PAPUA NEW GUINEA

2025 DEBT FINANCING PLAN

2025 Government Securities Issuance Plan

ABSTRACT

The 2025 Debt Financing Plan sets out Papua New Guinea's approach to meeting its fiscal needs while maintaining sustainable debt levels at the lowest cost. In response to rising interest expenses that pressure critical expenditure priorities, the plan, aligned with the MTDS 2024-2028, combines domestic borrowing with external concessional loans from key partners such as the ADB, World Bank, and IMF. It emphasizes rebalancing Treasury Bills' rollover profiles to favour long-term debt instruments and expanding the investor base to strengthen the domestic market. Proactive measures are underway to develop a secondary market in government securities, supported by targeted risk management strategies—maturity profile adjustments, enhanced investor engagement, and improved debt transparency—to ensure fiscal stability and economic growth. Additionally, the plan incorporates a more realistic yield curve, benchmarked against international comparisons, to address the atypical premium observed in current 364-day Treasury Bills.

Department of Treasury

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1. Introduction

The following is a draft version of the 2025 Debt Financing Plan. This Plan outlines the Government of Papua New Guinea's strategy for financing the national budget deficit, meeting the 2024 financing shortfall, establishing a more realistic yield curve in line with international standards, supporting moves towards a secondary market, and ensuring debt sustainability. We are looking to discuss this draft. This sharing of the draft is a move to improve transparency and investor relations, and avoid the unfortunate collapse in domestic financing in the middle of 2024.

This plan is guided by the Medium-Term Debt Strategy (MTDS) 2024-2028 and complies with the Fiscal Responsibility Act (FRA). The primary objective is to secure funding for government operations and development priorities at the lowest cost possible through a balanced mix of domestic and external borrowing, prioritizing concessional financing and strengthening the domestic debt market. This plan provides a comprehensive overview of the government's financing strategies and risk management practices for the fiscal year 2025. The Government is committed to aligning debt financing decisions with fiscal policy objectives, maintaining debt-to-GDP levels within sustainable limits, minimising interest costs, and fostering economic resilience. By implementing a well-structured financing strategy, the Government aims to achieve long-term fiscal stability while supporting key infrastructure and development programs.

2. Medium-Term Debt Strategy (2024-2028)

The year 2025 marks the second year of implementing the five-year Medium-Term Debt Strategy (MTDS 2024-2028). This strategy aligns with the revenue and expenditure assumptions outlined in the 13-year Budget Repair Plan and the Medium-Term Fiscal Strategy (MTFS). The MTDS focuses on maintaining fiscal support for economic recovery from the COVID-19 pandemic, promoting fiscal consolidation over the medium-term, and adhering to the Fiscal Responsibility Act (FRA) requirement of sustainable debt levels.

The main objective of the MTDS 2024-2028 is to ensure the lowest possible cost for financing and the annual budget while managing financial risks and developing the domestic debt market. The strategy strongly emphasizes managing the risk exposure within the debt portfolio, particularly the potential fluctuations in debt servicing costs and their impact on the budget over the medium term.

2.1. Debt Strategy Operations & Targets

The following strategies guide the implementation of the new debt policy:

- Move towards a more realistic yield curve, anchored on the FRFA interest rate (KFR), based on international peers (2025 update given 2024 experiences).
- Consider how to support the on-going financial market given the planned move to a fiscal surplus in 2027, which means that the Government will start repaying debt through negative net issuances.
- Lessen reliance on Treasury Bills to mitigate refinancing or rollover risk.
- Reduce variable interest rate borrowing to improve the Average Time to Refixing (ATR).
- Reduce commercial borrowing to help minimize annual interest cost bills.
- Prioritize concessional financing from external sources to secure necessary funding for development objectives.
- Develop the domestic debt market to improve its depth, liquidity, and efficiency. This includes closer engagement with the existing domestic investor base and efforts to expand it to reduce dependency on a limited number of investors.
- There will be a move towards more real-time electronic bidding arrangements, as well as settlement arrangements, to encourage a more efficient market.

