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## Sovereign Bond Risky – Better options available

“The Treasurer has returned from his expensive overseas junket promoting his risky, short-term, soft option for dealing with the Government's foreign exchange crisis and debt crisis. The Treasurer is not admitting that a sovereign bond is now the wrong path for fixing the foreign exchange crisis crippling economic growth. The Alternative Government has better and less risky options because a sovereign bond is just a fancy word for debt, more national government debt and more dinau!” said the Hon. Ian Ling-Stuckey, Shadow Minister for Treasury and Finance.

“A massive risk for Abel's proposed sovereign bond is a large devaluation being forced on PNG because of world events. Global uncertainties have been highlighted by the recent crises facing Argentina and Turkey. There are growing concerns about the health of the global system 10 years after the Global Financial Crisis. If there was another global crisis, it is likely that once again we would see a collapse in commodity prices. For countries with most of their exports dependent on commodities, such as PNG, there will be massive pressure to devalue. In addition, most economic experts consider that our currency is also not at the right price – something we should have a national conversation about. This risk of massive devaluation does not appear to have been considered by the Treasurer and again, I caution Mr Abel for taking on the wrong types of debt. If our currency was forced to devalue by 25 per cent say, a figure close to those being suggested by the ANZ, UPNG and ANU, then the bond could immediately cost PNG people an extra K1.1 billion (so a US1 billion bond at an exchange rate of USD 0.30 would provide K3.33bn but at USD 0.225 would provide K4.44bn). Over an extra K1 billion being stripped out of our health and education budgets is an unacceptable

level of risk. Indeed, these uncertainties mean international analysts have described PNG's offering as "peculiar" said the Shadow Treasurer.

"Going out to international markets is very risky. PNG's international economic standing is that independent credit ratings agencies consider PNG government debt is five levels **below** "junk bond" status. This economic standing is going backwards rapidly under the PNC. The International credit downgrades by S&P and Moody's under Abel's time as Treasurer despite a surge in oil prices means international markets do not trust the Treasurer."

"Sovereign bonds may be cheaper than commercial loans such as the recent massive Credit Suisse \$US500m loan. However, they are much, much more expensive than the concessional loans available from the World Bank and other friendly institutional sources. The PNC government has dropped the ball when it comes to accessing these much cheaper loans. Their share of our public debt has declined dramatically over the years."

"As the government considers the interest cost proposals coming in for the sovereign bond, they need to consider the extra fee costs and foreign exchange risks. The government talks about substituting out of short-term debt for these 5 to 10 year bonds. So let's set a benchmark. 6 month short-term Kina debt through Treasury Bills is currently 4.73% - the rate from the Bill issuance at 12 September which was massively over-subscribed by domestic markets. If international markets can deliver a significantly lower interest rate (after including expensive fees) and allowing for massive foreign exchange risks, then possibly it would be a deal worth supporting. If not, Treasurer, please do not burden our children with a risky deal."

"The Treasurer should have spent more time in Washington talking to the IMF and World Bank frankly about actions the national government would take to start correcting their economic mismanagement. Getting these structural changes to re-build growth is really the key for fixing our multiple economic crises and ofcourse, the PNC government may consider adopting a bipartisan approach with the NA led alternative government so we can help them fix up the mess" said Mr Ling-Stuckey.

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

15 September 2018



Markets

# Papua New Guinea Mulls Debut Dollar Bond at 'Peculiar' Time

By [Carrie Hong](#), [Narae Kim](#), and [Matthew Burgess](#)

September 4, 2018, 3:03 PM GMT+10 Updated on September 4, 2018, 9:03 PM GMT+10

- ▶ Sovereign to meet buyers in Asia, Europe and U.S. from Sept. 5
- ▶ It needs to offer "sizeable" premium to get deal done: Nomura

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One of Asia's poorest nations may be about to test the nerves of dollar bond investors in the region at a fraught time, just as concerns about trade and emerging-market contagion mount.

Papua New Guinea is set to [meet investors](#) [from Wednesday](#) for a possible note offering in the U.S. currency, according to a person familiar with the matter. Proceeds of \$500 million to \$1 billion are expected by the end of September from the inaugural sovereign bond, according to a [budget strategy paper](#) dated Aug. 29. The southwest Pacific nation has considered dollar debt offerings [since at least 1999](#).

