Independent State of Papua New Guinea

2024 – 2028 MEDIUM TERM DEBT STRATEGY

As we navigate the complex challenges of economic development, it is essential to have a clear and sustainable debt management strategy. This debt strategy provides a roadmap for responsible borrowing, ensuring that our debt burden remains manageable while supporting our nation's growth objectives.

Papua New Guinea Department of Treasury
October, 2024

Contents

Treasurer's Foreword

As we embark on this new chapter in our nation's fiscal journey, I am pleased to present our 2024-2028 Medium Term Debt Strategy (Debt Strategy). This comprehensive framework outlines our commitment to responsible financial stewardship, ensuring that our nation's debt remains sustainable and manageable for generations to come.

In recent years, Papua New Guinea has faced significant economic challenges, including COVID-19 Pandemic, fluctuations in global commodity prices, and natural disasters to name a few. These challenges have underscored the critical importance of a robust debt management strategy. The strategy outlined in this document represents a carefully considered approach to addressing these challenges and building a more resilient economy.

Our primary objective is to strike a delicate balance between meeting our immediate financial needs and securing a sustainable future for our nation. To achieve this, we will focus on key strategies, such as reducing public debt, increasing revenue, diversifying the economy, and promoting infrastructure development.

With technical assistance from our development partners, particularly the Asian Development Bank and the World Bank, we have strengthened our capacity in formulating and implementing this debt strategy. This support has been invaluable in enhancing our understanding of debt management principles, improving our analytical capabilities, and developing effective policies.

Furthermore, this debt strategy is closely aligned with the Government's 13-Year Budget Repair Plan. By addressing our debt challenges and promoting sustainable economic growth, we are making significant progress towards achieving the ambitious goals outlined in the Plan.

I am confident that by adhering to the principles outlined in this strategy, we will be able to:

- **Strengthen our fiscal position:** Reduce our debt-to-GDP ratio and improve our creditworthiness.
- **Promote economic growth:** Create a conducive environment for investment and job creation; and
- **Enhance our resilience:** Build a more robust economy that can withstand future shocks.

This strategy is a collaborative effort involving the Treasury, other government agencies, and key stakeholders. I would like to express my gratitude to all those who have contributed to its development, including our development partners and the dedicated team that worked tirelessly to formulate this comprehensive plan.

I believe that by working together, we can implement this strategy effectively and secure a brighter future for Papua New Guinea.

HON. IAN LING-STUCKEY, CMG. MP
Minister for Treasury

Secretary's Foreword

I am pleased to present the Medium-Term Debt Strategy for the Government of Papua New Guinea. This comprehensive document outlines our approach to managing the nation's debt obligations over the coming years.

The development of this Medium-Term Debt Strategy (MTDS 2024-2028) is a culmination of the efforts of: the Treasury's Debt Management staff; the invaluable guidance and contributions of the ADB's Debt Management Advisor to the Treasury; the update and refinement of the preliminary Debt Strategy done for PNG by the Pacific Islands Financial and Technical Assistance Centre (PFTAC) in July 2022; and the adoption of the excel-based Debt Strategy Analytical Tool developed by the IMF and World Bank.

As we navigate the complex challenges of economic development, it is essential to have a clear and sustainable debt management strategy. This debt strategy provides a roadmap for responsible borrowing, ensuring that our debt burden remains manageable while supporting our nation's growth objectives.

The strategy incorporates a careful analysis of our current debt profile, identifies key risks and opportunities, and sets forth a framework for future borrowing decisions. It is designed to balance the need for fiscal prudence with the imperative to invest in critical infrastructure and public services.

I commend the Treasury Department for their diligent work in developing this comprehensive debt strategy. I am confident that its implementation will contribute to a more resilient and prosperous future for Papua New Guinea.

ANDREW OAEKE
Secretary
Department of Treasury

Acronyms

ABP	Annual Borrowing Plan
ADB	Asian Development Bank
ADF	Asian Development Fund
ATR	Average Time to Re-fixing
ATM	Average Time to Maturity
BPNG	Bank of Papua New Guinea
DMS	Debt Management Strategy
DOT	Department of Treasury
DSA	Debt Sustainability Analysis
FMD	Financial Management Division (Department of Treasury)
FRA	Fiscal Responsibility Act
GDP	Gross Domestic Product
GFN	Gross Financing Needs
IDA	International Development Association
IMF	International Monetary Fund
ILR	Indicator Lending Rate
IS	Inscribed Stock
MTDP	Medium-Term Development Plan
MTdS	Medium-Term Debt Management Strategy
MTDS AT	Medium-Term Debt Management Strategy Analytical Tool
MTFS	Medium-Term Fiscal Strategy
NEC	National Executive Council
OCR	ADB Ordinary Capital Resource
PDM	Public Debt Management
PNG	Papua New Guinea
PGK	Papua New Guinean Kina
PFTAC	Pacific Financial Technical Assistance Center
SOE	State-owned Enterprise
SOFR	Secured Overnight Financing Rate
T-bill	Treasury Bill
T-bond	Treasury Bond
USD	United States Dollar

Executive Summary [1]

Overall Objective of 2024-2028 Medium Term Debt Strategy (MTdS)

The MTdS is aligned with the revenue and expenditure assumptions outlined in the 2023-2028 Medium-Term Fiscal Strategy (MTFS) and is driven by a vision to repair the budget based on the principles of spending money more wisely, raising revenues more fairly, and financing debt more cheaply. It prioritizes continued fiscal support to aid economic recovery from the COVID-19 pandemic while concurrently implementing measures for fiscal consolidation over the medium term.

The MTdS 2024-2028 is aligned with the Fiscal Responsibility Act (2016), maintaining debt at sustainable levels (fiscal policy objective), maintaining financial risks at prudent levels and developing the domestic debt market. The strategy has a strong focus on managing the risk exposure embedded in the debt portfolio, more specifically, 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.

The analysis and recommendations in this strategy are based on analytical work as provided under the MTDS Analytical Tool model developed by the IMF and World Bank. The process for preparing this strategy has been participatory reflecting the discussions with counterparts from the Department of Treasury working on macroeconomic policy and budgetary management, as well as staff at the Bank of Papua New Guinea (BPNG).

PNG has a high level of public debt and remains at high risk of debt distress as assessed by recent debt sustainability analyses (DSAs) conducted by the IMF and the World Bank. The level of central government debt has been increasing in recent years to around 52.0 percent of GDP at the end of 2023, from 49.8 percent in 2022. This increase is primarily attributed to factors such as the government's response to the COVID-19 pandemic, increased investment in infrastructure development, expansion of public services, efforts to stimulate economic recovery, and potential political factors.

PNG's government debt is relatively high, but the cost indicators suggest manageable debt service payments. However, the refinancing and interest rate risks, particularly related to the domestic debt component, require careful monitoring and management. The country's exposure to exchange rate risk should also be considered when making debt management decisions. Specifically, PNG faces risks from:

- **Refinancing risk**: 26.3% of total public debt matures within 1 year, mainly on account of domestic debt which has a high refinancing risk of 53.8% .
- **Interest rate risk**: 53.6% of total debt requires to be re-fixed within 1 year, as 50% of the external debt portfolio is at variable rates.

[1] The development of this Medium Term Debt Strategy (MTdS 2024-2028) is a culmination of the efforts of: the Treasury's Debt Management staff; the invaluable guidance and contributions of the ADB's Debt Management Advisor to the Treasury; the update and refinement of the preliminary Debt Strategy done for PNG by the Pacific Islands Financial and Technical Assistance Centre (PFTAC) in July 2022; and the adoption of the excel-based Debt Strategy Analytical Tool, developed by the IMF and World Bank.

- **Exchange rate risk**: 50.8% of debt is denominated in foreign currency, primarily the US dollar (see Table 1).

Despite these risks, the weighted average interest rate of 5.8% and the relatively low short-term foreign exchange debt (8.9% of reserves) suggest that the government is managing these challenges effectively.

Table 1: Cost Risk Indicators of Debt as at the end of 2023

Risk Indicators		External debt	Domestic debt	Total debt
Amount (in millions of PGK)		29,434.0	28,509.7	57,943.8
Amount (in millions of USD)		7,897.1	7,649.2	15,546.3
Nominal debt as percent of GDP		26.4	25.6	52.0
PV as percent of GDP[1]		29.4	25.8	55.2
Cost of debt[2]	Interest payment as percent of GDP[3]	**1.4**	**1.6**	**3.0**
	Weighted Av. IR (percent)	**5.4**	**6.1**	**5.8**
Refinancing risk[2]	ATM (years)	**9.3**	**2.3**	**6.2**
	Debt maturing in 1yr (percent of total)	**3.9**	**53.8**	**26.3**
	Debt maturing in 1yr (percent of GDP)	**1.2**	**13.8**	**15.0**
Interest rate risk[2]	ATR (years)	**4.9**	**2.3**	**3.7**
	Debt refixing in 1yr (percent of total)	**52.4**	**55.1**	**53.6**
	Fixed rate debt incl. T-bills (percent of total)	**49.1**	**98.6**	**71.3**
	T-bills (percent of total)	**0.0**	**47.6**	**21.4**
FX risk	FX debt (percent of total debt)			50.8
	ST FX debt (percent of reserves)			8.9

Source: Department of Treasury

Until 2022, the domestic market was a primary source of financing for the government. Marketable securities, such as Treasury Bills and Treasury Bonds (also known as Inscribed Stocks), were issued to raise funds. Additionally, loans from domestic banks provided another source of domestic financing, aligning well with the timelines of various government projects. However, the government should exercise caution when relying on commercial financing to avoid increasing its exposure to variable interest rates and the associated higher costs. Such financing should be limited to a small portion of the overall debt portfolio. Official creditors will continue to be the primary source of external financing. Commercial external financing will no longer be considered during the current strategy.

This debt strategy recognizes the pressing need to address two key challenges hindering the development of the domestic debt market:

(i) **Investor Concentration**: The current investor base for government securities is highly concentrated, with minimal competition among buyers. This lack of diversity can lead to less efficient pricing, reduced market liquidity, and increased refinancing risks.

(ii) **Limited Demand for Longer-Term Debt:** There has been a constrained appetite for medium-to-long-term inscribed stock, often resulting in under-subscribed auctions. This limits the government's ability to raise funds for longer-term projects and can increase its reliance on short-term financing.

