



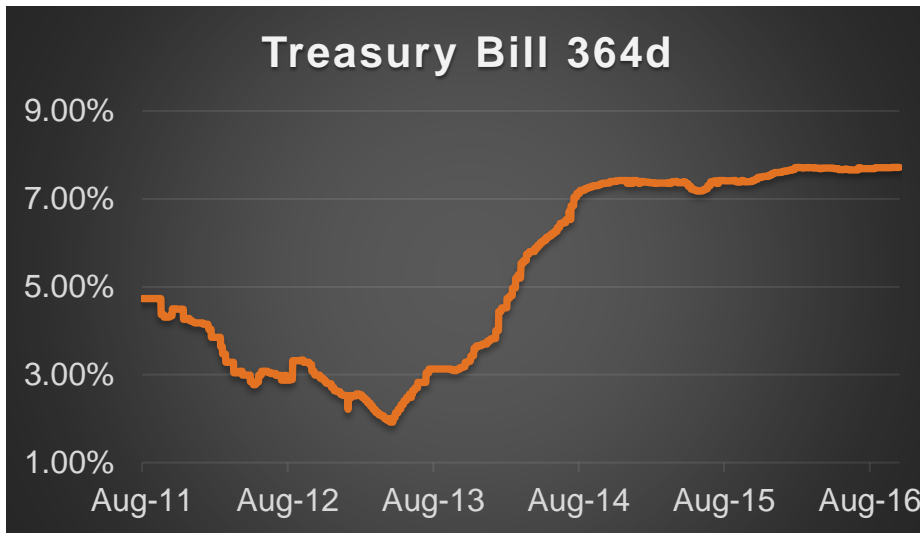
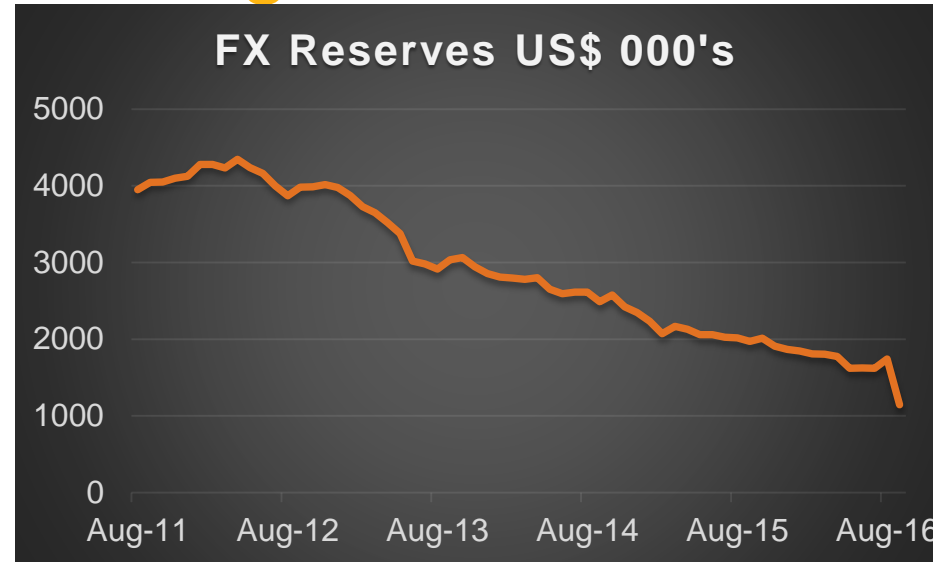
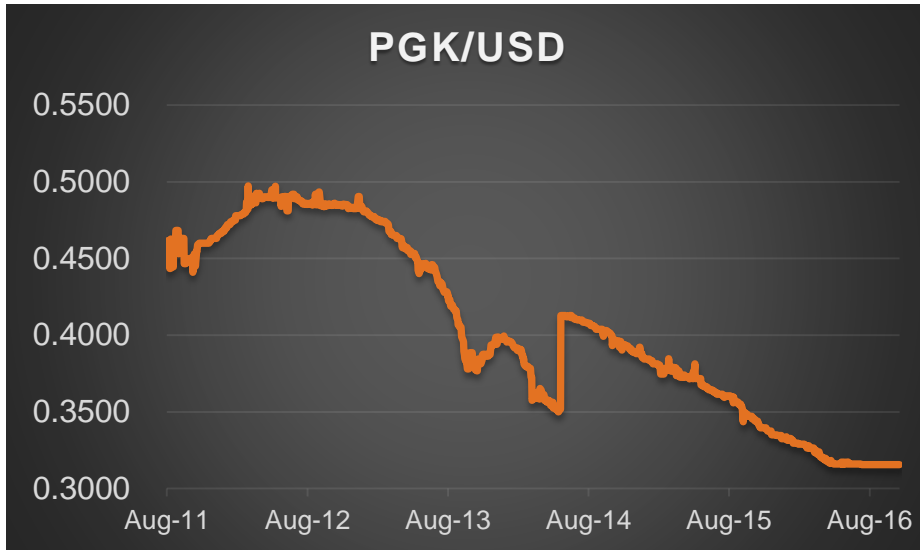
Financial Market Review : Market drivers and the need for more integration



