
CHAPTER 8 MEDIUM TERM DEBT STRATEGY

8.1 OVERVIEW

8.1.1 Objective

The objective of the Medium Term Debt Strategy 2006–2010 (the Debt Strategy) is to minimize the cost of debt consistent with the Government's tolerance for financial risk, including a sustainable level of debt, and to develop an efficient market for government securities. This objective supports the MTFs and MTDS.

8.1.2 Why Prudent Government Debt Management is Important

Prudent management of the PNG Government's debt is important because of the excessive amount on issue and the volatile debt servicing costs.

To demonstrate the excessive amount on issue, the Government's current total debt portfolio of K7.5 billion is the largest financial portfolio in PNG and is similar in size to the total assets of PNG's financial institutions of around K8 billion.

To demonstrate the volatile debt servicing costs, annual debt servicing expense has averaged 13 per cent of the Government's annual total expenditure over the last fifteen years, and in some years has been 20 per cent of the Government's annual total expenditure. Such high volatility is due to excessive levels of foreign currency debt and Treasury Bills, and a lack of fixed rate, long-term Kina-denominated debt. On top of the debt servicing costs the cumulative losses over the last fifteen years due to foreign currency depreciation were about K3.7 billion. If these foreign currency losses are added to the debt servicing costs, the annual economic cost of debt has on average been equivalent to a quarter of total annual government expenditure.

8.1.3 Achievements in 2005

A Debt Strategy was developed in 2004. During 2005 the Government:

- (a) Lengthened the average maturity of the Government's domestic debt portfolio from 0.4 year to about 1 year, through issuing K300 million of Inscribed Stock and switching from Treasury Bills into K500 million of Inscribed Stock.
- (b) Introduced 1 year Treasury Bills, and 5, 7 and 10 year Inscribed Stock.
- (c) Introduced monthly auctions for Inscribed Stock issuance or switches.

- (d) Separated issuance of Treasury Bills (which meet the Government's funding and cash management needs) and Central Bank Bills (which help BPNG manage financial sector liquidity and maintain interest rates at an appropriate rate).

An important component of the Debt Strategy is the partnership with bilateral and multilateral lenders, such as World Bank, who offer concessional finance to PNG. One setback to the Debt Strategy was the suspension of World Bank concessional lending to PNG due to the cancellation of the loan for the Forestry and Conservation project.

The proposed restructuring of the composition of the foreign currency debt portfolio has been postponed until a comprehensive asset-liability management framework is established which robustly identifies the optimal foreign currency composition.

8.1.4 The Updated Debt Strategy

The Debt Strategy continues the Government's commitment to reduce debt to a more sustainable level and restructure the debt portfolio to a less risky portfolio. The risks of the debt portfolio are decreased by reducing short-term variable rate domestic debt (Treasury Bills), increasing long-term fixed rate domestic debt (Inscribed Stock), and reducing the most expensive and risky net foreign currency debt. The Government will continue to rely on competitive and fair auctions to determine the yields of Treasury Bills and Inscribed Stock, and thus will be a price taker in auctions.

The Debt Strategy has been updated for the results of 2005 and is aligned to the fiscal and macroeconomic forecasts in the MTFS. The Debt Strategy also provides more emphasis on debt sustainability indicators, building relationships with investors, improving coordination amongst government entities, and using asset-liability management principles to identify beneficial ways of restructuring the Government's financial balance sheet.

The Debt Strategy summarized above and described in detail below will be monitored, reviewed and updated annually to recognize international and domestic developments in the management of fiscal, monetary and debt policy relevant to PNG.

8.2 MANAGEMENT OF THE GOVERNMENT'S DEBT PORTFOLIO

8.2.1 Debt Sustainability

The Debt Strategy will have a renewed emphasis on debt sustainability, using an asset-liability management framework. For example, the Government's contingent liabilities, financial assets such as reserves or investments in companies, will be considered when determining the appropriate composition and size of government debt.

The previous Debt Strategy for 2005-2009 set a target gross debt level of 45 per cent of GDP by end of 2009. The Government will target and monitor other debt sustainability indicators that are consistent with the IMF's sustainability indicators and Credit Rating Agencies' risk indicators.

Most measures indicate that PNG has high, although sustainable, levels of debt.

Debt sustainability is assessed on the basis of debt stock and debt service relative to measures of repayment capacity. The debt stock indicators provide measures of future debt service burden of existing debt; the burden is best measured using the Present Value (PV) of debt as it captures the concessionality of outstanding debt. Debt service indicators provide a measure of the burden that debt imposes on a country by crowding out other important uses of scarce resources by the borrower.

Debt levels that a low-income country can sustain are influenced by their capacity to absorb macroeconomic shocks and the quality of their policies and institutions. PNG is classified as a poor performer by the World Bank's Country Policy and Institutional Assessment. PNG would have sustainable debt if it was classified as a strong performer.

The IMF's indicators for the sustainability of government debt are shown in Table 49. The indicators for the sustainability of PNG's total external debt are shown in Table 50.