To address these challenges, the government plans to:

(i) **Diversify the Investor Base:** To diversify PNG's debt securities investor base, the government will actively seek to attract new investors, including pension funds, insurance companies, corporate entities, and agricultural cash crop farmers in rural areas. This group holds significant amounts of cash and represents a potentially untapped source of investment capital. By reaching out to these farmers and educating them about the benefits of investing in government bonds, we can broaden the market, increase competition, and improve price discovery. This will also help to distribute the risks associated with market fluctuations more evenly across the investor base.

(ii) **Promote the Appeal of Longer-Term Debt**: The government will implement measures to make medium-to-long-term inscribed stock more attractive to investors. This could include offering higher interest rates, enhancing the liquidity of these securities, and providing more information and transparency about the issuance process.

(iii) **Reduce Reliance on Treasury Bills:** The government will strive to reduce its reliance on treasury bills, both in terms of gross issuance and net issuance. This will help to extend the maturity profile of the government's debt and reduce refinancing risks. By issuing more longer-term debt, the government can lock in lower interest rates and reduce its exposure to interest rate fluctuations.

(iv) **Implement an Investor Relations Strategy:** The Treasury intends to design and implement an Investor Relations (IR) communication strategy. This initiative is crucial for developing the investor base and will assist the Treasury in making informed decisions regarding the tenors, volumes, and frequencies of debt issuance.

(v) **Improve Inter-Agency Coordination:** To complement the development of a communication strategy, a priority is to enhance inter-agency coordination. Effective collaboration among relevant government agencies will ensure consistent messaging, efficient information dissemination, and a unified approach to promoting the domestic debt market.

By addressing these challenges and implementing these strategies, the government hopes to create a more robust and diversified domestic debt market. This will not only provide a sustainable source of financing for the government's development goals but also contribute to the overall growth and stability of the PNG economy.

The macroeconomic framework for the strategy assumes that, in 2024, PNG's economy will recover and grow at 5.3 percent in real terms. This will be largely driven by a rebound in growth in the resource sector reflecting the anticipated resumption of activity at the Porgera and Simberi mines as well as the normalization of activities in the other mines after the disruptions encountered in 2021. Additionally, the non-resource sector is expected to remain strong supported by spill-over benefits from the resource sector. Over the medium-term, the PNG economy is expected to grow at an annual average real growth rate of 3.4 percent, driven by growth in the non-resource sector, especially in agriculture, forestry and fishing.

The medium-term fiscal outlook includes strengthening the revenue base, improving the quality of spending and obtaining cheap responsible financing within prudent risk levels thereby ensuring macroeconomic stability over the medium term. Furthermore, the ongoing process of fiscal consolidation is expected to achieve primary surpluses by 2027.

For the purpose of the MTdS analysis, four different strategies were tested:

- **Strategy 1 (S1) - Baseline maintains the borrowing composition of 2023**, with 53% external financing and 47% domestic borrowing. External financing comprises 33% multilateral floating loans, 23% multilateral fixed loans, 19% bilateral fixed loans, and 12% bilateral floating loans. The remaining 13% is from bilateral floating loans and commercial fixed and floating loans. Domestically, 50% of borrowing is from Treasury bills, 34% from 2-9 year bonds, and 16% from 10-year bonds and domestic commercial loans.

- **Strategy 2 (S2) – (50% External and 50% Domestic comprising the Gross Financing Need (GFN).** Specific actions include: Increasing external fixed-rate concessional financing, seeking to secure more favorable terms for foreign loans to reduce interest costs; expand Treasury bill issuance to meet immediate financing needs and benefit from low interest costs; and reduce reliance on long-term government bonds considering current low market appetite and higher interest costs.

- **Strategy 3 (S3) - (60% External and 40% Domestic comprising the Gross Financing Need (GFN).** Specific actions include: increase total external borrowing focusing more on concessional borrowing to reduce costs of borrowing; reduce issuance of Treasury Bills to decrease short-term government debt; expand issuance of medium-term (2-5 year) and long-term (10-year) government bonds to manage maturity risks and potential refinancing challenges.

- **Strategy 4 (S4) - (25% External and 75% Domestic comprising the Gross Financing Need (GFN).** Specific actions will focus on further expansion of the government security market, relying more on medium-term 5-year bonds to address refinancing and borrowing costs.

Based on the analysis, while Strategy 2 offers a balanced approach, considering the Government's target levels as given in Table 2 below, this analysis presents **Strategy 3 as the most preferred**. S3's focus on reducing short-term debt maturities and increasing the average time to refinance effectively addresses refinancing risks. Additionally, its emphasis on fixed-rate debt mitigates interest rate risk, contributing to a more sustainable debt profile. These factors, combined with its lower interest payments and reduced nominal and present value debt, make S3 the most optimal strategy for Papua New Guinea.

In preparing the new debt strategy (2024-2028), the government intends to use the following key operational targets:

- 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 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 excessive dependency on few investors.

As an additional measure to mitigate financial risks associated with S3, the Government will suspend State Guarantees. This is due to the high risk of debt distress, as assessed by the World Bank and IMF. Further exposure could exacerbate economic distress, leading to potential consequences such as default, currency devaluation, inflation, unrest, and decreased investment.

Table 2: Key targets 2024-2028

	Current	Target
Domestic Debt ATM (years)	2.3	Above 3 years
Domestic Debt Refixing in one year (%)	55.1	Below 35 percent
FX Debt as percentage of Total Debt	50.8	below 50 percent
Debt to GDP (%)	52.0	Below 60 percent

Source: Department of Treasury

Additionally, as part of its medium-term public debt management reform initiatives, the Government is committed to commencing preparatory work on:

- Enhancing the public debt management legal framework.
- Developing a Local Currency Bond Market (LCBM): This strategic move aims to create a robust and sustainable domestic capital market, reduce reliance on

external financing, and promote economic growth. By fostering a vibrant LCBM, the Government aspires to provide a platform for local businesses to access long-term financing, diversify its funding sources, and enhance its financial resilience.

- Develop a Policy Framework for Green Bond Issuance: While the government may not be issuing green and blue bonds in the immediate future, it is committed to laying the groundwork for their issuance in the medium term. By focusing on the development of the primary market and creating a conducive environment for green and blue finance, the government aims to position itself for the successful issuance of these innovative debt instruments in the coming years.

- Establishing a technical working group dedicated to the retirement of the US$500 million sovereign bond maturing in 2028. The group will develop a comprehensive strategy, monitor economic conditions, analyze various options for repayment or refinancing of the Bond, and recommend the most suitable course of action. This proactive approach aims to ensure a smooth and successful settlement of the bond.

1. Introduction

Papua New Guinea Medium Term Debt Strategy (MTdS) 2024-2028, is formulated to guide the borrowing activities of the Government in the medium term. The analytical work presented here serves as the background exercise for the development of **PNG 2024-2028 debt management strategy**. The policy framework compares alternative funding strategies available to the Government as it pursues the desired structure of the debt portfolio that reflects the selected strategy considering the cost and risk trade off.

It will also be in alignment with the revenue and expenditure assumptions presented in the 2023-2027 MTFS, having a focus on maintaining fiscal support for economic recovery from the COVID-19 pandemic as well as fostering fiscal consolidation over the medium term.

Following the expiration of the MTDS 2018-2022 at the end of December 2022, the Department decided to extend the implementation of 2018-2022 Strategy to cover 2023 as well. The concise version of 2023 debt strategy was reported in the volume 1 of 2023 budget book.

2. Review of the 2018- 2022 Medium Term Debt Strategy

The government's previous debt management strategy covering the period from 2018 to 2022 was annexed to the 2018 National Budget and approved by the National Parliament. This strategy was revised in 2020 and extended in 2023 to include 2023 as well.

2.1. Key Targets for 2018 -2022 Medium Term Debt Strategy under Review

A. Maintaining Debt at Sustainable Levels

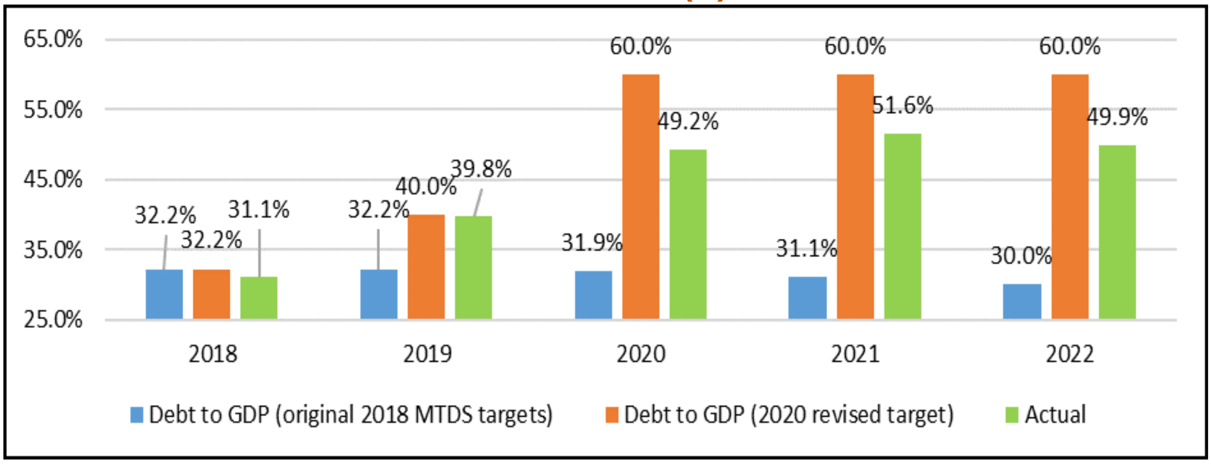
The 2018-2022 MTDS envisaged debt-to-GDP levels in line with the FRA target band of 30-35 percent, with a 30 percent target by 2022. This level was exceeded in 2019. In response to the increased debt level, the band was revised to 40 percent and subsequently amended further in the revised strategy in 2020 to maintain debt at 60 percent of GDP.

The increase in debt-to-GDP levels in 2019 was primarily attributed to:

- Increased fiscal deficits;
- Adoption of an internationally accepted definition of public debt to include increases in debt resulting from the revaluation of foreign currencies;
- Assumption of debt service payment for some guaranteed state-owned enterprises (SOEs) project debts;
- Higher reliance on domestic borrowing to finance day-to-day operations.

