Chapter 2. Governance, accountability and transparency

Under this heading, we “[r]eview 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).” We also “[r]eview 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).” These items are reviewed together because of their substantial overlap.

Sound governance, robust accountability and strong transparency are desiderata for all public-sector entities, especially a central bank. Looking at BPNG, critical weaknesses have emerged that require addressing. The biggest governance problem arises from the vesting of significant power and authority in a single office and therefore person, the Governor. Consequently, an individual-based rather than a collegial-based approach has been taken to decision making, which is out of line with international practice, and has weakened oversight and accountability. Shifting to a more collegial approach, while not undermining the authority of the Governor, is the biggest change we recommend. A number of other reforms are also put forward to strengthen BPNG independence and improve governance, accountability and transparency.

We begin by examining the role of the Governor (Chapter 2.1). We recommend the creation of a Monetary Policy Committee (MPC). Chapter 2.2 looks at some relevant international MPC models, and Chapter 2.3 examines detailed design options for PNG. We then examine the role of the Board (Chapter 2.4), the role of Government (Chapter 2.5), issues relating to accountability and transparency (Chapter 2.6), and, finally, management performance (Chapter 2.7).

2.1 The role of the Governor

Under the current legislation, the Governor is responsible for monetary policy and financial sector regulation. The latter topic is postponed to the second phase of the review, and the focus of this section is on monetary policy. We consider alternative arrangements in subsection (a) and argue in favour of a Monetary Policy Committee, an argument which is further developed in Chapters 2.2 and 2.3. Subsection (b) looks at the role of the Governor as the Chair of the Board, (c) at the term of the Governor, and (d) at the term of the Deputy Governors.

(a) Responsibility for monetary policy

Section 10 of the CBA clearly vests responsibility for monetary policy with the Governor, saying that “[i]t is the duty of the Governor to formulate and implement monetary policy”. Section 26 on the functions of the BPNG Board states that “the Board of the Central Bank is responsible for determining the policies of the Central Bank, other than the formulation and implementation of monetary policy and the regulation of the financial system which shall be
the responsibility of the Governor.” Section 16(2) also gives untrammelled authority to the Governor with regards to the Central Bank within the constraints of the Act:

The Governor has the authority to exercise the Central Bank’s powers for the purposes of achieving the objectives and functions of this Act and implementing the policies of the Central Bank.

BPNG is unusual in this regard. According to the IMF (see Figure 1 below), only four other countries give responsibility for monetary policy to their central bank governor: Argentina, Hungary, Vietnam and New Zealand. New Zealand has recently changed its approach, and has now transferred powers from the Governor to a Monetary Policy Committee. That leaves only three countries – Argentina, Hungary, Vietnam – none of which is an appropriate role model for PNG.

Figure 1. Responsibility for monetary policy determination by central bank entity

The Bank for International Settlements (BIS) 2009 survey of central bank governance (Issues in the governance of central banks) notes that “an increase in the delegation of power to the central bank has often been accompanied by a move to group decision making.” (p.2)

The BIS Survey goes on to note that: “Collegial decision-making is a hallmark of modern central banking that both augments the independence of the decision-making process and enhances the quality of decision. In the vast majority of the world’s central banks, board or committees are responsible for making policy decisions.” (p.3)
Having a more collective approach would be of benefit to BPNG since it would, again to quote from BIS, “permit a wider range of perspectives to be brought to bear, which adds to the legitimacy and credibility of the central bank decisions....” (p.3)

Given some of the BPNG decisions over recent years – whether relating to transparency (Chapter 2.6), deficit financing (Chapter 3.2) or exchange rate policy (Chapter 5.1) – such an increase in “legitimacy and credibility” would be welcome, and indeed is needed. A more contestable process would give greater confidence that the decisions taken by BPNG are appropriate, and have been arrived at through a robust process in which proper analysis, valid criticisms and alternative points of view have been given due weight.

Although BPNG does have a Monetary Policy Committee (MPC), it is constituted entirely by Bank staff, who report to the Governor. The IMF in its 2004 survey (Central bank governance: a survey of boards and management) recommends that any MPC should have external members: “Monetary policy committees, for instance, may be used as an avenue to include external members to ensure a balanced view.” (p.40)

Consideration should be given to BPNG moving towards a more collegial approach to monetary policy determination since, based on global experience, this would enhance its independence and integrity and the quality of its decisions. Under any such model, although the concentration of power in the Governor would be reduced, s/he would still have significant leadership and responsibility in decisions on monetary policy.

There are two options: one is that monetary policy should be the responsibility of the Board; the other that it would become the responsibility of a specialised MPC (on which BPNG staff and/or management as well as external members would be included).

There are several reasons why we favour the MPC model.

- First, the Board as a whole might lack the technical expertise required.

- Second, giving the responsibility to an MPC would leave the Board to focus on its oversight role. Indeed, with this option, the Governor would no longer need to be chair of the Board, making it easier for the Board to play that oversight role (as discussed further below in Chapter 2.4).

- Third, the MPC model builds on BPNG’s own approach: there already is an MPC; the challenge now is to strengthen it.

- Fourth and finally, the MPC model is consistent with recent global trends. While, as can be seen from the figure above, the majority of countries still entrust monetary policy to the Board, as a recent IMF report notes:

> Following the example of the Bank of England, there has been a recent trend, as part of a broader endeavour to increase autonomy, to shift monetary policy formulation away to a specialized committee that is fully vested with the
power to take monetary policy decisions. ²

While we favour the MPC option, detailed questions arise as to the design of the MPC. Many questions have to be answered, regarding membership, modes of operation, and so on. While we draw on global experience, Malaysia and New Zealand are particularly attractive options for PNG to consider. New Zealand is an example of a country that has very recently moved from a model in which the Governor has responsibility for monetary policy to one in which that responsibility is shifted to an MPC; and Malaysia is an example of a country that has moved from an internal to a legislated MPC. These two models are considered further in the next section (Chapter 2.2) before the detailed design issues are thrashed out in Chapter 2.3. In the remainder of this section, we consider other aspects relating to the role of the Governor.

While consideration of detailed design is deferred until subsequent sections, we want to clarify at the outset that the Governor would provide leadership in monetary policy as Chair of the MPC. The idea of the MPC is thus not to displace the Governor from his or her key role, but rather to introduce contestability and collegiality as another element to balance that leadership role.

Note also that similar issues arise in relation to financial stability and development, where similar arguments could be mounted that a more collegial approach would be healthy. However, such consideration is deferred until the second phase of this review.

(b) Role of Governor as Chair of the Board

The Governor is (effectively) the Chair of the Board. Section 32(2) of the CBA states that “At a meeting of the Board, the Governor, or in his absence a Deputy Governor designated by the Governor shall preside.” Given that the Board is not responsible for either monetary policy or financial regulation (as per Section 26), the BPNG Board is a “supervisory Board” in the words of the 2004 IMF survey (p.23). The IMF recommends that in such a case the Governor should not be the Board chair (p.26). We consider this issue further in Chapter 2.4, where we consider the role of the Board.

(c) Term of appointment

The 2009 BIS Survey shows international practice in relation to the terms of the central bank governors (see the table below, extracted from it). Two-thirds of countries surveyed have a five-to-six-year term for their central bank governor. The BPNG Governor term is for five-to-seven years (Section 15(1)(b)), but in practice the Governor has been appointed since the passage of the CBA for seven-year terms. This is on the long side. A longer term promotes independence, but may undermine accountability, given the undesirability of removing a Governor. An advantage of a seven-year term in the PNG context is that it is not the same as the electoral cycle of five years.

The BPNG Governor cannot be appointed for more than two terms, and therefore for more than 14 years (Section 15(1)(c and d)).

