

PNG's gold bill: implications for the central bank

by Alyssa Leng

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PNG Mining Minister Muguwa Dilu announces that gold bill consultations are to be extended

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PNG's proposed [National Gold Corporation Bill 2023](#) has attracted lots of [debate](#), [objections](#), and [protests](#). Just last week, the government [agreed to amend](#) the immensely long bill (currently over 500 pages!) and consult more widely for at least an additional six months. This is certainly a good first step. But discussion still remains [relatively limited](#) about the bill's implications for macroeconomic management in PNG. In this blog, I argue that the bill in its current form impinges significantly on the independence of the Bank of Papua New Guinea (BPNG) with major negative implications for monetary policy and financial sector regulation.

The fundamental premise of the bill as it stands is to create a gold refining monopoly in PNG through the National Gold Corporation (s 27, NGC) as the parent company of the National Mint, National Gold Marketing, and the National Gold Bank (s 32, NGB). The National Mint would become the only refiner of all gold in PNG (ss 174 and 215), with all gold from PNG required to be refined in PNG (s 216). The NGB would also become "the exclusive gold and precious metals-based commercial bank in Papua New Guinea" (s 113(1)).

Beyond its effects on the gold sector itself, the bill significantly infringes on BPNG's ability to independently implement monetary policy in numerous ways.

First, the bill requires BPNG to notify and consult with the "Director-State Equity" (identified as "the minister" in s 418(2), without specifying which minister might fill the role) and the Director of the NGB prior to taking any action when using its emergency powers (s 129). This would constrain BPNG's ability to act quickly and independently in the face of a crisis.

Second, the bill prevents the BPNG Governor from determining the minimum amount of liquid assets — as allowed under section 72 of the *Central Banking Act 2000* (CBA) — in connection with the NGB, if doing so is inconsistent with the bill, without consultation with the director of the NGB and the relevant minister as

Director-State Equity (s 923).

Third, the bill would also make it more difficult for BPNG to use gold to maintain an appropriate level of international reserves as required by the CBA (s 78).

Specifically, section 927 of the bill restricts BPNG's ability to transact in regard to gold, with a particular emphasis on prioritising domestic transactions with the National Mint over foreign transactions. The bill also gives the National Mint the exclusive right (but not obligation) to buy any or all refined gold at any time, with preference given to it over any other person in PNG (s 223), presumably including BPNG.

Fourth, the bill requires BPNG to fulfil all foreign currency orders required by the NGC or any subsidiary (section 931(2)) and prohibits any restriction or refusal of foreign currency orders (section 931(4)). Providing such preferential treatment to one company over all others in the context of existing shortages of foreign exchange is likely to worsen the backlog of orders from existing businesses.

Fifth, and rather bizarrely, the bill proposes the issuance of gold coins by the National Mint (s 257) as another form of currency and legal tender in PNG (s 259). Introducing a second, unnecessary currency in PNG and returning to an arrangement akin to the gold standard would clearly affect BPNG's ability to influence the supply and demand of the kina and therefore implement monetary policy. The presence of another institution such as the NGB which can directly influence the money supply would further complicate BPNG's ability to formulate and implement monetary policy.

The proposed bill would also severely encroach on BPNG's ability to discharge its legislated responsibility for regulating the financial sector, and seriously jeopardise its independence in making regulatory decisions. Collectively, the bill almost totally prevents BPNG from adequately supervising financial institutions licensed under the BFI Act and creates a two-tiered system favouring the NGB, rather than ensuring a level playing field for all banks. This kind of preferential treatment for entities associated with the state is unlikely to bode well for competition in the sector.

Specifically, BPNG is charged with making independent and merit-based decisions on the granting of banking licences, based on the requirements in the *Banks and Financial Institutions Act 2000* (BFI Act). The gold bill, however, runs directly counter to this. Not only does it require BPNG to issue a banking licence to the proposed NGC or a subsidiary (s 111) and mandates that the NGB is an authorised institution and bank under the *BFI Act* (s 112); it further prohibits BPNG from amending a current banking licence or granting a new one if doing so "would conflict or otherwise be inconsistent" with the banking licences awarded to the NGC or NGB

(s 106). These provisions constitute major changes in PNG's banking sector at the behest of the government without the input of the regulator (BPNG), by increasing the number of banks from four to six.

The bill further neuters BPNG's bank supervision powers in relation to the NGB. Although BPNG is required to supervise the NGB's "gold banking business" (s 217), the proposed arrangements in the bill clearly seek to put the NGB beyond the regulatory reach of BPNG by gravely restricting BPNG's existing powers. Specifically, BPNG cannot impose or vary any prudential standard which "applies specifically to the gold banking business of the NGB" (s 128(1)(f)(i)), or require that the NGB comply with a prudential standard which the NGB Board considers inconsistent with the bill. The same section of the bill further prohibits revoking the NGB's banking licence without consulting the NGC Board and receiving consent from the minister functioning as Director-State Equity.

In its existing state, this proposed gold bill would have serious implications for PNG's monetary policy and financial sector regulation. It would not only unnecessarily and severely diminish BPNG's independence, but also make key aspects of macroeconomic management subservient to policy made for just one sector of the economy. No one concerned with the health and stability of the PNG macroeconomy, the financial sector and with the integrity of the central bank could support the bill as it currently stands.

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