

# Pacific Bonds: Tackling PNG Foreign Exchange Rationing Challenge

Pacific Bonds: Next Generation  
Brady Bonds for the Pacific

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## Executive Summary

The foreign exchange reserves of Papua New Guinea (PNG) have been under pressure due to a reliance on commodity exports and fluctuations in global prices. This has led to a shortage of foreign currency reserves, impacting the country's ability to pay for imports and stabilise its economy. To address these issues, PNG needs to diversify its economy, improve its export competitiveness, and strengthen its monetary policy framework.

Australian companies operating in PNG encounter challenges in capital repatriation due to difficulties in accessing foreign exchange in the country. This issue hampers the operations of Australian businesses in PNG and affects their financial sustainability. To overcome this problem, The Australian government could introduce Pacific Bonds, structured like the US Brady Bonds program, as an innovative financial instrument that can help Australian and other nation's companies overcome these hurdles. By converting outstanding debts into tradable bonds, Pacific Bonds provide a feasible solution for Australian companies to recover capital and profits from their subsidiaries in PNG and other South Pacific nations. More importantly such bonds could generate a virtuous cycle of developmental investment for rest of the Pacific.

This initiative not only benefits Australian and other nation's companies but also contributes to the economic development of PNG and others in the Pacific by ensuring a reliable mechanism for the transfer of funds and attracting investment. Furthermore, PNG, and the broader Pacific, can better manage its foreign exchange reserves, and enhance stability in the foreign exchange market.

# Introduction

## PNG and Foreign Exchange

Papua New Guinea (PNG), consistent with many developing economies, has long contended with the challenge of acquiring hard currency through exports to fund investment, service external debt, and stabilise its currency. Historically, this challenge stemmed from PNG's reliance on commodity exports—such as oil, gas, and minerals—whose prices are subject to global volatility, resulting in periodic shortages of foreign exchange reserves and persistent economic vulnerability. The IMF's September 2022 "Article IV" review characterised PNG as "a fragile, climate-vulnerable country, seeking to foster inclusive growth while grappling with high debt" and suffering from low growth that "led to shortages of foreign exchange."<sup>[1]</sup>

Since 2024, however, PNG's approach to foreign exchange management has undergone a fundamental shift. FX rationing, previously regarded as a temporary response to liquidity imbalances, is now an explicit and permanent instrument of economic policy. Allocation prioritisation—where access to foreign currency is determined by administrative criteria—has become established practice, and capital account pressures are addressed through sequenced administrative approvals rather than allowing full convertibility of the kina. This marks PNG's transition from managing short-term liquidity stress to operating a regime of managed convertibility, defined by structural reserve constraints and formalised state intervention.

For Australian and other foreign investors, these developments introduce new dimensions of investment risk. Uncertainty around the timing of dividend repatriation and profit extraction has become institutionalised, as such transactions are now subject to FX allocation cycles and administrative sequencing. The risk profile for investors has shifted: beyond market volatility, they must now contend with administrative timing risk, as the ability to realise returns hinges on policy-driven FX access rather than market-determined liquidity.

These structural changes enhance the relevance of proposals such as Pacific Bonds, which aim to provide alternative mechanisms for capital repatriation and risk mitigation. However, the framing of such instruments must be updated to reflect PNG's regime of managed convertibility and the institutionalisation of FX rationing. Solutions must now address not only cyclical shortages but also the structural, policy-driven constraints that define PNG's foreign exchange landscape.

<sup>[1]</sup>[Papua New Guinea: 2022 Article IV and the Staff Monitored Program-Press Release; Staff Report; and Statement by the Executive Director for Papua New Guinea \(imf.org\)](#)

<sup>[1]</sup>Fox, R: Foreign exchange rationing in PNG: six years on. <https://devpolicy.org/foreign-exchange-rationing-in-png-six-years-on-20210416/> accessed on 8 May 24

<sup>[2]</sup>[PNG's fuel crisis to further calls for exchange-rate reform | Lowy Institute](#) accessed on 9 May 24

## Australian Trade with PNG

In 2024, Australia exported goods worth \$AUD3.2 billion to PNG. The main products that Australia exported meat (\$245.4M), civil engineering equipment (\$221.5M), and refined petroleum (\$131.1M). Over the past 2 years, these exports have increased by over 50% from \$1.19B in 2022 to \$AUD3.2 B in 2024.