Consideration should be given to a shorter term. 14 years is a very long time. It provides stability, but may lead to complacency. We suggest consideration be given to replace seven by six years as the maximum for a single term, and 12 years as the maximum. We also suggest that no minimum tenure is required for the second term, since this will give added flexibility – e.g., if it is thought that a Deputy Governor will take over (the most common succession pathway), and bearing in mind the term limits we propose to introduce for the position of Deputy Governor (see below).

(d) Deputy Governor

Under current arrangements, at least one and up to two Deputy Governors can be appointed by the Governor for an unlimited number of five-year terms. The Deputy Governor(s) currently serve on the Board, and the (internal) Monetary Policy Committee. Consideration should be given to a term limit, for example, two terms. Having longer than a two term limit might mean inadequate refreshing of the Bank’s senior leadership. We also propose that the appointment of the Deputy Governors become a Board responsibility. This would ensure shared responsibility and internal contestability in decision-making.

2.2 The Monetary Policy Committee (MPC): different models

This section highlights international experience with MPCs, drawing on the Malaysian and New Zealand experience. It also highlights relevant experience in PNG from the Independent Consumer and Competition Commission. Drawing on the above models, the best model for PNG can be selected.

(a) Malaysian MPC

Malaysia has had an MPC since 2002. It began as an internal committee but was given legislative foundations in the Central Bank of Malaysia Act 2009. This Act gives the MPC “responsibility for formulating the monetary policy and the policies for the conduct of monetary policy operations” (Section 23(1)). Under the Malaysian model, a Governance Committee of the Central Bank Board has responsibility for nominating members for the MPC. MPC members may be Board members, Bank staff, or outsiders. They are appointed for a

---

3 See overview here.
term of three years, with eligibility for reappointment. The Governor and three Deputy Governors are automatically members (the Governor is the chair), and there are at most another seven members on the MPC (so at most 11). Currently, there are two external members (prior to 2015 there were none), and a total of seven members. When nominating someone, the Governance Committee must be satisfied “that the person has the expertise and experience relevant to the responsibility and functions of the Monetary Policy Committee and be a person of probity, competence and sound judgment” (Section 23(5)). In 2012, the Monetary Policy Committee Code of Ethics and Conflict of Interests (Code) and an internal Framework for the Appointment of External Members for the Monetary Policy Committee (Framework) were put in place.

Malaysia’s MPC meets at least six times a year. Each meeting lasts for two days. Decisions are made by consensus. Following each meeting, the MPC issues a statement on “the decision made at the meeting and the rationale for such decision.”

(b) New Zealand MPC

New Zealand’s MPC was established in 2018 and is responsible for formulating monetary policy. It meets at least four times a year. Decisions are made by majority if needed (though so far no votes have been required). Records of each meeting are published. The Bank must also publish four reports on monetary policy every year; they must be approved by the MPC. In practice the quarterly statements and reports are combined. The MPC has five to seven members, including the Governor and two-to-three Bank officers (internal members), and two-to-three non-Bank officers (external members). Internal members must be a majority: currently there are four internal and three external members. Board members cannot be on the MPC. The Board must approve a code of conduct for the MPC, and the relevant Minister and MPC must agree on a charter. There is a Treasury observer on the MPC who is not a voting member. S/he has the same rights to attend and speak at meetings as members. Their role is to support decision making (for example, by sharing information on fiscal policy), and facilitate the coordination of fiscal and monetary policy. Internal members are appointed for up to two terms of up to five years each. External members are appointed for up to two terms of up to four years each. Members are appointed by the Minister on the basis of their knowledge and skills, and not to represent a particular sector. In practice, the MPC meets over five days, and the report and statement are produced at the end of the week of meetings.

(c) PNG Independent Consumer and Competition Commission (ICCC)

As the Kina Bank submission noted, the PNG Independent Consumer and Competition Commission Act 2002 established a Commission with a Commissioner and two part-time Associate Commissioners. One of the Associate Commissioners is required to (a) “have

---

4 Recent statements can be found here.
5 New Zealand’s MPC was created through the RBNZ (Monetary Policy) Amendment Act 2018. As discussed in Chapter 2.4, the RBNZ Act has subsequently been amended to strengthen the Bank’s Board. All of the New Zealand examples discussed in this report come from the most recent (2021) Act.
6 For a recent example, see here.
7 For more background, see here.
international experience in the operation and administration of an economic regulatory regime” and (b) “shall not be a resident of Papua New Guinea” (Section 11(3)). Such a precedent could be considered for the MPC.

2.3 MPC design issues

In setting out design recommendations for the MPC, we look to international experience (as per the previous section), but also try to build on PNG experience, including by building on the existing (internal) MPC and biannual Monetary Policy Statement (MPS). We try to keep arrangements manageable, bearing in mind the small size of the PNG economy.

Design issues are divided between the following topics: (a) MPC role; (b) MPC membership; (c) meeting arrangements; (d) reporting requirements; and (e) codes. A table in each subsection summarises the New Zealand and Malaysian arrangements as well as our recommendation for PNG.

(a) MPC role

The MPC would be responsible for formulating monetary policy. Beyond that, as per both the Malaysian and New Zealand legislation, the MPC would be responsible for deciding or establishing the approach by which the policy would be pursued. While the MPC would not be responsible for implementation of monetary policy, it should, we argue, oversee that implementation to ensure there is no gap between policy and implementation. This is important because, given the limited effectiveness of monetary policy in PNG, it is easy for such a gap to arise.

Table 2. MPC role: NZ and Malaysian models, and recommendations for PNG

<table>
<thead>
<tr>
<th>Issue</th>
<th>NZ</th>
<th>Malaysia</th>
<th>Recommendation for PNG</th>
</tr>
</thead>
<tbody>
<tr>
<td>Role</td>
<td>To formulate monetary policy including deciding the approach by which objectives to be achieved.</td>
<td>To formulate monetary policy, and establish general principles, guidelines, terms and conditions for monetary policy operations.</td>
<td>To formulate monetary policy, and oversee its implementation.</td>
</tr>
</tbody>
</table>

(b) MPC membership

A critical set of issues pertain to MPC membership.

The first concerns the size of the MPC. In New Zealand, it is five to seven (currently seven); in Malaysia, up to 11 (currently seven). Bearing in mind the small size of the PNG economy, we recommend a smaller MPC, with four members.

International practice is clear that the Governor should chair the MPC. We recommend that one of the Deputy Governors would also be a member of the MPC. In the Governor’s absence, that Deputy Governor would chair.

Should there be a predominance of internal members, as there is in New Zealand and Malaysia? In fact, looking more broadly at international examples, one can find a wide range
of approaches. As the table below shows, in some cases there is a majority of internal members, some where there is a majority of external, and some where there is a balance.

**Table 3. MPC membership around the world: total, internal and external**

<table>
<thead>
<tr>
<th>Country</th>
<th>Total members</th>
<th>Internal members</th>
<th>External members</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gambia</td>
<td>8</td>
<td>6</td>
<td>2</td>
<td>Assuming 2 DGs.</td>
</tr>
<tr>
<td>Ghana</td>
<td>7</td>
<td>5</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Greece</td>
<td>6</td>
<td>3</td>
<td>3</td>
<td>Externals based on Governor’s recommendation.</td>
</tr>
<tr>
<td>India</td>
<td>6</td>
<td>3</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Kenya</td>
<td>8</td>
<td>4</td>
<td>4</td>
<td>At least 2 of external members to be female.</td>
</tr>
<tr>
<td>Korea</td>
<td>7</td>
<td>3</td>
<td>4</td>
<td>1 external recommended by Governor.</td>
</tr>
<tr>
<td>Malaysia</td>
<td>7</td>
<td>5</td>
<td>2</td>
<td>Numbers reflect current status; max. membership 11; at least 4 internal members.</td>
</tr>
<tr>
<td>Mauritania</td>
<td>7</td>
<td>2</td>
<td>5</td>
<td>2 externals proposed by Governor.</td>
</tr>
<tr>
<td>Mauritius</td>
<td>8</td>
<td>3</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Mongolia</td>
<td>7</td>
<td>3</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>New Zealand</td>
<td>5-7</td>
<td>3-4</td>
<td>2-3</td>
<td>Internal members must be a majority.</td>
</tr>
<tr>
<td>Poland</td>
<td>10</td>
<td>1</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Tanzania</td>
<td>4</td>
<td>3</td>
<td>1</td>
<td>External is Board member; assuming 2 DGs</td>
</tr>
<tr>
<td>Thailand</td>
<td>7</td>
<td>3</td>
<td>4</td>
<td>4 externals appointed by Board.</td>
</tr>
<tr>
<td>Turkey</td>
<td>5</td>
<td>3</td>
<td>2</td>
<td>1 external a Board member.</td>
</tr>
<tr>
<td>UK</td>
<td>9</td>
<td>5</td>
<td>4</td>
<td></td>
</tr>
</tbody>
</table>

Source: IMF Central Bank Legislation Database. Note: External members appointed by government unless specified.