Table 1: Sustainability of the Government's Debt

Sustainability Indicators	IMF Threshold per cent	Forecast PNG 2006 per cent	Comment
PV of Government Debt / GDP	30	47	Unsustainable
PV of Government Debt / Government Revenue	200	167	High but sustainable
Government Debt Service / Government Revenue	25	14	High but sustainable

Source: IMF and Department of Treasury

Table 2: Sustainability of PNG's Total External Debt

Sustainability Indicators	IMF Threshold per cent	Forecast PNG 2006 per cent	Comment
PV of PNG's Total External Debt / GDP	30	31	Unsustainable
PV of PNG's Total External Debt / Exports	100	38	High but sustainable
PNG's Total External Debt Service / Exports	15	7	High but sustainable

Source: IMF and Department of Treasury

One important measure of debt sustainability is the Sovereign Credit Rating of PNG, and the Government will agree in 2006 on a medium term target for PNG's foreign currency sovereign credit rating and its domestic-currency sovereign rating. A large component of a country's sovereign credit rating is influenced by the Government's fiscal and monetary policy, and debt management plays an important supportive role in ensuring the debt composition mitigates financial risks and supports macroeconomic stability. In determining the appropriate target sovereign credit rating, the Government will recognize that it can take a long time to achieve the economic improvements to warrant a substantial upgrade.

8.2.2 Relationships with Investors

The Debt Strategy will also aim to maintain good relationships with existing investors and encourage new investors to buy government debt securities. Currently PNG is heavily dependent on the ADB and World Bank who together fund approximately one third of total government debt, and domestic banks that fund approximately one quarter of total government debt. These relationships will continue to be important to the Government and mutually beneficial, especially as the use of concessional finance is preferred to commercial finance, and Kina-denominated commercial finance is preferred to foreign currency denominated commercial finance. The Government will formally seek feedback from existing investors and stakeholders on the performance of the Government's debt management institutions.

The Government will take measures to improve foreign investors' understanding of the PNG economy and opportunities for direct and indirect investment, including government debt securities. Currently very little of the domestic, Kina-denominated, debt is held by foreign (non-resident) investors.

The Government will also explore the opportunity to issue debt to retail investors, borrow Kina-denominated concessional finance, and will evaluate the use of specialised or structured debt for large projects especially if this type of funding attracts new wholesale or retail investors.

8.2.3 Asset-Liability Management

As noted in last year’s strategy the whole of the debt portfolio will be managed in the context of asset-liability management principles. This means the Government will try and match the financial and risk characteristics of its financial assets and liabilities, and its taxation revenue and debt servicing.

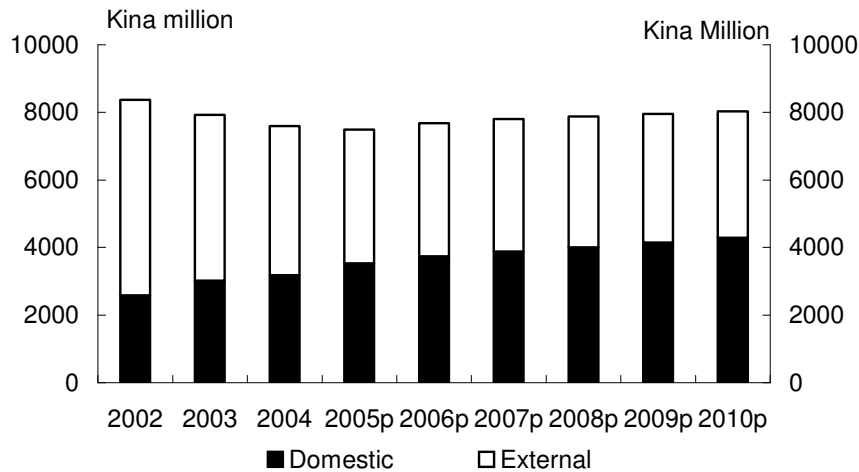
An asset-liability management framework will be developed gradually in consultation with other government entities, to ensure that their respective financial management strategies are coherent and consistent with the overall objective of minimising cost consistent with the Government’s tolerance for financial risk.

The Debt Strategy will apply asset-liability management principles to reduce the excessive risks due to foreign currency, interest rate and refinancing by reducing short-term domestic debt (Treasury Bills), increasing long-term fixed rate domestic debt (Inscribed Stock), and reducing foreign currency debt.

8.2.3.1 Foreign Currency Risk

To reduce the excessive foreign currency risk, the Debt Strategy will reduce external or foreign currency debt from the current level of 53 per cent of total government debt to about 47 per cent in 2010 and increase domestic or local currency debt from the current level of 47 per cent of total government debt to 53 per cent by 2010.

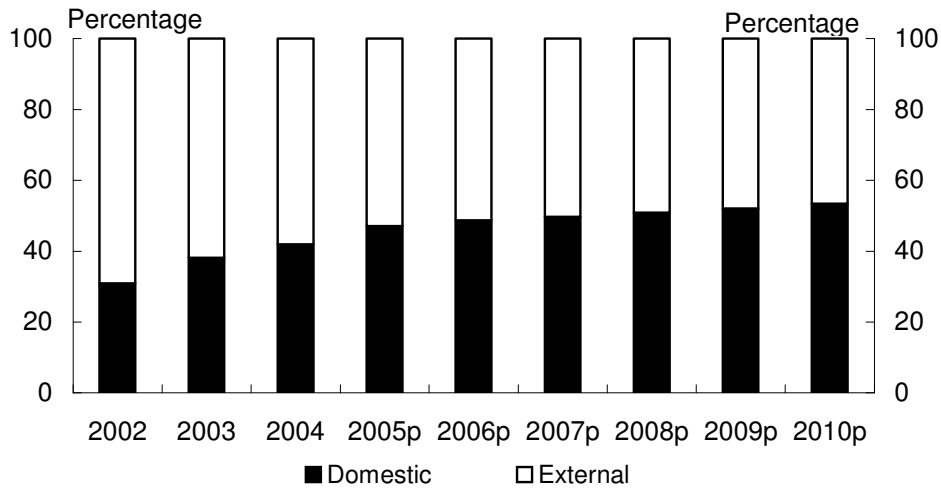
Figure 1: Currency Composition of Government Debt



Source: Department of Treasury

This reduction in foreign currency debt will be achieved by either investing in government stock of Japan, USA or Euro-countries, or redeeming early the most expensive and risky external debt, or possibly using hedging instruments with the assistance of World Bank and ADB.