The level of financing continued to increase from 2020 to 2022, leading to further debt accumulation. However, sustainability was maintained within the revised band of 60 percent of GDP (see Chart 1 for a comparison of revised targets adopted in 2020 and materialized actuals).

Chart 1: 2018-2022 Central Government Debt to GDP (%)



B. Maintaining Financial Risk at prudent levels

i. External Financial Risk

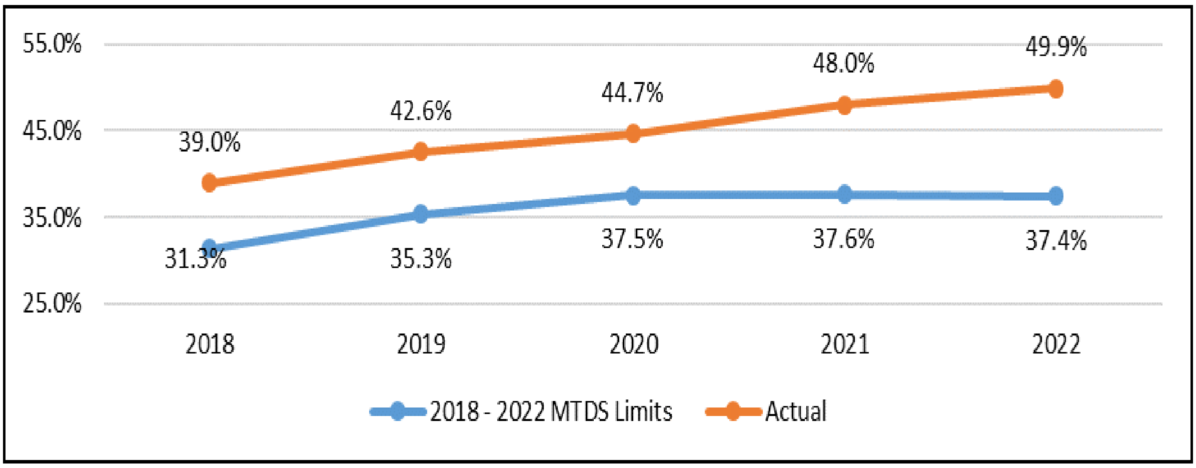
The 2018-2022 strategy and its 2020 revision aimed to shift the debt portfolio from domestic debt securities to foreign currency debt. By 2022, the target was to increase external debt to at least 35 percent of total debt while reducing domestic debt to 65 percent.

This shift was facilitated by:

- **Successful issuance of a USD500 million sovereign bond in 2018:** At a coupon of 8.375 percent.
- **Credit Suisse loan:** A bilateral loan provided by Credit Suisse.
- **Concessional loans:** From the World Bank (WB) and Asian Development Bank (ADB).

In addition to concessional loans from the WB and ADB, other creditors like the IMF and Japan International Cooperation Agency (JICA) offered budget support loans. The strategy successfully achieved both the target of borrowing at low costs and increasing external debt to at least 35 percent of total debt. As a result, external financing exceeded to 49 percent of total debt by the end of 2022 (see Chart 2).

Chart 2: Foreign Currency Debt to Total Central Government Debt



ii. Domestic Financial Risk

To manage domestic financial risk at prudent levels, the 2018-2022 strategy aimed to reduce the share of Treasury Bills to 50 percent of total domestic debt over the medium term. This objective was retained in the revised 2020 strategy.

While there was a positive portfolio shift in 2018, from 2019-2021, pressures to increase domestic financing led to a rise in Treasury Bill issuance, exceeding the annual debt strategy limits. This was primarily due to:

- **Delayed receipt of external budget support:** Funds were received towards the end of 2019-2021.
- **Reduced appetite for longer-term instruments:** Due to the pandemic.

Treasury Bills remained the primary source of financing in the first half of 2022, as the issuance of Treasury Bonds commenced late in April. At the end of 2022, Treasury Bills accounted for 83.7 percent of new domestic borrowing, while Treasury Bonds accounted for the remaining 16.3 percent.

Chart 3: Percentage of Treasury Bills to Domestic Debt

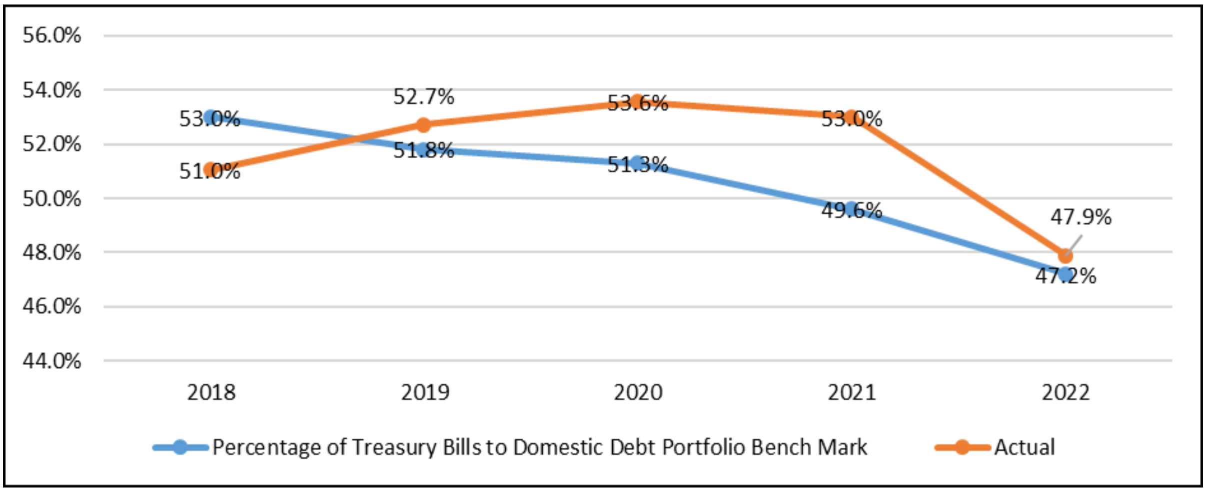
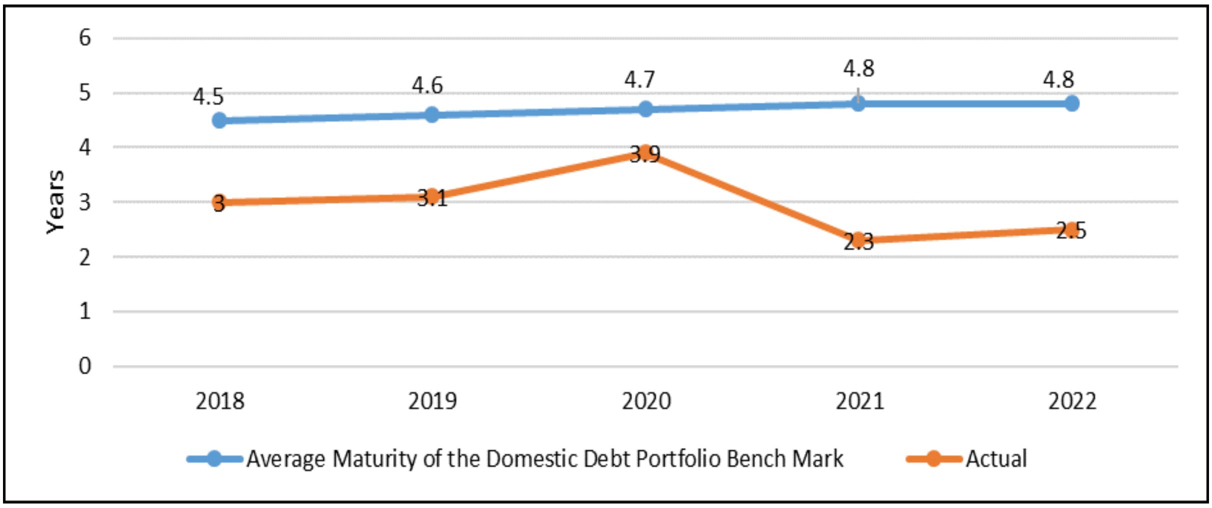


Chart 4: Average Time to Maturity of Domestic Debt



Consequently, the increased reliance on Treasury Bills shortened the average time to maturity of the domestic debt portfolio, further increasing the government's rollover risk, breaching the strategy. Chart 3 and Chart 4 illustrate this trend.

Regarding domestic borrowing costs, the weighted average interest rate dropped from 7.39 percent in 2018 to 6.9 percent at the end of 2022.

C. Development of Domestic Debt Market

The government's initial strategy focused on expanding the domestic debt market and improving its infrastructure. However, this goal was hampered by market fluctuations and a decline in foreign exchange reserves, which negatively affected overall liquidity.

D. Development and Management of the Offshore Commercial Market

This objective was achieved through the issuance of the USD500.0 million inaugural sovereign bond in 2018. However, the interest payments (coupons) and the 2028 balloon-payment of this significant undertaking have been perceived as contributing factors to debt sustainability risk.

2.2. Existing Debt Stock Cost and Risk 2023

Following the implementation of 2018-2022 MTDS (and its extension for 2023), Papua New Guinea's total debt level remained high, with a nominal debt-to-GDP ratio of 52.0% and a present value debt-to-GDP ratio of 55.2% (see Table 3). While interest payments are manageable at 3.0% of GDP, the weighted average interest rate of 5.8% indicates a moderate cost of debt. The weighted average cost of borrowing from domestic sources stood slightly above those of external sources (6.1% vs. 5.4%). The short average time to maturity of 6.2 years (mostly from domestic sources) and the significant portion of debt maturing within one year (26.3%, again those from domestic sources) highlight substantial refinancing risks. Additionally, the high proportion of debt refixing within one year (53.6%) exposes the government to interest rate fluctuations, particularly for the external debt portion. Although the overall exposure to foreign exchange risk is moderate at 50.8% of total debt, the short-term foreign exchange debt component represents a relatively small share of international reserves (8.9%) suggesting that the country has some capacity to manage its short-term foreign debt obligations.

