



Bank of Papua New Guinea

***Presentation to the
PNG Institute of Directors Inc.,***

by

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Governor

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Port Moresby

FINANCIAL SECTOR REFORMS: REGULATIONS AND DEREGULATIONS

Outline of Presentation

1. Reforms / Regulatory Framework
2. Regulatory Oversight of BPNG
3. Regulatory Approach of the Bank
4. Deregulation
5. Results of the Reforms
6. Monetary Policy
7. Work In Progress / Challenges

1) Financial Sector Reforms in PNG

The Financial Sector reforms commenced in 2000 with the passing of the new central banking Act (CBA 2000). In addition to the CBA 2000, BPNG enforces the following Acts:

- Banks & Financial Institutions Act 2000;
- Superannuation (General Provisions) Act 2000;
- Life Insurance Act 2000; and
- Savings & Loan Societies (Amendment) Act 1995.

Regulations under these Acts are supplemented by Prudential Standards.

The Bank of PNG

The new legislations gave the Central Bank:-

- Independence from political influence
- A clear and focused set of objectives and functions
- A representative and transparent Board of Directors
- Powers to enforce the regulations in the financial system
- Focuses on good governance, transparency and accountability

Objectives of the Bank of PNG

For the advantage of the people of Papua New Guinea, the objectives of the Central bank are –

- (a) to formulate and implement monetary policy with a view to achieving and maintaining price stability; and
- (b) to formulate financial regulation and prudential standards to ensure stability of the financial system in Papua New Guinea; and
- (c) to promote an efficient national and international payments system; and
- (d) subject to the above, to promote macro-economic stability and economic growth in Papua New Guinea.

(Section 7, CBA 2000)

2) Regulatory Oversight of the Bank of PNG

- **Commercial Banks (4)**
- **Licensed Financial Institutions (11)**
 - Finance Companies (9)
 - Micro-finance institutions (2)
- **Savings & Loan Societies (21)**
- **Superannuation Industry (14)**
 - Trustees / Authorised Superannuation Funds (7)
 - Investment Managers (2)
 - Fund Administrators (5)
- **Life Insurance industry (8)**
 - Life Insurance companies (5)
 - Life Insurance brokers (3)

Total of 58 licensed financial institutions under BPNG's regulatory oversight.

3) Regulatory Approach of the Bank

Direct Actions are taken against institutions which continuously break rules and requirements:

- Deny and/or remove directors & management of institutions;
- Management appointments are disallowed;
- Licence applications are denied; and
- Licences get revoked or companies closed down.

Regulatory Approach of the Bank

Fit & Proper Persons Requirements – denial
&/or removal of persons from boards and
management:

e.g.

- PNGBC/Finance Pacific, Teachers Savings & Loan Society
and WMI (Life insurance company)

- Enforcement of F&P Persons Requirements is
one key factor to improvement in the
performance of the financial sector.

Regulatory Approach of the Bank

The Measures of 'Fit & Proper'

In determining whether a person is a fit and proper person to hold any particular position, the following traits are taken into consideration:

- (a) The person's probity (honesty);
- (b) His/her competence and soundness of judgment for fulfilling the responsibilities of the position of shareholder or director or manager;
- (c) The diligence with which the person is fulfilling or likely to fulfill those responsibilities;
- (d) Whether the interests of depositors or life insurance policyholders or superannuation fund members are, or are likely to be, in any way threatened by his/her holding that position.

Regulatory Approach of the Bank

The Costs of Enforcement and Results

BPNG takes the approach that if a regulated institution comes under stress, all attempts are made to 'rescue' it / enable it to trade itself out of difficulties.

In cleaning up institutions, who bears the expenses?

- PNGBC – costs of statutory management met by PNGBC. Statutory manager on national salary scale compared to K6m. Bank put back on a sound footing to be sold off.
- Teachers S&L Society – K1.8m costs met by the Society in 2000 (18,000 membership and about K60m). In 2006, membership of 30,000 and total assets of K192m.
- WMI – was insolvent. Statutory manager, interim liquidator (liquidator pending). K2.3m costs so far met by BPNG

Actions Against Money Schemes & Scams

- Public Notices issued against existence of both local and overseas scams:
 - The scams come in different forms;
 - Businesses and the Government have been approached by them;
 - Some promoters are planning to enter Parliament in the coming Election in order to access billions of Kina held with the Bank which they claimed to be theirs— of course these are fat lies.
 - Gained widespread acceptance through deception and lies;
 - Supported by naïve community leaders, church groups and general public;
 - Closure of some were actively resisted with threats being legal or otherwise made to staff;
 - These schemes impacted badly on society; many families lost their money; and
 - It is the responsibility of the public to avoid these schemes or stand against them.

4) Deregulation

The financial sector reforms, together with other reforms and developments in the economy created an enabling environment to deregulate and/or relax controls. These included:

- September 2004 – allowing non-resident companies to borrow from the domestic banking system

Deregulation

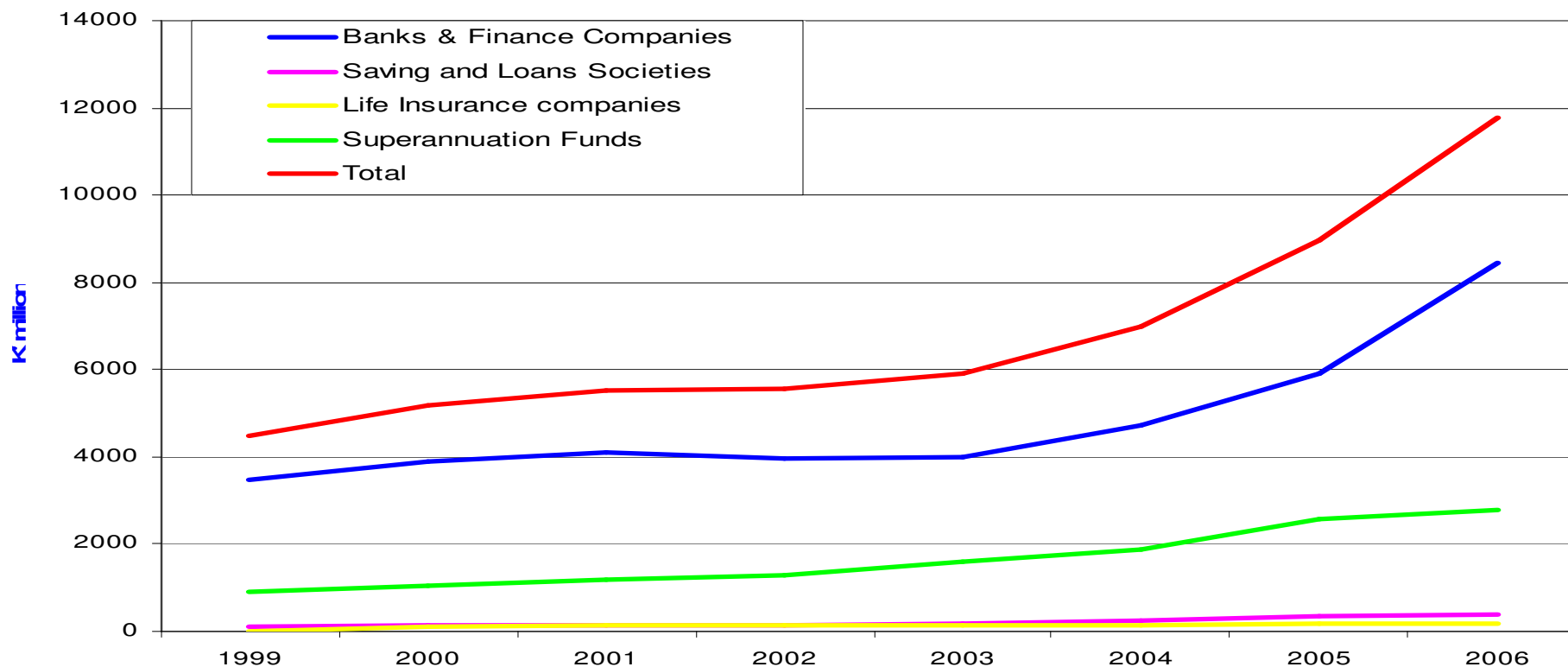
- 01 June 2005 – liberalise most exchange controls on current and capital account transactions, through the granting of exemptions
- Regulations can be invoked in the event of a major Balance of Payments crisis
- Regulations not liberalised were approvals for private capital account contracts, opening of foreign currency accounts abroad, and licensing of gold exporters and foreign exchange dealers.
- 2007 – review of remaining controls