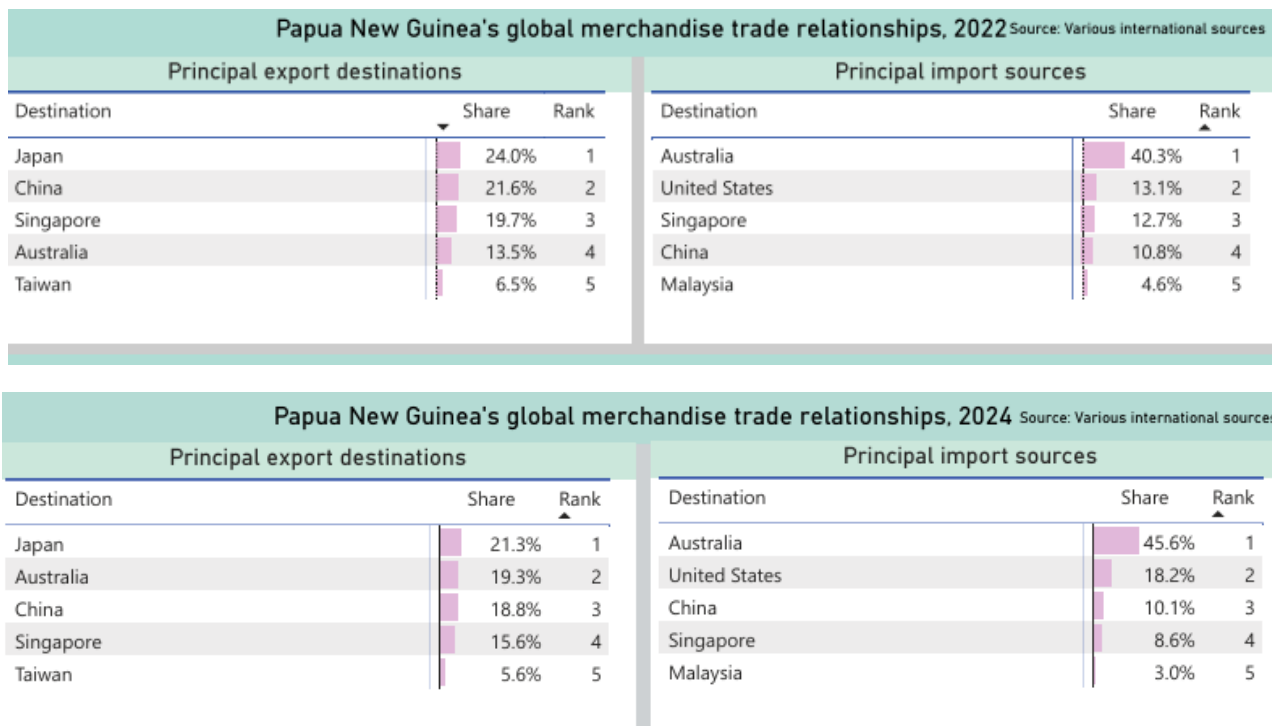


Figure 1 – 2025 PNG Global Merchandise trade relationship - Extract from the DFAT PNG Trade & Economic Fact Sheet

However, as previously shown, Australian companies operating in PNG face challenges in repatriating profits and capital out of the country. The main reason for this issue is the shortage of foreign exchange reserves in the country. The difficulties in accessing foreign exchange in PNG have created significant obstacles for Australian businesses investing and operating in the country. This issue hampers the operations of Australian businesses in PNG and affects their financial sustainability.