We recommend a balanced approach, with two internal members and two external. We would recommend that decision making be by consensus if possible, but by vote if necessary, with disagreements being recorded, and the Chair having the deciding vote. This would ensure that Bank management, and the Governor in particular, could not be overruled, while maximising contestability.

The two internal members would be the Governor and the Deputy Governor responsible for monetary policy. The two external members would be nominated by the Board. As per the ICCC model (2.2(c)), and reflecting the small size of the PNG economy, one of the two external members would be an international expert, non-resident in PNG.

The two external members would be selected on the basis of their knowledge, skills and character. Their selection would not be representational. There would, as for the Board, be bars on conflict of interest (e.g., a bar on MPs, supervised entities, public officers). (In general, restrictions on MPC membership, guarantees of independence and conditions for removal should parallel those of the Board.) There would be no citizenship requirement, and as mentioned one would be non-residential, and selected as an international expert, on the basis of their knowledge of central banking in developing countries. In New Zealand, MPC members cannot be Board members, but in Malaysia they can. As the Board would provide oversight of the MPC, we recommend against any external MPC member being appointed to the Board.

We would suggest, as per the New Zealand model, a maximum of two four-year terms for the external members.
We recommend that, as per the New Zealand model, there be a Treasury observer, nominated by the Treasury Secretary, who has the same right to attend and speak as any other MPC member, but who has no right to vote (or to have their view incorporated in any consensus decision). As per the New Zealand model, the function of the Treasury observer is to facilitate the coordination of and information sharing in relation to monetary and fiscal policy.

Table 4. MPC membership: NZ and Malaysian models, and recommendations for PNG

<table>
<thead>
<tr>
<th>Issue</th>
<th>NZ</th>
<th>Malaysia</th>
<th>Recommendation for PNG</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total membership size</td>
<td>5-7 (currently 7)</td>
<td>Up to 11 (currently 7)</td>
<td>4</td>
<td>Bearing in mind small size of PNG economy.</td>
</tr>
<tr>
<td>Chaired by?</td>
<td>Governor (Deputy in Governor’s absence)</td>
<td>Governor (Deputy in Governor’s absence)</td>
<td>Governor (Deputy in Governor’s absence)</td>
<td></td>
</tr>
<tr>
<td>Internal members have majority?</td>
<td>Yes</td>
<td>Yes</td>
<td>Balanced (with Chair having the deciding vote)</td>
<td>Maximum contestability without prospect of management being overruled.</td>
</tr>
<tr>
<td>Other ex officio</td>
<td>Deputy Governor (1)</td>
<td>Deputy Governor (3)</td>
<td>Deputy Governor (1)</td>
<td></td>
</tr>
<tr>
<td>Other internal members</td>
<td>1-2</td>
<td>Up to 3, but may also be external members; currently 1.</td>
<td>None</td>
<td>Consistent with our balanced model.</td>
</tr>
<tr>
<td>External members required?</td>
<td>2-3</td>
<td>Up to 3, but may also be internal members; currently 2.</td>
<td>2</td>
<td>Consistent with our balanced model.</td>
</tr>
<tr>
<td>International external member required?</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Recommend applying the ICCC rule.</td>
</tr>
<tr>
<td>External members appointed by?</td>
<td>Minister; and gazetted.</td>
<td>Minister on the advice of the Board (on the recommendation of the Governance Committee).</td>
<td>Board (on the recommendation of the Governance Committee).</td>
<td>Board selection would reduce risk of political interference.</td>
</tr>
<tr>
<td>Basis of selection</td>
<td>Knowledge and skills; not representational; cannot be Board member.</td>
<td>Expertise and experience; probity, competence and sound judgement. Cannot be MP, director of supervised entity, convicted of criminal offence, bankrupt, public officer. Must be Malaysian citizen. May be a Board member</td>
<td>Knowledge, skills and character; not representational; bars on conflict of interest (e.g. bar on MPs, supervised entities, public officers). May be a Board member. No citizenship requirement.</td>
<td>Bearing in mind small size of PNG economy.</td>
</tr>
</tbody>
</table>
(c) Meeting arrangements

We now turn to meeting arrangements. We recommend that the MPC tie its meetings to the biannual Monetary Policy Statement (MPS), and therefore convene at least twice per year, with additional meetings to be held if an MPC member deems it necessary, and members to be kept informed on a regular basis. Note that convenings related to the MPS would typically involve more than a single meeting. In New Zealand, each convening involves a week of meetings. While the meeting schedule would not be set out in the legislation (rather in the MPC charter – see subsection (e) below), the New Zealand meeting schedule, shown below, is a useful guide.

Table 5. New Zealand MPS meeting schedule

<table>
<thead>
<tr>
<th>Monday</th>
<th>Tuesday</th>
<th>Wednesday</th>
<th>Thursday</th>
<th>Friday</th>
<th>Monday</th>
<th>Wednesday</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff present recent developments, issues, and risks</td>
<td>Staff present</td>
<td>MPC discuss risks and external messages</td>
<td>MPC discuss strategy and tactics</td>
<td>MPC decide on strategy and tactics</td>
<td>MPC finalise risks and external messages</td>
<td>MPC decide level and direction of policy instrument</td>
</tr>
<tr>
<td>Information pooling (Staff as presenters)</td>
<td>MPC deliberations (Staff as advisers)</td>
<td>MPC decisions (Staff not present)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: RBNZ.

The same Reserve Bank of New Zealand document usefully notes:

This internal decision timetable may be changed as needed to accommodate the availability of MPC members, public holidays, and other relevant factors. MPS release dates and times are fixed (except in extreme circumstances) and published on the RBNZ website at least a year in advance.
This process and timetable uphold the decision-making and communication requirements of the MPC which are specified in the MPC charter. In particular, the charter requires the MPC to produce a summary record of meetings after each policy review, and for this to be accompanied by a Monetary Policy Statement (MPS) on a quarterly basis. The production of these two documents has been incorporated into the process timetable.

The MPS contains the MPC’s views on the economic outlook and risk environment. As background to the policy decision, the MPS is drafted after the information-pooling phase and finalised two days before the policy announcement. The first chapter of the MPS, which is the same as the media release, contains the policy decision and MPC’s view on the key current risks that need to be emphasised. This chapter is inserted on the day of the announcement.

The summary record of meeting is a record of the decision meetings. It captures the diversity of views that were presented during the discussion. Along with the media release, this summary is finalised on the day of the policy decision.

We have already mentioned that decision making should be by consensus if possible, and by vote if necessary, with disagreements being recorded.

There would be a quorum of three, which would ensure at least one internal and one external member.

Virtual meetings would be allowed, and there would be provision for additional meetings to be held by unanimous resolution.

