

Country Insight Snapshot Papua New Guinea

June 2018






OVERVIEW

OVERALL COUNTRY RISK RATING: DB5d

High risk : Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high return transactions only.

R

Rating Outlook: Deteriorating 

CORE OUTLOOK


- + The country is rich in copper, gold and nickel, and there are gas reserves of at least 22trn cubic feet, while new oil discoveries are likely.
- + Seek business opportunities linked to ongoing government plans to boost spending on education, healthcare, infrastructure and policing.
- Urban areas are plagued by high levels of violent crime that deter investment, while the quality of political governance is very poor.
- Overall human development indicators are also poor: infant mortality is 45 per 1,000, while an ageing, dwindling workforce could trigger a healthcare crisis later in the 2010s.

KEY DEVELOPMENT

A free-trade agreement with China could be signed in November when Chinese Premier Xi Jinping visits Papua New Guinea to attend the APEC summit.

CREDIT ENVIRONMENT OUTLOOK


R

Trend: Stable 

Key Development has had a neutral impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

R

Trend: Stable 

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK


R

Trend: Stable 

Key Development has had a neutral impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

R

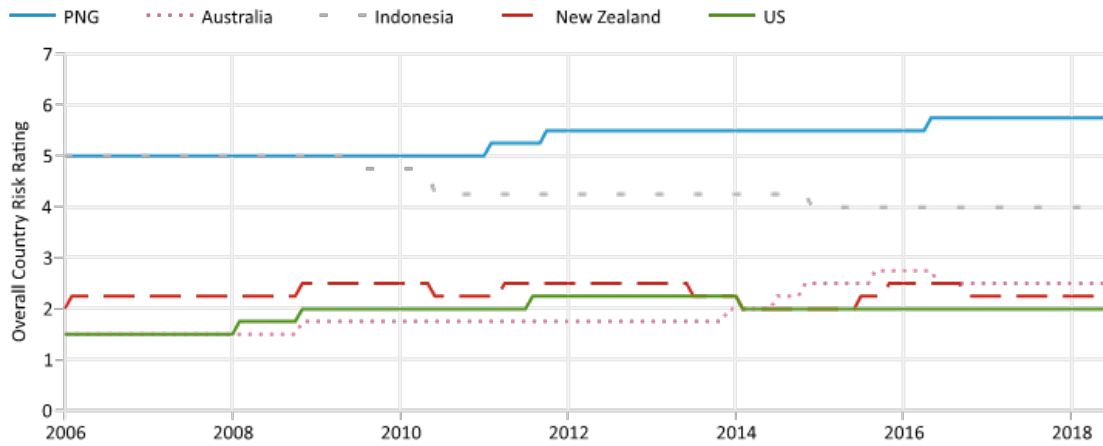
Trend: Deteriorating 

Key Development has had a neutral impact on the outlook.