Foreign exchange rationing in PNG, once viewed chiefly as a response to commodity price fluctuations and reserve shortages, has now evolved into a structurally embedded element of macroeconomic management. As of 2024–2026, FX allocation is systematically prioritised for essential imports such as food, fuel, medicine, and other strategic inputs, while capital outflows—including dividend repatriation and profit transfers—are administratively relegated to lower priority. Exporters and investors now face persistent barriers and uncertainties, as access to foreign currency is managed through allocation queues and stringent documentation requirements rather than market-driven mechanisms. This institutionalisation of FX rationing fundamentally alters the landscape for trade and investment: without a shift towards more flexible and market-based foreign exchange policies, the sustainability of effective commerce between PNG and other nations, as well as the confidence of businesses seeking to invest and repatriate profits, remains at risk.

## Alternative economic approach to foreign exchange movement with PNG: Pacific Bonds - the Next Generation “Brady Bonds”

One of the main reasons behind PNG's foreign exchange challenges is its heavy reliance on commodity exports. When global prices for commodities like oil, gas, and minerals are high, PNG earns significant foreign exchange revenues. However, when prices fall, as seen in recent years, the country struggles to generate enough foreign currency to meet its import needs. This highlights the importance of

diversifying the economy to reduce reliance on volatile commodity exports and building strong fiscal and monetary policy frameworks.

There exists a long history of global efforts at dealing with foreign exchange challenges, similar to that experienced in the developing world. In the current context, perhaps the most relevant precedent for PNG's current situation lies in the US use of "Brady Bonds." Brady Bonds have been used as a debt restructuring tool in various countries, helping companies recover payments and profits from their subsidiaries, stabilising the economy, driving up investment and reducing risk to companies wishing to operate in those countries.

### Brady Bonds: A History

- In 1982, the Debt Crisis struck when Mexico informed the US that it could not make payment on its debts to US banks.
- US Federal Reserve Paul Volcker moved to cut interest rates and secure IMF assistance for debtor states – which would in turn be used to repay US banks.
- This 1982-1985 "*muddling through*" period can be seen setting the stage for decades of "*too big to fail*" bailouts.
- In 1985, US banks had built up reserves sufficient to ward off threat of defaults.
- In this context, US Treasury Secretary James Baker recognized that US exporters had also suffered from the Debt Crisis because debtors lacking hard currency could not serve as outlets for US exports.
- Baker proposed the "Baker Plan" to enable new lending by large banks.
- Ultimately, the new money did not appear, and the Baker Plan has been judged a relative failure – but it led the succeeding Bush administration to adopt a bolder approach.
- In 1989, reinforced by the Bush administration's dawning interest in establishing a North American Free Trade Agreement (NAFTA), incoming Treasury Secretary Nicholas Brady decided that a more assertive approach was needed.
- The resulting Brady Plan was premised on the need to provide debt relief.
- "Brady Bonds" recognized the existence of a large secondary market in discounted sovereign debt and were structured as in the chart below.