Table 6. MPC meeting arrangements: NZ and Malaysian models, and recommendations for PNG

<table>
<thead>
<tr>
<th>Issue</th>
<th>NZ</th>
<th>Malaysia</th>
<th>Recommendation for PNG</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum number of times convened</td>
<td>4 per year; may also make decisions by unanimous resolution.</td>
<td>6 per year; written resolutions not allowed if not discussed at meeting.</td>
<td>Twice per year; may also make decisions by unanimous resolution.</td>
<td>Bearing in mind small size of PNG economy; building on existing twice-yearly MPS.</td>
</tr>
<tr>
<td>Decision making by vote or consensus</td>
<td>By vote if necessary; normally by consensus; chair has casting vote.</td>
<td>By consensus.</td>
<td>By consensus if possible; by vote if necessary (with Chair having deciding vote); differences of opinion between voting members to be recorded.</td>
<td></td>
</tr>
<tr>
<td>Quorum provisions</td>
<td>At least 2 internal and 1 external, including Governor or Deputy Governor.</td>
<td>Two-thirds, including Governor or Deputy Governor.</td>
<td>3 (so at least 1 internal and 1 external).</td>
<td></td>
</tr>
</tbody>
</table>
### (d) Reporting requirements

The main reporting mechanism for the MPC would be the bi-annual Monetary Policy Statement (MPS). The MPS would be issued after each convening (series of meetings), and would include a meeting report, noting any disagreements. Having the meetings spread over several days allows a report to be produced at the end of the series of meetings, without putting pressure on the MPC to reach agreement immediately and to minimise differences that need to be worked through.

New Zealand also requires a five-yearly report which must “review and assess the formulation and implementation of monetary policy”. This would be a good opportunity for longer-term reflection and for addressing issues that might get summary treatment or be neglected altogether in the six-monthly reports. In the New Zealand case, this is a responsibility of the Bank, which is obliged to consult with the MPC on a draft, but, given the expertise required, we recommend that this report be a responsibility of the MPC.

### Table 7. MPC reporting arrangements: NZ and Malaysian models, and recommendations for PNG

<table>
<thead>
<tr>
<th>Issue</th>
<th>NZ</th>
<th>Malaysia</th>
<th>Recommendation for PNG</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Virtual meetings allowed?</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>(d) Reporting requirements</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The main reporting mechanism</td>
<td>The main reporting mechanism for the MPC</td>
<td>The main reporting mechanism for the MPC</td>
<td>The main reporting mechanism for the MPC</td>
<td></td>
</tr>
<tr>
<td>for the MPC would be the bi-annual Monetary Policy Statement (MPS).</td>
<td>would be issued after each convening (series of meetings), and would include a meeting report, noting any disagreements. Having the meetings spread over several days allows a report to be produced at the end of the series of meetings, without putting pressure on the MPC to reach agreement immediately and to minimise differences that need to be worked through.</td>
<td>would be issued after each convening (series of meetings), and would include a meeting report, noting any disagreements. Having the meetings spread over several days allows a report to be produced at the end of the series of meetings, without putting pressure on the MPC to reach agreement immediately and to minimise differences that need to be worked through.</td>
<td>would be issued after each convening (series of meetings), and would include a meeting report, noting any disagreements. Having the meetings spread over several days allows a report to be produced at the end of the series of meetings, without putting pressure on the MPC to reach agreement immediately and to minimise differences that need to be worked through.</td>
<td>would be issued after each convening (series of meetings), and would include a meeting report, noting any disagreements. Having the meetings spread over several days allows a report to be produced at the end of the series of meetings, without putting pressure on the MPC to reach agreement immediately and to minimise differences that need to be worked through.</td>
</tr>
<tr>
<td>New Zealand also requires a five-yearly report which must “review and assess the formulation and implementation of monetary policy”. This would be a good opportunity for longer-term reflection and for addressing issues that might get summary treatment or be neglected altogether in the six-monthly reports. In the New Zealand case, this is a responsibility of the Bank, which is obliged to consult with the MPC on a draft, but, given the expertise required, we recommend that this report be a responsibility of the MPC.</td>
<td>would be a good opportunity for longer-term reflection and for addressing issues that might get summary treatment or be neglected altogether in the six-monthly reports. In the New Zealand case, this is a responsibility of the Bank, which is obliged to consult with the MPC on a draft, but, given the expertise required, we recommend that this report be a responsibility of the MPC.</td>
<td>would be a good opportunity for longer-term reflection and for addressing issues that might get summary treatment or be neglected altogether in the six-monthly reports. In the New Zealand case, this is a responsibility of the Bank, which is obliged to consult with the MPC on a draft, but, given the expertise required, we recommend that this report be a responsibility of the MPC.</td>
<td>would be a good opportunity for longer-term reflection and for addressing issues that might get summary treatment or be neglected altogether in the six-monthly reports. In the New Zealand case, this is a responsibility of the Bank, which is obliged to consult with the MPC on a draft, but, given the expertise required, we recommend that this report be a responsibility of the MPC.</td>
<td>would be a good opportunity for longer-term reflection and for addressing issues that might get summary treatment or be neglected altogether in the six-monthly reports. In the New Zealand case, this is a responsibility of the Bank, which is obliged to consult with the MPC on a draft, but, given the expertise required, we recommend that this report be a responsibility of the MPC.</td>
</tr>
<tr>
<td>(e) Codes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guidance is needed on how the MPC should operate, how any conflicts of interest are to be handled, and what the more detailed transparency requirements should be. Both New Zealand and Malaysia have a code of conduct for their MPCs. New Zealand has a charter as well. We recommend a single charter, which would cover such things as expectations regarding conduct of MPC members (including management of conflict of interest), detailed meeting and reporting requirements, confidentiality requirements, and so on.</td>
<td>Guidance is needed on how the MPC should operate, how any conflicts of interest are to be handled, and what the more detailed transparency requirements should be. Both New Zealand and Malaysia have a code of conduct for their MPCs. New Zealand has a charter as well. We recommend a single charter, which would cover such things as expectations regarding conduct of MPC members (including management of conflict of interest), detailed meeting and reporting requirements, confidentiality requirements, and so on.</td>
<td>Guidance is needed on how the MPC should operate, how any conflicts of interest are to be handled, and what the more detailed transparency requirements should be. Both New Zealand and Malaysia have a code of conduct for their MPCs. New Zealand has a charter as well. We recommend a single charter, which would cover such things as expectations regarding conduct of MPC members (including management of conflict of interest), detailed meeting and reporting requirements, confidentiality requirements, and so on.</td>
<td>Guidance is needed on how the MPC should operate, how any conflicts of interest are to be handled, and what the more detailed transparency requirements should be. Both New Zealand and Malaysia have a code of conduct for their MPCs. New Zealand has a charter as well. We recommend a single charter, which would cover such things as expectations regarding conduct of MPC members (including management of conflict of interest), detailed meeting and reporting requirements, confidentiality requirements, and so on.</td>
<td>Guidance is needed on how the MPC should operate, how any conflicts of interest are to be handled, and what the more detailed transparency requirements should be. Both New Zealand and Malaysia have a code of conduct for their MPCs. New Zealand has a charter as well. We recommend a single charter, which would cover such things as expectations regarding conduct of MPC members (including management of conflict of interest), detailed meeting and reporting requirements, confidentiality requirements, and so on.</td>
</tr>
</tbody>
</table>
### Table 8. MPC codes: NZ and Malaysian models, and recommendations for PNG

<table>
<thead>
<tr>
<th>Issue</th>
<th>NZ</th>
<th>Malaysia</th>
<th>Recommendation for PNG</th>
</tr>
</thead>
<tbody>
<tr>
<td>Code of conduct</td>
<td>Must be approved by Board, be published and cover: conflict of interest, confidentiality, participation and preparation, other minimum ethical standards.</td>
<td>Conflict of Interests Code and Framework for the Appointment of External Members for the Monetary Policy Committee approved by Board.</td>
<td>Single charter to be approved by Board and published.</td>
</tr>
<tr>
<td>Charter</td>
<td>Detailing reporting, transparency and decision-making procedures; must be agreed by Minister and MPC.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2.4 The Board

This part of the chapter considers (a) the responsibilities of the Board, (b) its committees, (c) its membership, (d) its Chair, and (e) its meetings and reports on those meetings, and (f) Treasury observer status.

