



**DEPARTMENT OF TREASURY
FINANCIAL MANAGEMENT DIVISION**



2024 DEBT FINANCING PLAN

FMD/SEB/3-3.4/005

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MEDIUM TERM DEBT STRATEGY (2023 – 2027)

The year 2023 was the first year of the implementation of the five-year Medium Term Debt Strategy (MTDS 2023-2027). This strategy was formulated against the revenue and expenditure assumptions presented in the 13-year Budget Repair Plan and Medium Term Fiscal Strategy (MTFS), which focuses on maintaining Fiscal Support to economic recovery from the COVID-19 pandemic, fostering fiscal consolidation over the medium-term and complying with the Fiscal Responsibility Act (FRA) requirement of maintaining debt at sustainable level.

The main objective of MTDS 2023-2027 is to ensure financing and annual budget is at the lowest possible cost while keeping financial risks at the prudent levels and to develop the domestic debt market. The strategy has the strong focus on managing the 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.

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.

The performance of the debt strategy against its objectives will be monitored by indicative targets that will serve as guidelines to provide measurable and quantifiable targets.

Table 1: Debt Strategy Targets 2023-2027

Key Target	Target
Domestic debt Average Time To Maturity (years)	Above 2 years
Domestic Debt refixing in a year (%)	Below 40 percent
FX debt as percentage of total debt	below 60 percent
Debt to GDP (%)	Below 57.5 percent

Source: Department of Treasury

Development of Domestic Debt Market

To increase the capacity and reduce the cost of borrowing domestically, the debt strategy aims to facilitate the development of the domestic debt market. The Government will work with the relevant stakeholders to progress the key recommendations over the medium term.

Key initiatives to be undertaken over the medium term includes:

- i. Work closely with Government Securities Investors (Domestic Debt Treasury Bills and Inscribed Stock) to ensure them to rollover their maturity debt and participate in weekly auctions and monthly tenders.
- ii. Smoothing out the maturity profile of the domestic debt (Treasury Bills and Inscribed stock) so that the maturity in a week should meet the size of the market)
- iii. Working closely with BPNG in financing Temporary Advance Facility (TAF) as well as coordination for the Bank's new Fixed Rate Full Allotment mechanism.
- iv. Review of the Debt Strategy in line with the Medium Term Fiscal Strategy (MTFS) 2023- 2027. More analytical work will be done in this review using the MTDS toolkit provided by World Bank and IMF as a guide; and

- v. Quarterly investor meeting to improve investor relations and ensure that the Department of Treasury is well informed about market participation and in tune with the investors' appetite for domestic debt instruments.

2024 BUDGET FINANCING REQUIREMENTS

The total net financing requirement for Fiscal Year (FY) 2024 as per the National Budget was estimated to be K3,983.80 million. The government will pursue a mixture of domestic and foreign currency borrowing to finance the 2024 Budget deficit.

From the total deficit, K2,320.40 million will be financed through domestic borrowing, and that is through the issuance of Treasury Bonds and Treasury Bills, including a recently approved new commercial borrowing from a local commercial bank earmarked for infrastructure development. K1,663.40 million will be financed through external budget support loans from the Government's multilateral and bilateral creditors and as well the concessional loan drawdowns of secured loan projects.

The Government projected a net increase of K2,560.20 million in Treasury Bond. This includes K4,300.90 million gross issuance approved in 2024 budget and K1,740.70 million in principal repayments. There is also an estimated net decrease of K177.60 million in Treasury Bills.

The Government will continue to utilize cheap and concessional avenues of financing by engaging actively with its multilateral and bilateral partners. A number of new concessional project loans have already been signed and will commence drawdowns this year (2024). The Australian Infrastructure Financing Facility for Pacific (AIFFP) will continue to roll out its infrastructure development loan projects over the medium term.

The Government is in dialogue with ADB for a budget support loan of USD100.0 million (K374.0 million) for strengthening Public Sector Management, a World Bank Development Policy Operation (DPO) of USD100 million (K374.0 million) as budget support as well as USD252.0 million (K939.30 million) budget support from IMF. The IMF support is part of the IMF's assistance to PNG in fostering reforms that boost economic growth and enhance Debt Sustainability among several other significant reforms objectives. The IMF is considering whether to bring forward some of its assistance given the Black Wednesday destruction.

The Government plans to drawdown K1, 025.80 million from concessional loan which represent 25.8 percent of the total net financing earmarked for planned projects, K188.0 million or 4.7 percent for commercial financing for other infrastructure projects

and K1,686.40 million from budget support loans making up to 42.3 percent of the total net financing for 2024.

The amortization commitments for 2024 includes: K166.0 million for domestic commercial loans and K647.50 million for external extraordinary loans. The Government also plans to amortize K772.50 million in external concessional liabilities to reduce interest obligations and exposure to expensive forms of debt. With the amortizations and concessional financing planned for 2024, the Government anticipates to reduce some interest costs over the medium term on these loans.

The financing requirement for 2024 Budget is projected to increase the total Government debt to K62,598.70 million by end of the year, equivalent to 51.1 per cent of GDP. This is within the current band of 45-57.5 per cent of GDP as per the 2023 amended Fiscal Responsibility Act (FRA). Moreover, the planned debt portfolio maintains the domestic share of financing at 51.4 per cent of total debt stock. The external financing mix in 2024 is planned to improve concessional sources and extraordinary sources of financing accounting for at least 48.6 per cent of total debt stock.