KEY INDICATORS

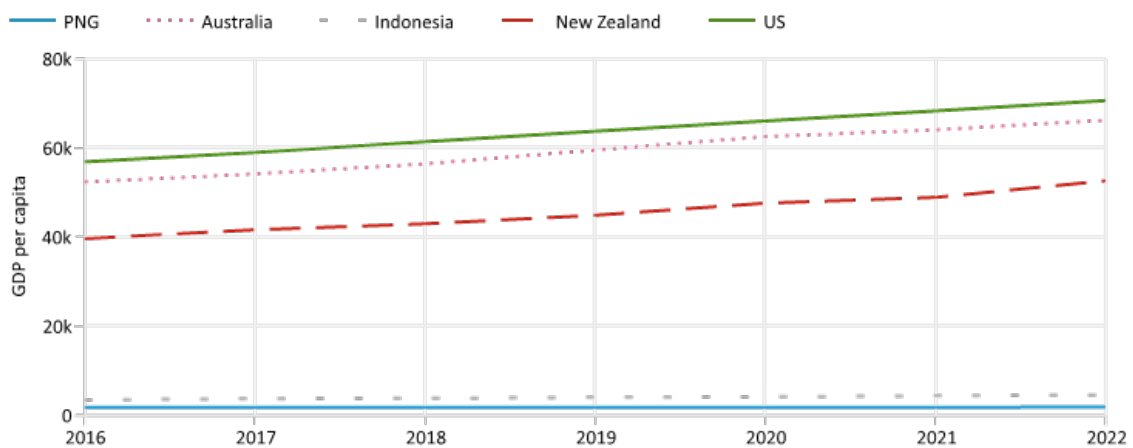
Rating History and Comparison



Source : Dun & Bradstreet

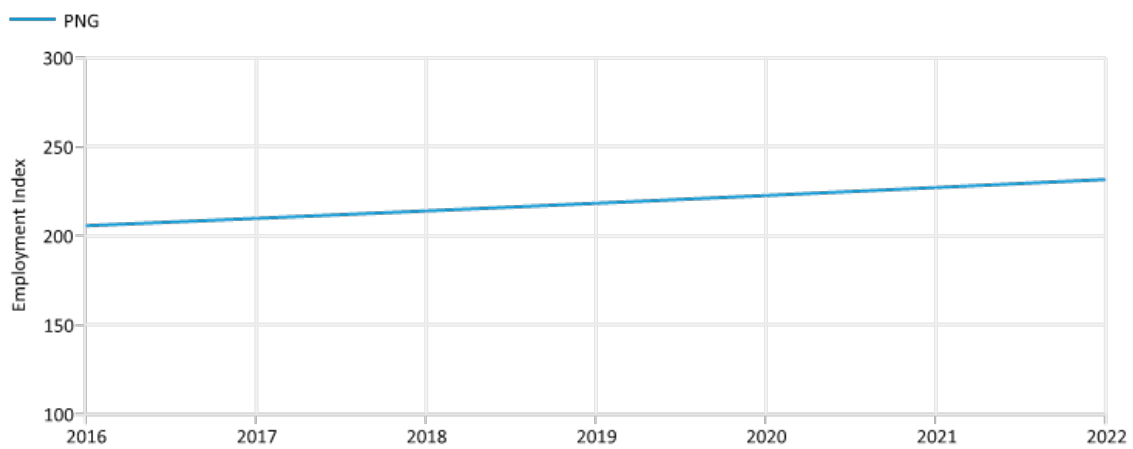
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Employment Index



Source : World Bank/Dun & Bradstreet



Economic Indicators

Indicator	2015	2016	2017	2018f	2019f	2020f	2021f	2022f
C/A balance % GDP	7.1	5.5	4.7	2.9	2.4	1.7	1.0	0.3
Employment Index	202.0	206.0	210.1	214.3	218.6	223.0	227.4	232.0
Govt balance, % GDP	-7.6	-4.6	-3.0	-2.0	-1.0	0.2	0.4	0.6
Inflation, annual avge %	6.0	6.7	5.7	5.5	5.7	5.9	6.1	6.4
Real GDP Growth, %	11.0	2.0	2.8	3.0	3.2	3.3	3.5	3.7

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

The OECD's risk classification for setting minimum premiums for export credit ranks Papua New Guinea at 6 on a scale of 0 to 7 (where 0 represents the lowest risk and 7 the highest; with the classification last updated on 26 January 2018). This was the same ranking as in the previous classification, and reflects what is generally regarded as the high level of risk associated with exporting to Papua New Guinea. Meanwhile, the EU has said that it will provide financial support of EUR6.7m to Papua New Guinea under its Trade-Related Assistance Programme. Meanwhile, in May 2018, Papua New Guinea's national planning minister indicated that the government is keen to explore a possible trade deal with New Zealand.

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: LC

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

Recommended Terms: LC

Dun & Bradstreet'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: 30-60 days