2.2. Debt Strategy Targets 2024-2028

The performance of the debt strategy is monitored using indicative targets that serve as measurable and quantifiable guidelines. Of course, these are updated in line with national and international developments, such as the increase in domestic costs in 2024 means there is a stronger preference for good, cheap, international financing.

TABLE 1: MTDS 2024-2028 INDICATIVE TARGETS

Key Target	Target
Domestic debt Average Time To Maturity (years)	Above 3 years
Domestic Debt refixing in a year (%)	Below 35 percent
FX debt as percentage of total debt	Below 50 percent
Debt to GDP (%)	Below 60 percent

2.3. Development of Domestic Debt Market

To increase the capacity and reduce the cost of domestic borrowing, the debt strategy aims to facilitate the development of the domestic debt market.

Key initiatives to be undertaken over the medium term include:

- Working closely with Government Securities Investors (Treasury Bills and Inscribed Stock) to encourage them to rollover maturing debt and participate in weekly auctions and monthly tenders.
- Smoothing the maturity profile of domestic debt to ensure that weekly maturities align with market capacity.
- Collaborating with BPNG on financing the Temporary Advance Facility (TAF) and coordinating the Bank's new Fixed Rate Full Allotment mechanism.
- Reviewing the Debt Strategy in line with the MTFS 2023-2027, using the MTDS toolkit provided by the World Bank and IMF as a guide.
- Conducting monthly investor meetings to improve investor relations, understand market participation, and gauge investor appetite for domestic debt instruments.

3. 2025 Budget Financing Requirement

The total net financing requirement for the Fiscal Year (FY) 2025, as approved by the National Executive Council, is estimated to be K2,962.9 million. In addition, given the market disruptions in 2024, there is also the need to raise additional financing of K1, 000 million given the shortfalls from last year's market disruption. Depending on the 2024 FBO, these amounts may need to be revised slightly, although early indications are that the 2024 Budget deficit is on target to be delivered. The Government aims to prioritize cost-effective and concessional financing by engaging with multilateral partners and domestic market participants to ensure a well-balanced and sustainable funding strategy.

The 2025 planned financing mix includes:

- K1,660.8 million from net domestic borrowing through Treasury Bonds and Treasury Bills.
- K2,188.5 million from net external budget support loans.

As part of its external financing strategy, the Government is in discussions with:

- The Asian Development Bank (ADB) for a USD 150.0 million (K610.0 million) budget support loan.

- The World Bank for a USD 100.0 million (K406.7 million) Development Policy Operation (DPO) loan.
- The International Monetary Fund (IMF) for USD 418.0 million (K1,699.8 million) in budget support under the Extended Credit Facility (ECF) and Extended Fund Facility (EFF) programs.

Details of 2025 debt servicing are provided in Table 2 below. By the end of 2025, total Government debt is projected to reach K64,876.8 million, equivalent to 47.4% of GDP, well within the Fiscal Responsibility Act (FRA) threshold of 45-55% of GDP. The domestic debt share will be 51.4%, while external financing will constitute 48.6% of the total debt stock.

3.1. External Financing Strategy

The Government of Papua New Guinea is committed to securing external financing through a combination of budget support loans and project loans. This approach involves active engagement with multilateral and bilateral partners to obtain concessional financing, which offers favourable terms and lower interest rates, making it a cost-effective way to support development objectives.

