



Bank of Papua New Guinea

**43rd SEACEN Governors' Conference and
27th Meeting of the SEACEN Board of Governors**

21 – 22 March 2008

Jakarta, Indonesia

Press Communiqué

1. The 43rd South East Asian Central Bank (SEACEN)¹ Governors' Conference and 27th Meeting of the SEACEN Board of Governors were hosted by Bank Indonesia during 21-22 March 2008 in Jakarta, Indonesia. Participating in the Conference were Governors and representatives of the sixteen SEACEN member central banks and two observer central banks, together with the Deputy Managing Director and Executive Directors of the International Monetary Fund (IMF), Deputy General Manager of the Bank for International Settlements (BIS), and Executive Director of the SEACEN Centre. Papua New Guinea was represented by Mr. L. Wilson Kamit CBE, Governor of the Bank of Papua New Guinea, Mr. Teup Goledu Board Member and Chairman of the Securities Commission and Mr. George Awap, Manager for Monetary Policy Unit of the Central Bank. The theme of the Conference was "Financial Deepening to Support Monetary Stability and Sustainable Economic Growth."

¹ The SEACEN members include Ministry of Finance of Brunei Darussalam, National Bank of Cambodia, Reserve Bank of Fiji, Bank Indonesia, The Bank of Korea, Bank Negara Malaysia, The Bank of Mongolia, Central Bank of Myanmar, Nepal Rastra Bank, Bank of Papua New Guinea, Bangko Sentral ng Pilipinas, Monetary Authority of Singapore, Central Bank of Sri Lanka, Central Bank of the Republic of China (Taiwan), Bank of Thailand, and State Bank of Vietnam. The participating observers are Bank of the Lao PDR, and National Reserve Bank of Tonga.

2. Governors emphasized the linkages between financial deepening and economic growth as well as poverty reduction. They stressed that an efficient and robust financial system contributes to higher savings and investment, increases the efficiency of resource allocation and diversifies risks, and hence supports long-term growth and poverty reduction. Governors also reiterated that, whilst financial deepening is important for growth, it must be implemented with adequate incentives and safeguards.
3. Governors noted that global growth is expected to weaken. Growth in the U.S. is projected to slow more sharply given the continuing fallout of the subprime mortgage crisis. In the Euro Area, growth is also now expected to moderate in 2008 and 2009. This outlook is coupled with prospects of higher inflation. There has been limited impact of the U.S. financial crisis thus far on the Asian economies. While the region will be affected by increasing downside risks to the global outlook, the impact will be partially mitigated by the strong domestic demand and increased intra-regional trade.
4. Governors observed that financial deepening in SEACEN economies has taken a more diversified structure, advancing from a bank-centered to a more sophisticated market-based financial system. Such advancement is expected to continue despite the recent international financial turbulence. Stronger financial institutions and greater risk diversification can also strengthen an economy's resilience to adverse shock. However, Governors were of the view that financial deepening should be properly sequenced. Governors also highlighted the risks of excess liquidity and excessive complexity resulting from various financial deepening initiatives which are not accompanied by adequate surveillance and strong regulatory framework.
5. Governors noted that market discipline, prudential norms and supervisory oversight in financial sector are essential. However, there is a need to strike a balance between flexibility, so as to encourage financial innovation, robust regulation and better corporate governance. Thus, Governors believed that the scope of supervision needs to be improved, which includes the implementation of Basel II as recommended by BIS, necessary enhancement and rigorous consolidated supervision. Governors emphasized the need to strengthen financial market surveillance to enhance the capacity to respond in a timely manner. In addition, regional cooperation could help foster development and promote resilience of the financial markets in the region.

6. Governors noted the IMF's endeavor to continue refocusing its surveillance practices to better cope with the recent global economic challenges as well as new strategic directions and efforts to develop new liquidity instruments.
7. Governors expressed their highest appreciation to Bank Indonesia for the excellent arrangements and warm hospitality in hosting this year's SEACEN Governors' Conference and SEACEN Board of Governors' Meeting.
8. On releasing the Press Communiqué to the local media, Governor Kamit stated that financial deepening in Papua New Guinea had undergone dramatic transformation since 2000 with the new legislations of Central Banking Act 2000, the Banks and Financial Institutions Act 2000, the Superannuation Act 2000 and the Life Insurance Act 2000. These Acts have enabled the financial institutions to become more vibrant and have grown significantly in asset size and profitability in a relatively short time. A review of the Savings and Loans Act is now underway.
9. Governor Kamit mentioned that, to encourage mobilization of private savings to productive sectors of the economy, the Bank of Papua New Guinea was also an initial shareholder of the Port Moresby Stock Exchange (POMSOX). Since its establishment market capitalization had increased significantly. In supporting activities of the stock exchange and the Government's policy to remove impediments to conducting trade and investment, the removal of foreign exchange controls has led to a significant increase in the volume of foreign exchange transactions and has also contributed to the increase in private sector credit.
10. Governor Kamit stated that improvement in the fiscal position has enabled the Government to restructure the domestic debt market by maturing short term Treasury bills and introducing longer dated Inscribed Stocks, thereby reducing refinancing risk significantly. It also used some of its surplus to prepay external debt.
11. Governor Kamit, however cautioned that the removal of foreign exchange controls, the increase in capitalization of the stock exchange, faster growth in private sector credit and monetary aggregates present new challenges in the Central Bank's endeavour to ensure stability of the financial system. In this regard, financial surveillance and strengthened oversight by the Central Bank and other regulatory institutions is necessary in maintaining this stability and sustaining its growth.