

## **Loi M Bakani: Financial planning for tomorrow**

Speech by Mr Loi M Bakani, Deputy Governor of the Bank of Papua New Guinea, at the 2005 Money Show, Port Moresby.

Topic of discussion: Creating a conducive financial system infrastructure for financial planning.

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The Minister for Finance & Treasury, Honourable Bart Philemon, other Government ministers, Central Bank Governor Mr. Wilson Kamit, members and directors of the Port Moresby Stock Exchange, invited speakers, ladies and gentlemen.

The Bank of PNG has participated in the Money Show since its inception, and as with the other sponsors, we see our involvement as an important contribution towards the education of our people in financial planning and investment. The Money Show has truly become an annual venue and source of education and awareness on financial matters.

Our participation is not only because of the unique position we hold in the financial structure of the country, but because the governing Act, the Central Banking Act (CBA) 2000, also requires us to promote educational awareness, provide financial advice and ensure the safety of the financial system. In this regard, I, on behalf of the Bank of PNG commend other sponsors for their continued support and participation in the Money Show.

The theme for this year's Money Show is - "Financial Planning for Tomorrow". Speakers before me have and those after me will talk specifically on financial planning. What is it, why is it important, and how individuals and business enterprises can manage their financial resources and make use of various income-earning opportunities available. I will talk specifically on the area that is much closer to the activities of the Central Bank, that of 'Creating a conducive financial system infrastructure to facilitate financial planning'.

The activities of the Bank of Papua New Guinea, as most of you are aware, are governed by several legislations. These legislation include the Central Banking Act (CBA) 2000, the Banks and Financial Institution Act (BFIA) 2000, the Savings and Loan Societies Act, and recently, the Life Insurance and Superannuation Acts.

We can look at the financial system infrastructure from a legislative, operational and policy perspective:

### **Legislative**

Let me first talk about the legislative aspect of the financial system infrastructure.

I have mentioned the legislation that governs the activities of the Central Bank. These legislations were part of the Government's reform in the financial sector undertaken since 2000, which have given the Central Bank greater independence to perform its roles and objectives. Under the CBA 2000 and BFIA 2000, the Bank is given the tasks of managing monetary policy, supervising the financial system and ensuring an efficient payment system that would contribute towards achieving economic growth. The Life and Superannuation Acts were introduced to remove political interferences in these industries, and to ensure that these institutions are managed in a prudent manner to safeguard the interests of stakeholders, contributors and policyholders. All these activities are targeted at providing a stable, strong and vibrant financial system infrastructure, one that would amongst other things, assist in creating an enabling environment for financial planning. Such an environment would, in the long run, contribute to the achievement of economic growth and create employment.

Increased independence given to the Central Bank means increased responsibilities. It also means that we have to be transparent and accountable on our decisions and actions. We have used these legislations to deal with problem financial institutions, those that are being mismanaged, as well as ensuring that only 'fit and proper' persons were managing them.

Our supervision of the financial system in Papua New Guinea, covering the banks, other licensed financial institutions, saving and loans societies, superannuation funds, and life insurance companies are to ensure that these institutions comply with the legislative requirements, use world's best practices and have operational work ethics.

## **Operational**

I will now talk about the operational aspects of the financial system infrastructure.

The Central Bank is entrusted with the role of maintaining a sound and efficient financial system. To strengthen our supervisory functions, we have introduced new prudential standards for the licensed financial institutions, based on international best practices and consistent with the Basle standards. The people tasked with managing these licensed financial institutions have a demanding, challenging and responsible role to perform. Therefore, the corporate governance structure is one of the requirements that the Central Bank has continuously emphasized to ensure only "fit and proper" persons are appointed to the boards and management of these institutions. Corporate governance is the key to strengthening efficient internal controls, risk management and reporting systems.

As a result of these reforms and standards, the financial system is generally stable and functioning reasonably well for a thin system with only a few large institutions. Overall, there is adequate level of capital maintained by the banking sector; asset quality has been improving which is consistent with the improvements in the economy; liquidity remains high; and posted earnings continue to be favourable, especially for the major banks. This has provided a strong foundation for the growth and management of our financial institutions, as indicated by recent media reports of significant profit earnings by Bank South Pacific, POSF and NASFUND.