Discussions with Multilateral and Bilateral Partners

The Government is in discussions with several multilateral and bilateral partners to secure external financing for 2025. These partners include:

- Asian Development Bank (ADB): The Government is seeking a USD 150.0 million (K610.0 million) budget support loan from the ADB.
- World Bank: The Government is in talks with the World Bank for a USD 100.0 million (K406.7 million) Development Policy Operation (DPO) loan.
- International Monetary Fund (IMF): The Government is seeking USD 418.0 million (K1,699.8 million) in budget support from the IMF under the Extended Credit Facility (ECF),Extended Fund Facility (EFF) and the Resilience and Sustainability Facility

Focus on Concessional Financing

The Government's external financing strategy prioritizes concessional financing to minimize costs and ensure debt sustainability. Concessional loans typically have lower interest rates and longer grace periods than commercial loans, making them a more sustainable option for financing development projects. By prioritizing concessional financing, the Government aims to reduce the burden of debt servicing and free up resources for critical investments in infrastructure, education, health, and other priority areas. Technical assistance from the IMF and others is being obtained on how best to deal with the bullet payment of $US500 million due in August 2028 for the PNG Sovereign Bond. At this stage, the financing strategy has been aimed at minimising domestic amortisation pressures in 2028 to lower the re-financing risk, resulting in nil 3 year Treasury Bonds to be issued this year - 2025.

Supporting Development Objectives

External financing, particularly concessional loans, plays a crucial role in supporting the Government's development objectives. These loans provide the necessary funding for infrastructure projects, such as roads, bridges, and energy facilities, which are essential for promoting economic growth and improving the quality of life for citizens. Additionally, external financing through budget support finances critical investments in education, health, and social welfare programs, contributing to human capital development and social progress.

The Government's focus on concessional financing and strategic engagement with multilateral and bilateral partners demonstrates its commitment to responsible debt management and sustainable development. By securing cost-effective external financing, the Government aims to achieve its development goals while maintaining debt sustainability and promoting long-term economic resilience.

3.2. Domestic Debt Financing Strategy

In 2025, the Government plans to borrow domestically through the issuance of Government Securities, which consist of Treasury Bills and Treasury Bonds.

Treasury Bills will be issued weekly, while Treasury Bonds initially be issued weekly, with a planned front-end loading to help minimise the risks of the mid-2024 financing episode. As part of the discussions on this draft plan, we are seeking feedback on the timing of Treasury Bonds, noting that there are some significant Treasury bond maturities later in the year. There is also the issue of whether it is better to have fewer numbers of Treasury bond terms. Possibly, it would be better to move to monthly payments later in 2025 to support the development of a Secondary market. This would be part of the discussions on this draft plan. The main participants in the Government securities market currently include the four major commercial banks, two superannuation funds, and a few corporate and individual investors who take part in the weekly and monthly auctions. The aim is to dramatically increase this investor base, including through Collective Investment Schemes, possibly supported by tax exemptions for non-institutional investors (as is the case in many other countries).

Treasury Bills

- Treasury Bills are currently auctioned every Wednesday and settled two days later on Friday. However, my Division, Financial Management Division (FMD) would like to discuss more on the gap between Treasury bill issuance and Treasury Bond issuance (a 2 day gap) to allow for greater consideration of the complex trade-offs when deciding to accept the market bids.

- The Department of Treasury determines the amount of Treasury Bills required ensuring sufficient cash balances for weekly government expenditures.

- The Bank of Papua New Guinea (BPNG), acting as the issuing agent, announces the amount and term of Treasury Bills to be sold to investors by the close of business each Tuesday, noting that the amount accepted may differ given interest cost and other considerations

- The Government will primarily issue 3-month, 6-month, 9-month, and 12-month (1 year) Treasury Bills.

- Refer to Appendix for a draft program of issuances designed to raise a net K1 billion in 2025.

Treasury Bonds (Inscribed Stock)

- Treasury Bonds will be issued weekly, starting in February, noting that the current plan is based on front-loading to lessen the risks faced in the 2024 market in the middle of the year. Discussions can cover whether the market would prefer some rollover coverage for existing maturities later in the year.

- Weekly issuance will ensure timely cash flow for priority expenditures in the first half of 2025 and fund debt servicing, including the settlement of maturing Treasury Bonds and coupon payments.

