



D&B Country RiskLine Report

**PAPUA NEW
GUINEA**

Region : ASIA/PACIFIC

December 2005

D&B COUNTRY RISK INDICATOR

DB5a	<p>This "DB" Rating Indicates:</p> <p>High risk</p> <p>Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high-return transactions only.</p> <p>Trend:</p> <p>Down - The country's overall risk profile is deteriorating owing to adverse political, commercial, economic and/or external developments.</p>
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The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country. Essentially, the indicator seeks to encapsulate the risk that country-wide factors pose to the predictability of export payments and investment returns over a time horizon of two years. The 'DB' risk indicator comprises 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;
- 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 and a commensurate expansion in business opportunities;
- External risk* - the current account balance, capital flows, foreign exchange reserves, size of external debt and all such factors that determine whether a country can generate enough foreign exchange to meet its trade and foreign investment liabilities.

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

USUAL TERMS

Minimum Terms:	L/C
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The minimum advisable form of documentation or trading method under which D&B advise customers to pursue any form of export trade with stated country.

Recommended Terms:	L/C
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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.

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

Transparency International's '05 Corruption Perceptions Index highlights the ongoing problem of corruption in PNG. The country was ranked 130 out of 159 surveyed, with a score of 2.3 (where 0.0 indicates the highest level of perceived corruption and 10.0 the lowest). This placed PNG alongside Cambodia and above Indonesia (2.2), but significantly behind most other countries in the region.
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TRANSFER SITUATION

Local Delays:	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.

FX/Bank Delays:	1-2 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 foreign exchange controls, foreign exchange availability and the efficiency of the local banking system.

Import Cover:	4.3 months
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The amount of foreign exchange a country has in relation to the average monthly value of imported goods and services. Only liquid foreign exchange reserves from which a country can service its import requirements are included in this calculation.

Total reserves (minus gold) stood at USD543.5m at end-Jul. '05, up from USD537.3m in Jun. but still lower than in May, when reserves reached USD575.8m, supported by strong exports. More recently, prices for gold (a key export-earning commodity) have softened slightly, falling from a recent peak of USD474.4 per troy ounce in early Oct. to USD456.0 in early Nov., although this is still up 6.7% y/y.

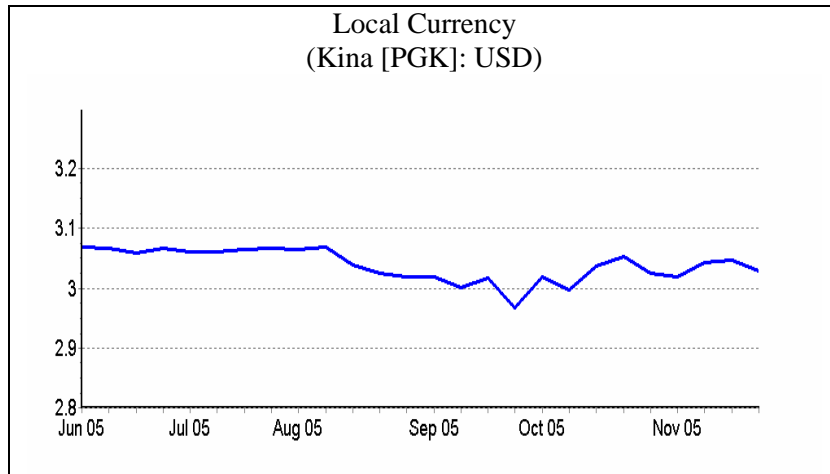
Economic Indicators

	2002	2003	2004e	2005f	2006f
Real GDP growth, %	-1.0	2.8	2.7	2.8	2.7
Inflation, annual ave %	11.8	14.7	2.1	1.9	2.5
Govt balance, % GDP	-3.9	-1.0	1.7	1.5	-0.5
Govt debt, % GDP	70.7	60.1	55.4	50.1	49.0
C/A balance, % GDP	-4.3	3.7	1.7	-2.5	-2.8

LOCAL CURRENCY

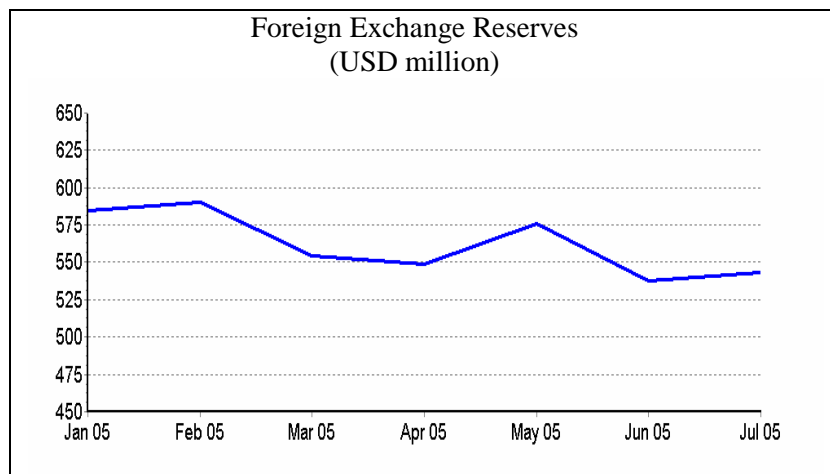
Local Currency (Kina [PGK]: USD)	
Jun 05	3.0691
	3.0660
	3.0594
Jul 05	3.0676
	3.0610
	3.0616
Aug 05	3.0654
	3.0666
	3.0654
	3.0682
	3.0389
Sep 05	3.0243
	3.0191
	3.0194
	3.0010
	3.0162
Oct 05	2.9670
	3.0186
	2.9973

