



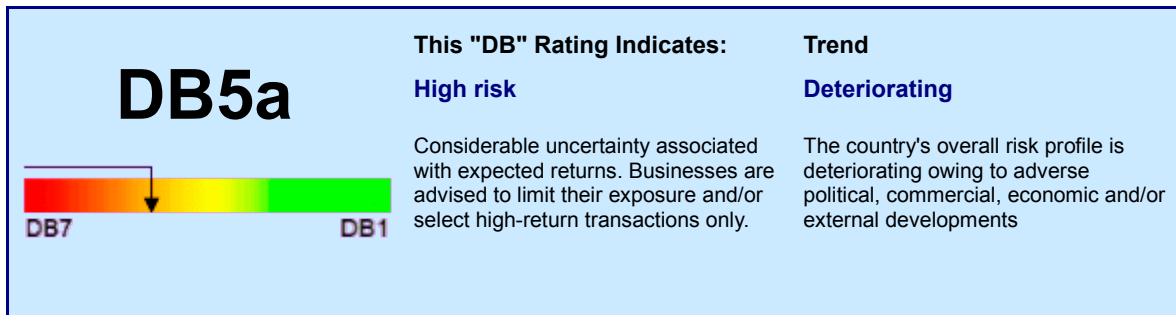
Decide with Confidence

# PAPUA NEW GUINEA

Region : Asia Pacific

Edition : May 2009

## D&B Country Risk Indicator



The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

*Political risk* - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;

*Commercial risk* - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;

*External risk* - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;

*Macroeconomic risk* - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

## Key Facts

<b>Population:</b>	5.8m
<b>Surface area (sq km):</b>	462,840
<b>Capital:</b>	Port Moresby
<b>Timezone:</b>	GMT +10:00
<b>Official languages:</b>	English, Hiri Motu, Tok Pisin
<b>Head of government:</b>	Prime Minister Michael SOMARE
<b>GDP (USD):</b>	6.3bn
<b>GDP per capita (USD):</b>	1,086
<b>Life expectancy (years):</b>	56
<b>Literacy (% of adult pop.):</b>	57.3

### Country Overview:

Papua New Guinea is situated in the South Pacific, to the north of Australia; it shares a land border with Indonesia. The country gained independence from Australia in 1975 and is a member of the Commonwealth.

Papua New Guinea is rich in agricultural and mineral resources, and has benefited in recent years from high international prices for commodities such as gold, cocoa and oil. However, its topography and poor infrastructure hinders the extraction and marketing of produce. It also ensures the continuing isolation of local communities, preserving the tribal system. Warfare between tribes is not uncommon, contributing to the high level of crime and violence in the country.

Reflecting the heterogeneous population, the electorate typically returns fragmented coalition governments to parliament. Governments tend to concentrate on remaining in power, diverting attention from the country's economic and social challenges. The system of checks and balances is also weak, offering room for corruption to flourish.

## Trade & Commercial Environment

### Trade Terms

<b>Minimum Terms:</b>	LC
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The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

<b>Recommended Terms:</b>	LC
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D&B's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

<b>Usual Terms:</b>	30-60 days
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Normal period of credit associated with transactions with companies in the stated country.

### Transfer Situation

<b>Local Delays:</b>	1-2 months
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The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

<b>FX/Bank Delays:</b>	0-2 months
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The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.

### Trade & Commercial Environment

The agricultural sector in Bougainville province is currently suffering from an infestation of ants, which has caused serious damage to large areas of commercial cocoa plantation and made harvesting hazardous. More broadly, agriculture and the wider commodity sector faces a slowdown in 2009. D&B expects that as inward investment slows and exports flag through 2009, the Kina will continue to depreciate against the US dollar, with the currency moving towards PGK3.0:USD. Fortunately, the country retains ample FX reserves, alleviating any short-term FX liquidity problems. Nevertheless, falling revenues and tight credit conditions will disrupt the payments performance of many Papua New Guinea-based firms in the quarters ahead.

### Export Credit Agencies

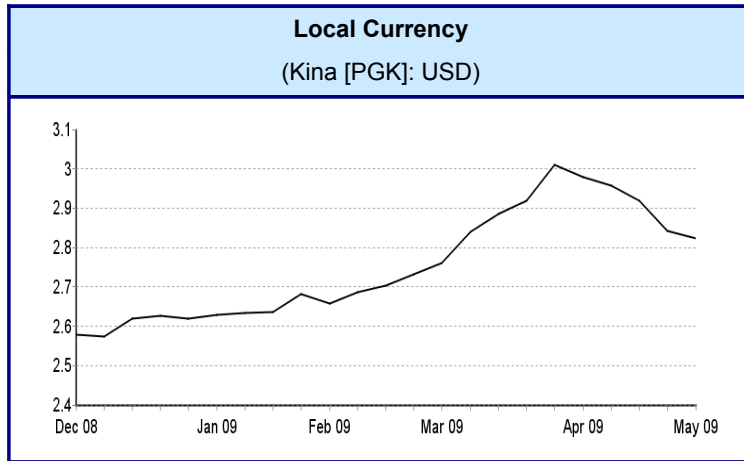
<b>US Eximbank</b>	Restricted cover available
<b>Atradius</b>	ST cover available, no discretionary limits
<b>ECGD</b>	Full cover available
<b>Euler Hermes UK</b>	ST cover available, restrictions may apply