- All Treasury Bonds will be auctioned on Mondays or Tuesdays and settled three days later on Friday.

- The amount of each Treasury Bond series to be auctioned will be announced to investors, with each series having a specific maturity and coupon.

- The tentative issuance schedule, as well as the level of bid acceptances (covering both possibly over or under-take-up) is subject to change based on investor demand and cash needs.

- The IMF is suggesting that we reduce the number of maturities dates to encourage the development of a secondary trading market. An example would be to have just 2, 5, 7 and 10-year maturities. There is also interest in considering a long-term maturity, possibly 15 or 20 years, given the practice in other countries.

The indicative debt issuance plan for 2025 provides updated details compared to those presented in Chapter 8 (Financing and Debt Management Strategy) and Appendix 2 of Volume 1 of the 2025 National Budget document. This information can be accessed on the Department of Treasury's website

Table 2: Summary of Repayments and New Issuance in 2025 (Kina million)

Financing Source	Projected Repayment (2025)	Projected Borrowing (2025)	Net Change (2025)
DOMESTIC DEBT	15,601	17,362	1,761
Debt Securities	15,365	17,362	1,997
Treasury Bills	13,399	14,399	1,000
Treasury Bonds	1,966	2,963	997
Loans	236	0	-236
EXTERNAL DEBT	1,854	4,043	2,189
Loans	1,854	4,043	2,189
Concessional	833	1,226	393
Commercial	46	100	55
Extraordinary	976	2,717	1,741
TOTAL	17,455	21,404	3,949

Table 3: Debt and Financing Summary

BUDGET DEFICIT	FINANCING SOURCE	TOTAL DEBT TO GDP
K2,949.30 million	**(a) External: K2,188.50 million (b) Domestic: K1,760.80 million**	**47.4 %**

4. Risk Management and Debt Sustainability

The Government of Papua New Guinea recognizes the importance of effective risk management and debt sustainability in achieving its development goals and maintaining macroeconomic stability. The Government is committed to proactively identifying, monitoring, and mitigating potential financial risks associated with debt financing.

Risk Management Practices

The Government employs various risk management practices to ensure responsible debt management. These practices include:

- **Regular monitoring of debt levels:** The Government closely monitors its debt-to-GDP ratio and other relevant indicators to assess debt sustainability and identify potential risks.
- **Stress testing**: The Government conducts stress tests to evaluate the resilience of the debt portfolio under different economic scenarios, such as changes in interest rates, exchange rates, and commodity prices.
- **Contingency planning:** The Government develops contingency plans to address potential risks and ensure that it can meet its debt obligations even under adverse economic conditions.

Commitment to Debt Sustainability

The Government is committed to maintaining debt sustainability to avoid excessive debt burdens that could hinder economic growth and social progress. The Government's key targets for debt sustainability include:

- **Debt-to-GDP ratio**: The Government aims to keep its debt-to-GDP ratio below 55% in line with the FRA requirements, a ratio that is expected to continue falling.
- **Concessional financing:** Prioritizing concessional financing to reduce debt-servicing costs and maintain debt sustainability.
- **Domestic debt market development:** Strengthening the domestic debt market to reduce reliance on external borrowing and mitigate exchange rate risk.

Measures to Ensure Debt Sustainability

The Government is implementing several measures to ensure debt sustainability, including:

- **Prioritizing concessional financing:** The Government prioritizes concessional loans from multilateral and bilateral partners to minimize interest costs and ensure debt sustainability.

- **Reducing reliance on short-term debt:** The Government aims to reduce its reliance on short-term domestic debt, such as Treasury Bills, to mitigate refinancing risks and interest rate volatility.

- **Improving revenue collection:** The Government is implementing measures to enhance revenue collection and broaden the tax base to improve debt sustainability.