	3.0377
	3.0530
	3.0242
Nov 05	3.0194
	3.0429
	3.0469
	3.0297



Exchange Rates
(London, 14 Nov 05)

EUR	3.5619
GBP	5.2957
JPY*	2.5795
USD	3.0429
*(x 100)	



Foreign Exchange Reserves (USD million)						
Jan 05	Feb 05	Mar 05	Apr 05	May 05	Jun 05	Jul 05
584.3	590.1	554.1	548.5	575.8	537.3	543.5

Export Credit Agencies

US Eximbank	Restricted cover available
Atradius	Cover available, no discretionary limits
ECGD	Full cover available
Euler Hermes UK	ST cover available, restrictions may apply

RISK FACTOR

Leaders of the 16 Pacific Island Forum nations gathered in Madang, Papua New Guinea (PNG) at end-Oct. for the group's 36th summit meeting. The Forum endorsed a 10-year plan aimed at bringing about closer political and economic integration among member states. In particular, it is hoped that initiatives to pool resources in areas such as shipping, air services and police training will help to reduce the cost burden on individual (and often small) economies. However, many Pacific Island members were disappointed by the rejection of a request that Australia and New Zealand, the largest economies in the group, accept temporary workers from Pacific Islands where unemployment and poverty levels are high. The prime ministers of both Australia and New Zealand rejected the proposal, with the latter's prime minister, Helen Clark, citing concerns about possible overstaying. The issue will probably be raised again at the '06 summit to be held in Tonga; however, the outcome is likely to be the same.

Prior to the Pacific Island Forum, Prime Minister Michael Somare met separately with his Australian counterpart, John Howard. Australia is PNG's largest bilateral aid donor, providing around AUD350m a year to the country. The relationship suffered a sharp blow this year when the proposed Enhanced Co-operation Programme (ECP) was sharply scaled-down following a ruling by PNG's Supreme Court that it would be unconstitutional to grant immunity to around 200 Australian police officers who were to be deployed in PNG under the terms of the 5-year ECP.

Apart from technical difficulties, the relationship with Australia is also vulnerable to clashes at the leadership level; for instance, Somare tends to be highly sensitive to any suggestion that PNG is somehow a 'failed' state - or in danger of becoming 1 - and does not take kindly to apparent lectures from Australia that the country must improve its governance and reduce corruption. Nonetheless, the fact remains that these are considerable problems in PNG and represent significant barriers to the country's development. The government has made considerable strides in stabilising the resource-rich economy: it has recorded steady growth since the contraction of '02; inflation is down to low single digits; and the fiscal balance is expected to post a 2nd consecutive annual surplus in '05. However, the country also suffers from

degraded and inadequate infrastructure, significant levels of poverty, a rising HIV/AIDS infection rate and a high incidence of crime and violence. PNG lacks sufficient resources and expertise to deal with these issues and realise its full potential; as such, the country must continue to seek the support of external donors, whether this be Australia, or (an increasing possibility for the future) China.

GLOSSARY

<i>Key:</i>	
C L/C	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
L/C	Letter of Credit
LT	Long-term
MT	Medium-term
OA	Open Account
SD	Sight Draft
ST	Short-term

DEFINITIONS:

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

A measure of a country's net trade, service, and other non-capital flows.

DSR (debt service ratio), %:

The total of a country's debt interest and principal payments in relation to annual export revenues.

Govt balance, % GDP:

The public sector balance expressed as a proportion of total domestic economic output.

Real GDP growth, %:

The growth in the total goods and services produced within a country, taking account of inflation.

Inflation, %:

The increase in consumer prices reported as an end-year or annual average figure.

Investment, % GDP:

The proportion of total output directed toward investment.

Manufactures, % GDP:

A measure of the importance of industry within an economy.

Non-oil sector, % GDP:

The degree of dependency of an economy on oil.

Oil, US\$ p/b:

Oil price per barrel.

Oil output, '000 bpd

Average daily output of oil.

Public debt, % GDP:

The total public sector debt in relation to the size of the domestic economy.

Trade balance, % GDP:

A measure of a country's net import and export flows.

Unemployment, %:

The percentage of the registered labour force that is unemployed.

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