Figure 2: Currency Composition of Government Debt



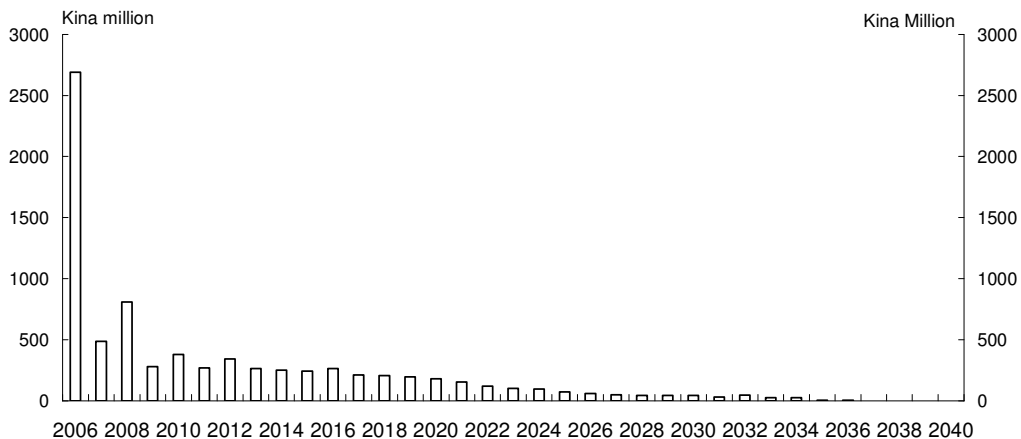
Source: Department of Treasury

8.2.3.2 Refinancing Risk

The Debt Strategy will increase the average maturity of the domestic debt portfolio from the current average of about 1 year to about 3 years in 2010. This will be achieved by increasing the net amount of Inscribed Stock by about K250 million a year over the next five years. The Inscribed Stock will have maturities between 3 to 10 years. The net amount of Treasury Bills on issue will be reduced by about K100 million a year over the next five years. The external debt portfolio has an acceptably low refinancing risk with an average maturity of amortisations of about 10 years.

The maturity profile of total debt as at the end of 2005, assuming no new loans are taken out and existing loans are fully drawn, is set out below in Figure 27.

Figure 3: Maturity Profile of Total Debt



Source: Department of Treasury

8.2.3.3 Interest Rate Risk

In the past, nearly all of the Government's domestic debt had, in effect, a variable interest rate. This exposed the Government to huge swings in debt servicing costs. The Debt Strategy aims to increase the net amount of Inscribed Stock by about K250 million a year over the next five years, and decrease the net amount of Treasury Bills by about K100 million a year over the next five years. This will result in about 60 per cent of the domestic debt being fixed rate, and 40 per cent variable rate. This proportion is judged by most countries as an appropriate trade-off between the additional cost of borrowing fixed rate, and the benefits of stable debt servicing cost.

The foreign currency portfolio already has a reasonable balance between fixed and variable interest rate, with about 70 per cent of the external portfolio being fixed rate and 30 per cent variable rate.

8.3 STRATEGY TO IMPROVE DOMESTIC DEBT COMPOSITION

8.3.1 Desired Outcome of the Domestic Debt Strategy

The Debt Strategy will progressively restructure domestic debt over the period 2006 to 2010 in order to meet the proposed structure set out in Table 51.

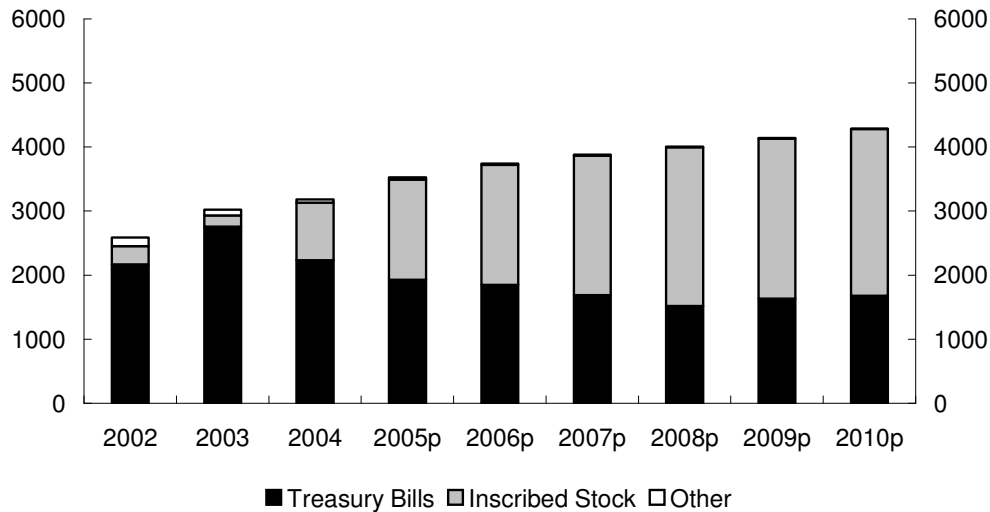
Table 3: Composition of Domestic Debt by Instrument

Instrument Type	Current Structure	Proposed Structure
Treasury Bills	55	25-40
Inscribed Stock / Other	45	60-75

Source: Department of Treasury.