- **Enhancing public financial management:** The Government is strengthening its public financial management practices to ensure efficient and transparent use of public resources, contributing to debt sustainability.

By prioritizing risk management and debt sustainability, the Government aims to create a stable macroeconomic environment that supports long-term economic growth, social progress, and improved quality of life for all citizens.

5. Yield curve expectations

As highlighted in the 'Debt Strategy Operations & Targets' section, one of our key objectives is to establish a more realistic yield curve. This yield curve should be anchored on the Bank of Papua New Guinea's Kina Facility Rate (KFR), aligning with international standards.

A typical yield curve slopes upwards, anchored on the central bank's policy rate, reflecting a time preference where longer-term lending commands higher interest rates. However, PNG's current yield curve deviates significantly from this pattern. International comparisons reveal an unusually high gap between the KFR and the 364-day Treasury Bill rate, with most countries showing a spread of only 1-2 percentage points. This raises the question of why PNG's spread is so large, with the 364-day rate at around 8.5% compared to a KFR of 4%. This large gap also means that the 364 day rate is well above the market interest rate for housing loans, which are around 4% to 5.5% in PNG. The general view is that Government Bills would be set at slightly below variable rates on housing loans, reflecting the lower risk premium on government issuances that have never been defaulted upon in PNG.

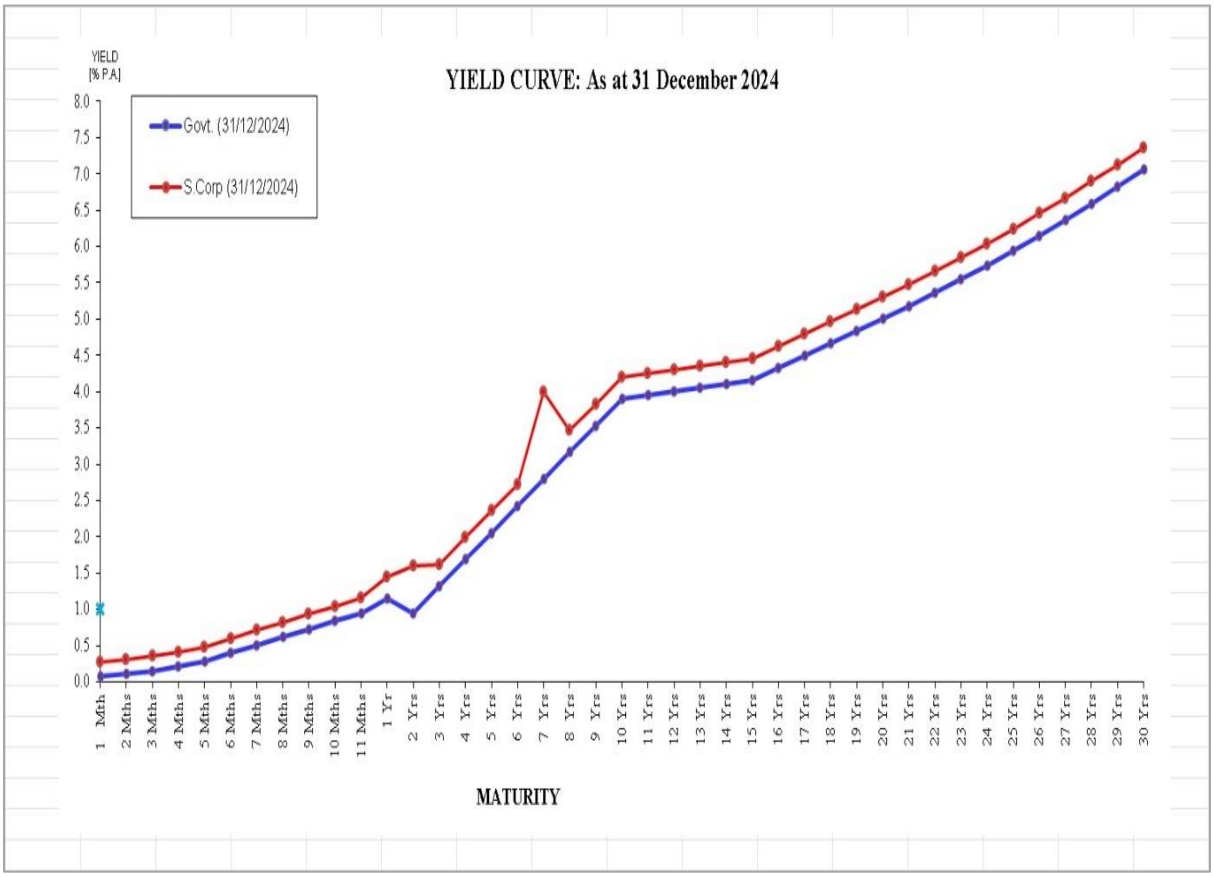
Below is a table and a couple of graphs showing international comparisons in yield curves.

