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PNG's Foreign Exchange Crisis Demands review of BPNG

"The recent survey of PNG's CEO's has once again highlighted foreign exchange shortages as the most significant problem facing businesses. Indeed, it was rated by an extraordinary 71 per cent as a first order issue, up from a still very high 60 per cent last year. It is time the government actually started to do something to address this issue. People and businesses are growing tired of the on-going pain" said the Shadow Minister for Treasury & Finance Ian Ling-Stuckey.

"PNG's central bank, the Bank of PNG, implements monetary policy which covers exchange rate management. However, it does so under an Act of Parliament-the Central Banking Act 2000. The PNG Parliament should immediately commence a review of this act as clearly, it is has some major failings impacting the people and businesses of PNG.

"The review needs to examine the fundamental functions of monetary policy in PNG. Currently, there are not enough safeguards. For example, there is no clear powers that should have allowed BPNG to effectively increase the exchange rate by over 15% in June 2014, putting significant pressures on export earnings for hundreds of thousands of our rural farmers. There is nothing which indicates that the Central Bank of PNG, can seriously damage the economy by moving from PNG's former fully convertible market exchange rate regime to one where the future of PNG's economy is tied essentially to the US dollar. Although the Governor has the powers to buy and sell Kina, there is nothing in the "monetary policy powers" that allows him to change the fundamental nature of PNG's foreign exchange arrangements. Does the Governor have the power to essentially create these foreign exchange shortages? More fundamentally, should the Governor have the power to change the whole way the foreign exchange system operates?" asked the Shadow Treasurer.

“There are other very serious issues that need to be considered by a bipartisan review. The Central Bank of PNG is using a “Slack Arrangement” to effectively print money. Its legality, under a normal reading of Section 55 of the Central Banking Act, appears questionable and needs to be red flagged now. BPNG can advance up to K100 million to deal with temporary cash shortages. However, the Bank is advancing 30 times this maximum amount! Specifically, looking at Table 2.3 of the latest Quarterly Economic Bulletin, at the end of September 2017 the central bank had paid the government K3 billion consisting of K1.3 billion in Treasury Bills and K1.7 billion in Inscribed Stocks. This is helping finance the biggest budget deficits in PNG’s history. The Act states explicitly that “the Central Bank shall not grant advances to the Government in respect of, or for the purpose of funding, a Government fiscal deficit.” One must ask-and certainly, that is my role as shadow treasurer, is the Bank of PNG breaking the law?

“One issue that could be considered by a review is whether PNG has the right balance between the important goals of both fighting inflation and encouraging growth. Monetarist policies around 2000 often focused on just the inflation fighting objective. However, given the very narrow way this has been interpreted in BPNG’s actions, it is timely to consider whether enough weight has been given to the importance of getting growth going again. Living standards in PNG have started going backwards in recent years – we need to get non-resource growth back above 5 per cent per annum and this will need a more appropriate Central Banking Act” said Mr Ling-Stuckey.

“The structure of the review should ensure it is conducted in a way that builds confidence in future directions. It should include representatives from PNG businesses, both large and small, as well as a strong consumer voice. There will be a need for international expertise to ensure that lessons are learned from other countries experiences. We would also respectfully suggest that Sir Wilson Kamit, Governor of BPNG from 1999 to 2009, and helped steer PNG out of its last crisis, might also be considered.

