

Loi M Bakani: Recent financial sector and economic developments in Papua New Guinea

Address by Mr Loi M Bakani, Deputy Governor of the Bank of Papua New Guinea, at the opening of the Kimbe Branch of ANZ Bank (PNG) Limited, Kimbe, New West Britain Province, 23 November 2006.

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Acknowledgement

Honourable Sinai Brown, MP, Minister for Public Services
Mr. Garry R. Tunstall, Managing Director of ANZ Bank (PNG) Limited
Mr. Peter Madden, CEO, Post PNG
Bishop Alphonse Chaupa, Kimbe Diocese representing Churches in WNB
Business and Community Leaders
Distinguished guests, ladies and gentlemen.

I would like to thank the ANZ Bank for inviting the Governor of the Bank of PNG Mr. Wilson Kamit CBE to the official opening of its Kimbe branch. However, he is unable to attend, as he is on his way overseas for an official engagement. He has asked me to represent the Central Bank.

1. Introduction

The Bank of PNG is proud to see continued positive developments in the financial system and encourages the expansion of banking network throughout the country. Today, the people of West New Britain province have every reason to be joyful as they celebrate this important occasion – the opening of the Kimbe branch of the ANZ Bank. ANZ Bank joins Westpac and BSP to bring the number of commercial bank branches in the province to three, thus, providing an additional option of banking services for the general public.

The opening of this ANZ Kimbe branch highlights another milestone in the development of our banking and financial system. The Central Bank is glad to be invited because such events gives us an opportunity to talk about the developments that are occurring in our financial sector and the economy at large.

2. Financial sector reform and role of the Central Bank

I will talk on the developments in the financial sector and the current economic conditions later. Let me first mention the underlying framework, which gave rise to the current positive developments we are now seeing in PNG.

A major Government initiative was the reforms to the financial sector, which began in 2000. A new *Central Banking Act* and *Banks and Financial Institutions Act* were enacted. These gave the Central Bank a focused set of objectives, increase its independence and improved regulation and supervision of the financial system. The *Central Banking Act* also limited the Government's access to Central Bank financing and introduced a new Board with wider community representation. More recently, two other legislations were taken on by the Central Bank due to the experiences of poor supervision and regulatory oversight leading to mismanagement of these industries. These are the *Superannuation (General Provisions) Act* and *Life Insurance Act*.

The new Central Banking Act and Bank and Financial Institutions Act have enabled the Central Bank to undertake major initiatives in the financial sector. These included preparing the then PNGBC for privatization, dealing with fast-money schemes, and enforcement actions against non-compliant institutions such as the Workers Mutual Insurance (PNG) Limited. We have introduced a number of new prudential standards for banks and supported the microfinance industry. We continue to work closely with all these financial institutions to ensure our people receive a safe and reliable financial service.

3. Recent economic developments

Let me now briefly discuss the positive economic developments we have experienced since 2002. PNG is currently enjoying the most favorable and stable macroeconomic climate since gaining independence in 1975. Throughout 2006, PNG continued to experience improved economic activity with increased confidence by the business community in the Government's macroeconomic management. Strong economic performance is reflected by the major macroeconomic indicators, which include rising employment levels, increased exports, higher credit growth from the banking system, and prudent fiscal management.

These developments have enabled us at the Bank of PNG to maintain a neutral monetary policy stance, which has laid the foundation for economic growth. We have achieved and maintain low inflation, a stable exchange rate and low interest rates. These achievements are consistent with The Bank of PNG's objective of achieving and maintaining Price Stability. Our foreign reserves reached a historical level of US\$1497.5 million (equal to approx. K4.5 billion) on 10 November 2006 and is still around this level today.

The West New Britain province is a significant provider of non-mineral foreign exchange reserves, through the exports of palm oil, cocoa and forestry, combined with tourism. Between 2000 and 2003, the province exported on average K256 million or 18 percent of total log exports and K1,408 million or 62 percent of total palm oil exports from PNG.