"With EM sentiment still quite fragile, this seems like a rather **peculiar time to bring a low-rated debut issue to the market,**" said Nicholas Yap, a desk analyst at Nomura International (HK) Ltd. in Hong Kong. **"We believe PNG will have to offer investors a sizeable premium to get any deal done."**

**A call to Papua New Guinea's Department of Treasury general line went unanswered and no one was immediately available when the central bank was called.**

The bond "will assist in funding the Government's fiscal needs over the 2018-20 period and facilitate a restructuring of the domestic debt market to lower interest costs and risks and assist in easing the foreign exchange imbalance," according to the budget strategy paper.

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## Papua New Guinea seeks second chance for dollar sovereign bond

Julia Fioretti, Jonathan Barrett

3 MIN READ



HONG KONG/SYDNEY (Reuters) - Officials from Papua New Guinea (PNG) will meet investors this week to promote a dollar bond offering of at least \$500 million, its second attempt in two years to tap international markets.

PNG has picked Credit Suisse [CSAG.UL] as global coordinator and Citigroup (C.N) and Credit Suisse as joint lead managers and bookrunners, people familiar with the bond offer said.

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PNG plans to sell five- and 10-year notes rated a **sub-investment grade B** by Standard & Poor's and expected to be rated B2 by Moody's.

**S&P said in a statement its rating reflected "structural constraints inherent in a lower-middle-income economy dependent on extractive industries and served by weak institutions, restricted monetary policy flexibility, and increased government debt".**

Meetings with investors will begin in Singapore on Wednesday before continuing to Hong Kong, London and the United States.



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## 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 <b>UNDER-SUBSCRIBED</b> by	K0.000	K0.000	K0.000	K93.610	K79.720	K86.830	K72.940

## SSA - SOVEREIGNS/SUB-SOVEREIGNS

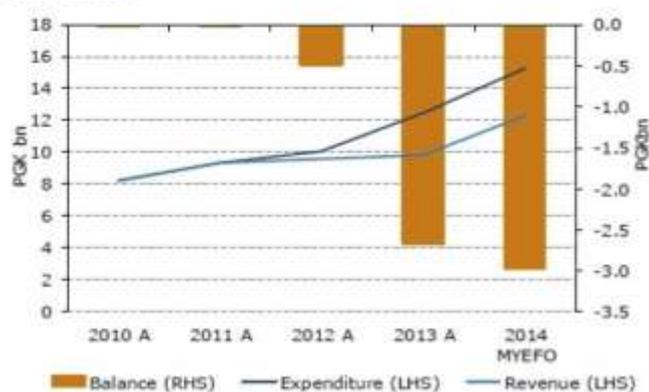
### Time is ripe for PNG to issue sovereign bond: ANZ

A dollar denominated sovereign bond could be a viable way for the government of Papua New Guinea (PNG) to get around growing constraints on its ability to finance deficit spending, according to ANZ. And declining yields over recent years for similarly rated sovereigns mean PNG should be able to issue at attractive rates.

By Isabella Zhong 26 Aug 2014

In its recent mid-year economic and fiscal outlook, PNG expects its fiscal deficit (see figure 3) for 2014 to land at 6.9% of GDP, one percentage wider than the 5.9% initially forecasted in the government's budget.

**FIGURE 3: PNG EXPENDITURE, REVENUE AND BALANCE**



Sources: ANZ Research, PNG Treasury; A=Actual

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## News Analysis: PNG needs structural changes before sovereign bond issuance

Source: Xinhua 2016-06-30 10:48:27



by Matt Burgess

SYDNEY, June 30 (Xinhua) -- Papua New Guinea needs to devalue its currency and undertake structural changes within its economy to get the highest value of its first sovereign bond issuance that's needed to alleviate foreign exchange shortages, said economic watchers.

Papua New Guinea (PNG) has been shopping for buyers of a potential new sovereign bond fund in Boston, New York and London to raise one billion U.S. dollars after it failed to obtain a loan from the World Bank to help contain its economic problems due the petrodollar downturn.

The central government claims they have 1.6 billion U.S. dollars in reserve, enough to cover 9 months of imports, however the International Monetary Fund (IMF), which uses a different measuring method, said it will cover just three.

The IMF has been working with PNG to review its debt management strategy over the medium term, such as rolling short-term debt into longer dated bonds, however systemic issues in the PNG economy need addressing, rather than a stopgap measure likened to a "Band-Aid".

"PNG should have gone out with these bonds two years ago, that was the initial plan (in 2013)," Paul Flanagan, a former senior Australian and PNG treasury official told Xinhua.

"That would have been a balanced way with trying to deal with very, very large deficits."

### **CHANGES URGENTLY NEEDED**

PNG needs to decrease the value of its currency before the bond issuance to give more money for core health and education spending, but also address underlying problems in their budget and balance of payments, analysts said.