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

Local Delays: 0-2 months

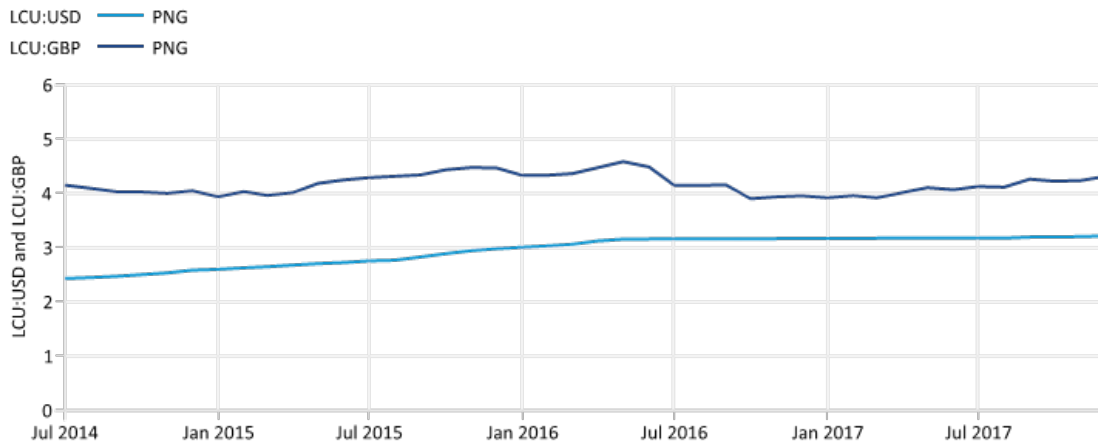
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-2 months

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.



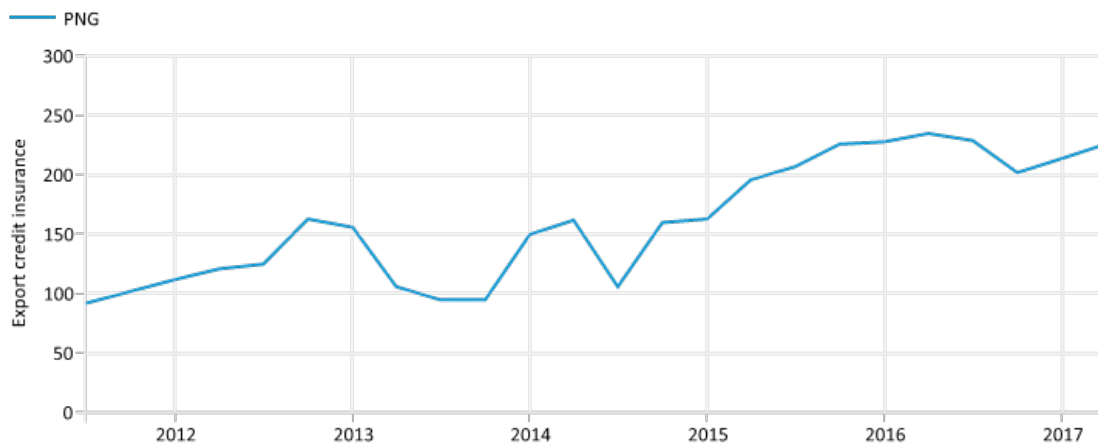
Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

LCU (Local Currency Unit) = Papua New Guinean kina

Credit Conditions



Source : Export Credit Agencies

Insured export credit exposures, USDm; part of the increase going into 2017 is due to methodology changes.



RISKS AND OPPORTUNITIES

Short-Term Economic Outlook

FTA with China increasingly possible

In April, the Papua New Guinea government indicated that it was on course to sign a free-trade agreement (FTA) with China. Speaking after a visit to Beijing, Foreign Minister Rimbink Pato stated that the two countries might conclude an FTA when Chinese Premier Xi Jinping visits Papua New Guinea in November to attend the APEC summit. If a deal is signed, it would follow on from the recent advance in bilateral ties, in particular the approval in November 2017 of an agreement which could be worth up to USD5bn to Papua New Guinea, and will form part of China's much-vaunted Belt and Road Initiative. The deal will see more financing ploughed into three areas of the Papua New Guinea economy, namely agriculture, transport, and better delivery of utilities to remote regions of the country.

Business Regulatory Environment

Question mark over LNG project

However, one factor which could deter Chinese involvement in Papua New Guinea is uncertainty over possible returns and a lack of transparency in the commercial sphere. Regarding the latter, Papua New Guinea was ranked in a poor 135th place out of 180 countries in Transparency International's *Corruption Perceptions Index 2017*. In terms of the former, questions have recently been raised about the benefits that were supposed to have been derived from the massive liquified natural gas (LNG) project led by ExxonMobil.