The Government presented its 2007 National Budget last week, continuing the prudent fiscal stance it has adopted and in line with the Medium Term Development Strategy. With windfall tax revenue from the high international commodity prices, and improved economic activity, the Government plans to increase its development expenditure and reduce public debt.

The IMF has just completed its annual Article IV mission to PNG and is very pleased with our progress to date. The World Bank has also expressed similar views on our economic management.

Given the favorable macroeconomic conditions, the challenge for all of us is how we can sustain these gains over the long term. I therefore encourage you all to continue to engage in various economic activities and agriculture production, and urged you to utilize the various financial services provided only by licensed financial institutions, such as the commercial banks.

4. Recent developments in the financial sector

Turning to the financial sector, as at the end of September 2006, our financial sector comprises of four commercial banks, eleven licensed financial institutions (LFIs), twenty-two savings & loan societies, two micro banks (one of which is a pilot project) seven superannuation funds, two investment managers, five fund administrators, five life insurance companies and two life insurance brokers.

Total assets of the financial sector, as at the end of September 2006 was K10.5 billion. The commercial banks holds 65.5 percent of total assets of the system followed by ASFs with 25.5 percent. Licensed financial institutions and savings & loan societies hold 7.3 percent each and life insurance companies' accounts for 1.7 percent. Total deposits and loans of the deposit-taking institutions were K6.2 billion and K2.6 billion, respectively and are mostly with commercial banks.

Our financial system is sound and healthy and it is the role of the licensed financial institutions to support business financing propositions to enhance economic activity. The biggest challenge for the banking industry is how to provide banking services to the rural communities where such services are nonexistent.

5. Postal service network and District Treasury Rollout Program

One of the government's medium term development strategies for delivery of banking and financial services to our rural areas is through its District Treasury Rollout Program. This is in view of lack of development in the rural areas. Another positive development is the provision of banking services via the postal service network. This is done in partnership with Post PNG and the commercial banks including ANZ Bank. This is a welcome development in PNG and we should embrace such development because it is bringing financial services to our rural communities.

6. Development of the microfinance sector

I earlier mentioned microfinance. This is another category of financial institutions that can impact positively on the lives of our people, especially in the rural areas with the provision of micro-financial services. We have heard of the many success stories in other developing countries with similar features to PNG. These include Bangladesh, India, Sri Lanka and many African countries. The Government of PNG has recognized the huge potential of microfinance. Assistance was therefore sought from the Asian Development Bank and other partners to develop a project called the PNG-ADB Microfinance and Employment Project. The Project aims to provide sustainable microfinance services to viable formal and informal enterprises and savings services to the wider population. This would encourage private sector development, employment creation and further development the financial system.

As the Chairman of the Project's Steering Committee, I am aware of the Wau Microbank's plan to expand its network to other provinces in PNG but has to apply for a full license from the Bank. The Central Bank has granted approval for another microfinance company, the PNG Microfinance Limited to expand to Kimbe. Further, we are aware the Provincial Administration in West New Britain has allocated funds for a micro bank in the province. If all these materialize, the micro banks can complement the three commercial bank branches in providing better banking and financial services to the province.

7. Threats and challenges to growth and sustainability of the financial sector

Financial sector growth and sustainability cannot be achieved alone by the government undertaking major legislative reforms or the Central Bank formulating and implementing sound monetary policy and carrying out an effective supervision of the financial system. Equally important is the need to adopt and implement good governance in the financial sector.

Emphasis on corporate governance and the requirement to ensure 'fit and proper' persons to hold positions on the board and management cannot be emphasized enough. We continue to emphasize that good governance should be the top priority of all financial institutions that come under our surveillance and supervision.

The Board and Management of these institutions have a fiduciary responsibility to ensure that deposits of the public are not lent out recklessly to borrowers who do not meet best practice of lending by banks and licensed financial institutions. Further, it is also their responsibility to ensure that shareholders do not dictate, influence or even interfere with the running of the institutions as they have a paramount duty to protect the interest of depositors/savers.