Table 3: Cost and Risk Indicators for existing debt as at end of 2023

Risk Indicators		External debt	Domestic debt	Total debt
Amount (in millions of PGK)		29,434.0	28,509.7	57,943.8
Amount (in millions of USD)		7,897.1	7,649.2	15,546.3
Nominal debt as percent of GDP		26.4	25.6	52.0
PV as percent of GDP[2]		29.4	25.8	55.2
Cost of debt[2]	Interest payment as percent of GDP[3]	**1.4**	**1.6**	**3.0**
	Weighted Av. IR (percent)	**5.4**	**6.1**	**5.8**
Refinancing risk[2]	ATM (years)	**9.3**	**2.3**	**6.2**
	Debt maturing in 1yr (percent of total)	**3.9**	**53.8**	**26.3**
	Debt maturing in 1yr (percent of GDP)	**1.2**	**13.8**	**15.0**
Interest rate risk[2]	ATR (years)	**4.9**	**2.3**	**3.7**
	Debt refixing in 1yr (percent of total)	**52.4**	**55.1**	**53.6**
	Fixed rate debt incl. T-bills (percent of total)	**49.1**	**98.6**	**71.3**
	T-bills (percent of total)	**0.0**	**47.6**	**21.4**
FX risk	FX debt (percent of total debt)			50.8
	ST FX debt (percent of reserves)			8.9

Source: Department of Treasury

3. Macro-Economic Overview

The medium-term fiscal outlook was revised in line with the Government's 13-Year Fiscal Plan. It sets out the key elements of the Government's ongoing plan of budget repair and reconstruction against the backdrop of economic shocks caused by the COVID-19 pandemic and Russia-Ukraine war. The Government's focus over the medium term will be to maintain fiscal support for economic recovery efforts, strengthen the revenue base, improve the quality of spending and obtain cheap responsible financing within prudent risk levels thereby ensuring macroeconomic stability over the medium term. The process of fiscal consolidation is expected to form the basis for a renewal of the growth performance in the economy.

[2] The calculation of present value (PV) of debt uses a standard 5% discount rate to find the present value of the stream of future debt services for each loan. While PNG's current debt portfolio enjoys a large share of highly concessional debt, the existence of some commercial external loans, as well as some long-term treasury bonds, with interest rate higher than standard discount rate pushes aggregate PV higher than the nominal value of debt, indicating aggregate non-concessionality.

Table 4: Budget Balance 2024–2028 (% of GDP)

	2023 Outcome	2024 Budget	2025	2026	2027	2028
Revenues and Grants	**18,538.2**	**19,810.0**	**23,393.8**	**25,826.4**	**28,491.7**	**31,360.2**
Expenditure (excluding arrears provision)	**21,470.4**	**22,423.1**	**25,172.5**	**26,225.6**	**27,500.9**	**28,776.1**
Net Lending/Borrowing (Cash Deficit)	*-2,932.2*	*-2,613.1*	*-1,778.7*	*-399.2*	*990.8*	*2,584.1*
%GDP	*-2.6%*	*-2.3%*	*-1.5%*	*-0.3%*	*0.7%*	*1.7%*
Expenditure (including arrears provision)*	**24,390.0**	**24,614.6**	**27,377.5**	**28,480.6**	**29,805.9**	**31,131.1**
Net Lending/Borrowing (Cash Deficit)	*-5,851.8*	*-4,804.6*	*-3,983.7*	*-2,654.2*	*-1,314.2*	*229.1*
%GDP	*-5.3%*	*-4.3%*	*-3.3%*	*-2.0%*	*-0.9%*	*0.2%*
Debt/GDP	**48.3%**	**52.0%**	**51.1%**	**49.2%**	**46.9%**	**43.5%**

Source: Department of Treasury.

**Arrears: K600.0m (2023); K600.0m (2024); K500.0m (2025); K500.0m (2026); and K300.0m (2027)*

Revenues are expected to increase by 58.3 per cent by 2028 from the 2024 Budget estimate. Expenditures in contrast will increase by a much lower rate of 28.3 per cent over the same period out to 2028. The deficit level is targeted to be reduced over the medium term. With the current medium-term projections, the fiscal balance is expected to improve to a surplus of around K229.1 million (or 0.2 per cent of GDP) with a debt to GDP target of 43.5 per cent by 2028.

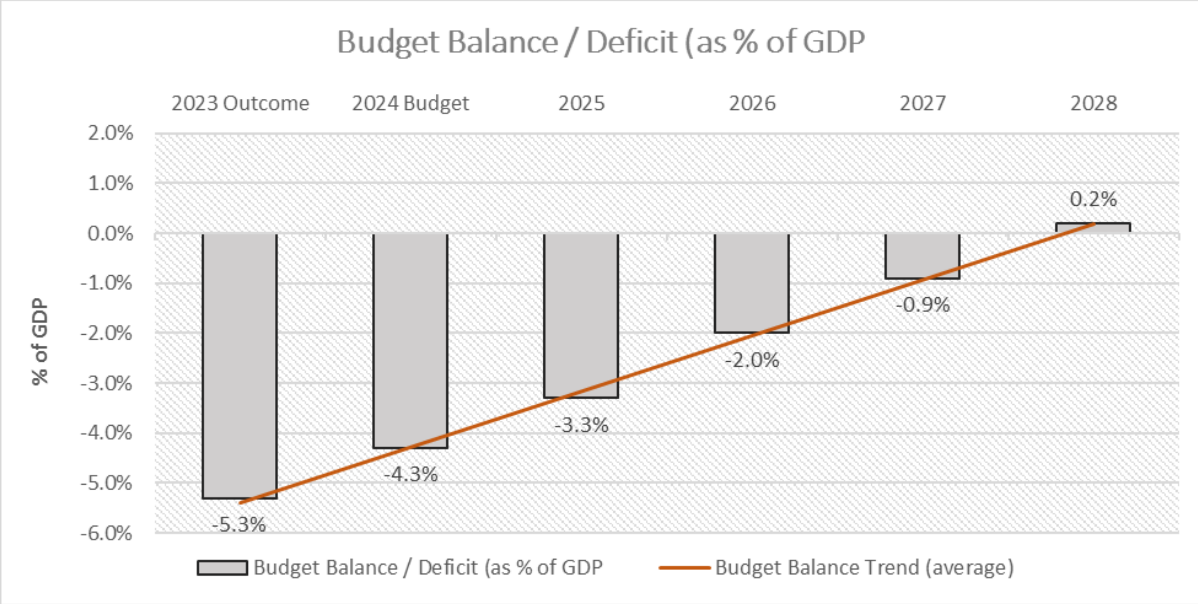
Table 5: Key Anchors of the MTFS 2022-2027 (% of GDP)

	2022 Actuals	2023 Outcome	2024	2025	2026	2027
Budget Balance (% of GDP)	-5.26%	-4.31%	-3.25%	-2.00%	-0.93%	0.15%
Expenditure Rule (Operating Budget as % of Non-resource GDP)	15.77%	15.01%	15.14%	14.31%	13.77%	13.44%
Non-resource primary balance (% of Non-resource GDP)	-10.05%	-26.61%	-5.98%	-3.45%	-1.77%	-0.48%
FRA deficit (ex. Concessional loan exp.)	-8.14%	-25.35%	-4.63%	-2.21%	-0.63%	0.56%
Debt ex. arrears (% of GDP)	48.26%	52.04%	51.09%	49.20%	46.90%	43.55%

Source: Department of Treasury

Over the projection horizon, with revenue to GDP increasing at a faster pace than expenditure to GDP, the debt stock will decline steadily over the medium term to 43.5 per cent of GDP by 2028. The Government remains optimistic that policy actions undertaken in this budget and in subsequent budgets will set the debt stock on track to reach 40.0 per cent of GDP by 2030 as required under the *FRA (amended 2020)*.

Chart 5: Net Borrowing as a percentage of GDP over the Medium Term



Source: Department of Treasury

4. Medium- Term Debt Management Strategy, 2024-2028

The Medium-Term Debt Strategy (MTdS) 2024-2028 is the first to be prepared, approved and published as a separate document reflecting the importance and autonomy of debt management. The strategy is aligned with the Fiscal Responsibility (Amendment) Act 2020 and the Government's 13-Year Fiscal Plan with objectives such as maintaining debt at sustainable levels (fiscal policy objective), maintaining financial risks at prudent levels, and further development of securities market. The methodology adopted in the preparation of the MTdS 2024-2028 is presented in sections below.

4.1. Scope of Debt Analyzed

The 2024-2028 MTdS covers debt data that relates to main financial obligations over which the Independent State of Papua New Guinea Government exercises control. This analysis follows the requirements of the MTDS Analytical Tool-Kit and the WB/IMF Guidelines on Public Debt Management. To this end, the analysis uses External Debt and Domestic Debt data of the central Government only, as well as the Governments financing needs over the medium term. Debt of other entities, including contingent liabilities are not considered.

4.2. Objectives of the Debt Management Strategy, 2024-2028

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[3];

[3] Average time to re-fixing (ATR) is a measure of the weighted average time until all principal payments in the debt portfolio become subject to a new interest rate. A low value of ATR suggests that the portfolio is, on average, facing a new interest rate frequently and therefore is exposed to re-fixing shocks, i.e. an increase in market rates.

- Reduce commercial borrowing to help annual interest cost bills;
- Prioritize concessional financing from external sources in order to secure the necessary financing;
- 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 excessive dependency on few investors.

5. MODELING OF THE MEDIUM-TERM DEBT MANAGEMENT STRATEGY

The Medium–Term Debt Management Strategy for 2024-2028 is developed using IMF/World Bank MTdS Toolkit, which enables a quantitative assessment of four (4) alternative strategies geared towards meeting established medium term target for key debt and risk indicators. The analysis utilizes the stock of Central Government debt loans currently serviced by the Government of PNG.

5.1. Baseline Assumptions and Exogenous shock

The modeling of the MTdS relies on baseline assumptions of the Government's medium term fiscal framework as well as key macroeconomic and market variables to produce, medium term estimates for portfolio cost and risk indicators under varied financing strategies.

The analysis used here compares alternative borrowing strategies under different shocks to interest and exchange rates. The model used for this analysis uses four risk scenarios: **two shocks to interest rates, an exchange rate shock, and a combined interest rate and exchange rate shock.**

For exchange rates, standard shocks of 15 and 30 percent were applied. These shocks were consistent with the standard Debt Sustainability Analysis (DSA) for market access countries. Exchange rate shocks were applied in the second projected year of the analysis (2025). Exchange rate shocks are in addition to what the BPNG assumes of future exchange rates.

As a baseline assumption, the nominal exchange rate is projected to depreciate at a rate of 2.4% per year, consistent with the IMF's historical average for the past decade.[4]

For interest rates, a moderate and an extreme shock were defined. The shocks were based on the rates' behavior during the 2018 liquidity crises experienced by government (150 bp). The extreme shock doubled the standard shock. The shocks applied for the 2024-28 period as follows: is based on the assumptions of the expected market (i.e. interest and exchange) rates during the strategy period (i.e. 2024-28).