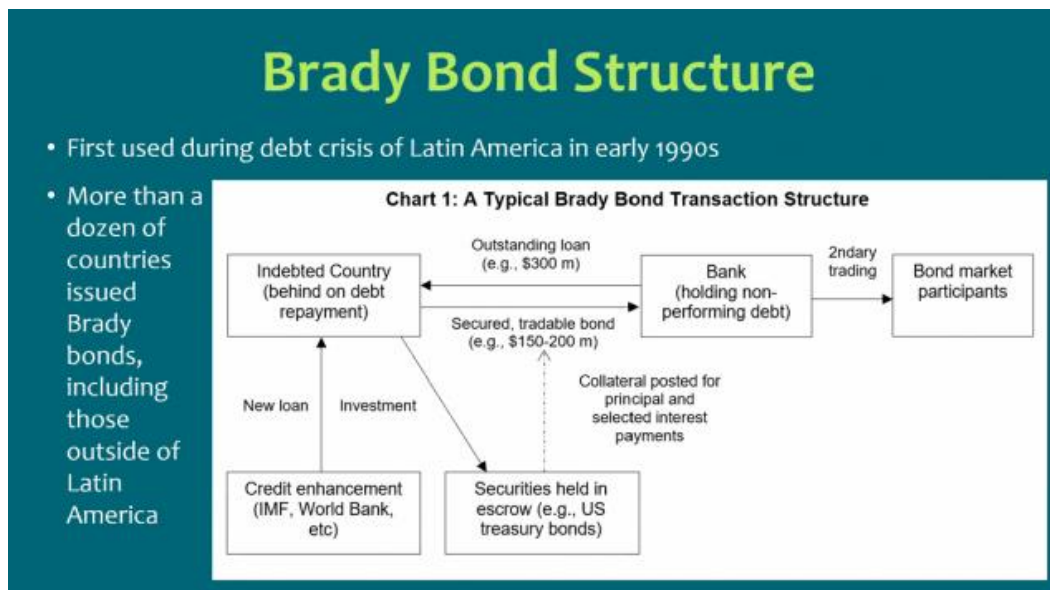


Figure 2 - From Bridgette Lang, "Webinar Summary: Bringing Back Brady Bonds? The Potential for Debt Restructuring in the Post-Pandemic Era,"<sup>1</sup>

- The purpose of Brady Bonds was to help restructure the external debt of developing countries facing financial distress. These countries had accumulated significant debt burdens that they were struggling to repay, leading to economic instability and limited access to international capital markets.
- Under the Brady Plan, the debt of eligible countries was exchanged for new bonds, known as Brady Bonds. These bonds were issued in U.S. dollars and typically had longer maturities or reduced principal compared to the original debt.
- The key feature of Brady Bonds was their ability to provide debt relief to debtor countries. The bonds allowed for a reduction in the interest rate or face value of the debt, known as a "haircut," which eased the repayment burden. In exchange for this reduction, the debtor country committed to implementing economic reforms and policies to restore financial stability.
- Brady Bonds played a crucial role in facilitating debt restructuring and providing a fresh start for debtor countries. They allowed these countries to regain access to international capital markets and attract foreign investment. The success of the Brady Bond approach led to its adoption in various debt restructuring initiatives worldwide.

### Opportunities of Brady Bonds

It is important to note that Brady Bonds are not a commonly used financial instrument today, as the debt crises they were designed to address have evolved and different debt restructuring mechanisms

<sup>1</sup> Lang, Bridgette, "Webinar Summary: Bringing Back Brady Bonds? The Potential for Debt Restructuring in the Post-Pandemic Era," Available at: <https://www.bu.edu/gdp/2021/10/13/webinar-summary-bringing-back-brady-bonds-the-potential-for-debt-restructuring-in-the-post-pandemic-era/> accessed on 9 May 2024.

have been implemented. However, the principles and concepts behind Brady Bonds might offer opportunity to grow bilateral and multilateral trade between PNG and Australia. Opportunities they present include:

- Bonds provide bank creditors with greater assurance of repayment and provide debtors with a degree of relief, in the form of reduced principal or interest payments.
- Bonds can also provide a mechanism for securing policy concessions with respect to legal, market or commercial matters (e.g., permitting Australian firms to withdraw profits/funds)
- Bonds have been shown to have “multiplier effects” in enabling renewed growth (Shenai and Bolhuis 2023)
- Bonds do carry one particular risk, in that they may lead states to exploit newfound credibility to pursue unsustainable policies. This could be mitigated through a range of strategies, such as providing guidance on what funding the Bond could cover (or not cover).<sup>2</sup>
- 17 countries received case-by-case Brady Bond deals with the vast majority complying with the intent of the Brady Bond support, and only one, Ecuador in 1999, defaulting. Mexico repaid its obligations in 2003.
- Closer to Australia, the IMF recently developed a major credit facility for PNG, totalling over US\$900 million. While the facility offers the potential for a virtuous development investment cycle, the recent review of the facility indicated the slow PNG economic reform and domestic political risks, has meant the facility is at best supporting the maintenance of the economy, by paying for much needed energy. More reform is needed if the facility is to generate a development investment cycle.

