

Central Bank Digital Currency (CBDC)

Proof of Concept

Presentation of Results – Tuesday 28 January 2025 @ Hilton

CBDC PoC Background and Outline

Ms. Elizabeth Genia

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Welcome

Good afternoon everyone and welcome to the launch of the Bank of Papua New Guinea's Proof of Concept study on Central Bank Digital Currencies, presented in partnership this afternoon with Soramitsu and Mitsubishi, and with the valued support of JICA and the Japanese Government. Today marks an important milestone in exploring the potential of innovations in digital currencies that have attracted so much interest globally, and will unquestionably have an influence on the future of our nation's financial system.

First, I would like to extend my deepest gratitude to our distinguished and respected partners - Soramitsu, Mitsubishi, JICA and the Government of Japan - whose expertise and support have been invaluable in helping us conduct this study. This collaboration highlights the importance of leveraging the global expertise that is available to address local challenges, and I want to sincerely thank our partners for your support for this initiative.

Background and Rationale for the Proof of Concept study

The rationale for the Proof of Concept study stems from the rapid advancements in digital financial technologies globally, which have opened up opportunities to enhance payment systems and improve financial inclusion, and many Central Banks around the world are now actively exploring digital currencies as a way to meet the evolving needs of the communities we serve.

Here in Papua New Guinea, we recognise the transformative potential of these innovations. With an increasing number of PNG's banks and financial institutions adopting new platforms to meet customer demand, our economy is already undergoing a significant digital transformation. This progress however, also comes with the responsibility of ensuring our financial infrastructure is capable of accommodating these changes

The Proof of Concept study was launched to examine how a Central Bank Digital Currency, or CBDC, could be integrated into our existing payments system to address some of the key challenges facing our financial sector, these include:

1. **Enhancing Efficiency:** A CBDC has the potential to reduce our reliance on physical cash, lowering the costs associated with cash handling and distribution while improving transaction efficiency.
2. **Strengthening Security:** The blockchain technology underpinning CBDC's provides a secure platform for transactions, greatly reducing the risk of counterfeiting and fraud.
3. **Promoting Financial Inclusion:** By offering a digital payment option accessible to individuals and businesses, in both urban

and remote areas, a CBDC could play an important role in bridging the financial inclusion gap in Papua New Guinea.

Scope and Objectives of the PoC

The study was designed as an exploratory step to evaluating the feasibility of introducing a CBDC in Papua New Guinea. With the support of our partners, we were able to simulate the core functions of a digital currency system and staff from the BPNG, JICA and the Japanese Embassy tested digital payments, and transaction security, under controlled conditions.

While the subsequent presentation will delve into the detailed findings and technological aspects of the study, the strategic importance of the Proof of Concept allowed us:

- **to identify the potential benefits** of a Central Bank Digital Currency tailored to our specific economic and financial landscape;
- **to gather insights from users and merchants** to understand their needs and expectations; and
- **to assess the operational and infrastructural requirements** for scaling up to a broader pilot phase.

Papua New Guinea's Journey

Our journey towards exploring digital currencies began over a decade ago, with very early discussions on the potential of blockchain and distributed ledger technologies.

In 2018, the BPNG co-sponsored the London Blockchain Week, demonstrating our commitment to learning more about this cutting-edge technology to further our goal of advancing financial inclusion. Since then, we have developed and tested digital identity solutions,

fostered partnerships with private sector innovators, and established a Regulatory Sandbox to trial innovative financial technologies.

The Proof of Concept study represents a continuation of this journey, building on years of research and investment in understanding how digital technologies can transform our financial system.

Challenges and Next Steps

As with any transformative innovation, a Central Bank Digital Currency presents its own unique challenges. We are mindful of the significant legal and regulatory gaps that currently exist, the need for robust ICT infrastructure, and the importance of a well-defined policy framework to underpin innovation in this sector.

The study represents an important first step, but it is only the beginning. Further studies would need to broaden the scope to engage more financial institutions, and explore cross-border payments with neighbouring countries. These efforts would have to be guided by a clear roadmap that balances the significant technological advances with the necessary legal, regulatory and infrastructure considerations.

Closing Remarks

In closing, I want to once again extend my sincerest thanks to everyone who contributed to this study, to our staff at the Bank of Papua New Guinea and to our international partners. Your efforts have laid the foundation for what we hope will be a significant step towards a more inclusive, secure and resilient financial system for Papua New Guinea.

Following the presentation of the results, I encourage all of you to participate in the open Q and A dialogue session. The insights and perspectives shared today are very important to us.

Security, privacy and equitable access are key priorities for us and your input will be very important in helping us to achieve those objectives.

Thank you.
