



# Papua New Guinea

# PAPUA NEW GUINEA

*Papua New Guinea (PNG) is an independent island nation in the South Pacific Ocean. It lies wholly within the southern tropics, between longitudes 141-157 degrees east of Greenwich and latitudes 1-12 degrees south of the equator. The country comprises the eastern half of the island of New Guinea, the second largest island in the world, which constitutes 85% of the land area and approximately 600 islands, the largest of which are New Britain, New Ireland, Bougainville and Manus, accounting for the remaining 15%. The total land area is 462,840 square kilometres with 8,300 kilometres of coastlines. PNG's immediate neighbouring countries are Australia to the South, Solomon Islands to the East and Indonesia to the West. The total population increased from 2.5 million in 1971 to an estimated 5.2 million in 2000 (National Statistical Office, 2000 National Census). This yields a population density of 11 persons per square kilometre, which is one of the lowest in the world. The official monetary unit is the Kina. The average US\$/Kina exchange rate for the year 2009 was US\$0.3694, an appreciation of 9.2% from the 2008 average of US\$0.3384 per Kina under the floating exchange rate regime.*

## BANK OF PAPUA NEW GUINEA

### **Primary Objective and Responsibility**

The objectives, functions, powers, and responsibilities of the Bank (established in 1973) are specified in the *Central Banking Act 2000*.

The principal objectives of the Bank as stated in Section 7 of the *Central Banking Act* are:

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

### **Policy-Making Body**

The Governor is responsible for the formulation and implementation of monetary policy, with inputs from the Money Market Operation Committee (MMOC) and the Monetary Policy Committee (MPC). The Economics and Financial Markets Departments monitor the performance of various key economic variables. Assessment of their impact on liquidity level, inflation, foreign reserves and other key variables are made: to the MMOC on a weekly basis for liquidity management; for the Kina Facility Rate (KFR) announcement on a monthly basis; and for the Monetary Policy Statement (MPS) on a six-monthly basis. Issues relating to monetary policy are discussed and

deliberated on by the MPC, with the Governor having the ultimate say. The MPC comprises the Governor, the two Deputy Governors, the Managers of the Economics and Financial Markets Departments and the Manager of the Monetary Policy Unit. The monetary policy stance is issued on a six monthly basis in the MPS by the Governor. The BPNG Board and Treasury Minister are only informed of the monetary policy stance.

**Frequency of Meetings**

BPNG Board meetings are held on a quarterly basis, the MPC meets monthly on the KFR and six-monthly on the MPS, and the MMOC meets on a weekly basis for liquidity management.

**Release of Policy Information**

Changes in monetary policy stance are conveyed to the public via the 6-monthly monetary policy statements and monthly KFR announcements in the print media. These are also published in the BPNG quarterly economic bulletins. The press statements are also posted on the Bank's website at <http://www.bankpng.gov.pg>

**MONETARY POLICY IMPLEMENTATION**

The implementation of monetary policy is done through the weekly Central Bank Bills and Treasury Bills auctions (for liquidity management) by the MMOC. The Money Market Operations Unit of the Financial Markets Department implements the MMOC decisions (through the open market operations).

**Policy Signals**

The key monetary policy indicator rate is the monthly Kina Facility Rate (KFR), which is issued by the Governor. The BPNG uses the KFR as a benchmark interest rate to signal its policy intentions.

**Current Monetary Policy Stance**

With consistent decline in annual inflation of 10.2% in March quarter, 6.7% in the June quarter and 5.3% in the September quarter, stemming from the low international food and oil prices in 2009, BPNG has eased its monetary policy stance in December by reducing the KFR by 1.0%. The KFR now stands at 7.0%.

**Policy Instruments**

The primary instrument for conducting monetary policy is open market operations (OMO) using the Central Bank Bills and Treasury Bills, and Repurchase Agreements. The BPNG sells the Bills through a weekly auction.

**FINANCIAL STABILITY**

**Authorities Responsible for Financial Stability and Supervision of the Financial Sector**

The authorities responsible for financial stability and supervision of the financial sector are as follows:

- 1) Bank of Papua New Guinea (BPNG) - the Central Bank
- 2) Office of Insurance Commissioner
- 3) Securities Commission

**Institutional Coverage of the Financial Supervisory Authorities**

The institutional coverage of the respective financial supervisory authorities are as follows:

- 1) BPNG - authorised deposit-taking institutions (ADIs), comprising the commercial banks, licensed financial institutions, and savings & loan societies, and the life insurance companies, life insurance brokers, superannuation funds, investment managers and fund administrators
- 2) Office of Insurance Commissioner – general insurance companies, general insurance brokers, re-insurance companies, loss adjustors
- 3) Securities Commission – stock exchange (publicly listed companies), trusts (unit trust, property trust, etc)

**Strategy for Supervision and Monitoring of Financial Stability**

BPNG uses two approaches: Off-site Surveillance and On-Site Reviews or Examinations. Off-site Surveillance includes collection and analysing of quarterly prudential reports, annual accounts and any other reports required by the regulator. On-site Reviews involve on-site inspection by examiners and analysts on an institution's systems and processes, particularly those relating to risks and internal controls. Where necessary, BPNG takes regulatory actions on issues identified during these visits. Similarly, issues identified from the quarterly prudential reports are acted upon immediately.

In monitoring the conditions of these institutions, BPNG uses CAMEL. BPNG through its supervisory role emphasises to the boards of these institutions to put in place policies and processes to identify and mitigate the risks.

**Plan and Progress for the Implementation of Basel II**

BPNG has not implemented the Basel II Accord. However, its supervisory practises are consistent with most of the key components of Basel II. Implementing the Basel II Accord in its entirety may not be appropriate in PNG at present, given the relatively small size of the market and the financial system.

**CURRENT SENIOR MANAGEMENT OFFICIALS**  
*(as of 31 December 2009)*

**Governor** Mr. Loi M. Bakani

**Deputy** Vacant - Policy

**Governors** Mr. Benny B M Popoitai, MBE, - Regulations,

**Assistant Governor** Mrs. Rosamund Teria - Operations

**Department  
Managers**

Mr. Sali David  
Economics

Mr. Joe Teria  
Financial Markets

Mr. George Awap  
Banking Supervision

Ms Elizabeth Gima  
Superannuation & Life Insurance Supervision

Dr. Gae Y. Kauzi  
Research Department

Mr. Alfred Napun  
Internal Audits

Mrs. William Tiki (acting)  
Human Resources

Mr. Robert Kule  
Banking Services

Mrs. Diury Tolopa  
Corporate Affairs

Mrs. Elizabeth Genia  
Finance and Accounting

Mr. Otto Salmang  
Information Technology

Mr. David Lakatani  
Currency

**Bank & Board  
Secretary**

Vacant

**Minister for  
Finance &  
Treasury**

Honorable Patrick Pruaitch, MP

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