The Debt Strategy will ensure that debt issued results in prudent levels of debt to be refinanced in any one fiscal year. For example, the Debt Strategy will set an upper limit of around K500 million for Inscribed Stock maturing in any fiscal year. This rebalancing will take a few years to achieve due to the large volume of Treasury Bills outstanding. The effect of the Debt Strategy on the composition of domestic debt over the period 2006 to 2010 is shown below in Figure 28.

Figure 4: Composition of Domestic Debt



Source: Department of Treasury.

8.3.2 Implementation of Domestic Debt Strategy

In order to achieve the proposed domestic debt composition in Table 51 and Figure 28, the following initiatives are planned to improve the supply and market infrastructure of Government securities.

8.3.2.1 Supply of Government Securities

- (i) Development in the medium-term of three to four “benchmark maturities” Inscribed Stock of up to K500 million up to maturities of 10 years. Each benchmark series will have a set coupon, as having fungible instruments will help promote secondary market trading.
- (e) Use of “debt switching” into Inscribed Stock from either Treasury Bills or short-term Inscribed Stock (those with residual maturities of less than 6 months). This will occur over the next 5 years, in order to maintain the build up of Inscribed Stock and lengthening of maturities, thereby reducing interest rates and short term refinancing risk to the Government; and also to reduce the refinancing risk of large amounts of Inscribed Stock maturing on the same date.
- (f) Review of the existing Treasury Bills tender program, covering co-ordination and agency agreements with BPNG, minimum bid amount and access of retail investors and feasibility of benchmark maturities of Treasury Bills.
- (g) Investigate the feasibility and demand for long term variable rate notes, inflation or other (such as commodity) indexed bonds, Kina-denominated concessional finance, project or syndicated financing and retail government securities.

- (h) Announcement by the beginning of each year of an annual issuance and switch plan for Inscribed Stock, showing the amount and date of issuance.
- (i) Announcement by the beginning of each quarter the quarterly issuance plan, showing the coupons and maturities of the Inscribed Stock to be switched or issued.

8.3.2.2 Market Infrastructure

Consulting with investors about opportunities to improve the market infrastructure for government securities including:

- (ii) Streamlining regulations and tax relating to government securities.
 - (j) Improving registry, issuance, settlement and confirmation processes.
 - (k) Establishing whether investors prefer the over-the-counter market for trading government securities or whether government securities should be listed and traded on the Port Moresby Stock Exchange.
 - (l) Maintaining and developing PNG expertise through industry qualifications.
 - (m) Enhancing market practice and industry conduct through industry codes of conduct and discussions with market regulators.

8.4 EXTERNAL DEBT STRATEGY

The external Debt Strategy will improve the foreign currency and loan composition of external debt, maintain the current mix between fixed and variable rate loans, establish a standard for determining the concessionality of new loans contracted from bilateral and multilateral sources and maintain a smooth and long-dated maturity profile.

8.4.1 Currency and Loan Composition of External Debt

The Debt Strategy for determining the currency and loan composition will be based on an analysis of the risk and cost of foreign currency loans, taking into account the Government's foreign currency assets, revenue and expenses. BPNG holds a large foreign currency asset portfolio, and therefore the Department of Treasury will work closely with BPNG to restructure foreign currency loans. See Table 52 for the currency composition of net and gross external debt.

In order to improve the currency and loan composition, the following strategies will be implemented:

- (iii) Establish the risk and cost of early redemption, switches or purchase of high-quality foreign currency assets to improve the composition of the foreign currency portfolio.

- (n) Understand the new concessional foreign currency products offered by ADB, World Bank and other reputable financial institutions, and if appropriate use these products to reduce the risks in the external loan portfolio.
- (o) Rank all foreign currency loans by their risk and cost so as to identify which loans should be redeemed early, switched or whose risks should be mitigated. This analysis will be based on asset-liability management principles, and therefore consider any natural hedge provided by the Government's foreign currency assets and revenues, including BPNG's reserves.
- (p) Ensure all new borrowing of foreign currency or external loans minimise cost and are within the Government's appetite for financial risk. Thus concessional finance in the least-risk currency is preferred.

Table 4: Currency Composition of Net and Gross External Debt 2005

Currency	Net Debt Kina million	Net Debt per cent	Reserves Kina million	Gross Debt Kina million	Gross Debt per cent
US Dollars	887	46	830	1,717	43
Japanese Yen	1,371	71	156	1,527	39
Euro	131	7	403	534	13
Others	41	2		41	2
<i>Net Debt</i>	<i>2,430</i>	<i>126</i>			
Australian dollar	(492)	(25)	537	45	1
Pound Sterling	(15)	(1)	111	96	2
<i>Net Asset</i>	<i>(507)</i>	<i>(26)</i>			
Total	1,923	100	2,037	3,960	100

Sources: Department of Treasury and BPNG

8.4.2 Interest Rate Composition

The setting of the fixed/variable interest rate composition for external debt is based on international practices, and will be between 65 to 75 per cent, and 25 to 35 per cent respectively. Currently, external debt interest rate composition falls within these ranges.