For baseline Interest rate, projections are based on SOFR forward rates (external debt) and inflation differential (domestic debt). In addition, a term spread is added on top of the either the benchmark rate (external) or T-bills (domestic). This spread was

[4] The IMF's country report for PNG (Table 23/385) indicates a historical average foreign exchange depreciation rate of 2.4% for the last 10 years.

calculated with values as at December 2023 and assumed to remain constant over the period of the strategy. Multilateral and bilateral instruments at fixed rate are also assumed to remain constant during the projection period for all the instruments.

5.2. Medium Term Targets

The targets for the MTdS 2024-2028. The share of foreign currency denominated debt to total debt is projected to be 60 percent. The Government will continue to manage foreign currency risk exposure over the medium term in order to meet the target of 60 percent and below by the end of 2028.

Table 6: Key targets 2024-2028

	Current	Target
Domestic debt ATM (years)	2.3	Above 3 years
Domestic Debt refixing in one year (%)	55.1	Below 35 percent
FX debt as percentage of total debt	50.8	below 50 percent
Debt to GDP (%))	52.0	Below 60 percent

Source: Department of Treasury

5.3. Financing Strategies

The MTdS Analytical toolkit is used to assess the cost risk trade-off of the alternative financing strategies, in order to arrive at a preferred option. Four contending strategies were formulated based on the current debt status and discussion with multilateral partners, as well as expectations regarding the domestic market conditions over the medium term.

The four strategies are as follows:

a. Strategy 1 (S1): Baseline maintains the borrowing composition of 2023.

i. 53% external financing and 47% domestic borrowing.

ii. External financing comprises 33% multilateral floating loans, 23% multilateral fixed loans, 19% bilateral fixed loans, and 12% bilateral floating loans. The remaining 13% is from other bilateral floating loans and commercial fixed and floating loans.

iii. Domestically, 50% of borrowing is from Treasury bills, 34% from 2-9 year bonds, and 16% from 10-year bonds and domestic commercial loans.

b. Strategy 2 (S2): 50% External and 50% Domestic comprising the Gross Financing Need (GFN)

Specific actions include:

i. increasing external fixed-rate concessional financing seeking to secure more favorable terms for foreign loans to reduce interest costs and reducing refinancing risks;

ii. expand Treasury bill issuance to increase the issuance of short-term government debt to meet immediate financing needs and benefitting lower interest costs; and

iii. reduce reliance on long-term government bonds and expand issuance of medium-term bonds to benefit from higher market appetite for the latter and to manage maturity risks and potential refinancing challenges.

c. Strategy 3 (S3): (60% External and 40% Domestic comprising the Gross Financing Need (GFN)

Specific actions include:

i. increase total external borrowing seeking to raise additional funds from foreign sources, with more reliance on concessional borrowing to benefit from lower financing costs;

ii. reduce the issuance of Treasury bills to decrease short-term government debt and reduce refinancing risks; and

iii. expand our issuance of medium-term (2-5 year) and long-term (10-year) government bonds to manage maturity risks and potential refinancing challenges.

d. Strategy 4 (S4): (25% External and 75% Domestic comprising the Gross Financing Need (GFN)

Specific actions include to:

i. increase the issuance of medium-term up to 5-year Treasury bonds to address refinancing and borrowing costs.

ii. reduce reliance on external financing to reduce risks related to foreign exchange variations.

5.4. Composition of External and Domestic Borrowing

Chart 6 shows the composition of domestic financing, presenting a higher share of coming from Treasury Bills in all four strategies. In S3 and S4 has seen an increase in the borrowing of Treasury Bonds 2- 5 years tenors.

Chart 6: Domestic Mix by Sources as a % of Total Gross Financing average for 2024-2028

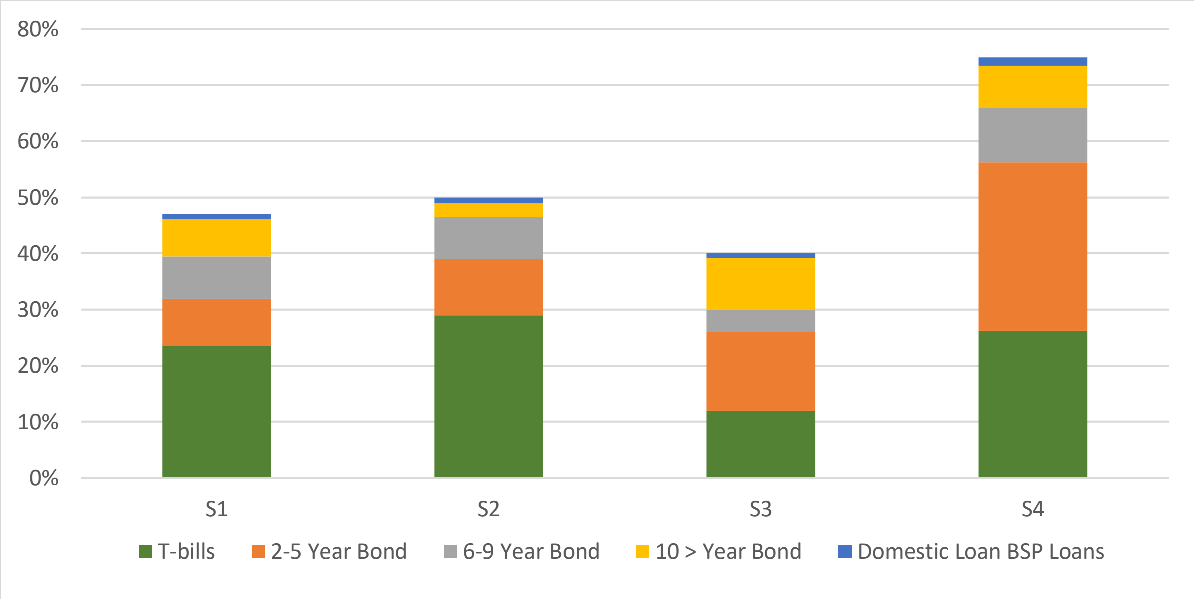


Chart 7 shows higher proportions of external financing in S1, S2 and S3 will be sourced from fixed multilateral loans and to a lesser extent from multilateral and bilateral floating loans. As for S4, a larger proportion will come from Multilateral and Bilateral fixed loans.

Chart 7: External Mix by Sources as a % of Total Gross Financing average for 2024 -2028

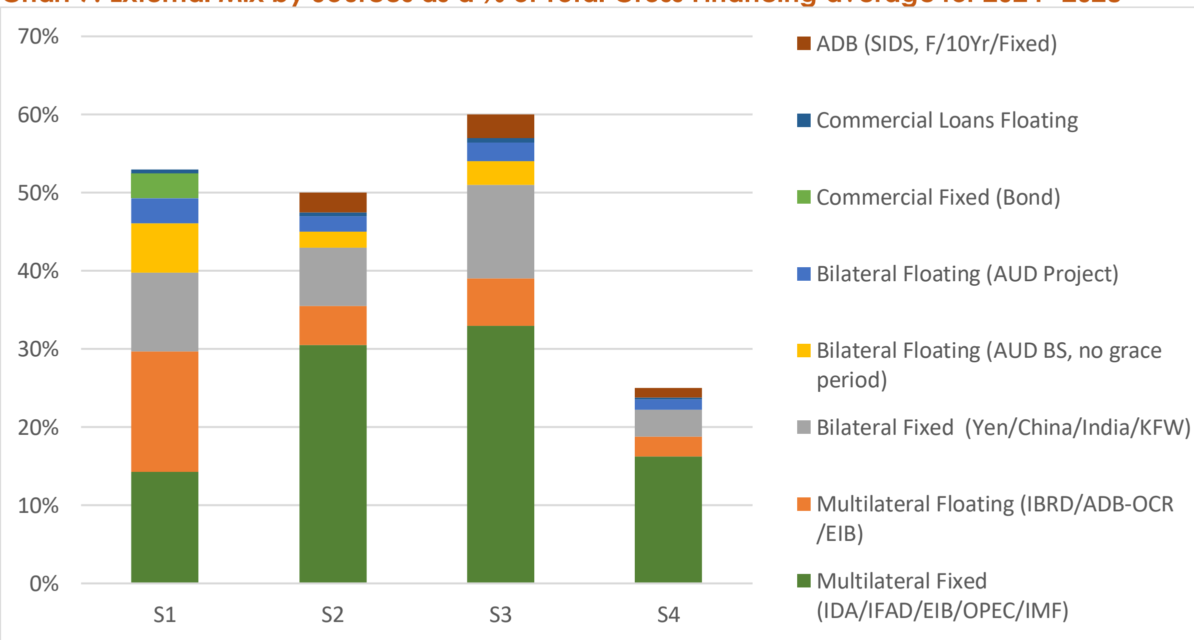


Table 7 provides the percentage distribution of Gross Borrowing of the four (4) contending strategies over the simulation period, in terms of sources of financing, debt instruments and percentage share under each strategy.

Table 7: Alternative Debt Management Strategies- Percentage of Gross Borrowing: Sources and Instruments over the simulation period

Instrument	Currency	S1	S2	S3	S4
Multilateral Fixed (IDA/IFAD/EIB/OPEC/IMF)	FX	14%	31%	33%	16%
Multilateral Floating (IBRD/ADB-OCR /EIB)	FX	15%	5%	6%	3%
Bilateral Fixed (Yen/China/India/KFW)	FX	10%	8%	12%	4%
Bilateral Floating (AUD BS, no grace period)	FX	6%	2%	3%	0%
Bilateral Floating (AUD Project)	FX	3%	2%	2%	1%
Commercial Fixed (Bond)	FX	3%	0%	0%	0%
Commercial Loans Floating	FX	1%	1%	1%	0%
ADB (SIDS, F/10Yr/Fixed)	FX	0%	3%	3%	1%
External		**53%**	**50%**	**60%**	**25%**
T-bills	DX	24%	29%	12%	26%
2-5 Year Bond	DX	8%	10%	14%	30%
6-9 Year Bond	DX	8%	8%	4%	10%
10 > Year Bond	DX	7%	3%	9%	8%
Domestic Loan BSP Loans	DX	1%	1%	1%	2%
Domestic		**47%**	**50%**	**40%**	**75%**
Total		**100%**	**100%**	**100%**	**100%**

Source: Department of Treasury

5.5. Result Analysis: Cost and Risk

Table 8 presents the four different debt management strategies (S1, S2, S3, and S4) and their corresponding cost-risk indicators. These indicators assess various aspects of debt sustainability, including nominal debt, present value debt, interest payments, refinancing risk, interest rate risk, and foreign exchange (FX) risk.

