

# Modernising and Strengthening our Bank of Papua New Guinea

30 November 2022

## Introduction

Mr Speaker, today is an important day in PNG's history.

One of the key institutions in a well functioning economy is a modern and strong central bank.

The central bank plays several key roles in making the every-day things in our economy work well. A modern and strong central bank:

- should work hard, to ensure that inflation is kept under control.
- should work hard, to ensure we have an efficient, competitive banking market.
- should work hard, to make sure our Kina can be converted into any currency around the world.
- should work hard, to ensure that our payment system works well so that cheques are honoured and electronic transfers proceed smoothly.

- should work hard, to ensure that it provides good banking services to the government.

## Background

Mr Speaker, I was a Member of this Parliament, when proposed amendments to our Central Bank Act, were discussed and debated back in 1999 and passed in 2000. Change was needed to stop the constant move of Governors and the blowout in monetary financing of the deficit. 20 years on, my strong sense was that it was time to do a review, and consider if we should do better. Indeed, we probably should have had such a review many years ago.

I was very pleased to receive the Independent Advisory Group's review of the Central Banking Act after it was commissioned on 13 May.

The report was an excellent document and all of its detailed arguments are on the web. I thank the members of the IAG, the Chair Robert Igara, as well as Sir Wilson Kamit and Professor Stephen Howes, for the long hours they have put into producing such a fine report. I thank members also of the Secretariat supporting the review, including the detailed

comments from the IMF. I thank also all the financial institutions and business organisations that have also participated in the review.

The report has 31 recommendations from its first phase. The government has accepted 21 recommendations in whole or in part with a further 8 recommendations deferred to work in with Phase 2 of the review.

Mr Speaker, I agree strongly with the view by the IAG, that reforms are now needed. Let me go through some of these, that are included in the legislative changes, before the Parliament today.

## Governance Reforms

Mr Speaker, PNG has been left behind by almost all other countries. We are one of only four countries in the world which focuses all power over monetary policy in one person – we need a more collegiate approach. About half the world, gives responsibility for monetary policy to the Central Bank Board, the other half to a more specialised Monetary Policy Committee. Overall, we consider that the latter option may be the way forward for PNG, but a final decision on this has been deferred until the second phase of the review. This is because we may want a similar committee covering the

important issue of financial regulation. At this stage, the decision has been made, to give the responsibility to a reformed Central Bank Board.

Mr Speaker, the Central Bank Board will be strengthened and reformed. Currently, five members are heads of five bodies. There have been some exceptional people that have served and continue to serve, and I thank them for their contributions. Going forward, we have decided on an appointment process where greater emphasis is given to merit and their ability to contribute to the important work of the Board. The consultative processes have been strengthened, including having two members of the Board appointed largely by the Board itself. One of these people must be person with strong international experience with central banks and be a non-resident – we want fresh ideas to be fed into Board discussions. We have also decided on an Independent Chair of the Board, once again strengthening the shift to a more collegiate model of decision-making. We have also decided to have a slightly smaller Board, down from the previous maximum of 11 down to a more manageable 9, including the Governor and a Deputy Governor. This will be a more powerful, a more qualified, stronger Board aligned with its increased responsibilities. Good reform, good modernisation.

## Reforming objectives

The objectives of a central bank are vital for shaping its priorities, its functions and even its culture. We have worked on the existing objectives, and updated them.

Mr Speaker, one of the most important and controversial decisions is to broaden the objectives of monetary policy to include both price stability as well as supporting growth in incomes and jobs. For many, this would seem an obvious truth – of course we should do both. But history is littered with experiences of Central Banks printing money to fund unsustainable budget deficits, so we need to be careful, and specific caps have been placed on such funding.

In PNG, we believe the Board will have the wisdom to carefully make judgements when there are tradeoffs. Indeed, as a business person, we constantly need to work to get the right balance, between different parts of our business, in usually very uncertain environments.

We have modified the second objective to ensure that financial regulation is designed to promote both stability

and also **development**, to also promote competition and innovation, using the best of modern technology. As a government, we are concerned about excess market concentration, leading to super-profits, on the back of excess fees, poor services and interest rates that are too high. This objective change allows for more balance including encouraging more competition.

Mr Speaker, we also want a central bank that also gives greater weight, to its role as the banker of government. We need more modern services, when it comes to auctions for financial assets. We need greater priority given to ensuring that the cheque and payment systems work – let's get rid of bouncing government cheques which are a major problem for businesses, as well as government itself.

We have listened carefully to the counsel for and against the broadening of the bank's objectives. At this stage in PNG's development, and as an important part of transforming and modernising the Central Bank itself, we consider the Marape Government has struck the right balance for future years. In a few more years, it will be timely to look at these objectives again, to ensure the right balance has been struck.

## Strengthening and clarifying the independence of the Bank on financing

The report highlighted that there was a need for greater clarity on the role of the bank in financing. There were worrying practices in the past, that seem to relate to pressure, being applied on the Bank by the former Government, to purchase government securities. These arrangements have been clarified. Clear limits have been set. There will be a Temporary Advance Facility, that can only act, as a cash flow financing tool within any year. The BPNG Board can determine if, to purchase government securities – not just one person. There is now a strict cap on the size of any such purposes – not an unlimited arrangement. This cap works to ensure that political pressure cannot be applied to finance a budget deficit rather than supporting the banks objectives through monetary policy. This limit can be lifted during emergencies, but only in specific circumstances and once again with a clear cap.

## Phase 2 – Financial Sector Regulation

Mr Speaker, the second phase of the review will focus on the financial sector, including the commercial banks and both the superannuation and insurance sectors. Few people realise how important the financial sector is to our economy. According to the 2022 Budget papers, when we look at the GDP numbers, we see that the Financial and Insurance sector is estimated to be worth K2,341.7 million in 2022. This is nearly 50% bigger than the entire manufacturing sector, and about the same size as the entire health sector.

Mr Speaker, we need to encourage development of our finance and insurance sectors. The Marape Government wants to harness, the extraordinary advances in mobile phones, to modernise our entire financial system so that everyone throughout our country, is finally included with access to cash and loans and insurance.

The second phase of the IAG's work will also examine the application of Anti-Money Laundering and Counter Terrorism Financing rules, BPNG's financial management



and performance, the shortage of cash in 2021, and improved data communication.

## Conclusion

Mr Speaker, I would like to thank all those who work in the Bank of Papua New Guinea. So much of the work you do is vital to our country's economy. I thank the Governor for his near 12 years of service as Governor, a long time indeed to lead any organisation, let alone one as important as the central bank. I also thank those involved in the finance sector throughout the country.

These changes are important to modernise and strengthen the combined independence, governance, accountability, and transparency of the Central Bank. These changes promise a transformative change in our economy. A change that will help lift the prospects for higher incomes, more jobs and lower cost of living. The Marape Government, continuing to deliver on the economic transformation, to take back PNG and leave no child behind.

Thankyou Mr Speaker.

