

Annex 1: Terms of Reference



INDEPENDENT STATE OF PAPUA NEW GUINEA

REVIEW OF THE CENTRAL BANKING ACT 2000

The Treasurer, in consultation with the Prime Minister and the Ministerial Economic Committee of the National Executive Council, has decided it is timely to have a review of the Central Banking Act 2000. The objective is to modernise the Central Banking Act 2000 in line with international developments over the last 20 years while continuing to ensure the independence of the central bank in line with international norms.

The review will benefit from the advice of an Independent Advisory Group. An Independent Advisor Group was similarly established by the late Sir Mekere Morauta when looking at the changes that led to the Central Banking Act 2000. The Independent Advisory Group will be chaired by Robert Igara, Chancellor at the University of Papua New Guinea, and formerly Chief Secretary when the Central Banking Act was introduced in 2000. Other members of the Independent Advisory Group will include the former Governor of the Bank of Papua New Guinea from 1999 to 2009, Sir Wilson Kamit. Professor Stephen Howes, Head of the Development Policy Centre at the Australian National University, and a good friend of PNG through its linkages with the University of Papua New Guinea and his support for the Femili group fighting domestic violence, will also be a member of the Group.

The Independent Advisory Group will be supported by a Technical Support Group consisting of equal numbers of Treasury and BPNG staff, support from Justice and Attorney General's and broader support from the IMF. Specific technical assistance will also be sought from bilateral sources.

This will be an important review, so it is vital that there is wide consultation, strong communication and that the review draws on best international practice for countries in similar circumstances to PNG.

Terms of Reference

The review will be in two stages. The first stage is to report in mid-July for possible legislative changes in the August sitting of Parliament, and the second stage to report in early October for the November sitting of Parliament.

The specific Terms of Reference for the first stage of the review focus on the following five elements:

1. Review whether the objectives of the Central Banking Act 2000 give adequate priority to the growth and development of PNG, and in managing national economic crisis (Section 7);
2. Review the current economic in particular monetary policy governance and management mandate of the central bank, including whether the Board or another similar body should have responsibility under the Act for determining monetary policy, (sections 7-14 focusing on section 10);
3. Review the current arrangements around advances and financing to the government by the Central Bank, including a review of the TAF and options around quantitative easing options during a declared emergency (focus on Section 55)
4. Review the institutional governance and management of the Central Bank whether there is a need for strengthened accountability and transparency, and management performance and terms, in line with international norms (sections 15-36, and sections 42-50 with potentially new sections); and
5. Recommend from the findings and conclusions under TOR 1-4 critical strategic issues requiring in-depth analysis and development - this will form the basis of the TOR for the second stage of the review and cover broader issues of regulation of the financial system, actions to encourage competition, and follow-on work in light of the recent Financial Sector Reform review.

The Independent Advisory Group will consult and agree with the Minister for Treasury on the specific expected outcomes and the work schedule under Phase I of the TOR, in particular those recommendations which will require legislation and Parliamentary approval in 2021.