Table 4:

Country	10 Year interest rates
Australia	4.5
Hong Kong	*3.8*
Fiji	3.9
India	6.7
Indonesia	6.9
Malaysia	3.8
Pakistan	12.1
PNG	9.8
Philippines	6.2
Singapore	2.9
South Korea	2.9
Taiwan	1.6
Thailand	2.3

Currently, PNG is the second highest in this list. We need to compete economically with the countries in the region. Currently, the competitors to PNG in most industries have lower financing cost structures.

The following is the yield curve in our next largest Pacific country, Fiji. Their central bank is well respected. Interestingly, their monetary policy anchor point is much lower than PNG, despite higher underlying rates of inflation. They also have 30 year Bonds. The gap between the cash rate and the 364 date rate is about 1.5%, much lower than the 4.7% gap in PNG. After 10 years, the yield premium is just under 4% in Fiji, less than the nearly 6% in in PNG.



Behavioural economics suggests that market expectations play a crucial role in shaping the yield curve. It is possible that events in PNG have distorted the domestic market, leading to a divergence from normal yield expectations. This divergence has significant cost implications, adding nearly a billion Kina to 2024 interest costs.

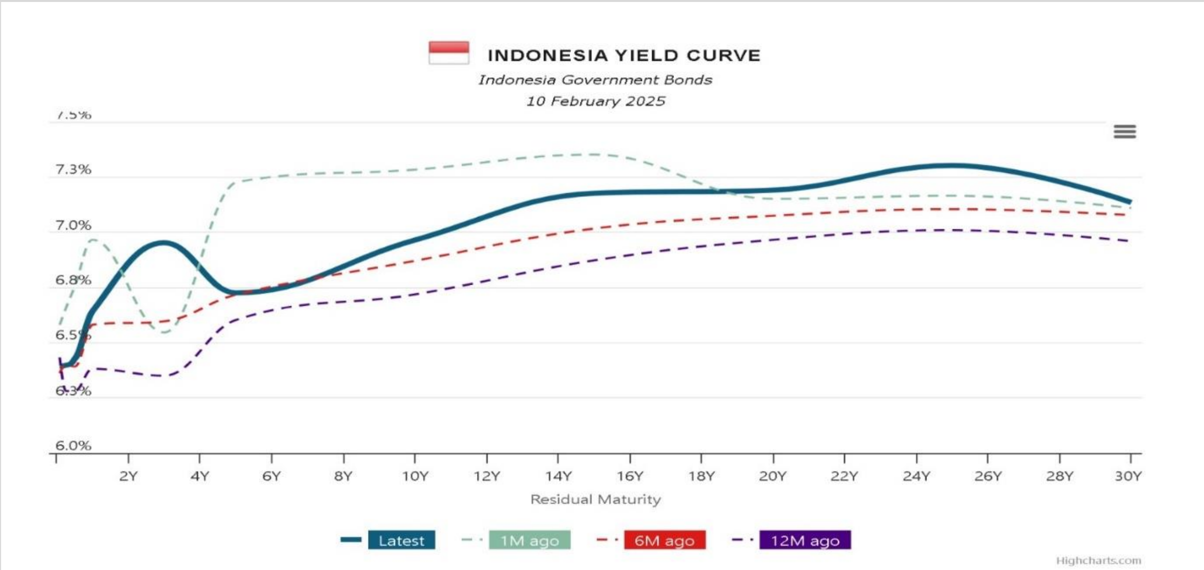
To address this, we will engage in discussions with market actors to better understand these dynamics and realign the yield curve with international norms. We aim to reduce the premium on 364-day maturities to closer to 1.5 percentage points above the KFR, in line with international benchmarks. This adjustment will then influence longer-term securities, with an expected premium of 1.5 to 2 percentage points by the 10-year mark.