5) Results of the Reforms

Financial System Assets

K'mn

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Banks & Finance Companies	3462	3893	4087	3965	3985	4731	5895	8433
Saving and Loans Societies	117	126	133	150	189	233	332	394
Life Insurance companies	n.a.	109	126	148	126	130	160	186
Superannuation Funds	<u>891</u>	<u>1037</u>	<u>1177</u>	<u>1299</u>	<u>1607</u>	<u>1882</u>	<u>2584</u>	<u>2764</u>
Total	4470	5165	5523	5562	5907	6976	8971	11777

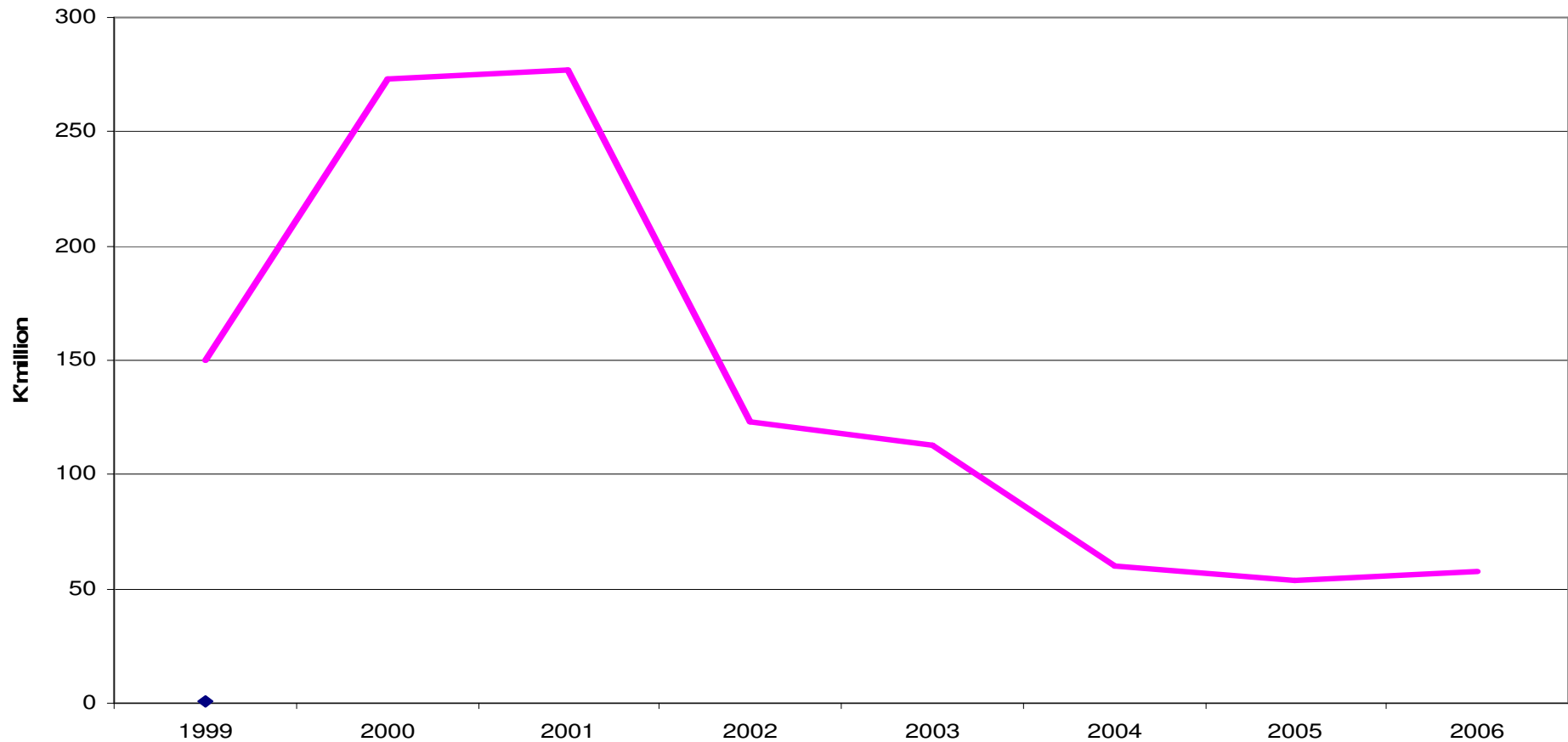


Banking Sector

K'mn

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Non Performing Loans	150	273	277	123	113	60	54	58