UPDATE ON DOMESTIC MARKET CONDITIONS FOR FINANCING DEFICIT

In 2023, there was an increase in net borrowing from both Treasury Bills and Treasury Bonds attributed to the increased need of financing to meet weekly cashflow entailing settlement of large periodic coupon and maturity payments during the year. Uncertain timing in accessing proposed budgetary support loans was another reason for increased issuance of the Government Securities.

In 2024, Government plans to borrow domestically through issuance of Government Securities (Treasury Bills & Bonds). Issuance of Treasury Bills will continue on weekly basis while Treasury Bond to be issued monthly.

The main players in the Government securities market are the four (4) major commercial banks and two (2) superannuation funds including a few corporate and individual investors in the weekly and monthly auctions.

There was an increased appetite for short-term Treasury Bills in the first quarter of 2023 whilst the subsequent quarters experienced a decline due to rates dropping steadily. Most retail investors redeemed their maturities, particularly in the first half of the year. The introduction of the fixed-rate full allotment facility by BPNG at an interest rate of 2.5 per cent also affected the market. BPNG also allowed the superannuation funds to access the Central Bank Bill market for the first time.

Long term Treasury Bond continue to be active and attractive to the major market players in the monthly auctions. In 2023, Treasury Bond auction commenced in second quarter and was spread over a five (5) month period (April-September).

Currently, there is high liquidity in the market generating increased appetite for Government Securities as evidenced by 89.0 percent of the auction experiencing oversubscriptions. The interest rate dropped steadily for Treasury Bonds throughout the year (2023). Large net issuance (higher borrowing than repayments), periodic refinancing and partial retiring of Government Securities are an ongoing feature of the auctions.

2024 REPAYMENT AND NEW BORROWING

Outlined below is the indicative debt issuance plan for 2024. It provides updated details compared to those shown in Chapter 8 (Financing and Debt Management Strategy) and Appendix 2 of Volume 1 of the 2024 National Budget document. This information is available on the website:

<https://www.treasury.gov.pg/budget/annual-budgets/2024-budget/>

Summary of Repayments and New Issuance in 2024 (Kina million)

Financing Source	Estimated Balance 31-Dec-23	Projected Repayment 2024	Projected Borrowing 2024	Projected Balance 31-Dec-24	Net Change 2024
DOMESTIC DEBT	29,858.20	19,800.30	22,120.70	32,178.60	2,320.40
Debt Securities	28,691.50	19,634.30	22,016.90	31,074.10	2,382.60
Treasury Bills	14,163.10	17,893.60	17,716.00	13,985.50	-177.60
Treasury Bonds	14,528.40	1,740.70	4,300.90	17,088.60	2,560.20
Loans	1,166.70	166.0	103.8	1,104.50	-62.20
EXTERNAL DEBT	28,756.70	1,462.10	3,125.50	30,420.10	1,663.40
MG & SDR'S	1,244.10	0	0	1,244.10	0
Debt Securities	1,760.60	0	0	1,760.60	0
Loans	25,752.00	1462.1	3,125.50	27,415.40	1,663.40
Concessional	12,176.30	772.5	1,025.80	12,429.60	253.30
Commercial	173.3	42.1	188	319.2	145.9
Extraordinary	13,402.40	647.5	1,911.70	14,666.60	1,264.20
TOTAL	58,614.90	21,262.40	25,246.20	62,598.70	3,983.80

Budget Deficit	K3,983.80 million
Financing Source	(a) Debt : K3,983.30 million (b) Asset Sales : K0.0 million
Total Debt to GDP	51.1%

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 weekly expenditures. Bank of Papua New Guinea in its role as the issuing agent for the Department of Treasury will announce to the investors by close of business on Tuesdays, the amount and the term of Treasury Bills to be sold. The Government will continue to issue mainly 6 months, 9 months and 12 months (1 year) Treasury Bills.

Treasury Bonds (Inscribed Stock)

For the 2024 Treasury Bond Issuance, the series of Treasury Bond is planned to be issued over ten (10) auctions commencing in February 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 2024 given the uncertain timing in accessing the proposed external budgetary support loans; and
- 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.

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 K100 million to K800 million starting in February 2024.

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.

2024 Domestic Issuance Calendar – Treasury Bonds (Inscribed Stock)

2024 Treasury Bond Tentative Issuance Schedule	
Tentative Issuance Date	Tentative Issuance amount (K'm)
Tue, 27th February, 2024	800.00
Tue, 19th March, 2024	800.00
Tue, 23rd April, 2024	700.00
Tue, 21st May, 2024	600.00
Tue, 18th June, 2024	500.00
Tue, 23rd July, 2024	300.00
Tue, 20th August, 2024	200.00
Tue, 17th September, 2024	150.00
Tue, 22nd October, 2024	150.00
Tue, 19th November, 2024	100.90
	4,300.90

Note: the tentative issuance schedule is subject to change

The above issuance plan is based on 2024 Budget projections. If there are any changes, investors will be notified accordingly.

By the beginning of each quarter, the Department of 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 or 313 3799.

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