(a) Responsibilities

The Central Bank Board is given a fairly prescribed role under the CBA. Its responsibilities are:

- To “determin[e] the policies of the Central Bank, other than the formulation and implementation of monetary policy and the regulation of the financial system which shall be the responsibility of the Governor” (Section 26(1)).

- To recommend to the Minister that the Governor be removed from office if in the Board’s reasonable opinion “the Governor is guilty of conduct prejudicial to the performance of his duties” (Section 23(1)).

- To review a decision by the Governor to terminate the Deputy Governor if the latter requests it (Section 24(3)).

- To meet at least every three months (Section 32(1)).

- To appoint committees of one or more members and may delegate any of its functions and powers, except this power of delegation, to such committees (Section 34(1)).

- To recommend an increase in BPNG’s capital to the Minister (Section 41(2)).

- To recommend transfers from Bank reserves to the Minister (Section 42(2)).

- To determine the net profit at the end of the year and in consultation with the minister determine the amount to be placed into reserves (Section 49(2)).
• To determine if a loss has occurred leading to a significant reduction in reserve funds, in which case the Minister must pay an amount determined by the Board as required to avoid such a reduction (Section 50(2)).

What is missing here is any responsibility for providing oversight. The Board should be responsible not just for policies but for providing oversight in relation to those policies.

The importance of oversight in relation to central banking is increasingly being realised. A recent IMF report concludes that “Central bank laws should systematically set up Oversight Boards, as these bodies are key to the good governance of central banks.”

New Zealand presents a good example. The latest revisions to the legislation governing the Reserve Bank of New Zealand involve the strengthening of the role of its board. The NZ Reserve Bank Board, whose role had been, under earlier legislation, to “keep under constant review the performance of the Bank” is now (under the Reserve Bank of New Zealand Act 2021) “the governing body of the Bank” and the Governor, no longer the Board Chair, is described as the Bank’s chief executive.

Strengthening the BPNG Board is not a radical proposition. Rather, it involves providing the Board with authorities and responsibilities that are standard for a corporate board. Many of these can be found in the Malaysian central banking legislation, which we draw on in the passages below:

• A general statement is needed that the Board is also responsible for oversight of the policies it sets, and of management.
  o For example, in the case of Malaysia, the Board is responsible (a) “for the general administration of the affairs and business of the Bank and the approval of the budget and operating plan of the Bank;” and (b) for “oversight of the management of the Bank and keep[ing] under constant review the performance of the Bank in giving effect to its objects, carrying out its functions and the use of the resources of the Bank” (Section 14(2)).

• Bank management should be accountable to the Board.
  o As per the Malaysian legislation, “The Governor and Deputy Governors shall be accountable to the Board for their acts and decisions” (Section 15(10)).

• The Board should have oversight of the integrity of the accounts, accounting policies, and financial statements of the Bank, the effectiveness of the internal control system, the performance of the internal audit function, compliance with legal and regulatory functions, and the management of risks (Section 21(4)).

• The Board should also have a role in appointments: in relation to the Deputy Governor (see Chapter 2.1(d)), the Monetary Policy Committee (see Chapter 2.3(b)), and the Board’s own membership (see Chapter 2.4(c), and Section 21(3)) of

---

In Chapter 2.7, we note the rapid increase in BPNG operational costs. We recommend that the Board should approve the BPNG budget, and deliver the same to the Minister (compare Section 14(2) and 21(3) of the Malaysian legislation).

The current legislation gives BPNG responsibility for the appointment of its auditor. In accordance with good corporate practice, it should be the Board who appoints the auditor. BPNG is exempt from the 1989 Audit Act, and thus entitled to appoint its own auditor, with the Auditor General only having the option to undertake an audit rather than the obligation to undertake an annual audit (see Section 47(8) of the CBA and Section 3(3) of the 1989 Audit Act).

The Board should approve the Annual Report including the audited financial statements, and transmit these to the Minister (as per Section 13(1) of the Malaysian legislation).

The Board should have access to Bank information.
- As per the Malaysian legislation, “The Board may require the Bank to produce any book or document and shall have access to any information which is necessary or relevant for the carrying out of its functions under this Act” (Section 14(4)).

The Board should be able to issue bylaws.
- As per the Malaysian legislation, “For the purposes of carrying out its functions under this Act, the Board may issue by-laws as are necessary and expedient in relation to the administration, affairs and business of the Bank or in respect of any other matters as set out in this Act” (Section 14(5)).

Other working arrangements of the Board, consistent with the legislation, would be set out in a Board Charter that would be approved by the Board in consultation with the Minister.

(b) Committees

Currently, the BPNG Board is entitled but not required to establish committees. According to the BPNG Annual Report, there is a Board Audit and Governance Committee, and there is a Board Remuneration and Succession Planning Committee.

While the Board should have some flexibility to organise itself as it sees fit, it is common practice for Central Banks to have legislated committees. We recommend for PNG a modified form of the Malaysian Central Bank committee structure, with an Audit and Risk Committee, a Governance Committee, and a Budget and Investment Committee with responsibilities as follows.
(i) Audit and Risk Committee
a. Assist the Board in its oversight of the
   i. integrity of the accounts and financial statements of the Bank
   ii. effectiveness of the internal control system of the Bank
   iii. performance of the internal audit function of the Bank
   iv. compliance by the Bank with legal and regulatory requirements
   v. review and management of risks.
b. Appoint the auditor and review the audited accounts.

(ii) Governance Committee
a. Recommend external members of the Monetary Policy Committee, and of the Board and Board subcommittees.
b. Assist the Board in reviewing and finalising the Annual Report.
c. Assist the Board
   i. review and approve corporate strategies of the Bank
   ii. review the Bank’s performance against benchmarks
   iii. review performance and assist with appointment of the Governor and Deputy Governors
   iv. oversee the promotion of and compliance with ethical and respectful behaviour among Bank staff, and the provision of safeguards to whistleblowers.

(iii) Budget and Investment Committee
a. Examine and recommend to the Board the budget and operating plan of the Bank for approval.
b. Assist the Board in overseeing the implementation of the budget and operating plan.
c. Assist the Board in its oversight of the Bank’s investments.

Regarding membership and meeting schedule, we recommend the following for these three Committees:

- Membership of at least three; and quorum of two-thirds.
- Meetings at least four times a year.
- Decisions via consensus, with disagreements to be recorded.
- Board to appoint Chairs (from external Board members).
- At least two external members on each Committee.

It can also be argued that the Board should have a Financial Sector Policy Committee – again, however, this is deferred to the second phase of the review. The Board would continue to be free to set up other subcommittees.

The Monetary Policy Committee is a Committee of the Bank, not of the Board. We outlined several important roles in the previous section on the MPC that the Board would need to play in regards to it. For example, the Board would select the MPC’s external members, and it would approve the MPC’s charter. The Board should not, however, be in a position to overturn the decisions of the MPC. That would be too messy and undermine the Governor’s
authority. However, the current situation where the Board is completely sidelined in relation to BPNG’s core function of monetary policy is not satisfactory either. The most recent New Zealand legislation sets out a good middle path. In the New Zealand legislation, the Board’s role is to “regularly review the performance of the MPC” (Section 95(1)). Thus there would be a report on monetary policy and its implementation at every Board meeting. While Board members could not direct a different approach, they could certainly ask questions.