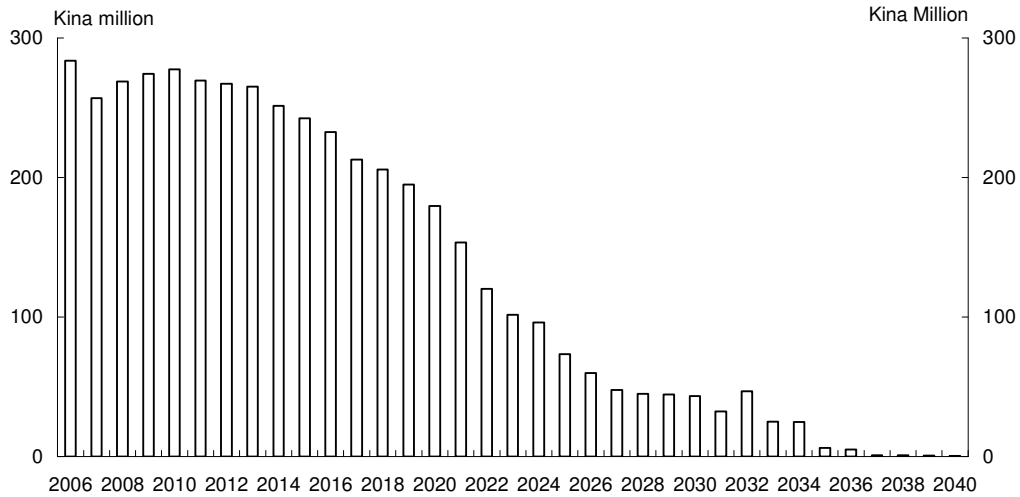
8.4.3 Criteria for Concessional Financing

The criteria for concessional financing shall be a grant element of 35 per cent or more. This is in line with international debt management practice and as recommended by IMF and World Bank. All existing or new external loans will be classified as either concessional or commercial.

8.4.4 External Debt Maturity Profile

The Debt Strategy will ensure that debt issued results in prudent levels of refinancing in any one fiscal year. The maturity profile of external debt as at the end of 2005, assuming no new loans are taken out and existing loans are fully drawn, is set out below in Figure 29.

Figure 5: Maturity Profile of External Debt



Source: Department of Treasury

APPENDIX 3: ECONOMIC AND FISCAL DATA TABLES

Table 3.8: Central Government Revenue and Grants

Table 3.9: Central Government Expenditure and Net Lending

Table 3.10: Central Government Financing

Table 3.12: Public Debt

Table 3.8: Central Government Revenue and Grants

TABLE 8: CENTRAL GOVERNMENT REVENUE AND GRANTS
(Kina Million)

	2002 Actual	2003 Actual	2004 Actual	2005 Proj	2006 Proj	2007 Proj	2008 Proj	2009 Proj	2010 Proj
TAX REVENUE	2369.9	2677.9	3220.1	3492.6	3447.6	3404.5	3420.8	3485.4	3546.2
TAX ON INCOME AND PROFITS	1491.1	1786.6	2223.4	2530.3	2468.3	2419.1	2411.2	2412.1	2404.6
Personal Income Tax	694.3	758.4	826.5	874.7	846.9	881.3	941.9	1004.9	1071.4
Company tax	310.9	334.5	436.7	441.7	457.7	490.1	525.5	561.5	600.5
DWT	62.1	117.2	123.2	140.2	145.2	133.5	126.9	133.6	135.7
Mining and Petroleum Taxes	258.9	396.5	634.3	891.3	820.1	701.9	593.8	477.7	350.6
Interest withholding tax	21.9	41.4	33.3	18.7	25.9	29.6	29.6	29.6	29.6
Other Direct	69.0	55.3	78.6	70.3	74.3	79.6	85.3	91.2	97.5
Gaming Tax	73.9	83.3	90.7	93.5	98.2	103.1	108.3	113.7	119.3
DOM. TAXES ON GOODS AND SERVICES	575.7	596.0	620.8	669.4	700.4	694.2	707.3	760.4	817.6
Excise	178.8	174.7	203.1	248.8	269.4	285.7	306.4	327.3	350.1
GST	289.6	311.8	315.7	335.9	359.6	377.3	399.7	431.8	466.2
Mining Levy	105.9	101.8	101.3	83.8	70.3	30.0	0.0	0.0	0.0
Other Indirect	1.4	7.8	0.7	1.0	1.0	1.1	1.2	1.3	1.3
TAXES ON INTERNATIONAL TRADE	303.2	295.3	375.9	293.0	278.9	291.3	302.3	312.8	323.9
Import Duty	79.5	73.7	151.1	93.6	67.2	69.5	72.5	77.2	82.9
Export Duty	106.7	111.8	101.5	113.8	122.4	128.2	129.6	127.6	125.7
Excise Duty on Imports	117.0	109.8	123.3	85.6	89.3	93.6	100.2	108.0	115.3
NON TAX REVENUE	169.9	239.2	245.1	228.3	226.6	256.4	273.5	270.2	305.5
PROPERTY INCOME	74.4	159.7	164.7	150.4	145.0	170.9	185.2	179.1	211.4
Dividends	64.0	85.7	105.0	65.5	48.5	73.5	98.5	98.5	128.5
Mining and Petroleum Dividends	10.4	74.0	59.7	84.9	96.5	97.4	86.7	80.6	82.9
Other*									
INTEREST AND FEES FROM LENDING	1.3	4.3	2.8	5.0	3.8	5.0	5.0	5.0	5.0
OTHER NON TAX REVENUE	72.2	75.2	77.6	72.9	77.8	80.5	83.3	86.1	89.1
ASSET SALES	22.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL REVENUE	2539.8	2917.13	3465.2	3720.9	3674.2	3660.9	3694.2	3755.6	3851.7
% of GDP	22.0%	22.9%	25.3%	24.7%	23.1%	22.5%	21.7%	20.7%	19.8%
INFRASTRUCTURE TAX CREDITS	55.2	40.0	34.7	50.0	71.1	77.8	73.9	69.7	60.0
GRANTS	691.4	693.0	849.7	1283.1	994.0	1013.9	1033.0	1052.5	1072.3
Budgetary Support	20.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project Support Grants	670.5	693.0	849.7	1283.1	994.0	1013.9	1033.0	1052.5	1072.3
TOTAL REVENUE AND GRANTS	3286.4	3650.1	4349.7	5054.0	4739.3	4752.6	4801.1	4877.8	4983.9
% of GDP	28.4%	28.6%	31.8%	33.6%	29.8%	29.2%	28.2%	26.9%	25.6%
PRINCIPAL RECEIPTS FROM LENDING	4.8	9.6	10.4	4.0	4.0	4.0	4.0	4.0	4.0
GROSS BORROWING	1011.4	813.7	1433.7	1330.3	1383.1	1302.4	1293.6	776.9	711.2
ASSET SALES	201.0	40.0	25.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL RECEIPTS	4503.7	4513.4	5818.8	6388.3	6126.4	6059.0	6098.7	5658.7	5699.1
% of GDP	43.0%	39.0%	45.6%	46.7%	40.7%	38.1%	37.4%	33.3%	31.4%

