SHADOW MINISTER FOR TREASURY & FINANCE

PO Parliament House
Waigani.NCD
m: +675 71111777
e : chairman@kdda.gov.pg

8 per cent would be too expensive for any Sovereign Bond

"There are rumours that the NEC is to meet as soon as this Thursday and consider accepting a $US500 million Sovereign Bond at an 8 per cent interest rate for 10 years. If this is true, then the cost of the bond would be too high for the people of PNG. This decision does not need to be rushed and there should be discussions with the Alternative Government to help ensure that PNG gets a good deal" said Ian Ling-Stuckey, PNG's Shadow Minister for Treasury and Finance.

"Why do I say that an interest rate of 8 per cent would be too expensive? There are three reasons. First, the Treasurer has stated that "$US300 million will convert short term (less than 12 months) domestic debt into long term debt". Current short-term domestic interest costs are only 4.73 per cent for 182 day Treasury Bills. So $US300 million of PNG's public debt will now be paying 8% instead of 4.73%. Over ten years, this additional interest cost of 3.27% per year will amount to an extra $US98.1 million (so 3.27% times 10 years times $US300m) or K327 million. What a foolish way to throw away over K300 million!" somebody talk to me! said Mr Ling-Stuckey.

"Second, if the proposal is indeed for an 8 per cent interest rate, then this does not include the costs of extra fees or the foreign exchange risks. These costs are likely to be very high. For example, one Kina moved from US dollar 0.48 in 2012 down to 0.30 currently – so a move of 37 per cent over 6 years or just over 6 per cent per year. Fees are likely to be at least 1 per cent. So realistically, the full cost of the sovereign bond is much more like 15 per cent per annum – 8 per cent interest, 6 per cent foreign exchange rate losses and fees of 1 per cent. This is just too expensive and risky."

"Third, there are better options available. Even the Treasurer and the Secretary for the Treasury have talked about Mongolia's experience.

The biggest lesson which PNG can learn from Mongolia is that there are better and cheaper sources of finance available. After facing a crisis in repaying its own sovereign bond taken out only a year earlier, Mongolia approached the IMF and agreed on a program that totalled $US5,500 million in cheap, concessional financing. Mongolia has less than half the population of PNG, so a similar sized package of concessional loans, at interest rates of below 4 per cent, should be available. This would require PNG to gets its economic house back in order, but we should be doing this anyway.

"Treasurer, if you are indeed considering a 10 year sovereign bond at 8 per cent interest cost, talk to the Alternative Government first-Lets not just talk about restructuring our national debt, perhaps we should be talking about restructuring the entire government as well! Any such deal would be equivalent to immediately throwing away over K300 million in extra costs, would more likely have a total cost of 15 per cent per annum once fees and exchange rate risks are considered, and ignores concessional loan options available from traditional sources. Let's not burden our budget for the next decade with such a bad deal." said Mr Ling-Stuckey.

Hon.Ian Ling-Stuckey,CMG.MP
Shadow Minister for Treasury & Finance

26 September 2018

DEPUTY PRIME MINISTER, HON. CHARLES ABEL MP: SOVEREIGN BOND UPDATE

by PM_Admin | Sep 13, 2018 | Main, Media Releases, News | 0 comments

The Deputy PM and Treasurer, Charles Abel returned to Port Moresby today after leading the international roadshow to market PNGs inaugural (first ever) sovereign bond. The DPM and delegation covered Singapore, Hong Kong, London, New York, Boston and Los Angeles in 10 days. In a packed schedule arranged by global lead coordinator Credit Suisse and joint bookrunners Citibank the delegation presented to around 100 global banks and fund managers at 7 meetings per city.

"Our international partners have done a fantastic job in arranging meeting and providing advice. The interest has been really good with full meetings including all the major players. Everyone is interested in the PNG story. The market for emerging market or frontier market bonds has been rattled recently by the Turkey and Argentina economic problems but we believe PNG has a strong case regardless.

