

BEST'S COUNTRY RISK REPORT

Papua New Guinea CRT-5

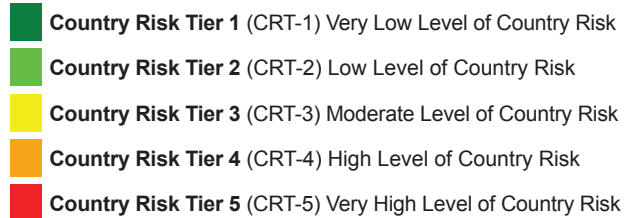
August 22, 2018

Region: Asia

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Papua New Guinea has high levels of economic and political risk and a very high level of financial system risk. Because of a significant drought and weak commodity prices, real GDP growth in 2017 was minimal at 2.5%. Growth is expected to accelerate to 2.9% in 2018, but it is still significantly lower than in prior years. Inflation moderated to 5.2% in 2017. Growth is projected to increase slightly on recoveries in agriculture, energy prices and mining. The economy remains vulnerable to shifts in global demand and climate-related events.
- A.M. Best categorizes the majority of countries in Southeast Asia CRT-3, CRT-4 or CRT-5. A notable exception is Singapore, a CRT-1 country.



Regional Summary: Southeast Asia

- Southeast Asia largely consists of the countries located north of Australia, west of New Guinea, east of India, and south of China.
- The region is particularly vulnerable to trade protectionist policies, given its reliance on exports to fuel economic growth. To diminish some of the vulnerability to external conditions, most of the region's countries are trying to implement structural changes which encourage economic diversification and capital market development. Improving infrastructure and shrinking bureaucracy would also bolster the prospects for sustainable economic growth.
- Additional headwinds for the region include political turmoil/uncertainty, poverty due to growing income inequality, endemic corruption, bureaucracy, susceptibility to natural disasters, and the volatility of capital flows and exchange rates owing to ongoing monetary policy normalization in developed countries.
- Growth in the region has been supported by improving global conditions as well as growing domestic demand and increased levels of government spending, particularly on infrastructure.

Vital Statistics 2017

Nominal GDP	USD bn	23.62
Population	mil	8.3
GDP Per Capita	USD	2,861
Real GDP Growth	%	2.5
Inflation Rate	%	5.2

United Nations Estimates

Literacy Rate	%	64.2
Urbanization	%	13.1
Dependency Ratio	%	67.4
Life Expectancy	Years	67.3
Median Age	Years	23.1

Insurance Statistics - As of 2016

Insurance Regulator	Bank of Papua New Guinea; Department of Treasury	
Premiums Written (Life)	USD mil	16
Premiums Written (Non-Life)	USD mil	133
Premiums Growth (2016 - 2017)	%	-17.1

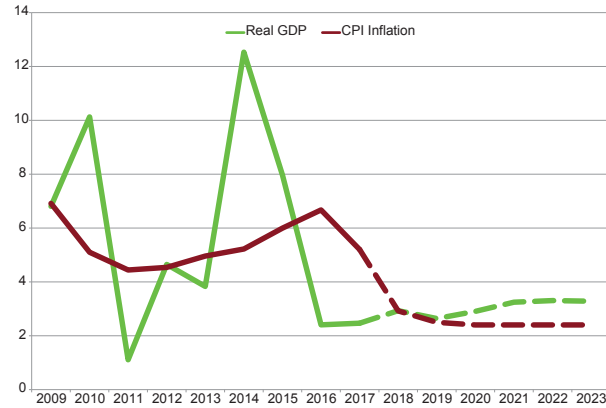
Regional Comparison

	Country Risk Tier
Papua New Guinea	CRT-5
Australia	CRT-1
Indonesia	CRT-4
Malaysia	CRT-3
Micronesia	CRT-5
Vietnam	CRT-4