Source: Department of Treasury.

Table 3.9: Central Government Expenditure and Net Lending

TABLE 9: CENTRAL GOVERNMENT EXPENDITURE
(Kina Million)

	2002 Actual	2003 Actual	2004 Actual	2005 Proj	2006 Proj	2007 Proj	2008 Proj	2009 Proj	2010 Proj
RECURRENT BUDGET									
NATIONAL DEPARTMENTS	1357.1	1192.4	1555.1	2108.2	1692.1	1803.4	1884.9	1973.1	2011.0
Personnel Emoluments ^(a)	574.3	618.0	682.2	699.1	740.2	802.0	846.6	917.3	964.2
Goods and Services	782.8	574.4	872.9	909.1	951.9	1001.4	1038.2	1055.8	1046.7
General Goods and Services	554.0	489.9	534.9	716.4	783.2	812.6	844.3	877.0	910.8
Education Subsidies	134.7	29.9	39.5	41.1	43.0	45.8	48.9	52.2	55.6
Pre-March 2003 Arrears Payments	12.0	20.6	141.8	35.0	5.0	0.0	0.0	0.0	0.0
Structural Adjustment Payments	68.0	9.7	66.7	65.6	68.7	89.0	89.0	68.5	19.8
Court Orders	14.1	24.2	90.0	51.0	52.0	53.9	56.1	58.2	60.5
Gas Project Acquisition				400.0					
Re-allocated savings				100.0					
PROVINCIAL DEPARTMENTS	562.9	563.3	656.0	641.1	704.9	730.8	758.0	786.6	816.5
Personnel Emoluments	467.2	482.9	580.2	551.3	610.1	629.7	650.2	671.5	693.8
Staffing Grants	156.4	160.7	183.0	175.0	193.4	194.8	196.3	197.8	199.3
Teachers' Salaries	310.8	322.2	397.2	376.4	416.7	434.9	453.9	473.7	494.5
Goods and Other Services	45.7	53.4	54.0	54.8	57.9	61.7	65.8	70.2	74.9
Administration / Block Grants	35.6	34.0	17.5	11.4	11.8	12.6	13.5	14.4	15.3
Health Function Grant	0.0	0.0	9.1	12.0	12.5	13.3	14.2	15.2	16.2
Education Subsidies / Function Grant	0.0	11.0	16.9	20.3	21.2	22.6	24.1	25.7	27.4
Derivation Grants	10.1	8.5	10.5	11.2	12.4	13.2	14.0	15.0	16.0
Conditional Grants	50.0	26.9	21.8	35.0	37.0	39.4	42.1	44.9	47.9
Provincial Infr / Transp Maint Grants	22.3	13.9	12.5	12.4	13.0	13.8	14.8	15.7	16.8
Local & Village Services / Rural LLG	24.5	8.1	3.8	15.7	16.9	18.0	19.3	20.5	21.9
Town and Urban Services	3.2	4.8	5.6	6.8	7.1	7.5	8.0	8.6	9.2
AUTONOMOUS BOUGAINVILLE GOVERNMENT	25.0	31.3	35.0	38.0	40.8	42.3	44.0	45.7	47.4
Police Grant					2.0	2.1	2.2	2.2	2.3
Recurrent Grant	25.0	26.3	30.0	33.0	38.8	40.2	41.8	43.4	45.1
Establishment Grant		5.0	5.0	5.0					
TRANSFERS TO STAT. INS.	164.9	178.4	207.9	197.9	211.2	219.1	227.6	236.4	245.5
INTEREST PAYMENTS AND FEES	436.4	739.6	377.0	347.7	497.0	548.0	567.9	566.7	572.5
Domestic	248.0	578.8	239.0	236.5	384.6	437.3	458.9	460.2	468.8
External	188.4	160.8	138.0	111.2	112.4	110.7	109.0	106.5	103.7
NET LENDING TO CSAs	-4.8	-9.6	-10.4	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0
TOTAL RECURRENT	2541.5	2695.5	2820.4	3328.9	3142.1	3339.5	3478.4	3604.5	3689.0
% of GDP	22.0%	21.1%	20.6%	22.1%	19.8%	20.5%	20.4%	19.9%	19.0%
DEVELOPMENT BUDGET									
GoPNG FUNDED PROJECTS	524.5	386.0	477.6	538.7	693.2	699.9	696.0	691.8	682.1
DOMESTIC FUNDS	236.8	207.3	331.6	345.0	459.1	459.1	459.1	459.1	459.1
INFRASTRUCTURE TAX CREDITS	55.2	40.0	34.7	50.0	71.1	77.8	73.9	69.7	60.0
CONCESSIONAL LOANS	97.5	82.8	94.6	133.1	163.0	163.0	163.0	163.0	163.0
COMMERCIAL LOANS	135.0	55.9	16.8	10.6	0.0	0.0	0.0	0.0	0.0
DONOR FUNDED PROJECTS									
PROJECT GRANTS	670.5	693.0	849.7	1283.1	994.0	1013.9	1033.0	1052.5	1072.3
TOTAL DEVELOPMENT (PIP)	1195.0	1079.0	1327.4	1821.8	1687.2	1713.8	1729.0	1744.3	1754.4
% of GDP	10.3%	8.5%	9.7%	12.1%	10.6%	10.5%	10.2%	9.6%	9.0%
REQUIRED ADJUSTMENT MEASURES						-265.7	-406.3	-471.0	-459.4
% of GDP									
TOTAL EXPENDITURE AND NET LENDING	3736.5	3774.4	4147.8	5150.7	4829.3	4787.7	4801.1	4877.8	4984.0
% of GDP	32.3%	29.6%	30.3%	34.2%	30.4%	29.4%	28.2%	26.9%	25.6%
AMORTISATION	764.0	729.4	1613.2	1233.6	1293.1	1267.4	1293.6	776.9	711.2
Domestic	404.9	283.7	1176.4	934.2	1006.2	998.5	1006.8	478.3	403.3
External	359.1	445.6	436.8	299.4	286.9	268.9	286.8	298.6	307.9
LOAN REPAYMENTS	4.8	9.6	10.4	4.0	4.0	4.0	4.0	4.0	4.0
TOTAL PAYMENTS	4505.3	4513.4	5771.4	6388.3	6126.3	6059.0	6098.7	5658.7	5699.2
% of GDP	41.0%	36.6%	42.8%	45.1%	40.5%	38.0%	36.0%	44.2%	38.6%