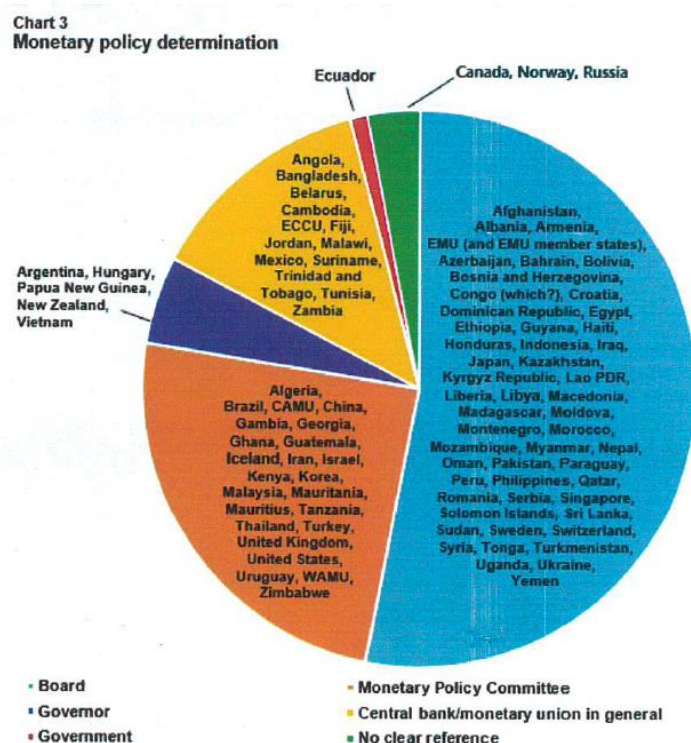
Background

The COVID-19 crisis has highlighted that PNG does not have the same flexibility as many other nations to respond to national emergencies. PNG has fallen behind international best practice in being able to access monetary policy instruments to support a country in a declared emergency. Changes were made in the context of the

2020 Budget to provide greater cash management flexibility within the year and PNG is now benefitting from this reform through early payment of school fees and more support through the development budget - such as for Bougainville - than was previously possible.

However, other monetary options to support the economy in the on-going COVID-19 crisis, with a revenue shortfall of over K2 billion still expected in 2021, are available to other countries but not PNG. The review will be asked to review both the form and level of the Temporary Advance Facility, as well as other Quantitative Easing options including the possibility of direct financing of the budget as is done in many other countries (such as Australia, New Zealand, Singapore, Indonesia and the Philippines).

One very unusual feature of PNG's Central Banking Act is that the Governor is given sole power to determine monetary policy. In 2018, there were only five countries in the world that did this (shown in purple in graph below). Since 2018, New Zealand has moved the power to a Monetary Policy Committee. The majority of countries in the world have their Central Bank Board make monetary policy, followed by a Monetary Policy Committee. The terms of the bank's senior management are also lengthy relative to international norms.



Source: IMF staff calculations.
 Note: CAMU = Central African Monetary Union; ECCU = Eastern Caribbean Currency Union; EMU = European Monetary Union; and WAMU = West African Monetary Union.

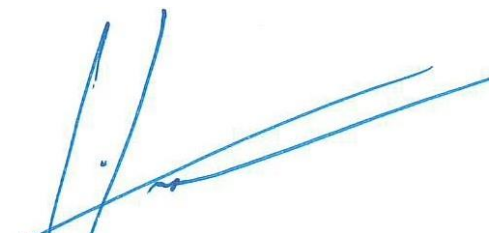
BPNG's accountability and transparency arrangements are also very limited in comparison to international standards. Specifically and given its unique role which reach beyond Papua New Guinea, and the need to provide assurance to international partners, the governance and audit function require compliance with international best practice and standards. Similarly, there is a wider lack of transparency around the Board and its deliberations, and a lack of account ability on its annual budget. These require a review of the scheme of governance adopted some 20 years ago under the *Central Bank Act 2000*. BPNG has recognised this and is undertaking a corporate governance review, and early result s of that work will be built into this review process but not supercede this higher level review.

There is a broader range of matters that should also be considered by the review - aimed at ensuring the central bank has the appropriate legislation to fulfill its functions especially in light of rapidly changing technologies, as well as challenges around some elements of global financing flows (such as anti-money laundering actions).

Any changes to the Central Banking Act 2000 will be through Parliament. This becomes the ultimate test point to ensure the changes are in the best interests of PNG. As part of this process, the changes will also need to go through the National Executive Committee after vetting by the Central Agencies Co-ordinating Committee as well as the State Solicitor. The Treasurer, as the responsible Minister, will take forward any recommended changes to NEC drawing on the advice of the Independent Advisory Group and its Technical Assistance Group. There will be broad inputs to the review.

Consultation will be an important part of the review. This will include consultation with SMEs, larger firms, exporters and importers, consumer groups as well as key government institutions such as the ICCC on issues such as maintaining both competitiveness and stability in the banking system.

The processes of the review also need to be transparent. A website is proposed to cover the considerations of the review, along with regular updates to the public and Parliament.



Hon Ian Ling-Stuckey, CMG. MP

Minister for Treasury
13 May 2021