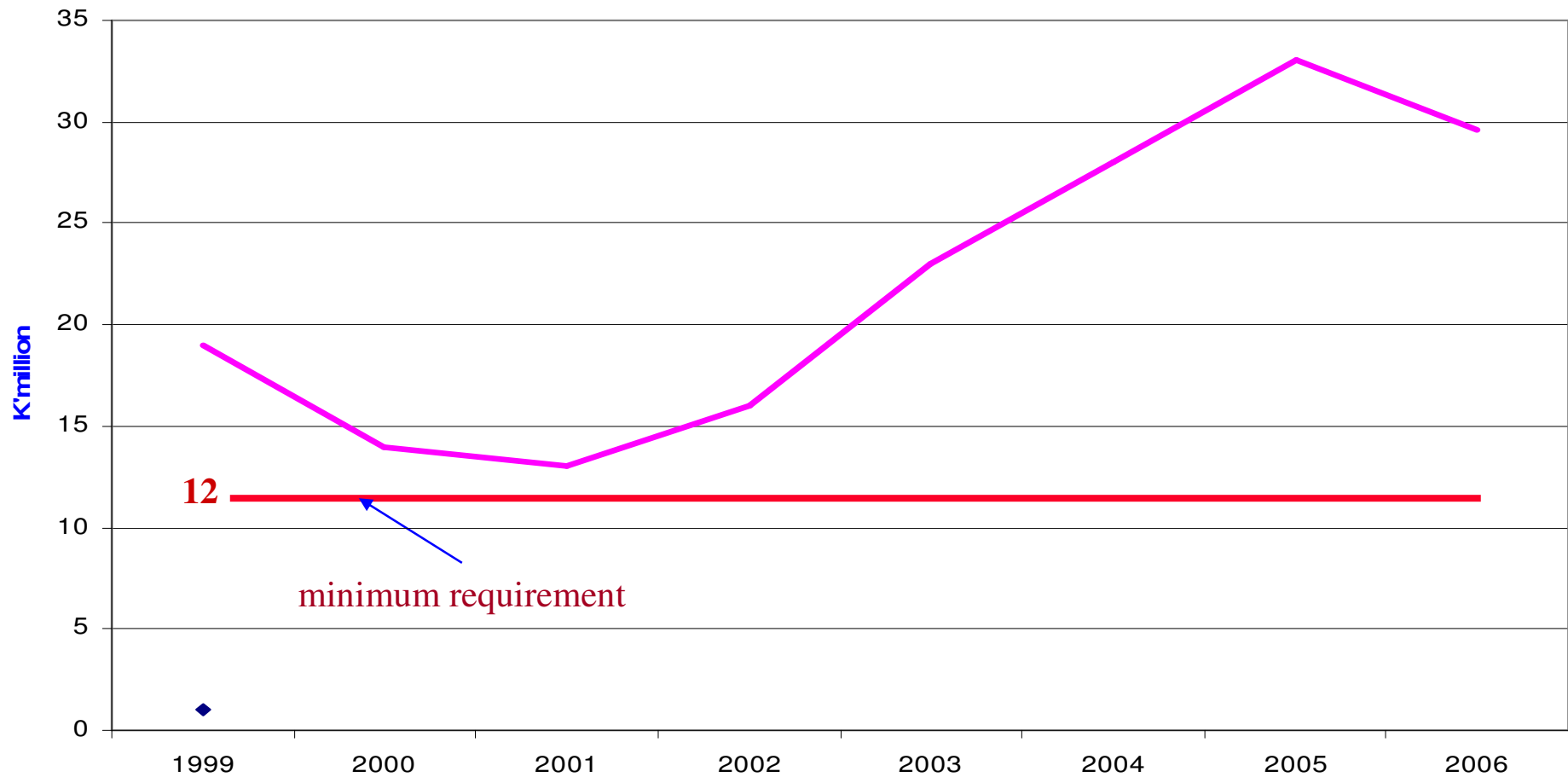
Non Performing Loans



Banking Sector

K'mn	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Capital Adequacy Ratio (%)	19	14	13	16	23	28	33	30

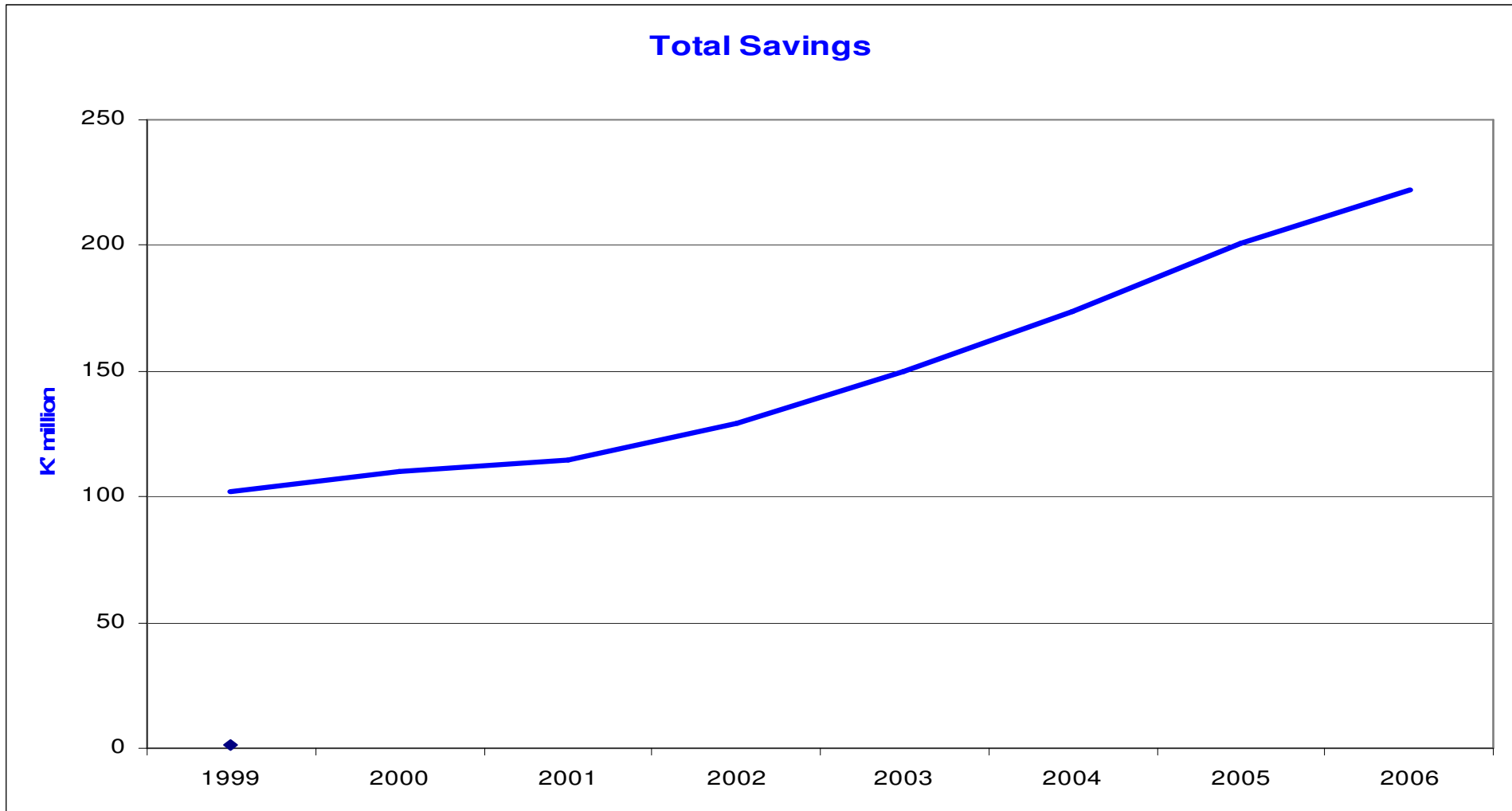
Capital Adequacy Ratio



Savings & Loan Societies

K'mn

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Total Savings	102	110	115	129	150	174	201	222