(c) Board membership

The PNG CBA establishes a Board with a maximum of eleven members, and requires that there be at least nine. Analysis over the last decade shows that in several years the minimum has not been achieved – see the figure below. As of late September 2021, according to its website, BPNG only has six members, which is three below the legislated minimum, and is the minimum needed for quorum (Section 32(3)). For a variety of reasons, two of the ex officio positions were vacant (Securities Commission, Chamber of Commerce), and only one of the three NEC nominees was in place.

![Figure 2. BPNG Board size, 2011 to 2020](image)

Source: BPNG Annual Reports.

How large does the Board need to be? A smaller Board would be more efficient and effective. We suggest a maximum of eight, with no more than two internal positions.

Currently, the BPNG Board includes up to three BPNG managers (the Governor, and up to two Deputies), five ex officio positions (representatives of the church, business, trade unions, Institute of Accountants, and Securities Commission), and up to three appointees of the Head of State (National Executive Council appointees). These NEC appointees have a three-year term limit; the ex officio representatives have no term limit: and, as discussed earlier, the Governor currently has a 14-year term limit, and the Deputy Governors can have any number of five-year terms.

A strength of the BPNG Board, especially compared to others in PNG, is its stability with an average tenure of just over four years over the last decade. Once a Board member has been appointed, there are only very limited conditions under which he or she can be removed. This
is a key protection against political interference, which should remain in place.

The advantage of *ex officio* positions is that they reduce the discretion in appointment of Board members. The disadvantage is that such an arrangement might lead to members with little expertise and very long tenures. Some BPNG Board members have had a tenure of 10 years.

In general, we recommend the abolition of the *ex officio* positions. However, one exception we would make given PNG’s small size is to consider requesting the Governors of central banks of neighbouring countries, such as Malaysia, New Zealand, Indonesia, Australia or Singapore, to nominate a Board member: a retired senior staff or Board member, or a national expert of the country concerned. (Current staff and Board members would not be allowed due to potential or perceived conflicts of interest.) Term limits should be placed on these *ex officio* positions, for example, two appointments of five years.

NEC appointees are appointed for a three-year term, and may be reappointed any number of times. We recommend this be extended to five years, to reduce the likelihood of vacant positions, but limited to two terms. (From 2017, there have been either only one or two NEC nominees on the Board, out of the maximum of three.) The Act currently requires NEC nominees to have “generally recognised standing and professional experience in monetary and banking matters” (Section 27(2)(c)). Given that the Board is not actually responsible for monetary policy, this could be replaced by “generally recognised standing and relevant professional experience.”

To limit ministerial discretion, we recommend that two of the NEC appointees be made on the basis of Board recommendation, without discretion, and that the other two be made in consultation with the Board.

To promote gender equity, we recommend that at least two Board members be women.

Members coming on the Board through this revamping should have staggered initial terms so that no more than one or two Board members need to be appointed at any one time. With a reduction in total board size, the quorum could also be reduced from six to five.

In summary, we recommend total membership of eight:

- two internal members (Governor and one Deputy Governor, selected by the Governor),
- two nominees of neighbouring Central Bank governors,
- two nominees on the recommendation of the Board, and
- two nominees in consultation with the Board.

Overall, these reforms would make for a stronger, more effective and more independent Board, with more of an emphasis on expertise, and less of an emphasis on representation.

While Board members are required to declare any conflict of interest, more rigorous provisions would further safeguard the Bank’s independence. It would be sensible to: (a) explicitly state that members of the Board shall not be subject to the direction or control of
any person including the Government; and (b) clarify that any officers of entities regulated by BPNG and any government employees should not be Board members.

We also recommend a time limit of 30 days for Board and MPC membership for nominations should vacancies arise.

(d) Board chair

As discussed earlier (Chapter 2.1(b)), the Governor should not be the Chair of the Board due to conflict of interest risks. We recommend that the Board select a Chair and Deputy Chair from among external, resident members. We recommend that the term of the Chair and Deputy Chair be four years. The role of the Chair would be set out in the Board Charter mentioned earlier.

(e) Board meetings

The BPNG Board is required to meet at least every three months. According to Treasury, the requirement (under Section 26(2)) that the Governor “submit every three months to the Minister a report on the proceedings and resolutions of the Board and the steps taken, if any, in consequence thereof” has not been complied with for some time.

We recommend that the Chair and the Governor should have joint responsibility under Section 26(2) of submitting the report after each Board meeting on proceedings and resolutions to the Minister.

We also recommend a summary of every Board meeting be made public.

(f) Treasury Board observer status

As we discuss in the next section, the information flow between the Bank and the Government has often been less than satisfactory. While we would not support Treasury or Treasurer representation on the Bank Board, we see no reason why Treasury should not be given (non-voting) observer status, as it would have on the Monetary Policy Committee (see Chapter 2.3(b)). This would provide a regular communication channel where all else failed. It would ensure that the Bank Board and management were aware of Government concerns without being obliged to act on them.

2.5 The role of Government

The first subsection (a) sets out some of the issues that have arisen over the last decade concerning the relationship between the Bank and the Government. The second (b) looks at how the information flow between the two entities can be improved. The third (c) examines better dispute resolution mechanisms.
A number of disagreements have arisen between the Central Bank and the Government over a variety of issues. The increase in the Temporary Advance Facility (TAF) is one, though here the Government exercised its primacy via amending the CBA, which is its democratic right. A better example of the kind of issue we have in mind concerns the issue of foreign exchange shortages. The Treasurer has placed on the public record for some time his belief that such shortages are hurting business (see Chapter 5.1 for further discussion of this issue). This is both a reasonable belief and a reasonable concern for a Treasurer to raise. But where has been the dialogue between the Treasurer and BPNG regarding the resolution of this issue, let alone the agreement on how it would be resolved? As far as we can tell there has been no such dialogue or agreement (beyond perhaps the short-term fix of arranging for more foreign loans).

Close coordination is also important. The Bank plays a particularly significant role in relation to the International Monetary Fund, which writes important reports about the PNG economy, and from which the PNG Government borrows. Any such loan is between the IMF and the Government, but BPNG plays a crucial role, not only as the entity to whom the loan funds are provided, but also as part of the negotiating team. Since, given BPNG independence, the Government cannot direct the Bank, close communication and teamwork are vital. The feedback from Treasury and the Treasurer’s office indicates that this has not always been the case.

Disagreements between the Bank and the Government have not only related to matters of policy. BPNG is, in a broad sense, a state-owned enterprise, and financial disagreements can arise from time to time between the Bank and its owner, the Government. The CBA states that net operating profits of the Bank shall be divided between Bank reserves and payments to Government (dividends) based on the determination of “the Minister in consultation with the Board” (Section 49(2)). Section 49(3) is clear that “no amount shall be paid” to Government “where, in the opinion of the Central Bank, the assets of the Central Bank are, or after the payment would be, less than the sum of its liabilities and paid-up capital.”

This combination of clauses caused problems for the Bank between 2011 and 2015 when, as the graph below shows, its assets fell short of the sum of its liabilities and paid-up capital. This shortfall was due to a number of reasons including: currency appreciation, which made its foreign reserves less valuable in Kina; excess liquidity, which led to more commercial bank deposits at BPNG, a growing liability; and an increasing number of Central Bank Bills (CBBs) to mop up liquidity, another growing liability.

---

Section 50(1) states that profits arising from revaluations are not available for distribution.
In 2010, the Bank made an operating profit of K22 million. The Board recommended retaining the profit, but in September 2011 the NEC directed that amount to be paid as dividends (BPNG 2011 Annual Report, p.78). BPNG paid this amount. However, the Auditor General, in the 2011 Annual Report, ruled that this contravened the CBA because, in 2011, assets fell short of liabilities.