Source: IMF, UN, Swiss Re, Axco and A.M. Best



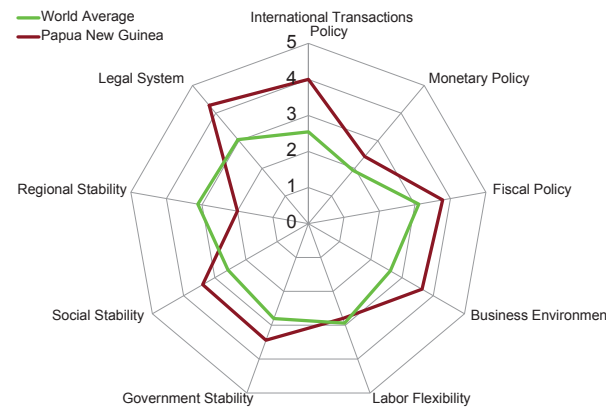
Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

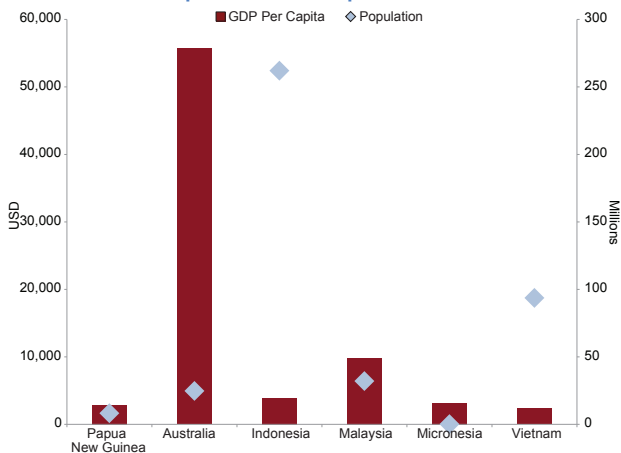
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risk: High

- Papua New Guinea's economy is based on its rich natural resources, including copper, gold, and oil. The agricultural sector also plays an important role by supporting and employing much of the population.
- Commodity price fluctuations have a significant influence on PNG's trade performance. Higher commodity prices in 2018 are expected to support exports and growth. The country is hosting the 2018 Asia-Pacific Economic Cooperation summit, which should further encourage economic activity.
- The lack of investment is the main issue hampering economic development. The government is taking measures, such as law amendments, to boost investment.
- Corporate tax rates are high, however incentives that lower the effective rates are in place. Tax revenues are low.
- The country's liquefied natural gas program has resulted in an increase in economic growth but its initial effects are tapering off. Structural reforms are required to boost non-resource sector growth.

Political Risk: High

- Prime Minister Peter O'Neill was re-elected in 2017, and policy continuity is expected. The country is governed by a coalition led by the People's National Congress (PNC).
- Priorities include bolstering economic growth and securing government revenues. The prime minister has been cited for poor fiscal policy management. Cuts in health care and education are also widely unpopular.
- The legal system is relatively well-structured, but inconsistencies and complications increase the level of difficulty for business operations. The Ease of Doing Business Index ranks PNG 109 out of 190 countries. Contract enforcement is particularly weak, ranking 171.
- Corruption in the courts and the government is widespread, disrupting politics and businesses.
- Protests may cause disruptions to projects, especially regarding land disputes and demands for compensation. Property damage is also likely. Crime rates are high.

Financial System Risk: Very High

- The insurance industry is regulated by the Insurance Commissioner and the Bank of Papua New Guinea under the Insurance Act of 1995 and the Life Insurance Act of 2000.
- The difficulty of converting to PNG's currency has been a key impediment to attracting foreign investment. A rigid exchange rate has hampered the ability to swiftly adjust to lower commodity prices. The IMF has recommended implementing exchange rate flexibility.
- To reduce debt, fiscal consolidation is needed over the medium term.
- Social programs enhancing the quality of education and infrastructure are also recommended for inclusive growth.