We are looking at a 5 year or 10 year benchmark minimum issue of USD500m. This is the minimum amount to qualify for the Emerging Market Bond Index and facilitate participation in the secondary market after issuance. Now that the roadshow is concluded we will field offers for amounts and pricing (interest rates) before making a final decision to sell the bonds. Of the potential proceeds, $200m will go into operation and capital costs and $300m will convert short term (less than 12 months) domestic debt into long term debt. This will better balance our loan book and bring in foreign exchange. PNG will be looking to establish its brand and yield curve in the international market for the future," said the DPM.

http://www.pm.gov.pg/deputy-prime-minister-hon-charles-abel-mp-sovereign-bond-update/

BANK OF PAPUA NEW GUINEA

Home | About Us | Monetary Policy | Financial Stability | Payments System | Financial Markets | Media Releases

Technology | Central Bank Investments | Do Not Accept Any Bank Paper Notes | Press Release on Money S

Home > Financial Markets > Domestic Money and Bond Market Operations and Development > Government Treasury Bills > Treasury Bills Auction Results

Treasury Bills Auction Results

WEEK ENDING	**14th Sept,2018**
AUCTION NUMBER	**TB18/09/2-14**
AUCTION DATE	**12th Sept 2018**
AMOUNT OFFERED ON AUCTION	**K262.640 "MILLION"**

Terms	**28**	**63**	**91**	**182**	**273**	**364**	**TOTAL**
Weighted Average Yields of successful bids (%)	0.00	0.00	0.00	4.73	6.76	8.06	
Amount on offer Kina Million	0.000	0.000	0.000	20.640	100.000	142.000	262.640
Bids Received Kina Million	0.000	0.000	0.000	114.250	20.280	55.170	189.700
Successful Bids Kina Million	0.000	0.000	0.000	114.250	20.280	55.170	189.700
Overall Auction ***UNDER-SUBSCRIBED by***	K0.000	K0.000	K0.000	K93.610	- K79.720	- K86.830	- K72.940

https://www.bankpng.gov.pg/financial-markets/domestic-money-and-bond-market-operations-and-development/treasury-bills/bills-weekly-auction-results/

https://www.yahoo.com/news/debt-saddled-mongolia-agrees-5-5-bn-imf-060715579.html

Debt-saddled Mongolia agrees $5.5 bn IMF bailout

AFPFebruary 20, 2017

Heavily dependent on copper exports, Mongolia's economy grew by 1.0 percent in 2016 (AFP Photo/MARK RALSTON)

Mongolia has reached an agreement with the International Monetary Fund on a $5.5 billion bailout package, officials announced, as the debt-wracked country tries to stabilise its economy.

The landlocked north Asian nation has been hit hard by a more than 50 percent fall over the past five years in the price of copper, its main export.

Billions of dollars' worth of natural resources lie buried beneath Mongolia's sprawling steppes, but development has been delayed for years and slowing growth in its biggest customer China has hobbled the economy.

Mongolia's economy grew 1.0 percent in 2016, while its budget deficit exploded to 3.7 trillion tugrik ($1.5 billion) according to its national statistics office.

The rescue package will include a $440 million loan over the next three years, Koshy Mathai, the IMF's Asia-Pacific deputy division chief, said in a statement issued Sunday.

The Asian Development Bank, World Bank, Japan and Korea are expected to provide another $3 billion in support, while the People's Bank of China will extend its 15 billion yuan ($2.2 billion) swap line for another three years.

The bailout package is intended to "restore economic stability and debt sustainability as well as to create the conditions for strong, sustainable, and inclusive growth, while protecting the most vulnerable citizens", Mathai said.

It will help the cash-strapped country make a $580 million bond payment due in March.

The loan is subject to approval by the IMF's executive board, which is expected to consider it in March.

"Fiscal consolidation is a key priority, as loose fiscal policy in the past was a major driver of Mongolia’s current economic difficulties and high debt," Mathai added.