Table 8: Cost - Risk indicator results of the 4 financing options

Risk Indicators		2023	As at end 2028			
		Current	S1	S2	S3	S4
Nominal debt as percent of GDP		52.0	43.6	42.5	42.9	43.0
Present value debt as percent of GDP		55.2	44.3	40.7	41.2	42.9
Interest payment as percent of GDP		3.0	2.8	2.4	2.5	2.8
Implied interest rate (percent)		5.8	6.2	5.4	5.6	6.3
Refinancing risk2	Debt maturing in 1yr (percent of total)	26.3	10.4	11.2	10.6	16.8
	Debt maturing in 1yr (% of GDP)	15.0	4.5	4.8	4.6	7.2
	ATM External Portfolio (years)	9.3	8.9	9.8	9.6	9.1
	ATM Domestic Portfolio (years)	2.3	3.1	2.6	3.1	2.8
	ATM Total Portfolio (years)	6.2	7.4	8.0	8.0	6.2
Interest rate risk2	ATR (years)	3.7	4.4	6.2	6.2	4.7
	Debt refixing in 1yr (percent of total)	53.6	46.1	34.2	33.6	35.9
	Fixed rate debt incl. T-bills (percent of total)	71.3	62.1	74.9	74.9	78.9
	T-bills (percent of total)	21.4	2.1	2.5	0.8	2.4
FX risk	FX debt as % of total	50.8	72.5	73.1	72.9	51.4
	ST FX debt as % of reserves	8.9	5.4	5.1	5.1	5.0

5.5.1. Results Analysis: Cost–Risk Trade off of the Strategies

a. Growth of the Public Debt

Nominal and present value of Debt-To-GDP

All four strategies lead to a decrease, as compared to the 2023 base-year, in nominal and present value debt as a percentage of GDP by the end of 2028. Note that except for Strategy 1 (S1) which is the continuation of current shares of borrowing instruments, in all other strategies, the present value of total public debt will be lower than the nominal value (as opposed to the status at the end of 2023), **indicating improvement in the general concessionally of public debt** by the end of projection period. However, for Strategy 2 (S2), the improvement is more pronounced.

b. Cost and Risk Trade-off of the Strategies

i. **Strategy 1:** S1's generated a higher implied interest rate as compared to those of S2 and S3, mainly due to its increasing reliance on domestic short-term Treasury bills (accounting for 50% of domestic debt) and a moderate increase in multilateral fixed debt (from 23% to 27% of external GFN) over the medium term. It also shows a moderate increase in interest payments as a percentage of GDP which indicates that while the overall debt burden is decreasing, the cost of servicing that debt is increasing. This could strain government resources and limit spending on other priorities. Implied interest rate is relatively low.

- **Refinancing Risk**: S1 has a moderate level of debt maturing within one year. This means the government will need to repay or refinance a portion of its debt within a short period. If interest rates rise, this could increase the cost of refinancing
- **Interest rate risk:** S1 has a high proportion of fixed rate debt. This mitigates interest rate risk, meaning the government is less exposed to fluctuations in interest rates
- **Foreign Exchange (FX) Risk:** S1 has a moderate exposure to foreign exchange risk. This means the government is somewhat vulnerable to fluctuations in exchange rates, which could affect the cost of servicing foreign currency-denominated debt.

Overall, Strategy S1 appears to be a relatively balanced strategy that effectively reduces the overall debt burden while maintaining a moderate level of risk. However, the government needs to carefully monitor interest payments, refinancing risks, and foreign exchange exposure to ensure the sustainability of its debt position.

ii. **Strategy 2:** S2 demonstrates lower interest payments as a percentage of GDP indicating a more suitable debt profile as the Government will spend a smaller portion of economic output on interest payments. S2 also, shows a lower implied interest rate, it remains at a relatively low level due to its strong debt sustainability.

- **Refinancing Risk**: S2 exhibits lower levels of debt maturing within one year. This reduces refinancing risks, as the government has less debt coming due in the short term.
- **Interest rate risk:** S2 has a moderate exposure to interest rate risk. While not as high as some other strategies, S2's exposure to interest rate fluctuations could still impact its cost of debt.
- **Foreign Exchange (FX) Risk:** S2 has a moderate exposure to foreign exchange risk. This means the government is somewhat vulnerable to fluctuations in exchange rates, which could affect the cost of servicing foreign currency-denominated debt.

Overall, Strategy S2 appears to be a highly sustainable strategy with a strong focus on reducing debt burdens and interest payments. While it has moderate exposure to interest rate and foreign exchange risks, these risks are relatively manageable.

iii. **Strategy 3:** S3's effectiveness in reducing the overall debt burden is less pronounced than S2's, but it demonstrates slightly higher interest payments than S2, suggesting a more sustainable debt profile. S3 is slightly riskier than S2 reflected in its slightly higher implied interest rate.

- **Refinancing Risk**: S3 offers a more stable debt profile compared to S2. Its lower debt maturing in one year and higher Average Time to Re-fixing (ATR) indicate a reduced short-term refinancing burden. Additionally, S3's longer Average Time to Maturity (ATM) of the Total Portfolio suggests a more balanced debt structure, reducing the risk of immediate refinancing pressures.
- **Interest rate risk:** S3 has a higher proportion of fixed-rate debt, including T-bills, which can help mitigate interest rate risk.
- **Foreign Exchange (FX) Risk:** S3 has a moderate exposure to foreign exchange risk. This means the government is somewhat vulnerable to fluctuations in exchange rates, which could affect the cost of servicing foreign currency-denominated debt.

Overall, Strategy S3 offers a more sustainable debt profile. Its lower short-term debt maturities and higher average time to re-fixing reduce the risk of immediate refinancing pressures. Additionally, S3's focus on fixed-rate debt helps mitigate interest rate risk. By addressing these key factors, S3 can contribute to a more stable and resilient debt structure, reducing the likelihood of debt distress.

iv. **Strategy 4:** S4's effectiveness in reducing the overall debt burden is less pronounced than S2's, but its higher interest payments suggest a less sustainable debt profile. S4 is a relatively low-risk strategy due to its focus on domestic debt, which is reflected in its low implied interest rate.

- **Refinancing Risk**: S4 exhibits higher levels of debt maturing within one year. This increases refinancing risks, as the government will need to repay or refinance a larger portion of its debt in the short term.
- **Interest rate risk:** S4 has a higher proportion of fixed-rate debt. This mitigates interest rate risk, meaning the government is less exposed to fluctuations in interest rates.
- **Foreign Exchange (FX) Risk:** S4 has the lowest exposure to foreign exchange risk. This means the government is less vulnerable to fluctuations in exchange rates, which could affect the cost of servicing foreign currency-denominated debt.

Overall, Strategy S4 appears to be a mixed strategy with both strengths and weaknesses. While it offers a low implied interest rate and low exposure to foreign exchange risk, it has higher interest payments and refinancing risks. The government needs to carefully weigh these factors to determine if S4 is the most suitable option for its objectives.

The Preferred Strategy – Strategy 3 (S3)

While Strategy 2 offers a balanced approach, considering the Government's target levels as given in Section 5.2, Table 6, this analysis presents **Strategy 3 as the most preferred**. S3's focus on reducing short-term debt maturities and increasing the average time to refinance effectively addresses refinancing risks. Additionally, its emphasis on fixed-rate debt mitigates interest rate risk, contributing to a more sustainable debt profile. These factors, combined with its lower interest payments and reduced nominal and present value debt, make S3 the most advantageous strategy for Papua New Guinea.

c. Redemption Profile

In the medium-term, the maturities of the four Strategies showed a smooth profile except the spike right at the beginning of the projection period, due to the large stock of Treasury Bills, and at the end of the medium term in 2028, due to the maturity of inaugural 10-year sovereign bond on the external. External Debt redemption profiles are spread out, and relatively smoother, due to the longer maturities, in view of the fact that most are concessional and semi concessional loans from Multilateral and Bilateral sources.

Chart 8: Redemption profile of debt as at the end of 2023

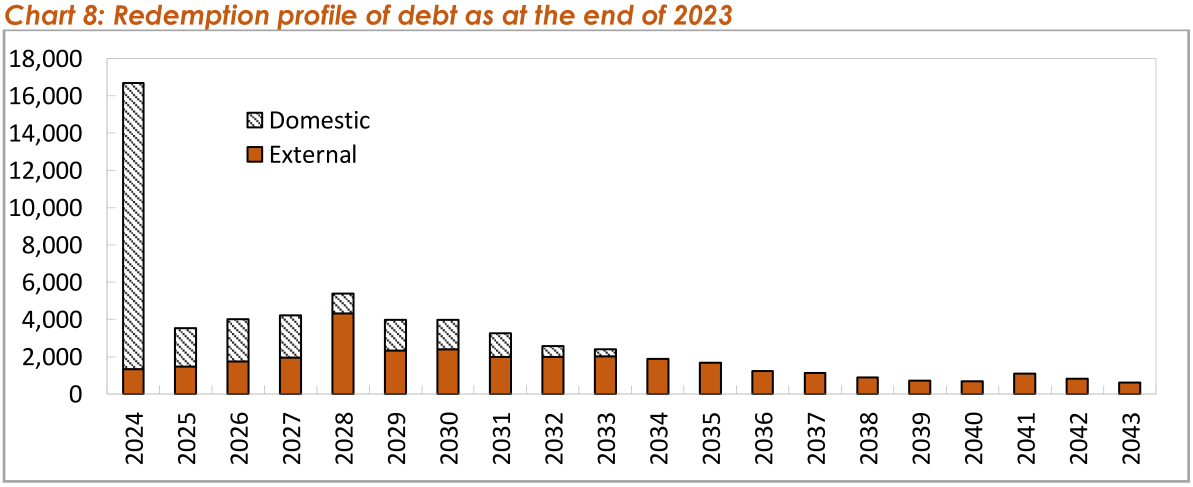


Chart 9: Papua New Guinea's Redemptions Profile for Alternative Strategy 1 at the end of Medium Term 2028