In April, a report issued by the non-government organization, Jubilee Australia, argued that the scheme was supposed to achieve the following: double the size of Papua New Guinea's economy - but it has only expanded by 10%; increase employment by over 40% - compared to an actual 27% decrease; and boost government spending by 85% - when in reality it has contracted by 32%. The only success has been in exports, which have climbed by 114% compared to a forecast of 106%. One of the reasons for the apparent lack of success of the LNG project is that the government has concentrated on it too much at the expense of other parts of the domestic economy, notably agriculture, tourism and fisheries. For his part, Prime Minister Peter O'Neill said that the project has contributed USD5.7bn to the Papua New Guinea economy.

Political/Insecurity Risk

Preparations continue for Bougainville vote

Finally, there may also be the possibility of increased political instability in the run-up to an independence referendum to be held on the autonomous island of Bougainville in June 2019. A key milestone in the preparations for the vote will be a meeting of the Joint Supervisory Body in June. It is tasked with resolving a number of questions, including the exact wording of the referendum question. Prime Minister O'Neill has reiterated his view that he would prefer Bougainville to remain part of Papua New Guinea, no doubt partly driven by the fact that the island is the location of the potentially lucrative, but currently closed, Panguna copper mine.



COUNTRY PROFILE AND STATISTICS

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 benefitted in recent years from high international prices for commodities such as gold, cocoa and oil. However, its topography and poor infrastructure hinder the extraction and marketing of produce. These factors also ensure 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.

Key Facts

Key Fact	Detail
Head of government	Prime Minister Peter O'NEILL
Capital	Port Moresby
Timezone	GMT +10-00
Official languages	English, Hiri Motu, Tok Pisin
Population (millions)	8.3
GDP (USD billions)	15.2
GDP per capita (USD)	1,847
Life expectancy (years)	65.3
Literacy (% of adult pop.)	63.4
Surface area (sq km)	462,840

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2013	2014	2015	2016	2017
Real GDP growth (%)	5.5	8.5	11.0	2.0	2.8
Nominal GDP in USDbn	15	15	15	15	15
Nominal GDP in local currency (bn)	35	38	40	43	46
GDP per Capita in USD	2,030	1,985	1,844	1,842	1,847
Population (year-end, m)	7.6	7.8	7.9	8.1	8.3
Exchange rate (yr avge, USD-LCU)	2.2	2.5	2.8	2.9	3.0
Current Account in USDbn	-4.9	-0.6	1.0	0.8	0.7
Current Account (% of GDP)	-32.1	-4.2	7.1	5.5	4.7
FX reserves (year-end, USDbn)	2.8	2.3	1.7	1.6	1.8
Import Cover (months)	3.6	3.7	2.8	2.6	2.7
Inflation (annual avge, %)	5.0	5.3	6.0	6.7	5.7
Govt Balance (% GDP)	-8.0	-7.2	-7.6	-4.6	-3.0

Source : Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2018f	2019f	2020f	2021f	2022f
Real GDP growth (%)	3.0	3.2	3.3	3.5	3.7
Nominal GDP in USDbn	16	16	16	17	18
Nominal GDP in local currency (bn)	48	51	54	58	62
GDP per Capita in USD	1,851	1,861	1,878	1,901	1,932
Population (year-end, m)	8.4	8.6	8.8	8.9	9.1
Exchange rate (yr avge, USD-LCU)	3.1	3.2	3.3	3.4	3.5
Current Account in USDbn	0.5	0.4	0.3	0.2	0.1
Current Account (% of GDP)	2.9	2.4	1.7	1.0	0.3
FX reserves (year-end, USDbn)	1.9	2.1	2.3	2.5	2.7
Import Cover (months)	2.8	3.0	3.2	3.4	3.6
Inflation (annual avge, %)	5.5	5.7	5.9	6.1	6.4
Govt Balance (% GDP)	-2.0	-1.0	0.2	0.4	0.6

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	PNG	Australia	Indonesia	NZ	US
Income per Capita (USD)	1,851	56,509	3,942	43,067	61,495
Country Population (m)	8.4	24.1	266.8	4.7	326.8
Internet users (% of population)	9.6	88.2	25.4	88.5	76.2
Real GDP Growth (% p.a., 2018 - 2027)	4.0 - 6.0	0.9 - 3.3	5.0 - 8.0	1.4 - 3.0	1.8 - 2.5

Source : Various sources/Dun & Bradstreet



LINKS

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