New Guinea announced on 04 November 2015 its 2016 National 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 around 35 per cent in the next three years and is expected to fall in 2019 and 2020

The government will be reviewing the existing debt sustainability indicators/benchmark by undertaking a Debt Sustainability Analysis (DSA) with assistance from International Monetary Fund/World Bank. The updated benchmark will be incorporated into the updated Medium Term Debt Strategy going forward.

- 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 is B+ and has its outlook revised downwards to Negative from a Stable outlook by Standard and Poor's (S&P) late last year. The revised negative outlook emanated from the prolonged Fiscal and External imbalances.

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 issuance of a Sovereign Bond in 2016.

- 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 2015 of about 48 per cent of domestic debt to below 30 per cent by 2019.
- 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 (Inscribed Stock) relative to short-term (Treasury Bills) fixed debt and reduce the level of Treasury Bills on issue to below 40 percent by the end of 2016. Further restructuring of domestic debt portfolio in outer years is projected to lead to reduction below 30 per cent from 2019 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 meetings.
- Treasury seeks to be transparent and predictable in its debt issuance through providing information publically on debt issuance and periodically meeting investors.
- Aim to establish a retail investor facility whereby small and medium investors can buy and sell Treasury Bills and Inscribe Stock as well as the establishment of a repurchase facility between BPNG and market participant.
- 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 2016 Debt Issuance Plan

Set out below is an outline of the indicative debt issuance plan for 2016. It provides more up-to-date details compared to those shown in Chapter 6 (Financing and Budget Strategy) and Appendix 3 (Table 12) of Volume 1 of the 2016 National Budget Papers. This information is available on the website:

http://www.treasury.gov.pg/html/national_budget/national_budget_2016.html

Summary of Repayments and New Issuance during 2016 (Kina million)

Financing Source	Balance 31 Dec 15	Repayment 2016	Estimate Borrowing 2016	Projected Balance 31 Dec 16	Net Change 2015
Treasury Bills	6,667.2	9,188.0	7,250.0	4,729.2	-1,938.0
Inscribed Stock	7,196.3	464.0	900.0	7,632.3	436.0
Domestic Debt	13,863.4	9,652.0	8,150.0	12,361.4	-1,502.0
International Agencies	3,852.2	198.5	930.0	4,583.8	731.6
Sovereign Bond	0.0	0.0	2,800.0	2,800.0	2,800.0
External Debt	3,852.2	198.5	3,730.1	7,383.8	3,531.6
Total Debt	17,715.6	9,850.5	11,880.1	19,745.2	2,029.6

GDP	51,024.3	55,123.6
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Debt to GDP	34.7%	35.8%
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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.

Inscribed Stock

All Inscribed Stock 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 K90 million starting in

March 2016. A quarterly review will be conducted on performance of tender results and a revised amount ranging from K80 million to K100 million 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 Inscribed Stock series to be auctioned (each series has a specific maturity and coupon). Refer to the issuance calendar below for more information.

2016 Issuance Calendar – Inscribed Stock

Issue Date	Amount on Offer	Maturities & Coupon Rates
Tue, 15 Mar 2016	K90 million	To be announced at start of month
Tue, 19 Apr 2016	K90 million	To be announced at start of month
Tue, 17 May 2016	K90 million	To be announced at start of month
Tue, 21 Jun 2016	K90 million	To be announced at start of month
Tue, 19 July 2016	K90 million	To be announced at start of month
Tue, 16 Aug 2016	K90 million	To be announced at start of month
Tue, 20 Sep 2016	K90 million	To be announced at start of month
Tue, 18 Oct 2016	K90 million	To be announced at start of month
Tue, 15 Nov 2016	K90 million	To be announced at start of month
Tue, 20 Dec 2016	K90 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 2016 Budget, and if there are any changes, they will be made as part of a Supplementary Budget in 2016. 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 Inscribed Stock 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 2016

- By the end of March 2016 Treasury will seek formal feedback from major investors and provide them with a summary of the Government’s debt management activities

for 2016. 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 2016.

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