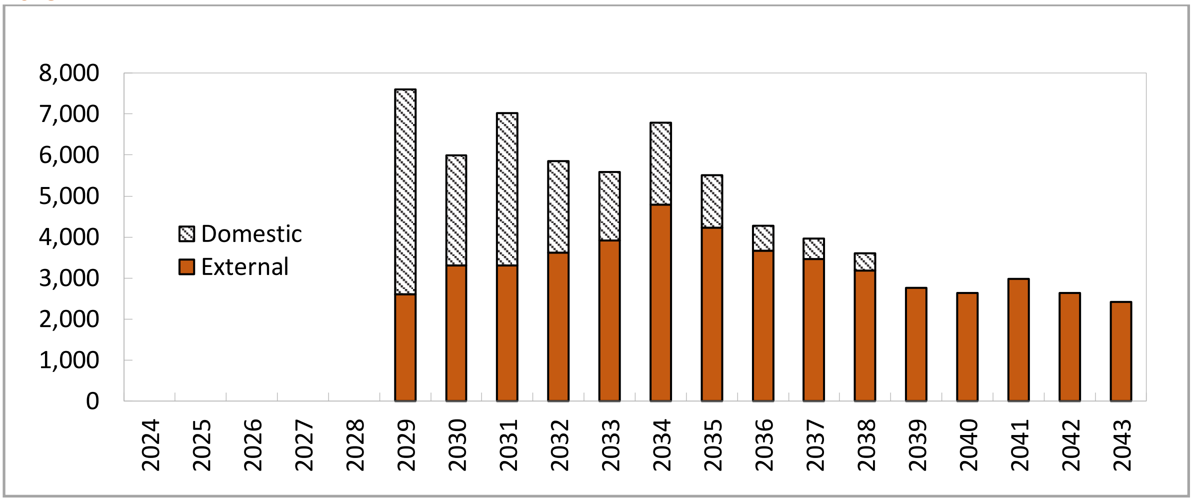


Chart 10: Papua New Guinea's Redemptions Profile for Alternative Strategy 2 at the end of Medium Term 2028

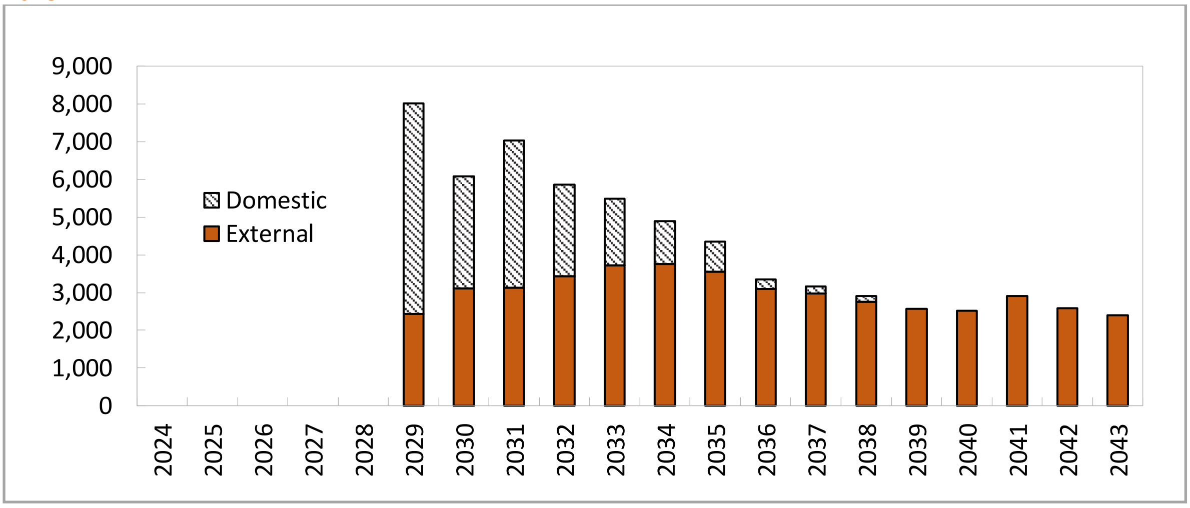


Chart 11: Papua New Guinea's Redemptions Profile for Alternative Strategy 3 at the end of Medium Term 2028

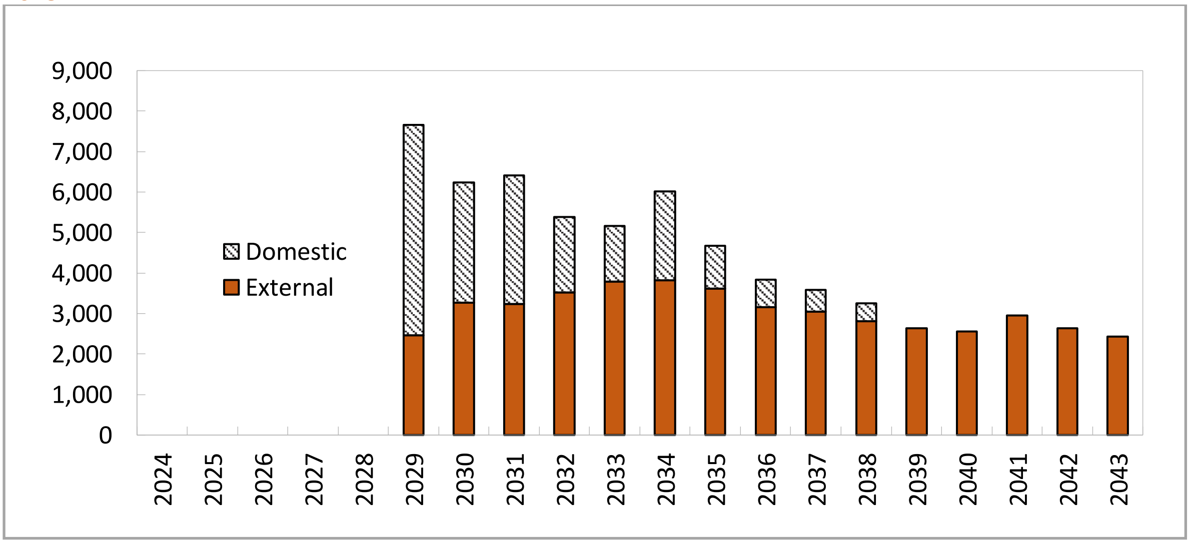
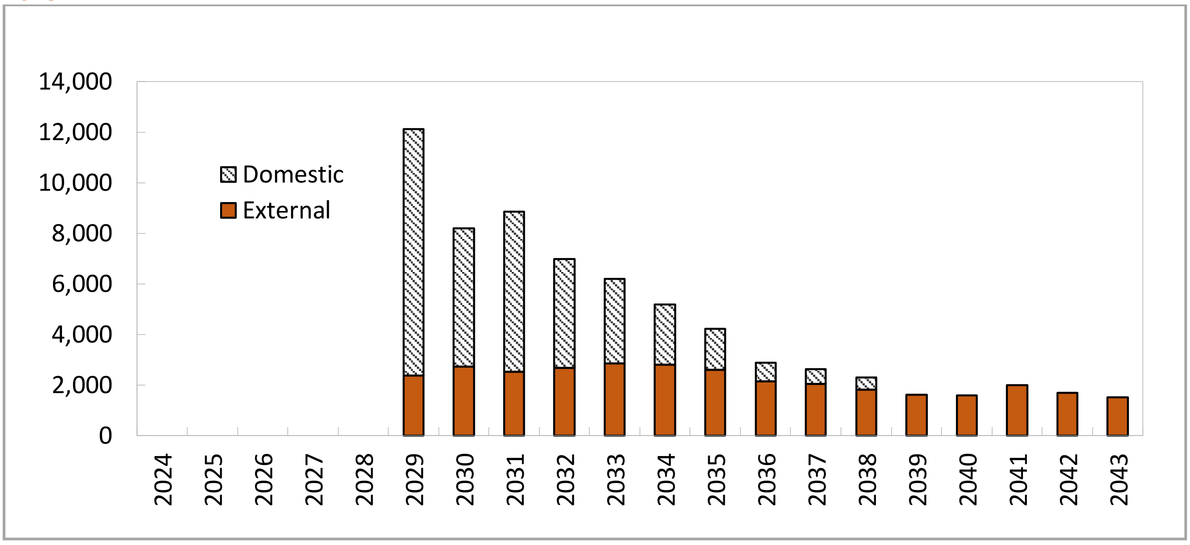
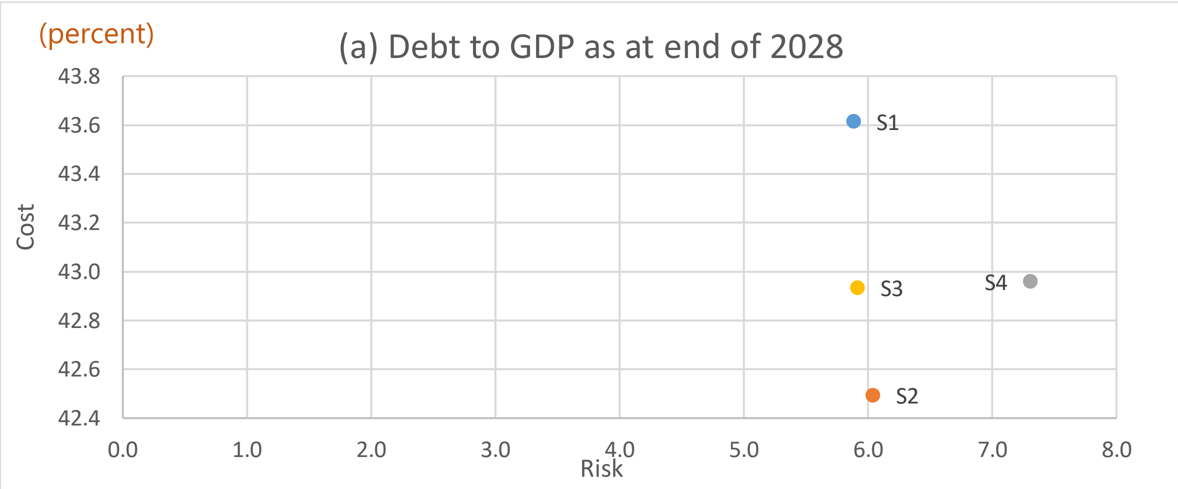


