



BANK OF PAPUA NEW GUINEA

PUBLIC NOTICE

FOREIGN EXCHANGE CONTROL DIRECTIVES September and November 2016

The Bank of Papua New Guinea (BPNG or Central Bank) has established that various activities and behaviours by participants in the inter-bank foreign exchange market (Authorised Foreign Exchange Dealers or AFEDs) and their customers have breached the Foreign Exchange Regulations and contributed to the shortage of foreign exchange.

For instance, AFEDs were using balances in the onshore foreign currency accounts and foreign currency denominated term deposits of their clients to provide foreign currency denominated trade finance loans to other Papua New Guinea (PNG) resident clients (importers and exporters) Settling in foreign currency between two PNG residents is not allowed under Regulation 6 of the Central Banking (Foreign Exchange and Gold) Regulation. Similarly, residents of PNG were executing contracts between themselves in foreign currency and settling their obligations in foreign currency in breach of Regulation 6.

In addition, AFEDs have imposed limits on overseas foreign exchange transactions (rationing of foreign exchange) on their customers. These actions constrained the use and distribution of inflow of foreign exchange to meet general import demand, created a backlog of unserved import orders in the spot market and increased transaction costs significantly which impeded the business community and the general public.

To address these issues, the Central Bank issued the following directives to the AFEDS by the Central Bank on 30th September 2016 and 16th November 2016.

There are currently six AFEDs in PNG; Bank South Pacific Limited (BSP), Australia and New Zealand Banking Group (PNG) Limited (ANZ Bank), Westpac Bank-PNG-Limited (Westpac), Kinabank Ltd, Moniplus Ltd and First Investment Finance Ltd (FIFL).

1. Onshore Foreign Currency Accounts

1.1 Onshore Foreign Currency Accounts of Individuals and Government Institutions

AFEDs were directed to close all the accounts of individuals and government institutions.

1.2 Other Onshore Foreign Currency Accounts

- (a) All accounts approved by BPNG after 5th March 2015, accounts opened under project development agreements (PDAs) and approved by the Central Bank, and non-resident accounts are not affected by the directives.
- (b) As of Friday, 30th September 2016, holders of accounts not covered by (a) were required to reapply to the Central Bank (through AFEDs) for review and assessment. AFEDs were directed to close those accounts without a source of foreign currency income and contractual liabilities to non-residents.

2. Foreign Currency Denominated Trade Finance Loans

The AFEDs and their customers are required to obtain authorisation of the Central Bank to execute and settle foreign currency denominated trade finance loans, with Residents of PNG.

2.1 Cessation of new foreign currency denominated trade finance loans

As of Friday, 30th September 2016, AFEDs have been directed to cease lending foreign denominated trade credits.

2.2 Existing Foreign Currency Denominated Trade Finance Loans

BPNG has given AFEDs until the end of April 2017 to settle and clear all existing stock of trade finance loans.

3. Rationing of Foreign Exchange

As of Wednesday, 16th November 2016, AFEDs have been directed to cease rationing foreign currency to their customers. AFEDs should settle a foreign currency transaction in full and not break them up into parcels to settle over a period of time.

4. Contracts between Residents of PNG Denominated in Foreign Currency

As of Friday, 30th September 2016, AFEDs and their Resident employees and customers of PNG must submit foreign currency denominated contracts to and obtain a prior authorisation of the BPNG before settlements can be effected.

This requirement also applies to contracts between Residents, including employment contracts between employers and employees, where the contracting parties are not AFEDs,

5. Foreign Currency Denominated Term Deposits

As of Wednesday, 16th November 2016, AFEDs are required to report on all their foreign currency denominated term deposits to the Central Bank on a daily basis.

6. Breaches of these directives

Any breaches of these directives will be dealt with in accordance with the *Central Banking (Foreign Exchange and Gold) Regulation*.

7. Foreign Exchange Manual

A revised Foreign Exchange Manual incorporating these directives will be issued.

Enquiries on these directives are to be directed to The Manager, Economics Department, Bank of Papua New Guinea, P.O. Box 121, Port Moresby, National Capital District; telephone 3227430; or email to fxdirectives@bankpng.gov.pg.

Authorised by: **Loi M Bakani**
Governor