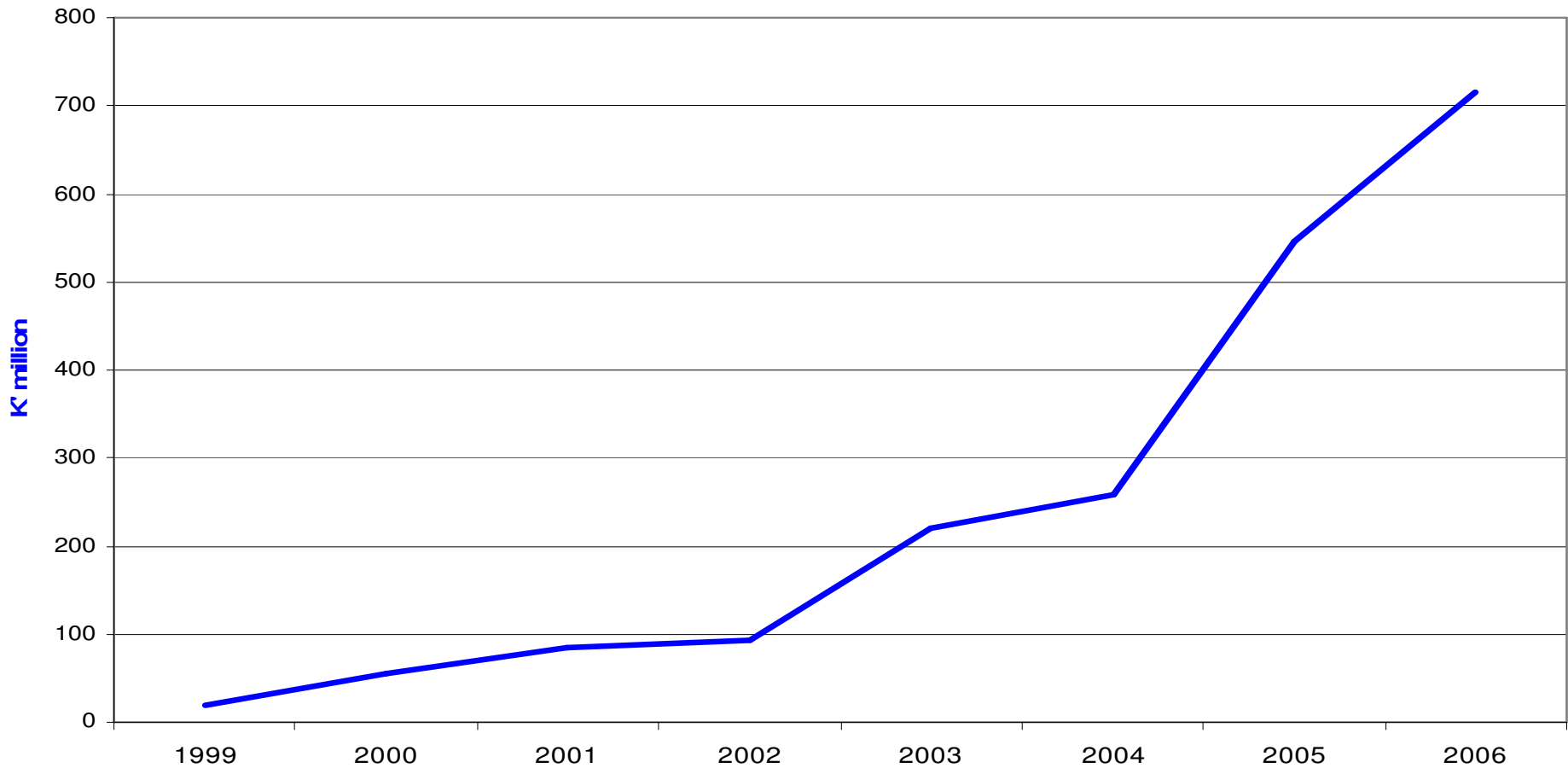


Superannuation Funds

K'mn

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Profit After Tax	20	56	84	94	220	258	546	715

Profit After Tax



6) Monetary Policy

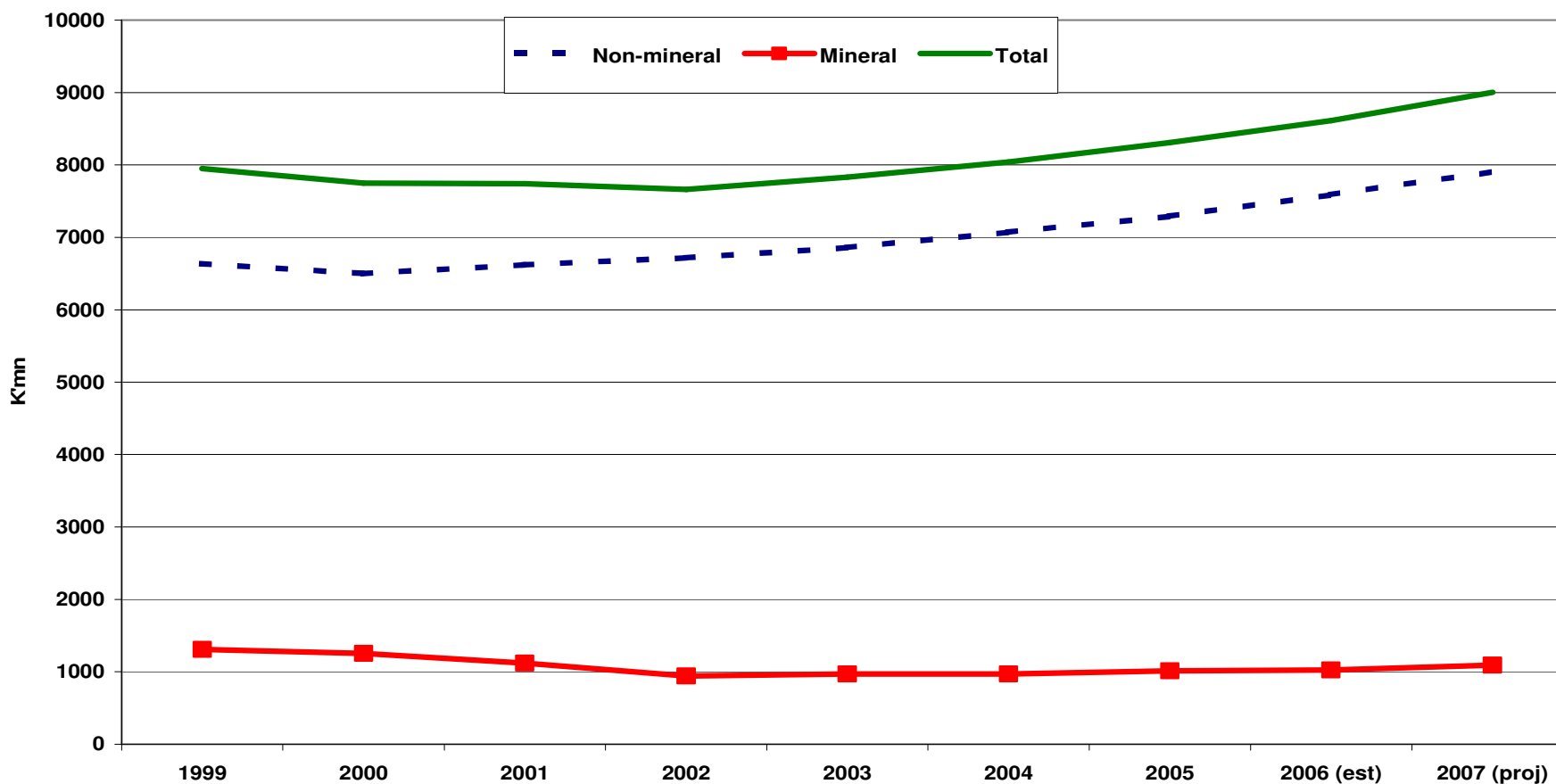
- BPNG has refined its monetary policy management (six monthly MPS, new instruments-CBBs, provided advice to Government, educating the public on banking and financial issues, etc)
- Conduct of monetary policy – use Kina Facility Rate to signal stance of policy, Open Market Operations, moral suasion