In 2010 assets exceeded liabilities. However, Section 49(3) states that no amount should be paid to the Government where assets “after the payment would be” less than liabilities. Certainly, assets were less than liabilities at the end of 2011. Moreover, the Act requires the judgement about assets and liabilities to be made by the Central Bank. Presumably the Bank’s judgement was that in September 2011 as in December 2011 liabilities exceeded assets.

In 2011 the Bank made an operating loss, and in 2012 it made a small operating profit of K24 million, which it retained. In 2013, however, the Bank made a much larger operating profit of K103 million. This led to an even clearer contravention of the Act as detailed below.

Because assets once again fell short of liabilities (plus paid-up capital), under Section 49(3) BPNG should not have paid a dividend to the Government. However, the Bank was directed by the NEC in December 2013 to pay the dividend of K102.9 million. It paid this amount in December 2014 (BPNG 2014 Annual Report, p.13).

Why did the Board approve this dividend payment? After all the law is clear, and Section 49(3) would have provided a clear defence to any refusal to pay dividends. The reason is given by another clause under which, if the Bank incurs a loss leading to a significant reduction in its reserve funds, the Government is obliged to pay to the Bank such amount as the Board considers necessary to avoid such a reduction (Section 50(2)). The Government is also authorised to issue non-interest notes (promissory notes) for an amount not exceeding such payment (Section 50(4)). The Bank had been requesting such a promissory note since 2011, which was the first year in which the Bank’s liabilities exceeded its assets (see the 2011 Annual Report and Figure 3 above).
Finally, the Government issued a promissory note for K1.12 billion on 10 December 2014. The BPNG 2014 Annual Report outlines the clear link between these two, stating that:

In consultation with the Minister, the Bank paid a dividend of K102 million to the Government in December 2014 out of the retained profits from the 2013 financial year, in exchange for a promissory note issued pursuant to section 50 of the CBA. (p.13)

Once again, the Auditor General in his letter accompanying the 2014 Annual Report dated June 16 2015 noted that this payment “was in contravention of Section 49(3)” of the CBA.

In 2014, the Bank again made a sizeable operating profit (K90 million) and in 2015 it paid that amount as dividends to the Government. Again, under Section 50(3) it should not have, since in 2015, although assets exceeded liabilities, they fell short of liabilities plus paid-up capital. There was, however, no objection this time from the Auditor General, perhaps because assets exceeded liabilities.

Since 2016, BPNG assets have exceeded liabilities and paid-up capital, and BPNG has continued to pay dividends.

The three dividend payments in 2011, 2014 and 2015 raise important issues of governance. Neither the Bank Board nor the Government has complied with the law:

- Payment of the promissory note does not change an illegal dividend payment into a legal one.
- The promissory note itself may not under the Act exceed the Government’s payment to the Bank out of the consolidated revenue fund, and no payment seems to have been made.\(^{10}\)
- The payment and/or promissory note that should have been made in 2011 was not made till 2014.

The appropriateness of the financial arrangements set out in Section 50 is a complex matter which we will address in the second phase of our review. Also in that phase we will need to address the recent disagreements that have arisen between BPNG and the Auditor General regarding the valuation of its holdings of government securities, and the implications for its valuation of assets and for its income.\(^{11}\)

In terms of broader lessons, this episode reveals evidence of critical weaknesses in governance – in the capacity and leadership of the Bank Board and management, and in the behaviour of Government – in complying with the CBA 2000, and in managing the Bank-Government relationship. It is clear that the Bank Board needs to be strengthened to better manage its relationship with Government. The measures we have proposed in the previous section (Chapter 2.4) will deliver a stronger board, with greater technical skills and

\(^{10}\) The 2013 BPNG Annual Report mentioned that the Bank was requested “payment from Consolidated Revenue combined with the issue of a promissory Note to the Bank.” In the end they just got the latter.

\(^{11}\) See the 2019 Part IV Report of the Auditor General, pp.6-7.
international representation, and collectively able to engage constructively with Government whilst maintaining the Bank’s independence and integrity.

(b) Information sharing

There are several information sharing provisions under the Central Banking Act. Section 12 requires the Governor to advise the Minister of the effect on monetary policy of any government policy, actual or proposed. Section 13 requires the Governor to report to the Minister where there are adverse conditions that may threaten monetary stability, monetary policy or economic development. Section 14 requires the Bank and Treasury to “keep each other fully informed of all matters” of mutual concern. Section 26(2) requires the Governor to submit a report on each Board meeting to the Minister. Under Section 8, the Bank shall advise the Minister as soon as practicable where it considers that a regulated body is in financial difficulty.

The Bank and Treasury shared with us very different views on the level of information sharing on practice. According to BPNG:

There is always understanding, co-operation and collaboration between BPNG and DOT [Department of Treasury].

However, according to Treasury:

On Treasury-BPNG cooperation, there is already a provision in the Act (Section 14) requiring each part to keep each other informed on all matters that concern the Bank and Department jointly. This generally has not occurred in practice.

According to Treasury, a high-level Treasury-BPNG Committee was established, but only met once.

We have several recommendations to improve the information flow. First, as discussed earlier, both the MPC and the Board would have a non-voting Treasury observer. This would definitely improve information flows, as the observer would be obliged to convey information from Treasury and would better understand BPNG thinking.

Second, the role of Department of Treasury should be more centrally acknowledged within the Act. At the moment, it is only mentioned once, in Section 14, as referenced above (this is the section that requires that the Bank and Treasury keep each other informed). As per the New Zealand model, we propose that Treasury be recognised as “assist[ing] the Minister to carry out the Minister’s role (Section 77(2))” in relation to the Central Banking Act. This would give the Treasury greater legal standing to interact with the Bank, which is important since obviously there are limits to what the Treasurer as an individual can do.

Third, we want a more constructive working relationship between not just the Treasury and the Bank but also the Treasurer and the Bank. To this end, we recommend adopting the Malaysian obligation that the Bank be proactive in keeping the Minister informed. The relevant section is as follows:
The Bank shall keep the Minister informed of policies relating to its principal objects (Section 72(1)).

Fourth, if the Minister feels s/he is not getting the information s/he needs, s/he should be able to request it. As per the New Zealand legislation, the Bank should be obliged to supply to the Minister any reports or other information related to the performance of its duties that the Minister requests, within a time period and in a manner reasonably required by the Minister. (Section 193 and 194).12

(c) Dispute management

There are three possible ways to handle disagreements. The first gives pre-eminence to the Central Bank. Under this option, the Bank has the last word. As long as it stays within the legislation defining its responsibilities and authorities, there is nothing the Government can do.

The second option gives ex ante pre-eminence to the Government. Under this option, the Government gets to spell out in more detail than in the legislation what the Bank should do. Operational responsibility is still left with the Bank, but objectives are articulated by the Government of the day, in more detail than by the legislation.

The third gives ex post pre-eminence to the Government. Under this option, the Government intervenes only if it finds itself in disagreement with the Bank. If so, a mediation procedure is put in place, but with the Government ultimately having the last word.

In terms of real-world examples, PNG’s current legislation is an example of the first option. PNG’s Central Banking Act gives pre-eminence to BPNG. Say that the Government thought that the Bank was not doing enough to control inflation. There is in fact nothing it could do.13

New Zealand gives us an example of the second, ex ante Government pre-eminence option. In New Zealand, the relevant minister is required to issue a remit to the MPC. The remit may provide targets for specific objectives (e.g. a specific inflation rate that the Bank should target) or a “framework for weighting the economic objectives”, that is, for resolving trade-offs. The remit can also define “any matters in connection with an economic objective” and may set down “a requirement for the MPC to have regard to one or more matters in connection with seeking to achieve an economic objective” (see Section 119 of the Reserve Bank of New Zealand Act 2021). In fact, in New Zealand, Cabinet may even instruct the MPC to ignore the objectives set out in the Act, and pursue other objectives (Section 121).

