

Business as (un)usual in BPNG's MPS

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As the exchange rate and monetary policy landscape continues to shift in PNG, so too does the Bank of Papua New Guinea's (BPNG) monetary policy statement (MPS). The [September 2023 MPS](#) comes in the wake of several speeches which have shown a change of heart in the bank's thinking, following a March MPS which put the exchange rate [in the spotlight](#) for the first time. Several developments in the latest MPS are worth highlighting, especially around future exchange rate arrangements and the new fixed rate full allotment (FRFA) monetary policy instrument.

First, on foreign exchange, the September MPS explicitly confirms that BPNG will “move to a crawl-like exchange rate arrangement to restore flexibility and ensure that outstanding orders in the market are cleared over the life of the [International Monetary Fund] program” (page 10). This headline clarity is useful. But there is still some ambiguity around this direction elsewhere in the statement. Page 8 refers to “a market-based exchange rate” while page 12 notes that “the exchange rate is allowed to adjust based on market conditions” to address kina convertibility. Both descriptions seem somewhat at odds with a crawl-like arrangement.

Second, while the bank has pronounced that “moving quickly to establish a market-based exchange rate is critical” (page 8), there isn't much in the way of detail for the plan beyond 2023. For now, BPNG seems to have agreed on a roadmap for exchange rate operations with the IMF. It has also said that the “exchange rate arrangement will be finalised by end of November for implementation in December 2023” and that US\$100 million of foreign exchange per month will be supplied for the rest of the year (page 12). But no further details are given apart from the bank planning to give priority to essential imports when clearing outstanding orders (page 12) and Acting Governor Elizabeth Genia [indicating publicly](#) that “the bank is currently looking at what can be done to assist with the intervention program through to the end of the year”.

Third, the MPS makes it clear that BPNG is already having to grapple with pent-up demand for foreign exchange. The MPS states that despite the bank making a large one-off intervention of US\$237 million in May in an effort to clear all outstanding

orders, outstanding orders were in fact higher by the end of August (at US\$364 million) than they were at the end of December 2022 (at US\$255.6 million). Given that the kina has depreciated by just over 3% between 31 December 2022 and 22 September 2023 (page 7), and more is yet to come, the scale of the issue is only likely to grow bigger. As importers find that it is easier to get foreign exchange, they will start to demand more.

More generally, the September MPS brings a welcome change in tone. It seems there's been a distinct move away from criticising the government's fiscal and other policy settings, as was the case in previous statements, towards more neutral descriptions. A more useful focus is instead placed on BPNG's own reform obligations and actions as part of the IMF program, which are discussed in a standalone section as well as throughout the MPS document.

Importantly, the MPS for the first time touches on the new FRFA auction of 7-day central bank bills with a fixed rate of 2%. The bank argues in the MPS that this new instrument, born out of the IMF program, is needed as "high liquidity in the banking system continues to prevent monetary policy from influencing market interest rates" (page 10). Demand for the new instrument is unsurprisingly high, given that the alternative for banks is for the cash to not be earning a return at all; the **total maturity** of the FRFA auction was over K1.7 billion as at the week of 13-20 October 2023. The success and sustainability of this new instrument at mopping up the excess liquidity from the market will certainly be worth watching in coming months.

Despite this, there isn't much discussion of other key reforms that are part of the IMF program. The upcoming amendments to the Central Banking Act – that will prioritise the maintenance of price stability over the growth and employment objectives of the bank – are given just two sentences in the MPS. This is surprising, given that amending the bank's objectives is a structural benchmark of the IMF program, and the most recent changes to the objectives happened just two years ago.

Change is clearly afoot at BPNG, at least in part due to the IMF program PNG has signed up to. The September MPS presents relatively clear ideas of how BPNG is likely to proceed on both foreign exchange and excess liquidity. Details around foreign exchange arrangements and discussion of the bank's objectives are lacking, and would be useful additions to the debate. Nevertheless, it's positive to see a statement of intent that acknowledges most of the trade-offs and challenges the bank faces going forward.

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