



## MEDIA RELEASE

Tuesday 11 June 2024

### Foreign exchange shortage affects balance of payments in PNG

Papua New Guinea (PNG) is a small open economy that relies heavily on the mineral, petroleum and agriculture sectors. These sectors contribute meaningfully to gross domestic product, export earnings, and formal employment. Export earnings directly influence the balance of payments (BOP) position. PNG has recorded both BOP surplus and deficit since political independence.

The National Research Institute (NRI) Spotlight Vol. 17, Issue 9, titled "**Does Foreign Exchange shortage affect balance of payments in Papua New Guinea?**" by Dr Thomas Wangi, Senior Research Fellow at PNG NRI looks at how foreign exchange shortage issue affects BOP, and suggest some policy recommendations to address it.

The foreign exchange shortage has occurred because the local economy has a low supply of United States Dollars and other foreign currencies such as Australian and New Zealand Dollars in its reserves to effectively conduct international trade. The shortage in foreign exchange restrict the ability of importers to buy foreign goods and services, investors to repatriate profits and dividends to offshore bank accounts, and government to service its external debt repayments. This implies that businesses are importing fewer goods and services than their normal volumes, and foreign investors are transferring less profits and dividends than anticipated.

This article established that the shortage has impacted the current account in favour of exports, and capital and financial accounts in favour of inflows, which has partly painted positive impressions on BOP positions in recent years.

Policy interventions:

The foreign exchange shortage has directly affected the BOP positions in recent years. The government may have to undertake following policy suggestions to improve foreign exchange shortage:

- (1) Support private sector to expand domestic production and export volumes;
- (2) Negotiate with project developers in the mineral and petroleum sectors to keep their operational bank accounts onshore, and
- (3) Improve earnings from resource projects through increased shareholdings and tax incentive reviews.

The Publication and Media Release can be accessed on the PNG NRI website <https://www.pngnri.org>.

Also, follow discussions and updates on our social media platforms:

**Facebook:** <https://www.facebook.com/pngnri>

**Twitter:** <https://twitter.com/pngnri>

**LinkedIn:** <https://www.linkedin.com/company/national-research-institute-of-papua-new-guinea-nri-/>

For enquiries, please contact Samuel Kehatsin on Tel: 326 0061 or Email: [Samuel.Kehatsin@pngnri.org](mailto:Samuel.Kehatsin@pngnri.org)

**Authorised for release by:**

**Associate Professor Eugene Ezebilo, PhD  
Acting Director, PNG NRI**