PGK Market : Key Facts

- Regime : Managed float. The currency level is allowed to move freely vs the USD from day to day and the market level is influenced by the Central Bank who can participate in the market through FX intervention and implementing market trading rules to ensure an 'orderly' market.
- Trading Band : Implemented in June 2014, the Trading Band limits the margins that Authorised Foreign Exchange Dealers (AFEDs) can charge on trading PGK against USD, AUD, NZD, HKD, GBP, JPY and EUR.
- PGK Interbank Market : Interbank market for AFEDs to buy and sell PGK/USD with each other and BPNG. The market is operated by BPNG with AFEDs placing orders with BPNG to buy and sell. The closing rate is the last traded level or the last market moving order placed into the market for that day.

PNG Financial Market Linkages



Why so much volatility?

- PGK is very much a 'commodity currency' and therefore susceptible to:
 - Commodity price fluctuations
 - Operational or Event risks in the handful of key commodity producing operations. We estimate that the Top 10 exporters would provide approx. 60% of the currency coming into the local FX market.
- FX Market a driver of domestic liquidity and interest rates.
 - Appreciating currency leads to PGK liquidity boost and therefore places downward pressure on borrowing costs. Depreciating currency has the opposite effect.
 - So in a declining commodity environment, the Govt tends to increase it's borrowing activity at the same time as liquidity is being sucked out via the FX market.

How can we 'buffer' FX volatility

- Diversify the economic base
 - Trade and Industry Policies to support sectors that will drive export growth and promote import replacement.
 - Continued investment in infrastructure to reduce production costs
 - Investment in human capital and supporting innovation
- Increase Financial Market Integration
 - Improve the ability to attract foreign financial capital as way of buffering domestic market imbalances.
 - This requires development in key areas of the local capital market

PNG Debt Capital Market Overview

✓ **Primary Market**

- Regular issuances of Government and Central Bank paper across a range of benchmark terms.
- Ability for retail investors to participate via the Tap Facility
- Sound level of transparency of pricing and auction results as well as regular communication from issuer to investors (Treasury Debt Investor Presentations, Issuance Plans etc)

❖ **Secondary Market**

- Very limited
- Secondary trades can be done but through a manual process of lodging of physical Transfer of Ownership forms with the Registry (BPNG).
- Requirement for automated clearing and settlement as well as a Central Securities Depository.

❖ **Legislative Framework**

- Loans & Securities Act 1960 and T-Bills Act 1974.
- Capital Market Act 2015, Securities Commission Act 2015 and Central Depository Act 2015.
- Further technical issues need to be addressed, particularly in terms of the regulatory obligations of a Foreign Financial Investors (tax, registration etc)

Thank You!