We are also exploring the possibility of issuing 15 or 20-year maturities, aligning with practices in neighbouring countries. This will provide investors with a wider range of investment options and contribute to the development of a deeper and more liquid domestic debt market.

The KFR will serve as the anchor point for the yield curve, with rates moving in line with changes to the KFR. This approach will ensure predictability and transparency in the pricing of government securities.

We acknowledge that market conditions and overall demand and supply will continue to influence the yield curve. However, by actively managing expectations and engaging with market participants, we aim to establish a yield curve that supports our debt financing objectives while fostering a stable and efficient market.

The second graph below is the current yield curve on Indonesian Government Bonds. This graph shows the interest premium between 1 year and 10 year Government Securities and actually indicates an under 1 percentage point.



6. Conclusion

The Government of Papua New Guinea remains committed to a comprehensive and forward-looking financing strategy that not only supports fiscal stability and sustainable economic growth but also incorporates robust market insights. This revised 2025 Debt Financing Plan, aligned with the Medium-Term Debt Strategy (MTDS) 2024-2028 and the Fiscal Responsibility Act (FRA), reflects the critical lessons learned from 2024 while integrating a detailed yield curve analysis to inform our approach.

By anchoring our yield curve on the Bank of Papua New Guinea's Kina Facility Rate (KFR) and addressing the current divergence—where the 364-day Treasury Bill premium is significantly higher than international benchmarks—we are taking concrete steps to realign market expectations. Targeting a reduction in the premium to around 1.5 percentage points above the KFR (approximately 5.5% given the current KFR of 4%) will help ensure that short-term securities are priced more competitively. This realignment is expected to extend to longer-term securities, with a targeted premium of 1.5 to 2 percentage points by the 10-year mark, thereby reducing overall borrowing costs and enhancing market transparency.

The plan continues to prioritize cost-effective and concessional financing while reducing reliance on short-term domestic debt, thus mitigating refinancing risks and promoting investor confidence. Through regular market engagement, stress testing, and contingency planning, our proactive debt management approach ensures that fiscal needs are met without compromising investments in critical sectors such as health, education, infrastructure, and public safety.

In summary, by integrating yield curve analysis with our broader financing strategy, the Government is better positioned to achieve a balanced, transparent, and efficient debt market. We welcome further discussions with investors and stakeholders to refine this approach and ensure that our financing decisions support immediate budgetary requirements, long-term economic resilience, the interests of investors, and the overall levels of supply and demand. We would also welcome discussions on how to make for a more transparent market, with better investor relations, seek views on fewer maturity dates and suggestions for more efficient market operations.

7. Additional Information

Further information on the historical results of auctions is available on the Public Debt folder of the Department of Treasury's website: www.treasury.gov.pg.

For any questions, please contact the Securities Execution Branch on telephone numbers: 313 3570, 313 3517, or 313 3787.

Jeffrey Walua

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Financial Management Division

Appendix 1. 2025 Tentative Treasury Bills Issuance Schedule (K 'Million) — Based on meeting rollovers, with extra fund-raising in weeks where the rollover is lowest – aim to smooth the market over-time.