Economic and Financial Developments

Real GDP

K'mn

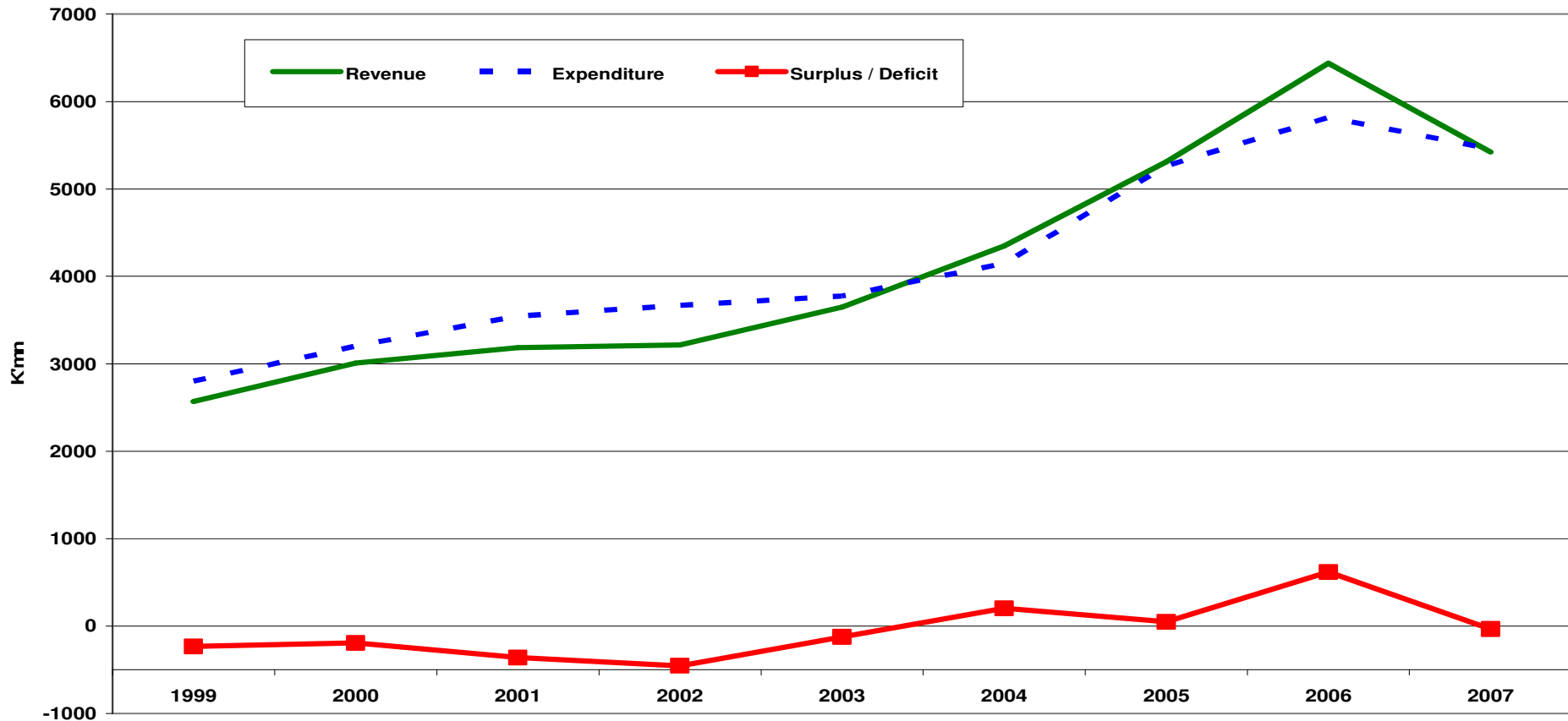
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006 (est)</u>	<u>2007 (proj)</u>
Non-mineral	6637.9	6499.0	6619.8	6718.4	6859.4	7072.1	7291.4	7590.3	7909.1
Mineral	1310.4	1251.2	1120.9	942.5	970.0	968.7	1014.8	1023.2	1092.0
Total	7948.3	7750.2	7740.7	7660.9	7829.4	8040.8	8306.2	8613.5	9001.1



Fiscal Operations

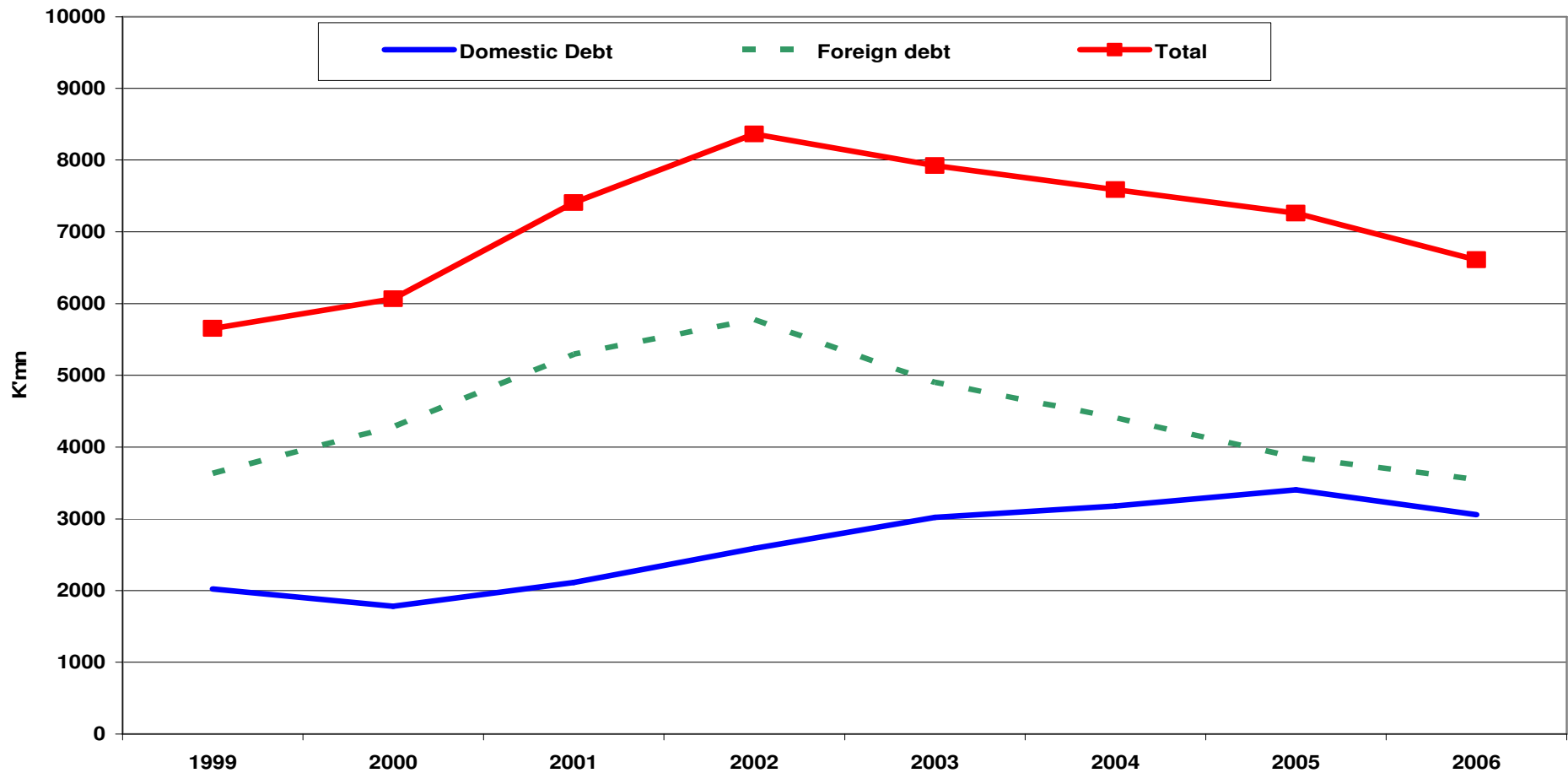
Kmn

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u> (p)	<u>2007</u> (Budget)
Revenue	2569	3008.7	3184.8	3214.3	3650	4349.7	5313.2	6436.5	5422
Expenditure	<u>2801.3</u>	<u>3201</u>	<u>3544.2</u>	<u>3668.6</u>	<u>3774</u>	<u>4147.8</u>	<u>5266.3</u>	<u>5817.8</u>	<u>5457</u>
Surplus / Deficit	-232.3	-192.3	-359.4	-454.3	-124	201.9	46.9	618.7	-35
Surplus or Deficit / GDP	-2.6	-2.0	-3.7	-3.9	-1.0	1.6	0.3	3.6	0.2