Source: Department of Treasury.

(a) National Departments salary and wages includes provisions for superannuation contributions, retirement payments and future pay rises for both national and provincial government employees, including school teachers.

Table 3.10: Central Government Financing
TABLE 10: CENTRAL GOVERNMENT FINANCING
 (Kina Million)

	2002	2003	2004	2005	2006	2007	2008	2009	2010
	Actual	Actual	Actual	Proj	Proj	Proj	Proj	Proj	Proj
TOTAL REVENUE AND GRANTS	3231.2	3650.1	4349.7	5054.0	4739.3	4752.6	4801.1	4877.8	4983.9
TOTAL EXPENDITURE AND NET LENDING	3681.3	3774.4	4147.8	5150.7	4829.3	4787.7	4801.1	4877.8	4984.0
DEFICIT (-) / SURPLUS (+)	-450.0	-124.3	201.9	-96.7	-90.0	-35.0	0.0	0.0	0.0
% of GDP	-3.9%	-1.0%	1.5%	-0.6%	-0.6%	-0.2%	0.0%	0.0%	0.0%
NET EXTERNAL FINANCING	-126.6	-307.0	-325.4	-155.7	-123.9	-105.9	-123.8	-135.6	-144.9
CONCESSIONAL FINANCING	-177.9	-136.5	-147.2	-84.7	-39.6	-26.5	-40.3	-45.8	-47.5
New Borrowing	97.5	82.8	94.6	133.1	163.0	163.0	163.0	163.0	163.0
Less Amortisation	-275.4	-219.3	-241.8	-217.8	-202.6	-189.5	-203.3	-208.8	-210.5
COMMERCIAL FINANCING	51.3	11.3	-9.9	-9.8	-17.8	-18.2	-18.5	-18.9	-19.3
New Borrowing	135.0	55.9	16.8	10.6	0.0	0.0	0.0	0.0	0.0
Less Amortisation	-83.7	-44.6	-26.7	-20.4	-17.8	-18.2	-18.5	-18.9	-19.3
EXTERNAL EXTRAORDINARY FINANCING	0.0	-181.8	-168.3	-61.3	-66.5	-61.2	-65.0	-70.9	-78.1
New Borrowing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Less Amortisation	0.0	-181.8	-168.3	-61.3	-66.5	-61.2	-65.0	-70.9	-78.1
NET DOMESTIC FINANCING	576.6	431.3	123.5	252.4	213.9	140.9	123.8	135.6	144.9
DOMESTIC MARKET BORROWING	300.7	361.5	154.1	355.2	213.9	140.9	123.8	135.6	144.9
New Borrowing	705.5	645.2	1377.9	1289.4	1220.1	1139.4	1130.6	613.9	548.2
Less Amortisation	-404.8	-283.7	-1223.8	-934.2	-1006.2	-998.5	-1006.8	-478.3	-403.3
MRSF NET DRAWDOWN									
TEMPORARY ADVANCE	74.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
End period balance	74.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
less: Beginning period balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ASSET SALES FINANCING	201.0	40.0	25.0	0.0	0.0	0.0	0.0	0.0	0.0
OTHER DOMESTIC FINANCING		29.8	-55.6	-102.8	0.0	0.0	0.0	0.0	0.0
Change in check float		44.0	87.8	-102.8	0.0	0.0	0.0	0.0	0.0
End period stock		165.0	252.8	150.0	150.0	150.0	150.0	150.0	150.0
less: Beginning period stock		-121.0	-165.0	-252.8	-150.0	-150.0	-150.0	-150.0	-150.0
POSF financing (a)		0.0	-63.0	0.0	0.0	0.0	0.0	0.0	0.0
BPNG financing		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing Discrepancy		-14.2	-80.4	0.0	0.0	0.0	0.0	0.0	0.0
NET FINANCING	450.0	124.3	-201.9	96.7	90.0	35.0	0.0	0.0	0.0