PNG is a dynamic economy with a growing financial system and in order to meet these challenges the Bank is working with other stakeholders in further reviewing the Superannuation Act and the Savings and Loan Societies Act to ensure institutions regulated under these legislation meet the requirements and continue their prudent management.

8. Fast money schemes (FMS)

Whilst the Bank is doing everything within its powers to protect the banks and licensed financial institutions with which the public has deposited their savings, the Bank also confronts a new kind of problem. This is to do with the activities of fast money schemes.

The operators of these fast money schemes have been lying to people about their activities so that they continue to rob them of their hard-earned savings. The information that they present to the unsuspecting investors/public are full of lies, deceit and fraud. For instance, the latest false information going around is that the Bank of PNG is holding onto their billions of kina. They tell the unsuspecting investors to be patient and it is only a matter of time before the Governor of the Bank signs papers to release their billions of dollars or kina. They also circulated a false letter of guarantee carrying a forged signature of the Governor.

We are aware that the activities of FMS are widespread in the West New Britain province. Three weeks ago, our officers conducted an investigation into FMS activities in the West New Britain province. They confirmed the existence of three schemes operating in the province; namely Papalain, U-Vistract and Christian. There may be other small ones. I am told some operators of these FMS intend to contest the coming 2007 national elections to get into power and get the Central Bank to

release their billions of kina. THIS IS AN OUTRIGHT LIE, A DECEITFUL ACT, AND FRAUD! The Central Bank does not have any money belonging to fast-money schemes.

I want to inform the public that the Bank of PNG is an independent institution of the Government and is the banker to the government, not to the public. The commercial banks and other licensed financial institutions provide banking and financial to the general public. For fast-money scheme operators to pass the blame to the Bank of PNG for withholding their monies from overseas is a blatant lie. They themselves have used up the depositors' money. The truth is that neither the Central Bank nor the commercial banks are holding any money that belongs to the FMS.

The public must stop listening to the lies of these con men and their scams and must not put any more money into them because they will not see their money again. I also appeal to Radio West New Britain NOT to allow airtime to these illegal schemes to spread their lies and continue deceiving our people and stealing their hard-earned income. If you have already contributed, go and demand your money back. We must all act together to stop the spread of this illegal and evil activity.

9. Conclusion

To conclude, the Government and the Bank of PNG has put in place appropriate policies, which have led to improvements in our macroeconomic performance. All of us, the business community and development partners must now build on these achievements to ensure that the gains are passed on to everyone.

With one more bank now established in Kimbe, this will increase access to banking and financial services for a wider section of our communities. Money should circulate easily within this province and outside. With money circulation increasing, the Bank of PNG has introduced a Clean Banknote Policy to ensure our currency maintains its quality, standards, and security. I ask you all to return any soiled and damaged banknotes to the banks to be returned for destruction so that new ones can be issued. Do not continue to use old banknotes.

The people of West New Britain province now have three banks in operation. This is a clear sign of the confidence the banking sector has in the people and the local economy here. You must use the banks and other licensed financial institutions to conduct your financial transactions. They are safe because the Bank of PNG keeps an oversight on them. Look after your banks and financial institutions. Safeguard them and support them. They provide an important service in the community. Banks and other businesses have closed down branches in many provinces due to criminal activities, vandalism and mismanagement. Let us ensure that this will not happen in Kimbe and the West New Britain province.

I again urge you all not to lose your money in illegal, unlicensed and fraudulent money schemes. Do not invest in FMS. You are sure to lose your money that you worked hard to earn and will never get it back. Always know that the FMS will disappear or die when you stop giving them your money in return for financial promises of billions of kina that will never come.

The economic conditions are conducive and future prospects continue to look positive for PNG. Therefore, work on your oil palm, cocoa and coconut blocks, your fishing and forestry projects, and other economic activities. Then put your financial gains in the banks and financial institutions that are licensed and supervised by the Central Bank, where they are safe; not in money schemes.

On behalf of the Board and Management of the Bank of PNG, I would like to congratulate ANZ Bank on the opening of its branch in Kimbe, and look forward to its future plans to expand its branch network throughout PNG.

Thank you for listening.