### Economic Indicators

	2006	2007	2008e	2009f	2010f
<b>Real GDP growth, %</b>	2.6	6.2	5.0	1.5	2.5
<b>Inflation, annual ave, %</b>	3.1	2.5	8.0	3.0	3.3
<b>Govt balance, % GDP</b>	6.8	1.7	0.6	-3.3	-2.4
<b>Employment index</b>	119.1	131.1	139.0	126.0	127.0
<b>C/A balance, % GDP</b>	8.6	3.3	2.2	0.5	0.6

### Currency Information

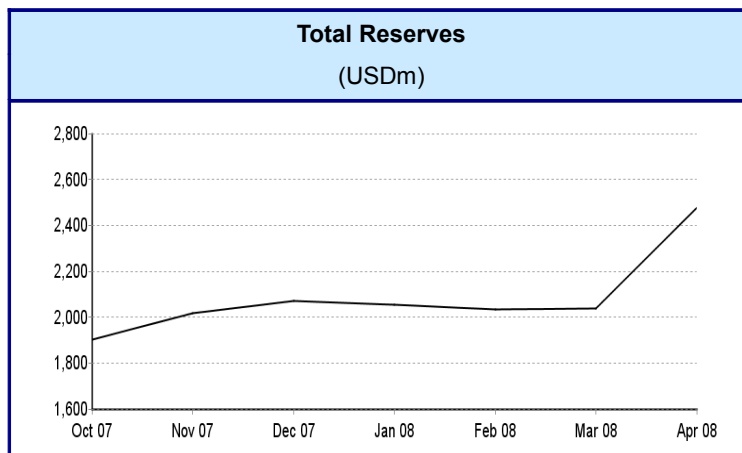
<b>Exchange Rates</b>	
(London, 13 Apr 09)	
EUR	3.9051
GBP	4.3344
JPY*	2.9472
USD	2.9568
*(x 100)	



**Local Currency**  
(Kina [PGK]: USD)

	Dec 08	Jan 09	Feb 09	Mar 09	Apr 09	May 09
<b>Week 1</b>	2.578	2.629	2.658	2.762	2.979	2.823
<b>Week 2</b>	2.573	2.633	2.688	2.840	2.957	
<b>Week 3</b>	2.620	2.637	2.702	2.884	2.918	
<b>Week 4</b>	2.626	2.682	2.732	2.918	2.843	
<b>Week 5</b>	2.619			3.010		

**Total Reserves**



**Data Table**

Oct 07	Nov 07	Dec 07	Jan 08	Feb 08	Mar 08	Apr 08
1901.2	2017.4	2070.4	2053.7	2034.1	2039.5	2478.8

## Risk Factor

The Papua New Guinea (PNG) government continues to state that the country is among the best placed in the world in regards to its ability to withstand the impact of the current global financial crisis. Indeed, in early February the deputy prime minister said that he expects real GDP growth of around 5% in 2009, broadly in line with the estimated outturn for 2008. However, D&B remains far more pessimistic, and we continue to forecast an annual growth rate of just 1.5% for the coming year, with only a moderate recovery, to 2.5%, in 2010.

Signs of an economic slowdown are emerging across an increasingly broad range of sectors. Trade data are only issued with a long lag, but continue to suffer from the sharp drop in global commodity prices (copper, for example, is now back to around its 2004 price level): no major reversal in this trend is expected over the forecast period. This backdrop is also affecting investment plans. Although financing is being finalised for a giant USD10bn ExxonMobil liquefied natural gas (LNG) pipeline project, a further USD5bn joint venture, Liquid Niugini Gas, projected to come on line in 2014, is still looking for a buyer for its 20% stake currently owned by the troubled Bank of America (formerly Merrill Lynch). Moreover, the property sector, which has seen buoyant growth in recent years, is also about to face a crunch. Demand for commercial space, hotel rooms and high-end residential property are all softening rapidly; however, the market is about to face a huge glut of new supply that was initiated during the peak of the commodity boom. For example, quadruple the current commercial office space available in the capital is currently under construction or in advanced planning, while around 700 new hotel rooms are about to enter the very limited local market.

Worsening demand is arguably best captured by the trends in money supply and government revenues. Narrow money (M1) growth declined from 35.7% year on year (y/y) in July 2008 to just 11.9% as of December, while broad money (M3) growth dropped from 32.4% to 11.2% y/y over the same period. Meanwhile, a report from the Internal Revenue Commission shows projected revenues at just PGK4.6bn in 2009, against PGK6.1bn in 2008: this represents a decline of over 30% y/y, and is equivalent to around 10% of GDP. Overall, D&B believes that PNG's fiscal position will shift from surplus to deficit over the forecast period, reversing the trend seen during the commodity boom years from 2003 to 2007. Meanwhile, the Bank of Papua New Guinea is still tightening monetary policy due to its perception of economic overheating; the benchmark repo rate was raised from 8% to 9% in January. Increasing the cost of borrowing at this juncture will almost certainly exacerbate the looming economic downturn.

## Glossary & Definitions

### DEFINITIONS

#### Minimum Terms:

The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

#### Recommended Terms:

D&B's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

#### Usual Terms:

Normal period of credit associated with transactions with companies in the stated country.

#### Local Delays:

The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

#### F/X Bank Delays:

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.

#### C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:

Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:

The balance of government expenditure and receipts.

Real GDP growth, %:

GDP adjusted for inflation.

Inflation, %:

The increase in prices over a given period.

## GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

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