



Bank of Papua New Guinea

**33RD SOUTH PACIFIC CENTRAL BANK
GOVERNOR'S MEETING**
“Strengthening Collaboration”

14-16 November 2018
Samoa

Governor, Loi. M. Bakani



AGENDA

- ✓ **Brief Economic Update;**
- ✓ **Update on impact of de-risking, anti money laundering;**
- ✓ **Update on crypto currencies or digital currencies; and**
- ✓ **Other initiatives for strong collaboration**
- ✓ **Other developments/issues**



Brief Economic update

❖ Economic growth

- ❑ PNG's growth for 2018 was revised downwards from earlier 2.4 percent to around 1.0 percent reflecting effect of earthquake in February 2018.
- ❑ Growth is expected to be driven by the non-mineral sector.
- ❑ Recent economic indicators point to improved economic activity in 2018.
- ❑ Over the medium term, GDP is expected to pick up to around 3.0 percent in 2019 and 2.0 percent for 2020.

❖ Inflation outcomes & expectations

- ❑ Inflation remains subdued in 2018.
- ❑ The Bank projects annual inflation be around 4.0 percent in 2018 to accounted for lower prices of seasonal items.
- ❑ The Bank projects annual inflation to be around 5.0 percent in 2019 and 2020.
- ❑ The increase in 2019 reflects foreign inflation and pass-through effect of a weaker kina exchange rate.



Brief Economic update (cont)

❖ Fiscal operations

- ❑ Government's fiscal position for 2018 is projected to be a deficit of K1,987.2 million
- ❑ Net external borrowing will be K3,344.3 million which will more than cover the total budget deficit of K1,987.2 million.
- ❑ The Government's intention is to use the surplus funds from the external borrowing to restructure its domestic debt and partly fund the deficit for 2019. This includes proceeds from the Sovereign Bond.

❖ External position (BOP)

- ❑ The external sector continued to improve in the first half of 2018; with an overall BOP surplus position.
- ❑ This led to an increase in foreign exchange inflows and higher mining and petroleum taxes.
- ❑ Improved Current Account (CA) in the second quarter of the year with increase in international prices and production of some of PNG's major export commodities.
- ❑ CA surpluses not translating to Government revenue and foreign exchange inflows due to LNG export proceeds kept offshore for debt service.
- ❑ In 2018, the BOP is projected to record a surplus.
- ❑ This trend is expected to continue into 2019 and 2020



Brief Economic update (concl)

❖ Exchange rate developments

- ❑ The kina while stable has been on a depreciating trend consistent with market fundamentals in 2018.
- ❑ Against a basket of currencies, PNG's TWI has also declined. The depreciation has helped improve the competitiveness of PNG's exports.
- ❑ Current reserve levels as at October 2018 is around US\$2.2 billion.

❖ Monetary policy stance & conduct

- ❑ The Bank maintained a neutral monetary policy stance over the six months to September 2018
- ❑ Considering the global economic conditions, stable inflation, the relatively stable kina exchange rate and in support of private sector activity.
- ❑ In the remaining months to March 2019, the Bank is expected to maintain a neutral stance of policy.



Impact of Derisking

❖ Corresponding Banking

- ❑ In October 2018, BPNG signed a framework Agreement with Crown Agent Bank (CAB), to facilitate the establishment of Corresponding Banking Relationship with local financial institutions including.

❖ AML/CTF developments

- ❑ The Financial Analysis and Supervision Unit (FASU) was established under the *Anti-Money Laundering and Counter Terrorist Financing Act 2015*
- ❑ FASU's functions include carrying out financial intelligence and analysis on suspected money laundering and associated predicate offences
- ❑ Capacity building programs with INTERPOL, AUSTRAC, ADB and the Australian Attorney Generals Department (AGD) are on going.
- ❑ FASU continues to roll out awareness to reporting entities of their obligations under the Act.
- ❑ Has moved to nonfinancial entities such as car dealers, etc.
- ❑ Challenge has been on investigation and prosecution of suspicious persons.



Crypto-currencies/digital currencies

- ❑ The bank of PNG has issued a series of public statements on its website and print media, cautioning the general public on trading or dealing in crypto-currencies.
- ❑ Trial use of blockchain using 'regulatory sandbox' approach.

Other Initiatives

❑ Financial Inclusion

- Commitment to Maya Declaration reoccur in 2018
- Outcome of unbanked population in 2018 to 71 percent.
- National switch to be operational in 2019
- GESI policy implementation
- National Financial Inclusion policy approved by NEC
- Financial Sector Development Strategy by NEC
- New Savings Loans Society (SLS) Act in place for implementation

❑ SMEs support proposals

- Establish Guarantee corporation
- SME bank
- Work with IFC on SME area



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Other developments/issues

- ❑ Sale of ANZ retail banking to Kinabank
- ❑ Sovereign Wealth Fund (SWF) to be operational in 2019
- ❑ Asia Pacific Economic Cooperation (APEC) hosting in 2018
- ❑ Establishment of Free Economic Zone
 - Trade
 - Fintech



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End of Presentation

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