## Implementation

The Australian government can play a crucial role in facilitating the introduction of a Brady Bond like Pacific Bonds to assist in the transfer of Australian and other nations company capital and profits from PNG. By implementing a government-backed Pacific Bonds program, the Australian government can provide a robust framework that encourages the recovery of capitals and profits from Australian companies operating in PNG. This remainder of this paper will explore how the Australian government can introduce a Pacific Bonds program, outlining the necessary steps and potential benefits for both Australian companies and the PNG economy.

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<sup>2</sup> One example of poor policy is that Mexico of 1994, which used dollar-backed tesobonos to enable a pre-election stimulus. When Mexico ran out of dollars, the peso collapsed, requiring a larger US intervention.

### Establishing a Government-Backed Program:

The Australian government can initiate a government-backed Pacific Bonds program that aims to assist Australian companies in capital repatriation from their subsidiaries in PNG. This program would involve the dedication of an agency or department to be responsible for overseeing the issuance and management of Pacific Bonds. The agency would work closely with Australian companies and PNG authorities to ensure the smooth transfer of payments and profits. The responsibility could reside within existing agencies and departments like Export Finance Australia, Foreign Affairs, or the Department of Finance.

### Collaboration with PNG Government and Australia's Partners:

To successfully introduce a Pacific Bonds program, the Australian government needs to collaborate closely with the PNG government. Cooperation between the two governments, and potentially other like-minded governments like USA, New Zealand and Japan, is essential to establish a regulatory framework that supports the issuance and trading of Pacific Bonds. This collaboration would include discussions on legal and financial matters, as well as the establishment of bilateral agreements to facilitate the transfer of payments and profits.

#### Case Study: Infrastructure Development

The introduction of a Pacific Bond like program can also contribute to infrastructure development in PNG. Australian companies involved in infrastructure projects face difficulties in repatriating profits, which can impede further investments. With a government-backed Pacific Bonds program, these companies can convert their outstanding debts into tradable securities, raising capital that can be reinvested in infrastructure development projects in PNG.

### Investor Confidence and Support:

To attract investors and ensure the success of the Pacific Bonds program, the Australian government needs to instil confidence in the market. This can be achieved through effective communication and transparency regarding the program's objectives, rules, and potential benefits. By demonstrating a commitment to supporting Australian companies and facilitating the recovery of payments and profits, the government can encourage investors to participate in the Pacific Bonds program.

## Conclusion

PNG faces challenges in managing its foreign exchange reserves due to a heavy reliance on commodity exports and fluctuations in global prices. To address these issues, PNG needs to diversify its economy, improve export competitiveness, and strengthen its fiscal monetary policy framework.

Pacific Bonds offer a viable solution for Australian companies and others invested or prepared to invest in PNG but facing challenges of capital repatriation from their subsidiaries and investments in PNG. Through debt restructuring, increased liquidity, and currency risk mitigation, a Pacific Bonds program can help Australian companies and others overcome the obstacles presented by the economic and political instability in PNG. By utilising this innovative financial instrument, companies can recover a significant portion of their outstanding debts and ensure the profitability and sustainability of their operations in PNG.

The Australian government has a crucial role to play in introducing a Pacific Bonds program to assist in the transfer of Australian and other nations companies' capital and profits from PNG. By establishing a

government-backed program, collaborating with the PNG government, and instilling investor confidence, the Australian government can facilitate the recovery of payments and profits for Australian companies operating in PNG. This initiative not only benefits Australian and other nations companies but also contributes to the economic development of PNG by ensuring a reliable mechanism for the transfer of funds and attracting investments.

By taking these steps, PNG can better manage its foreign exchange reserves and enhance stability in the foreign exchange market. PNG can facilitate the smooth transfer of funds for Australian and other nation's companies and promote a favourable investment climate in the country.

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