	2024 Rollovers - Noting This Will Increase As Shorter Term Maturities Issued During 2025	Extra To Meet Target Bills Financing	Total Weekly Market Offering
Actuals to date	2,049	56	2,106
14-Feb-25	385	214	599
21-Feb-25	407	248	655
28-Feb-25	238	-73	165
7-Mar-25	189	-	189
14-Mar-25	258		258
21-Mar-25	258		258
28-Mar-25	308		308
4-Apr-25	267		267
11-Apr-25	243	50	293
18-Apr-25	138	100	238
25-Apr-25	122	100	222
2-May-25	151	100	251
9-May-25	215		215
16-May-25	247		247
23-May-25	331		331
30-May-25	372		372
6-Jun-25	368		368
13-Jun-25	270		270
20-Jun-25	141	55	196
27-Jun-25	157	50	207
4-Jul-25	117	50	167
11-Jul-25	117	50	167
18-Jul-25	283		283
25-Jul-25	292		292
1-Aug-25	244		244
8-Aug-25	218		218
15-Aug-25	190		190
22-Aug-25	232		232
29-Aug-25	262		262
5-Sep-25	330		330
12-Sep-25	197		197
19-Sep-25	222		222
26-Sep-25	430		430
3-Oct-25	232		232
10-Oct-25	216		216
17-Oct-25	131		131
24-Oct-25	194		194
31-Oct-25	265		265

7-Nov-25	372		372
14-Nov-25	322		322
21-Nov-25	254		254
28-Nov-25	217		217
5-Dec-25	181		181
12-Dec-25	193		193
19-Dec-25	343		343
26-Dec-25	232		232
Totals	13,399	1,000	14,399

Appendix 2. 2025 MATURITIES AND COUPONS DUE

DATE	MATURITIES (K' MILLION)	COUPON	TOTAL
15-Feb-25	228.95	291.28	520.2
15-May-25	534.15	388.64	922.8
15-Aug-25	856.00	291.28	1, 147.3
15-Nov-25	347.30	388.64	735.9
	1, 966.4	**1, 359.8**	**3, 326.2**

Appendix 3. 2025 Treasury Bonds Tentative Issuance Schedule

Issuance Date	Issuance Amount (K' m)
Tuesday, 18 February 2025	423.00
Tuesday, 25 February 2025	180.00
Tuesday, 4 March 2025	56.00
Tuesday, 11 March 2025	19.00
Tuesday, 18 March 2025	25.00
Tuesday, 25 March 2025	25.00
Tuesday, 1 April 2025	50.00
Tuesday, 8 April 2025	50.00
Tuesday, 15 April 2025	50.00
Tuesday, 22 April 2025	50.00
Tuesday, 29 April 2025	100.00
Tuesday, 6 May 2025	200.00
Tuesday, 13 May 2025	300.00
Tuesday, 20 May 2025	200.00
Tuesday, 27 May 2025	50.00
Tuesday, 3 June 2025	50.00
Tuesday, 10 June 2025	50.00
Tuesday, 17 June 2025	50.00
Tuesday, 24 June 2025	50.00
Tuesday, 1 July 2025	50.00
Tuesday, 8 July 2025	50.00
Tuesday, 15 July 2025	50.00
Tuesday, 22 July 2025	50.00
Tuesday, 29 July 2025	80.00
Tuesday, 5 August 2025	100.00
Tuesday, 12 August 2025	200.00
Tuesday, 19 August 2025	300.00
Tuesday, 26 August 2025	110.00
Total	**2,968.00**

Note that this pattern front-loads significantly Bond issuance. The full maturity rollover of K1,966m to be sought by mid-year. For the 15 August maturity of K856m, only K710m planned for rollover. For 15 Nov maturity of K347m, no plans for any rollover.