Malaysia gives an example of the third, ex post government pre-eminence option. In Malaysia, if there is a disagreement between the Minister and the Bank “relating to its principal objects”

---

12 In the New Zealand legislation, this is a requirement in relation to the Board, but we feel it would be more usefully expressed in relation to the Bank as a whole. Also, the wording has changed with the most recent (2021) amendments. This (simpler) wording and reference comes from the amendments of 2018.

13 Dismissing the Governor is not a practical option; in practice, dismissal would occur only following improbity.
they must try to reach agreement (Section 72(2)). If they cannot, the Bank must submit a statement to the Minister, and the Minister must take that statement to Cabinet, who can then direct the Bank. The Bank must then implement Cabinet’s decision, but may table any objections in parliament.

Finally, Australia presents an interesting case. It has legislative provisions for almost exactly the same ex post dispute resolution mechanism as Malaysia. It also has a non-legislated practice of producing joint “Statements on the Conduct of Monetary Policy” by the Treasurer and the Governor, about every three years. This “has recorded the common understanding” between the Governor and the Treasurer “on key aspects of Australia’s monetary and central banking policy framework since 1996.” Such a practice gives both sides equal importance, since agreement is needed to reach the document.

Each of these three options has pros and cons. The problem with the first (Bank pre-eminence) is the democratic deficit. Moreover, if the Government feels the Central Bank is not implementing its policy properly, a sub-optimal outcome may result; for example, the government might interfere with or diminish the Bank’s independence, perhaps by legislation.

The problem with the second (Government ex ante pre-eminence) is that, in an economy such as PNG’s, which is prone to shocks, and where the effectiveness of monetary policies is in any case limited, it may be unhelpful or even counterproductive to articulate objectives beyond the extent to which they are laid out in the legislation. For example, inflation can spike if there is a depreciation. Even if the government wanted to provide an inflation target, given the limited effectiveness of monetary policy (see Section 3.2), there is no guarantee that the Bank would be able to hit the target.

That leaves the third option (Government ex post pre-eminence) which is the one we put forward. It is very important to note that this only gives the Government the right, after a pre-ordained and transparent process is undertaken, to order the Bank to change its policies, and only then in accordance with the legislation.

We also invite the Treasurer and the Governor to consider a joint statement, such as is produced every three to five years in Australia. As in the Australian case, such a requirement should not be a legislative mandate (since it might open the door to political interference, and it might over-burden the system), but consideration of such a joint statement could help produce a more cooperative attitude between these two critical arms of state.

We do not see this option as opening the door to political interference. We find it highly unlikely that the Cabinet would decide to “take on” the Bank through the dispute resolution mechanism, and in any case the Cabinet’s decisions and the Bank’s response would both be constrained by legislation. As far as we are aware, the dispute resolution mechanism available to the Central Bank and Government in both Malaysia and in Australia has been used in neither country.

---

14 The “principal objects” of the Malaysian Central Bank are “to promote monetary stability and financial stability conducive to the sustainable growth of the Malaysian economy” (Section 5(1)).

15 The most recent such statement was issued in September 2016.
2.6 Accountability and transparency

According to the 2009 BIS Survey quoted earlier (Issues in the governance of central banks), “[t]he key issue is to strike the right balance between protecting the independence of the central bank and preserving its accountability” (p.135).

BPNG is required (under Section 44) to submit to the Minister an annual report within six months of the end of the financial year (along with audited financial statements, the auditor’s report, and a statement on projected income and expenditure for the next financial year). The section also requires that this report be tabled in Parliament and be referred to an appropriate parliamentary committee. The 2019 annual report was only added to the website in September 2021. The 2020 annual report and financial statement is not yet on the website (though it is more than six months after the end of the last financial year). The Bank needs to be more prompt in completing and publishing its annual reports. Ideally, such reports would be considered by a parliamentary committee. At a minimum, however, they should be available for public scrutiny.

Transparency promotes accountability. There is a growing trend among central banks towards transparency, with an increasing number publishing their monetary policy strategy, their macroeconomic forecast and model, and meeting minutes. In 2020, the IMF released its updated Central Bank Transparency Code.

The Bank does regularly issue forecasts for GDP, balance of payments and inflation. This is a positive. They are included as part of the six-monthly policy statements. There has been little discussion in these statements of changes to exchange rate policy (Chapter 5.1) or purchases of government securities (Chapter 3.2).

The BPNG website is a potential platform for transparency, and an invaluable source of data, but much information is out of date.16 As of late September 2021, statistical information in the Quarterly Economic Bulletin (QEB) tables was only updated to December 2020, nine months ago; data on Treasury Bill (T-Bill) and Inscribed Stock (IS) auctions are also only up to 2020; the last Quarterly Economic Bulletin is December 2020; and the last Monthly Economic Review is for June. (Monthly reviews for March-June were all issued in September.) While COVID-19 might cause some delays in some data, there is no excuse for first quarter BPNG data to be missing from the website as of the third quarter of 2021. Moreover, with COVID-19 there is even more need for timely data.

Some of the Bank’s policy statements have suffered from a lack of transparency. For example, the MPSs should contain a statement on Bank purchases of government securities over the period, but generally do not. Sometimes, the MPSs have even been misleading. For example, in its September 2021 MPS, the Bank stated that “the floating exchange rate regime introduced in 1994 remains in place”. As we discuss in Chapter 5.1, in PNG the exchange rate is set in the Interbank Market. The USD/Kina daily exchange rate on the Interbank Market is

---

16 This was also commented on by one of the submissions we received. Mr Brian Gomez, a former PNG adviser and journalist, wrote that “At this current time, BPNG’s most recently quarterly bulletin is for the December quarter of 2020. It was released on August 10 this year. By contrast the Reserve Bank of Fiji at this time has published its quarterly report for the June quarter of 2021, as have Malaysia, Philippines and other countries.”
published by BPNG. It is unchanged since November 2020. An exchange rate that doesn’t change for such a long time clearly cannot be floating. A floating exchange rate is one that moves up and down. The graphs below compare the USD/Kina interbank exchange rate and the USD/Malaysian Ringgit interbank exchange rates, the latter but not the former being a floating rate.

**Figure 4. The USD/Kina interbank exchange rate from November 2020 to September 2021:** not floating

![Graph showing USD/Kina interbank exchange rate from November 2020 to September 2021](https://www.bankpng.gov.pg/historical-exchange-rates/)

Such statements by the Central Bank undermine its credibility.

We also received feedback from stakeholders not only for more information, but for more engagement, and for respectful dialogue. Ongoing, persistent disconnects between the private sector and the Bank about the seriousness of foreign exchange shortages could have been avoided by more regular exchanges of views.

Greater emphasis on collegial decision making (see Chapter 2.1) should itself lead to more engagement, accountability and transparency, as it will mean that Bank decisions will be more contestable. In addition, we propose the following legislative requirements:

- A statement be released after every MPC meeting and Board meeting (as discussed
earlier).

- BPNG be required to release economic information in a comprehensive and timely manner.
- BPNG be required to release its annual and financial report on the website within six months of the completion of the relevant year.
- BPNG be required to engage in stakeholder dialogue.

2.7 Management performance

The Bank’s staff costs have doubled after inflation between 2010 and 2019, and total costs have more than doubled after inflation over the same period. The BPNG Act has provision for a performance (not policy) audit (Section 48), but one has not been undertaken. Calling for a performance audit would itself be a vote of no confidence in the Bank, and would be a drastic measure. It is not, therefore, realistic to rely on this as a measure or threat to ensure performance. Overall, in the opinion of the IAG, better management performance will be obtained with stronger governance, in particular with a stronger Board and a Board that is more focused on oversight (as we recommend in Chapter 2.4).

Other issues concern the Bank’s asset management and its financial performance more generally. Given time constraints, these would need to be the object of investigations in our second phase.