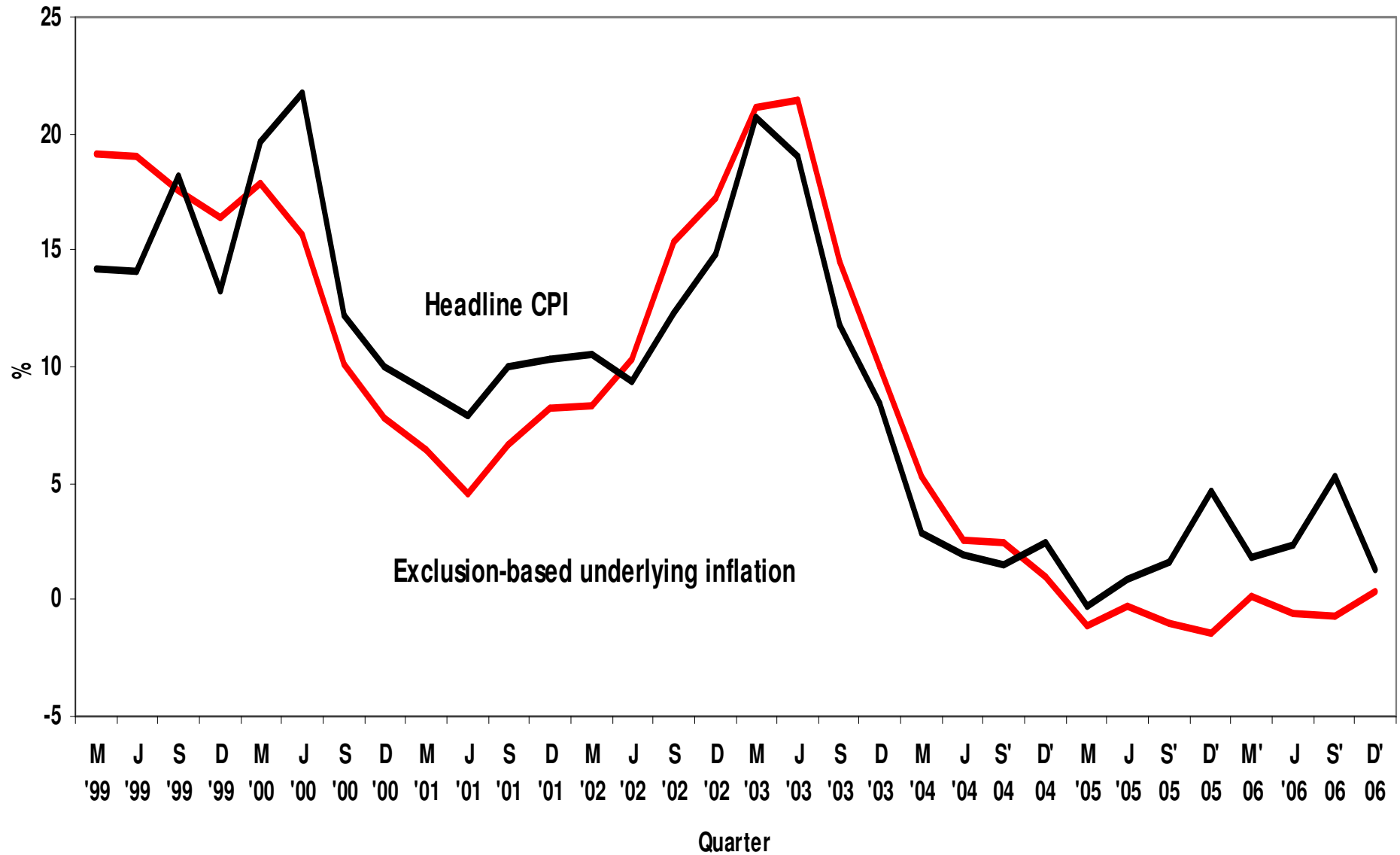


Government Debt

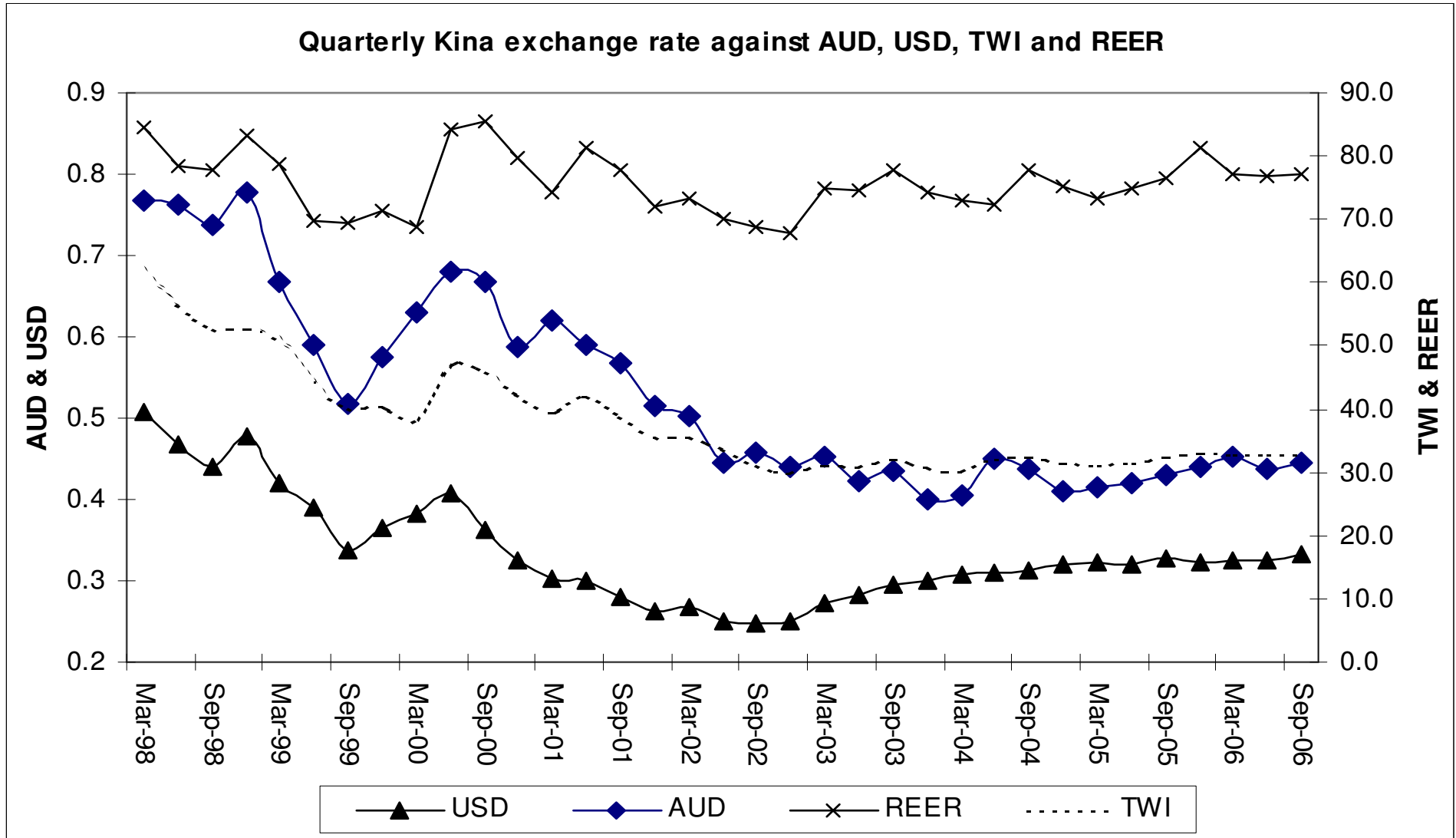
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
K'mn								
Domestic Debt	2021	1783	2115	2588	3023	3181	3405	3059
Foreign debt	<u>3635</u>	<u>4283</u>	<u>5294</u>	<u>5777</u>	<u>4901</u>	<u>4410</u>	<u>3856</u>	<u>3551</u>
Total	5656	6066	7409	8365	7924	7591	7261	6610



