



## PUBLIC NOTICE

# POLICY RESPONSE TO THE IMPACT OF THE CORONAVIRUS (COVID-19)

The Governor, Mr Loi M Bakani CMG announce the following policy measures to maintain monetary, financial and payment systems stability as Papua New Guinea's economy adjusts to the potential negative impact of the COVID-19 pandemic. These measures will take effect immediately, in order to provide ample liquidity to individuals and businesses at a reasonable cost.

### A. MONETARY POLICY

#### 1. Reduction of the Kina Facility Rate (KFR)

The Bank of PNG (Bank or Central Bank) will further ease monetary policy to signal its intention to lower the cost of funds and make liquidity available to commercial banks during this period. The KFR will therefore be reduced by 200 basis points to 3.0 percent from the current rate of 5.0 percent. To reciprocate the reduction in the KFR, the Bank has directed the commercial banks to reduce their respective Indicator Lending Rates (ILR).

#### 2. Reduction of Cash Reserves Requirement (CRR)

To support the reduction in the KFR, the Bank will reduce the CRR to 7.0 percent from the current level of 10.0 percent. This will provide significant additional liquidity to the banking system. Any further changes will be assessed in the coming months.

#### 3. Quantitative Easing (QE) program

In addition, the Bank announces its intention to Repurchase or Buy-back Government securities, either Treasury bills (TB) or Government Inscribed Stocks (GIS) in an open market QE program to provide liquidity to holders of these instruments. The program will be made available for investors on request and the Bank will allow flexibility for full and partial redemptions. The program is offered for three-month period.

#### 4. Repurchase Agreements (Repo) Operations and Margins

The margin on Central Bank borrowing and lending to commercial banks will increase by 25 basis points to 100 basis points on both sides of the KFR. The intention is to encourage interbank borrowing and lending among commercial banks. The Bank has requested the cooperation of commercial banks to temporarily waive credit risk limits that may restrict interbank borrowing and lending activity.

#### 5. Intra-Day liquidity Facility (ILF)

The Bank will continue to provide the Intra-day Liquidity Facility to commercial banks to support the efficient clearing of payments

transactions. The Facility will now be accessed on demand based on prevailing limits.

#### 6. TAP Facility

New purchases under the Tap Facility will cease throughout the 14-day lockdown period until further notice. Only Repurchases or Buy-back will be allowed during this time. The Buy-back allows the public to redeem their invested funds prior to maturity for their liquidity needs.

For now, the Tap Facility trading hours are between 8.00am and 12.00pm on Monday, Wednesday and Friday at the Bank.

#### 7. Foreign Exchange (FX) Interventions

The Bank is committed to providing US dollar liquidity to the domestic Fx interbank market based on its assessment on the supply of and demand for foreign currency.

The Bank has directed the Authorised Foreign Exchange Dealers (AFEDs) to give priority to retailers & wholesalers of medical drugs, medical and pharmaceutical companies, particularly the import of products that relate to the COVID-19.

The BPNG will also make foreign currency available directly to National Department of Health for urgent COVID-19 related purchases abroad.

### B. PRUDENTIAL MEASURES

The Central Bank will relax Prudential requirements to cover the 3-months loan repayment holiday, specifically the Prudential Standards relating to Asset Quality, Capital Adequacy and Loan-Loss Provisioning.

### C. OTHER MEASURES AND ASSURANCE

#### 1. Distribution of Currency

The Bank will continue to supply adequate currency to commercial banks on a daily basis. This includes the Cash Distribution Centres and the Lae Currency Processing Facility.

#### 2. Kina Automated Transfer System (KATS) and Retail Electronic Payment Systems (REPS)

The operations of the KATS and REPS will continue as normal. The Bank has contingency plans for system downtime and on-site support when required for both systems.