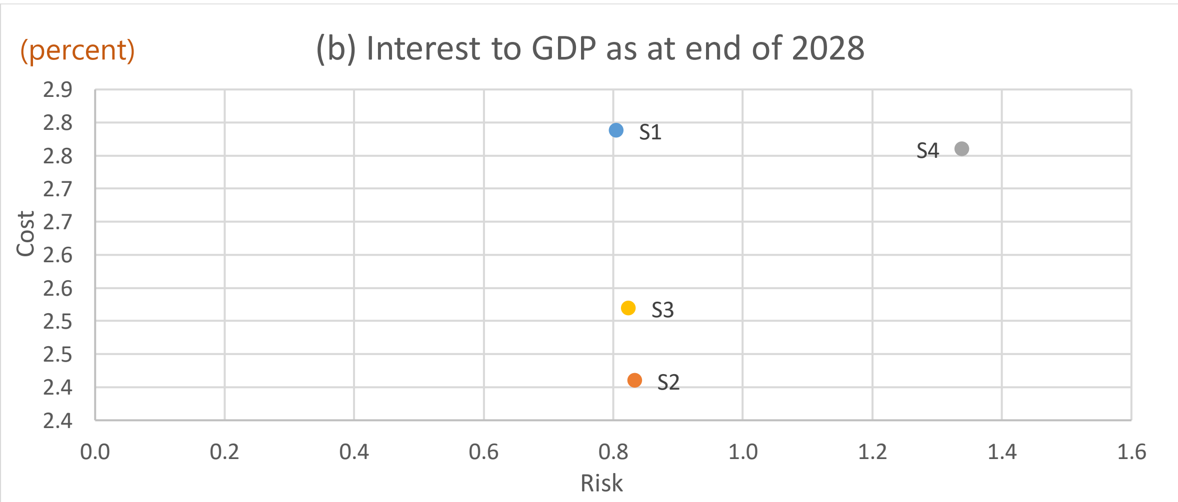
Chart 12: Papua New Guinea's Redemptions Profile for Alternative Strategy 4 at the end of Medium Term 2028

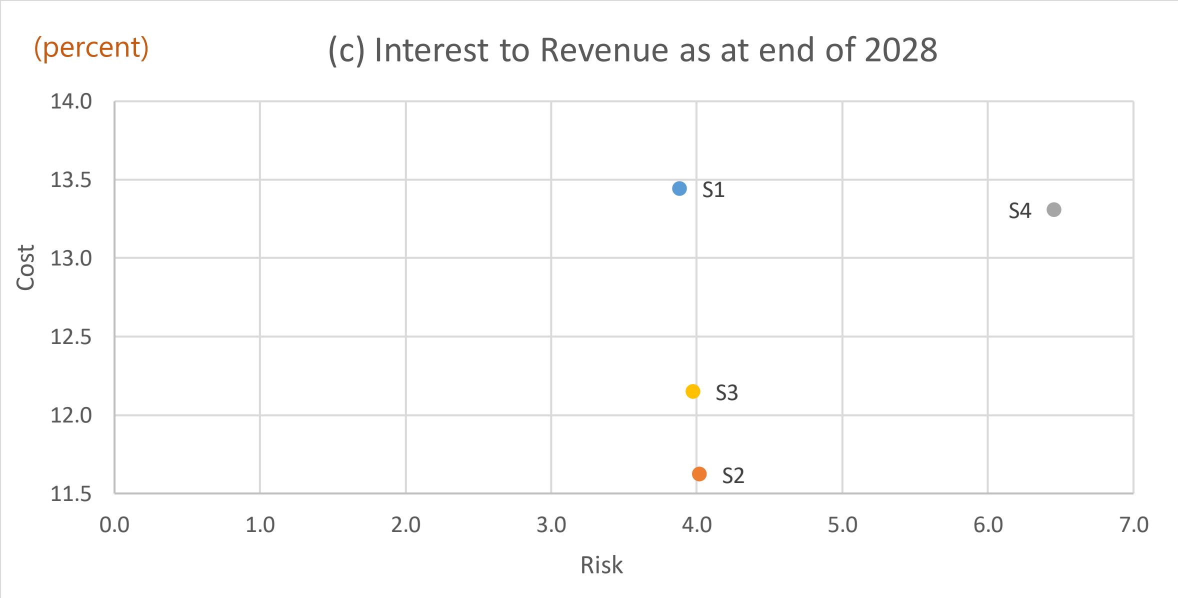


5.5.1. Graphical Illustration of Cost and Risk Trade-Offs

Chart 13: (a-c) further illustrates the Cost and Risk trade-offs associated with 4 strategies as at the end of 2028







6. Preferred Strategy and Implications of Adopting S3

6.1. Preferred Strategy

Based on the cost-risk analysis, Strategy 3 emerges as the most optimal. It effectively addresses refinancing risks by extending debt maturities and reducing short-term obligations. Additionally, its focus on fixed-rate debt mitigates interest rate fluctuations, contributing to a more sustainable debt profile. These factors, combined with lower interest payments and reduced debt burden, make **Strategy 3 the most advantageous choice for Papua New Guinea.** It should be noted that while some indicators presented in Table 8 for other strategies present more favorable results as compared to those of S3, their additional favorable contributions are insignificant.

This strategy is also preferred in terms of meeting the Governments financing needs in the medium term of 2024-2028, given the current risks and international environment on the domestic market and external front.

6.2. Risk Associated With the preferred Strategy S3

Based on the Chart 13 (a-c), the areas of greatest risk for Strategy 3 are:

1. **Interest Payments:** While S3 has lower interest payments compared to some strategies, it's still relatively high. This suggests that the government needs to carefully manage its revenue and expenditures to ensure it can meet its debt service obligations.

2. **Debt Burden:** Although S3's debt burden is lower than some other strategies, it's still significant. The government needs to monitor its debt levels closely and implement measures to reduce the burden over time.

3. **External Financing:** While S3's reliance on external financing is not as high as S2, it still carries risks associated with foreign exchange fluctuations and potential

changes in interest rates. The government should carefully manage its exposure to these risks.

To mitigate these risks, the government could consider the following strategies:

- **Diversifying funding sources:** Reducing reliance on external financing and increasing domestic resource mobilization can help mitigate foreign exchange and interest rate risks.

- **Improving fiscal discipline:** Implementing measures to increase government revenue and reduce expenditures can help reduce the debt burden and interest payments.

- **Strengthening debt management:** Enhancing the government's capacity to manage its debt can help minimize risks associated with refinancing and foreign exchange exposure.

As an additional measure to mitigate the financial risks associated with S3, the Government will suspend State Guarantees to the public for the duration of this strategy. This decision is driven by the Government's current state of high debt distress, as assessed and reported by the World Bank and IMF. Any additional financial exposure could further exacerbate the economic distress, potentially leading to severe consequences such as: default on debt payments; currency devaluation; increased inflation; Social unrest; and decreased foreign investment.

By addressing these areas of risk, the government can improve the sustainability of Strategy 3 and reduce the likelihood of negative consequences.

7. Implementation of the Preferred Strategy

7.1. Annual Borrowing Plan

The recommended strategy will serve as the foundation for the **Annual Borrowing Plan**, which will outline the government's financing needs for each year within the medium term. The borrowing plan will be designed to align with the strategic objectives, and it will also inform the development of the **Treasury Bonds or Inscribed Stock (IS) issuance plan**.

7.2. Investors Relation

The Financial Management Division (FMD) of the Department of Treasury will play a crucial role in enhancing investor relations and diversifying PNG's debt securities market. To achieve these objectives, FMD will maintain regular dialogue with domestic market participants, particularly investors, to foster understanding and trust. Additionally, FMD will conduct roadshows across the country and establish more structured meetings to increase visibility and accessibility to potential investors. By developing innovative debt securities that cater to the specific needs and preferences of different investor groups, including pension funds, insurance companies, corporate entities, and agricultural cash crop farmers, FMD can make PNG's debt securities more attractive to a wider range of investors.

7.3. Debt Transparency-Debt Reporting

Improved debt transparency can enhance investor confidence and attract a broader range of investors, ultimately strengthening the stability and resilience of PNG's financial system. The Department of Treasury, through its Financial Management Division (FMD), will produce an annual issuance calendar, auction results, an annual debt bulletin report, and a quarterly debt report. Timely disclosure of relevant financial information and adherence to international best practices for corporate governance will also be ensured. These concerted efforts will create a more favorable investment environment for PNG.

7.4. Disseminating, Monitoring and Review of the Strategy

The Debt Management Strategy, 2024-2028 underlying assumptions and key risk parameters and targets outlined in this report for the selected strategy for borrowing in the medium term will be assessed annually against the out-turn. These will provide the basis for monitoring and implementation of the Strategy. Annual review and monitoring of the strategy, in terms of set Cost and Risk Targets, will be carried out in line with the MTFS, which will also be updated annually.

7.5. Retiring Plan for the US$500 Million Sovereign Bond Maturing in 2028

The government is actively preparing for the upcoming maturity of its US$500 million sovereign bond in 2028. A dedicated technical working group has been formed to oversee this process. The group will develop a comprehensive strategy, monitor economic conditions, analyze various options for repayment or refinancing, and recommend the most suitable course of action. This proactive approach aims to ensure a smooth and successful settlement of the bond.

8. Other PDM Preparatory Projects in the Medium Term

8.1. Consolidate Debt Management related Legal Acts and Modernization of Public Debt Management

The Government will enhance the legal framework for public debt management by consolidating existing laws into a single comprehensive act, ensuring it is up-to-date with modern practices, and clearly defining the roles and responsibilities of the debt management office.

8.2. Developed a Local Currency Bond Market (LCBM)

The Government recognizes the need for local currency bonds and as part of its strategy to diversify its debt portfolio, it is committed to developing a robust Local Currency Bond Market (LCBM).

To achieve this goal, several key preparatory groundworks are essential entailing: policy framework and regulatory environment; market infrastructure; issuer development; investor education and awareness; market depth and liquidity; and risk management and governance. By addressing these preparatory steps, the Government can create a conducive environment for the development of a thriving

LCBM, which can provide a valuable source of financing for economic growth and development.

8.3. Develop a Policy Framework for Green Bond Issuance

While the government may not be issuing green bonds in the immediate future, it is committed to laying the groundwork for its issuance in the medium term. By focusing on the development of the primary market and creating a conducive environment for green finance, the government aims to position itself for the successful issuance of this innovative debt instrument in the coming years.