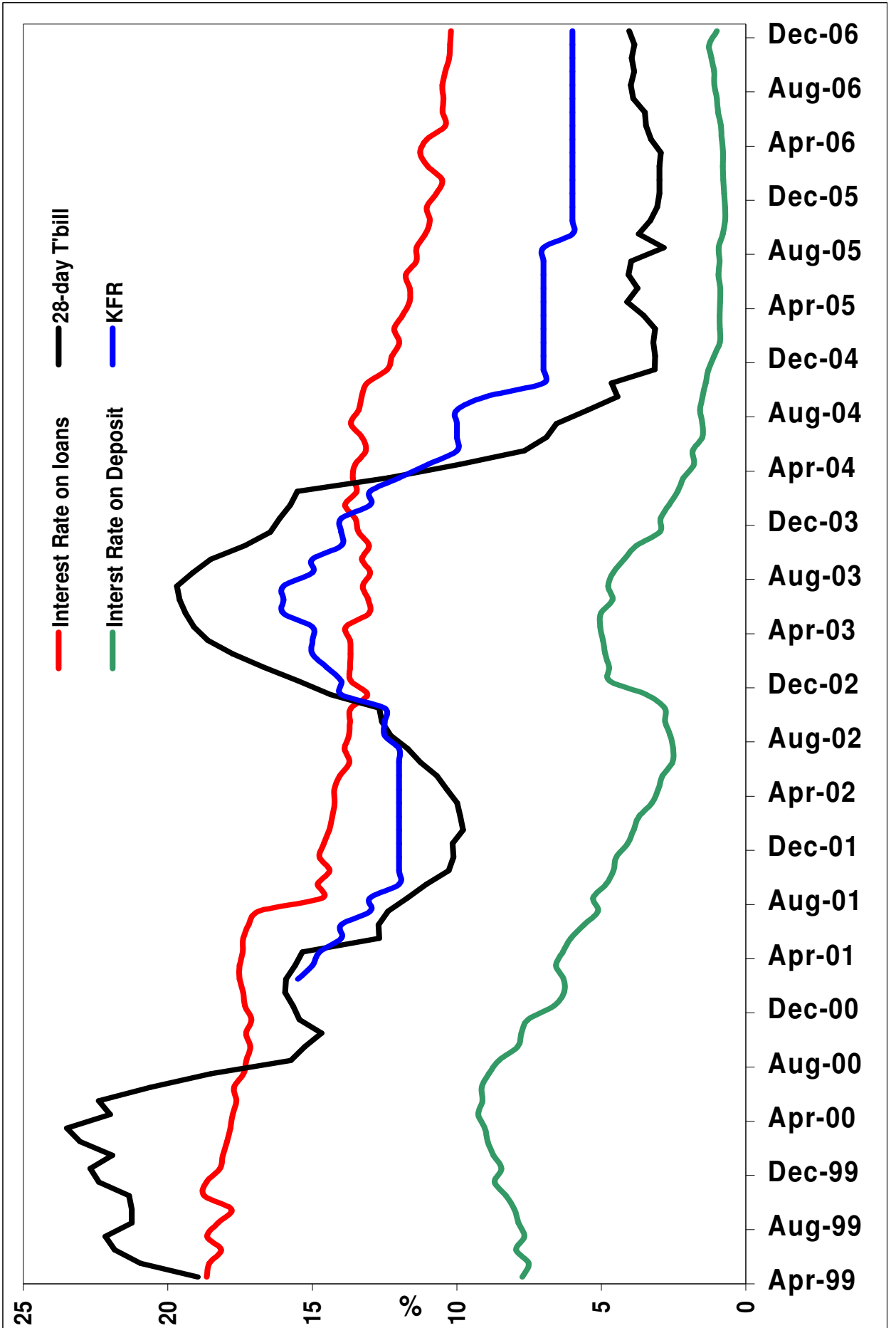
Inflation — annual % change



Exchange Rates

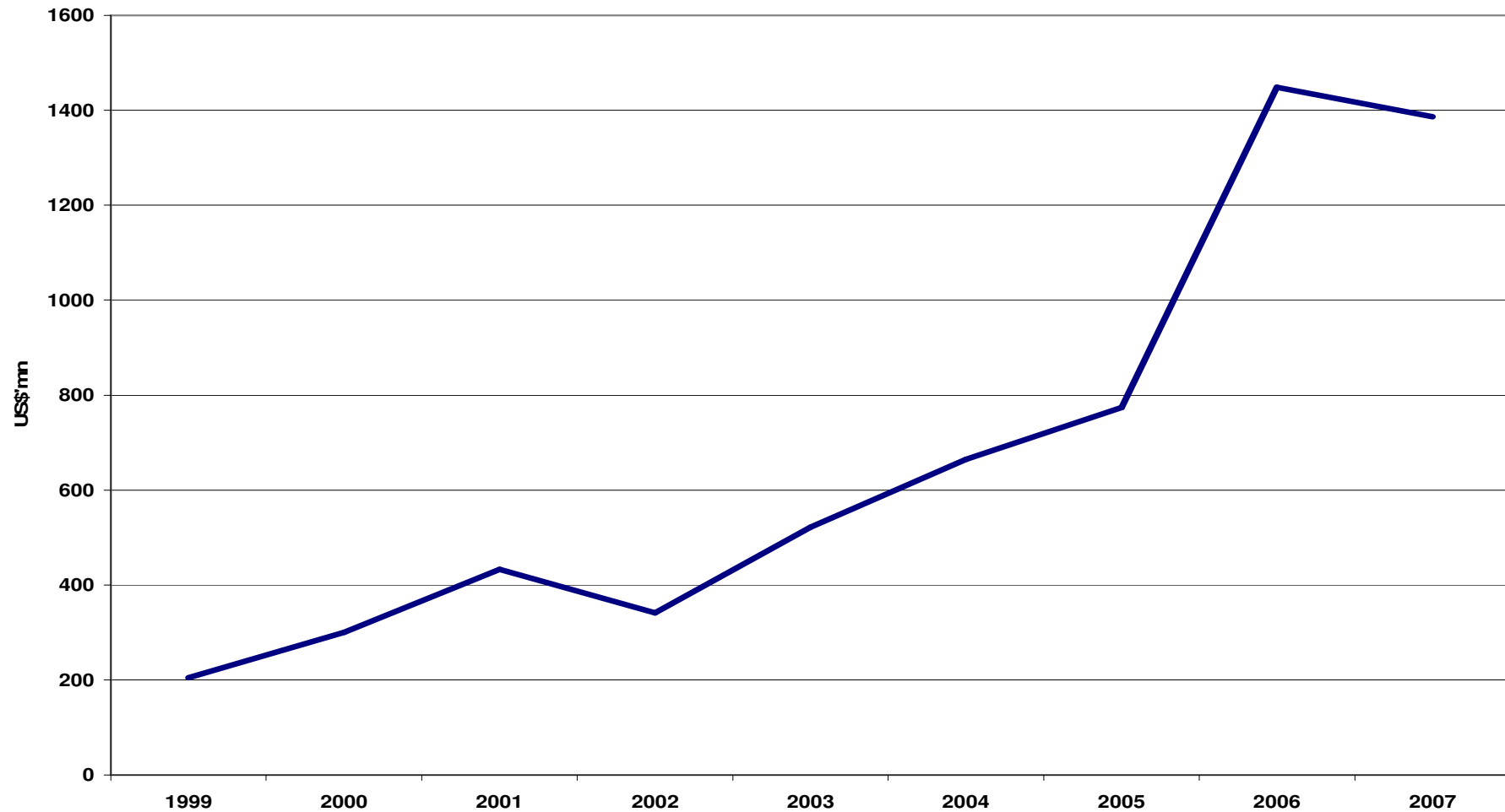


Interest Rates



Foreign Exchange Reserves

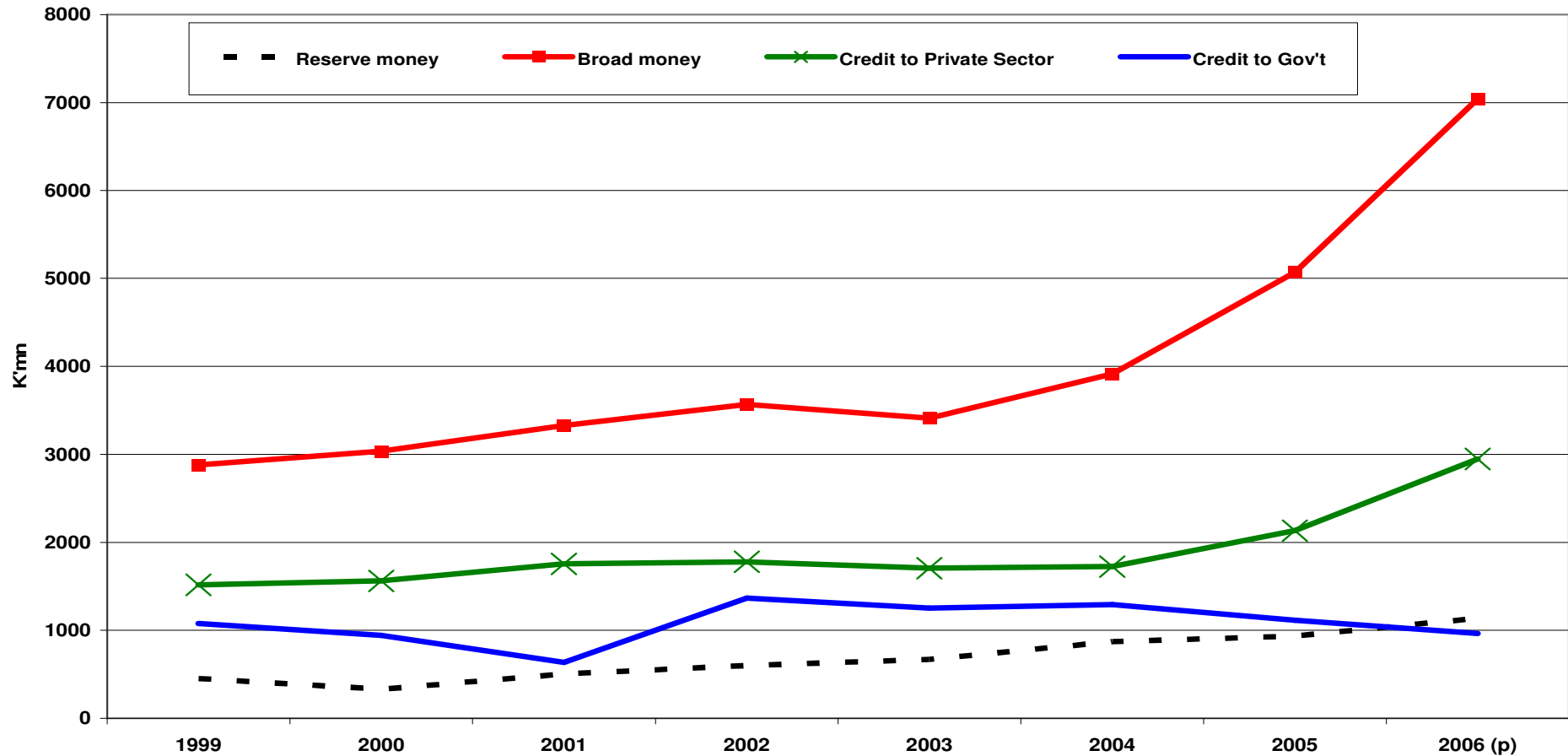
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u> (at 13 Mar)
K'mn	550.8	909.6	1672	1376.5	1742.7	2072.3	2367.9	4323.4	4138.7
US\$m'n	204.9	300.3	432.9	341.1	521.4	664.3	773.8	1448.3	1386.5



Monetary Aggregates

K'mn

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006 (p)</u>
Reserve money	452.5	331.0	503.4	600.5	668.7	870.7	935.4	1138.2
Broad money	2880.0	3034.7	3327.5	3569.2	3410.5	3914.8	5069.3	7041.9
Credit to Private Sector	1516.8	1562.1	1755.5	1780.2	1707.4	1723.6	2132.8	2947.4
Credit to Gov't	1077.4	942.7	637.1	1366.0	1253.0	1293.5	1114.1	965.7



January 2007 Monetary Policy

BPNG maintains a neutral Monetary Policy Stance for the first half of 2007.

This is based on:

- Headline and underlying inflation to be 6.0% and 4.0%, respectively;
- Stable kina exchange rate;
- Balance of Payments surplus of K955 million;
- Gross international reserves of K5,530 million (sufficient for 9 months of total and 18 months of non-mineral import covers)
- Prudent fiscal management by the Government (small deficit of K35 million in 2007 and balanced budget over medium term);
- Private sector credit growth to continue; and
- Real Gross Domestic Product (GDP) growth of 4.5%.

7) Work-in-progress / Challenges

- Expand the foreign exchange dealership to licensed non-bank deposit taking financial institutions
- Implement Superannuation Taskforce Report
- Look at S&L legislation
- Cost for supervision and regulation to be shared by the sector
- Improve on macroeconomic Statistics
- Strengthen capacity-building in supervision (AFSPC) with central banks around the region
- Anti-money laundering legislation and Financial Intelligence Unit with Police and Department of Justice and Attorney General

Work-in-progress / Challenges

- Register for Not Fit & Proper Persons (both local and foreign);
- Fair and transparent appointment and selection criteria and procedures for public and private office holders;
- Balance representation on Boards with requirements for more independent representatives; and
- Time limit

Thank you