



BANK OF PAPUA NEW GUINEA

DIRECTIVE ON FOREIGN EXCHANGE ORDERS 10/2024

In accordance with Section 82 and Section 98 (1) (a), (b) (ii) of the Central Banking Act (2000), the Bank of Papua New Guinea (BPNG) hereby issues this directive to all Authorized Foreign Exchange Dealers (AFED) as part of ongoing efforts to improve the functioning and efficiency of the foreign exchange markets. The changes outlined in this directive will become effective as of 28th October 2024 and will supersede the Essential Orders List previously issued to AFEDs on 14th June 2024.

1. Prioritization of Essential Orders

To ensure adequate foreign exchange (FX) availability for critical orders in the domestic FX market, all AFEDs are required by the BPNG to prioritize essential Fx orders ahead of non-essential orders, utilizing both commercial flows and BPNG intervention proceeds.

For clarity, BPNG provides the following information below on FX order classification;

1.1. Essential Orders:

These transactions are deemed necessary for the normal functioning of the economy. They typically involve critical goods and services required for daily operations, public welfare and the safeguarding of national interests. Types of transactions classified as essential orders are:

- Importation of essential goods and services, including food, medicine, and critical raw materials and intercompany loans related to underlying import transactions
- Payments for contracts related to public health and safety, infrastructure development, lease payments, licenses, fees and subscriptions.
- Any other orders classified as essential based on prevailing economic and social needs.

The following sectors must be prioritized for foreign currency allocation;

- **Food and Beverages Sector:**

This includes the production, marketing and distribution of food and beverages

- **Retail Sector:**

This sector involves the sale of goods and services directly to consumers.

- **Wholesale Sector:**
Includes businesses that purchase goods in large quantities from manufacturers and sell them in smaller quantities to retailers.
- **Petroleum Sector:**
This sector is focused primarily on the exploration, extraction, refining and distribution of oil, gas including refined petroleum products
- **Health & Education Sector:**
This sector includes pharmaceuticals and health services essential for maintaining health services. It also encompasses education services.
- **Manufacturing Sector:**
This sector involves the production of goods through labor, machinery, tools and chemical processes.
- **Transport Sector:**
Companies involved in the transportation of goods and people including aviation, shipping and logistics firms comprise this sector.
- **Agricultural Sector:**
This sector involves the cultivation of plants and livestock for food, fiber and other products which are essential for the economy's agricultural industry
- **Utilities Sector:**
This sector includes companies that provide essential services like water, electricity and natural gas which are crucial for maintaining daily life.
- **Government & Social Services Sector:**
 - *Community, Social, and Personal Services*
 - *Central Government*
 - *Provincial and Local Level Governments*
 - *State-owned Enterprises*
- **Telecommunication Sector:**
Covering companies that provide communication services such as mobile and internet services, vital for connectivity and enables global business operations.

1.2.Non-Essential Orders

After outstanding orders of essential orders are cleared, AFEDs may allocate foreign exchange for non-essential orders. Non-essential orders comprise (i) non-essential current account orders and (ii) all capital account orders. These orders typically refer to transactions that are not critical for the immediate operation of the economy or a business. Such transactions may include (listed in priority order):

○ **Service Sector Payments**

These payments are considered non-essential when they relate to non-critical needs which can be deferred or forgone in favor of more urgent financial obligation.

○ **Dividend Payments:**

These are not mandatory for a company's operations and can be adjusted or suspended based on the company's financial health.

○ **Offshore Investments:**

These investments are not fundamental to a business's operations and are deemed non-essential during periods of financial constraint. This category also includes offshore investments by investment funds.

AFEDs are required to fully clear all essential orders before executing any non-essential foreign exchange orders, and must process orders in the exact sequence outlined above.

2. Verification of Foreign Exchange Orders

For efficiency and enhance accountability for compliance and monitoring:

- BPNG will no longer directly verify all foreign exchange orders. AFEDs must undertake the verification process and ensure that all necessary documentation meets (i) the requirements outlined in the Enhanced Due Diligence Guidelines and (ii) the classification criteria specified in Section 1 of this directive.
- AFEDs are required to forward copies of the relevant documentation for orders exceeding K3.0 million to BPNG upon successful completion of verification. BPNG may request additional documentation if necessary.

Strict adherence to this directive is required. Non-compliance will result in penalties as determined by BPNG.

Authorized



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Ms. Elizabeth Genia, AAICD

Governor