The Central Bank is committed to seeing the development of the capital market in Papua New Guinea. We are one of the founding members of the Port Moresby Stock Exchange (POMSOX) and see our role as one of nurturing its development and growth. The development of the local bourse provides an alternative source for capital raising and allows for the deepening of the financial system.

We continue to advise the general public against investing in fast money schemes. They come in various guise and manner. There are no quick and fast ways to gaining financial wealth, as the other speakers would have mentioned. While the Central Bank has taken out various public notices and educational campaigns against depositing funds in these illegal entities, it is the role of all of us here and through such conferences as the Money Show to educate the public that financial wealth, like all other things, grows over time through good financial planning, hard work, honesty and sacrifice.

Ensuring wider participation in the financial system is an on-going area of work for the Central Bank. Apart from revitalising the savings and loan societies movement, we have commenced on the development of the micro-finance business. To date, we have two licensed microfinance service providers; the Wau Microbank based in Wau, which has expanded to Lae this year and the PNG Microfinance Limited based at Koki, Port Moresby. A few other established financial institutions are also venturing into and linking up with microfinance businesses. Over a short span of their existence, these institutions have experienced significant expansion in their customer base and outreach. This clearly reflects a high demand for financial services by the small people and the change in their attitudes to plan and save for their future needs. To ensure that the growth of this industry is sustained, the Bank of PNG is in a process of establishing a legal framework and broad guidelines on their licensing requirements.

To support other Government policies in realising and spreading the benefits of macroeconomic stability, the Central Bank removed one of the administrative impediments to investing in PNG and abroad, by liberalising some aspects of the Foreign Exchange Controls on 01<sup>st</sup> June 2005. Prior attempts and intentions to liberalise exchange controls did not eventuate because the timing was inappropriate and the Central Bank did not have the required foreign exchange reserves and independence then to rein in any monetary expansion that may result from an expansionary fiscal policy and resulting pressure on the kina. This bold move now allows for a smooth and free movement of capital into and out of the country, and encourages better financial planning by investors.

The remaining controls are those for approvals on private capital account contracts between residents and non-residents, approvals to open and operate foreign currency accounts outside PNG, and licensing of authorised foreign exchange dealers and gold exporters.

## **Policy**

Let me turn now to the policy aspect of the financial system infrastructure.

Early this morning, the Bank of PNG released its July 2005 Monetary Policy Statement, outlining its monetary policy stance for the remainder of 2005 and the medium term. The Central Bank's monetary policy objective is to achieve and maintain price stability.

We have to an extent achieved this, given the low inflation and interest rate levels, as well as a stable exchange rate. Not only was these positive outcomes due to favourable international commodity prices but most importantly to sound fiscal and monetary policies. This has resulted in renewed confidence in the economic management of the country as well as expansion in business activities by the private sector.

For 2005 and the medium term, we forecast inflation to remain low as the stability in the kina exchange rate will be sustained over the medium term. Combined with prudent fiscal management by the Government and confidence in the market, the Central Bank will maintain a neutral monetary policy stance, as announced this morning.

Achieving and maintaining price stability is not only our monetary policy objective, but is also important for financial planning by all of us. It provides some certainty in price levels for budgeting and investment purposes, particularly on interest rates, exchange rate and inflation.

## **Conclusion**

To conclude, the Bank of PNG is committed to implementing and fulfilling its mandated role of ensuring a sound and stable financial system for the people of Papua New Guinea and those who conduct business here. We now have in place the necessary legislations and strong independence to safeguard the institutions that we licensed under the various legislations.

However, we still have more work to do to in ensuring that the financial system infrastructure continues to be sound and reliable. The economy is in a better shape than it has been for a number of years. But we cannot afford to be complacent and must continue to work towards ensuring these gains are sustained. Working together with the private sector, Government and the general public, we can all ensure that these gains are passed on to tangible benefits for the rest of the country and its people.

The Government has been able to undertake significant reforms in the financial sector. Whilst the foundation for a sound financial system has been laid, we will continue to strengthen the financial system infrastructure that will support and sustain financial planning for tomorrow. It is a challenge for everyone – the business community, the commodity producers, the Government and the general public, to take advantage of the current favourable macroeconomic and financial situation and the income earning opportunities it provides to improve on our financial being and for the whole country. It is now an opportune time not only to talk, but also to actually do financial planning for tomorrow.

Thank you.