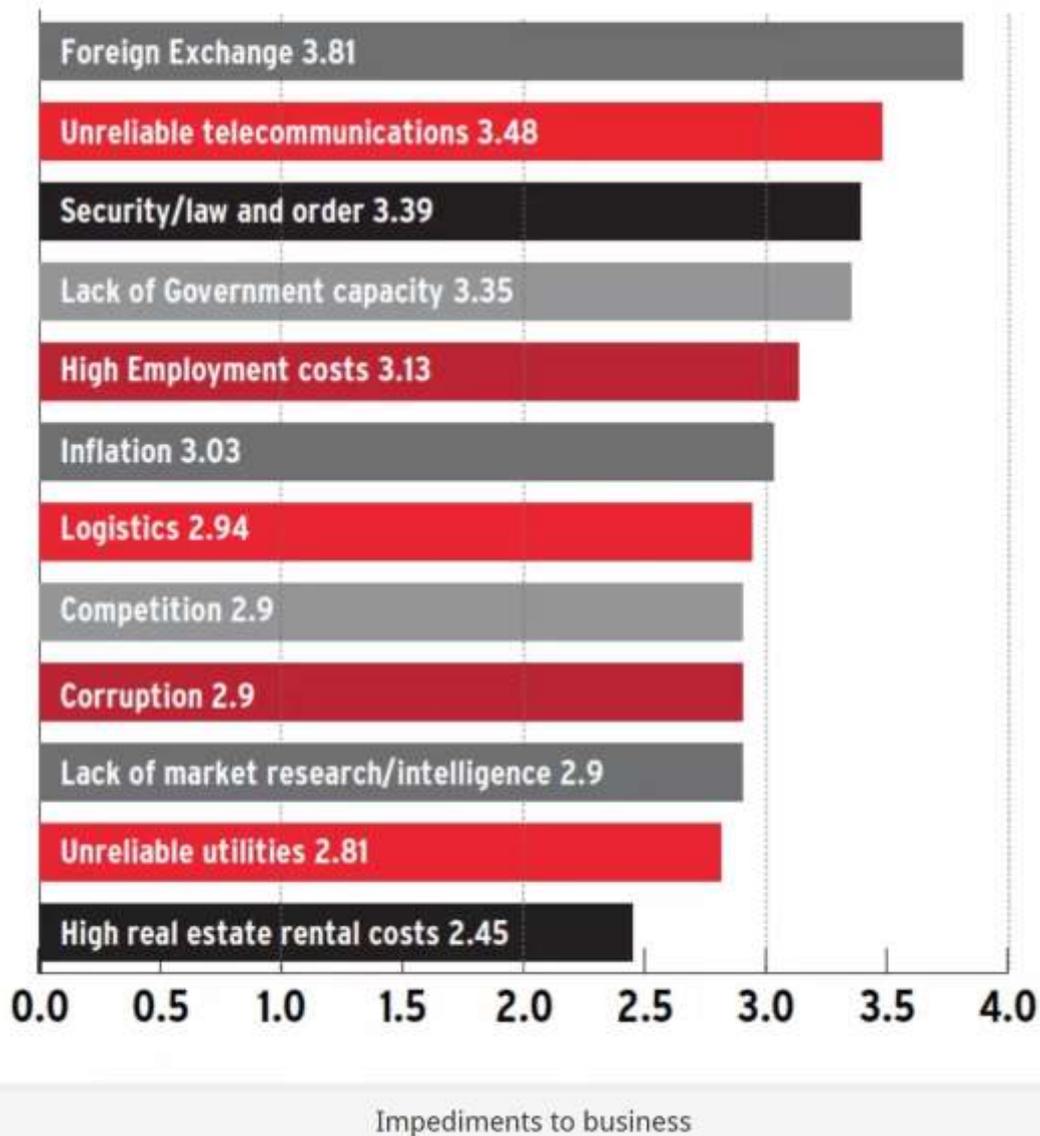
“In addition to a review, and while it is being conducted, there are other actions that can be undertaken. As I outlined in my Budget response speech, these actions should include the following: avoid foolish decisions that consume too much foreign exchange such as the Oil Search share purchase; bring back foreign currency into the country; start using foreign exchange reserves as a buffer by releasing USD50 million per month; stop stripping BPNG of its core assets by demanding dividends; seek out friendly concessional finance of the

scale really required to fix our underlying problems, many of which have been created by poor and untrustworthy policies of this government; and negotiate new resource agreements with a much sharper eye on how best to carve up the pig and where practical, get PNG's share in a more timely way than the PNG LNG project" said the Shadow Treasurer.

Hon. Ian Ling-Stuckey, CMG, MP
Shadow Minister for Treasury & Finance

28 February 2018

What are the impediments facing your business right now?



Extract from latest BPNG Quarterly Economic Bulletin statistical tables on current holdings of government securities

TABLE 2.3: BANK OF PAPUA NEW GUINEA - ASSETS (a)
(KMillion)

End of Period (b)	Foreign Assets			Claims on Central Government			Claims on ODCs (h)	Claims on Other Sectors				Shares and Other Equity	Insurance Technical Reserves (j)	Financial Derivatives	Non-financial Assets		TOTAL
	Monetary Gold & SDRs		Foreign Exchange (e)	Securities Other than Shares		Advances and Other Claims (g)		ODCs	Prov. and Local Govts	Public Nonfn. Corps.	Private Sector (i)				Fixed Assets	Other Non Financial Assets	
	Monetary Gold (c)	Holdings of SDRs (d)		Treasury Bills (f)	Inscribed Stocks												
Sep	176.3	39.5	5365.6	1311.1	1696.0	...	17.2	37.3	...	1.9	...	398.4	421.6	9464.9

Extract from Central Banking Act (2000) Section 55 (9) on BPNG not funding fiscal deficits

(9) Notwithstanding anything to the contrary contained in this section, the Central Bank shall not grant advances to the Government in respect of, or for the purpose of funding, a Government fiscal deficit.

PART VIII. - CURRENCY.

56. INTERPRETATION OF PART VIII.

For the purposes of this Part, a currency note or coin shall be deemed to have