<i>MEMO:</i>									
FINANCING REQUIREMENT	576.6	431.3	123.6	252.4	213.9	140.9	123.8	135.6	144.9
% of GDP	5.2	3.5	0.9	1.7	1.3	0.9	0.7	0.7	0.7
NET DOMESTIC FINANCING BEFORE ASSET SALES	375.6	391.3	98.5	252.4	213.9	140.9	123.8	135.6	144.9
GROSS BORROWING	1012.9	813.7	1433.7	1330.3	1383.1	1302.4	1293.6	776.9	711.2
Domestic	780.4	675.0	1322.3	1186.6	1220.1	1139.4	1130.6	613.9	548.2
External	232.5	138.7	111.4	143.7	163.0	163.0	163.0	163.0	163.0
Concessional	97.5	82.8	94.6	133.1	163.0	163.0	163.0	163.0	163.0
Commercial	135.0	55.9	16.8	10.6	0.0	0.0	0.0	0.0	0.0
Extraordinary	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GROSS AMORTIZATION	763.9	729.4	1660.6	1233.6	1293.1	1267.4	1293.6	776.9	711.2
Domestic	404.8	283.7	1223.8	934.2	1006.2	998.5	1006.8	478.3	403.3
External	359.1	445.6	436.8	299.4	286.9	268.9	286.8	298.6	307.9
Concessional	275.4	219.3	241.8	217.8	202.6	189.5	203.3	208.8	210.5
Commercial	83.7	44.6	26.7	20.4	17.8	18.2	18.5	18.9	19.3
Extraordinary	0.0	181.8	168.3	61.3	66.5	61.2	65.0	70.9	78.1

Source: Department of Treasury.

Note: 2005 includes the issuance of K457 million in Inscribed stocks to replace Treasury bills.

(a) In 2004 the Government provided a Bond issue of K63 million to the POSF in consideration of the obligation owed by the Government for accumulated superannuation contribution to the POSF scheme.

Table 3.12: Public Debt

TABLE 12: PUBLIC DEBT
(Kina Million, unless otherwise stated)

	2002 Actual	2003 Actual	2004 Actual	2005 Proj	2006 Proj	2007 Proj	2008 Proj	2009 Proj	2010 Proj
Domestic	2,588.3	3,022.9	3,181.4	3,527.0	3,740.8	3,881.8	4,005.5	4,141.1	4,286.0
Treasury Bills***	2,169.1	2,755.3	2,236.2	1,926.1	1,846.2	1,685.6	1,516.2	1,630.1	1,678.3
Inscribed Stock	283.8	174.7	898.0	1,565.9	1,875.2	2,182.2	2,479.9	2,504.9	2,604.9
Other Domestic debt**	135.4	92.9	47.2	35.0	19.5	14.0	9.4	6.1	2.8
<i>Domestic debt as % GDP</i>	22.4%	23.7%	23.2%	23.4%	23.5%	23.8%	23.5%	22.8%	22.0%
External	5,777.0	4,901.1	4,409.5	3,963.2	3,942.6	3,915.0	3,868.9	3,810.1	3,740.8
International Agencies	5,553.4	4,717.4	4,239.5	3,803.0	3,800.2	3,787.9	3,757.8	3,715.7	3,663.8
Commercial Loans	223.6	183.7	170.0	160.2	142.4	127.1	111.1	94.4	77.0
Other Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>External debt as % GDP</i>	49.9%	38.4%	32.2%	26.3%	24.8%	24.0%	22.7%	21.0%	19.2%
Total Public Debt Outstanding	8,365.3	7,924.0	7,590.9	7,490.2	7,683.4	7,796.7	7,874.4	7,951.2	8,026.8
<i>As % GDP</i>	72.3%	62.1%	55.4%	49.8%	48.4%	47.8%	46.3%	43.9%	41.2%

Source: BPNG and Department of Treasury.

***Includes Temporary Advance Facility

Note: Based on existing borrowings to cover financing gaps 2005 to 2010.