Deadline needed to end foreign exchange shortages in PNG

by Thomas Wangi

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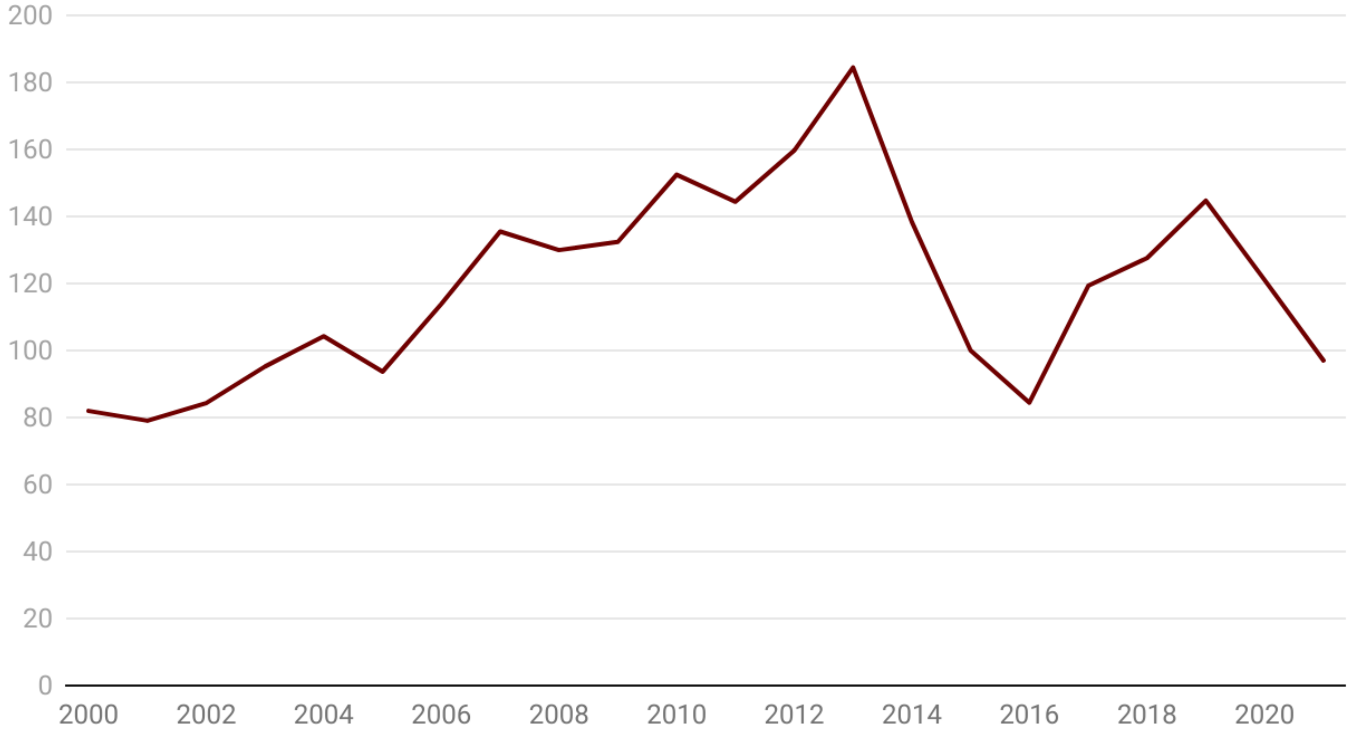
Foreign Exchange sign
Photo Credit: Flickr/russellstreet

Businesses, individuals and governments have faced difficulties obtaining foreign exchange (FX) in PNG over the last decade. Over this period, businesses have frequently listed this as the top constraint they are facing. What is the cause of this long-standing problem and what more needs to be done to finally eliminate foreign exchange rationing?

A shortage of FX has been apparent since the end of high commodity prices in 2014. Since then, importers, investors and the government have not been able to freely convert kina into foreign currency to pay for imports, to repatriate profits and dividends, and to service external debts, respectively. A large backlog of FX orders has built up, meaning that economic agents have to queue for months to access foreign currency. As a result, as Figure 1 shows, the volume of imports fell between 2013 and 2016. There was some recovery up to 2019. But then imports fell again due to the outbreak of coronavirus pandemic and further rationing.

Figure 1: Import volume index for PNG: 2002-2021



Note: Data not available for more recent years. 2015 = 100.

Source: World Bank • Created with Datawrapper

FX shortages and rationing means that the FX market is not clearing, and indeed the kina became very rigid or stuck over the last decade, hardly changing at all. With the current International Monetary Fund (IMF) program, the kina, while still managed by the Bank of Papua New Guinea (BPNG) through a crawling peg arrangement, has been made more flexible and has been allowed to depreciate gradually. The impact of depreciation on FX inflows through non-resource exports and foreign direct investments is yet to be established. Whether or not depreciation has helped, the injection of United State (US) dollars under the IMF program, high commodity prices, and increased production in the mineral and petroleum sectors have improved FX inflows in recent years, and enabled increased supply by BPNG of dollars into the market. The September 2024 biannual monetary policy statement (MPS) states that access to FX has improved and the clearance time for outstanding orders has fallen to 4-5 weeks.

Nevertheless, for all this, the FX shortage still remains a concern to businesses and individuals. Already in 2025, Brian Bell Chief Executive Officer Cameron Mackellar has stated that access to foreign currency is still “an issue for us and everyone else seeking goods, products or services from overseas.”

While the government has committed to ending rationing, BPNG has not announced any deadline. Indeed, it has been sending mixed signals. On the one hand, it has said, for example in the September MPS, that it is against rationing and that it wants "to achieve full convertibility". On the other hand, in December it issued guidelines to foreign exchange dealers on which FX orders to prioritise, that is, how to ration. But such guidelines are only needed if rationing is to remain in place, and their issuance implies that rationing will not be ended soon.

So what more needs to be done to end FX shortages? First, the non-resource sector, especially agriculture and manufacturing, require strong government support to improve export production. This will be supported by ongoing depreciation of the kina to make exports competitive and generate more foreign reserve inflows for the economy.

Second, socio-economic issues such as law and order, deteriorating utility services, poor infrastructure and political instability discourage foreign firms from investing in the country. Key stakeholders including the government have to create a conducive business environment to attract foreign investment.

Third, the government has allowed the firms in the resource sector to keep their FX earnings in offshore bank accounts through project development agreements. For future project agreements, the government may have to negotiate with resource developers to keep their operational accounts onshore to strengthen foreign reserve inflows. However, this arrangement will increase the demand for US dollars.

Fourth, the government has managed some of its resource revenues through offshore foreign currency accounts. Transferring those funds to domestic currency accounts will improve the inflow of FX reserves.

Fifth, the central bank should announce a deadline for the end of FX rationing. Once a deadline is in place, BPNG would be obliged to manage the exchange rate and the amount of FX it releases to the market to ensure FX demand and supply are matched. No one is arguing that the kina should once again be floated but if BPNG is setting the value of the kina it should do so subject to the constraint of convertibility (non-rationing). The kina was managed without rationing prior to 2014. Without a deadline, the rationing problem that has emerged over the last decade may continue for years to come. A decade of FX shortages is long enough. 2025 should be the year in which the kina becomes convertible again.

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