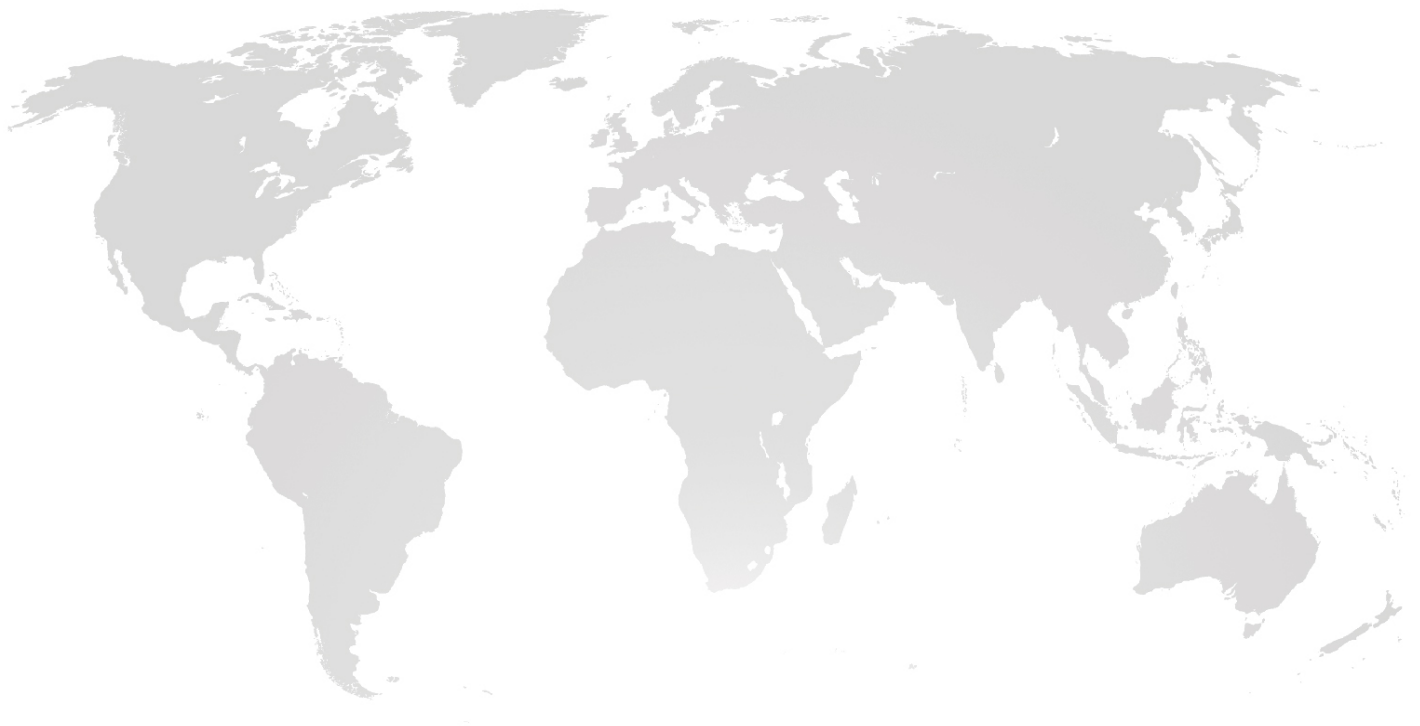


Country Insight Snapshot

Australia

October 2016





OVERVIEW

OVERALL COUNTRY RISK RATING: DB2c

Low risk: Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns in future.



Rating Outlook: Improving

CORE OUTLOOK

- + Australia is well placed to benefit from Asian demand and the expanding middle class.
- + Expect population ageing to be more moderate than in European countries.
- The long-term economic trajectory of productivity and growth will depend on demand for energy and mineral exports.
- Demand from China is slowing, affecting demand for Australian products.
- Australia is currently experiencing a period of less favourable terms of trade.

KEY DEVELOPMENT

Dun & Bradstreet upgrades its rating outlook for Australia due to improved key export prices, strengthening growth and fiscal stimulus.

CREDIT ENVIRONMENT OUTLOOK



Key Development has had a neutral impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK



Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK



Key Development has had a positive impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

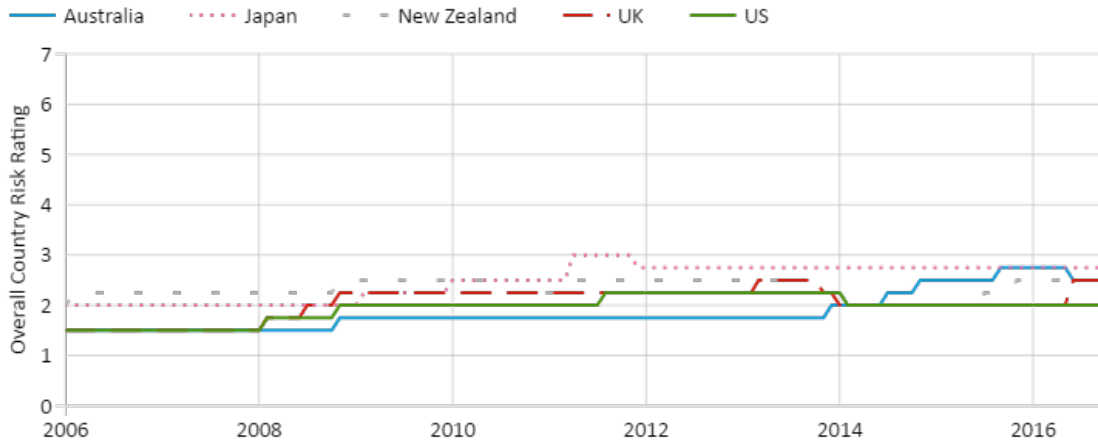


Key Development has had a neutral impact on the outlook.



KEY INDICATORS

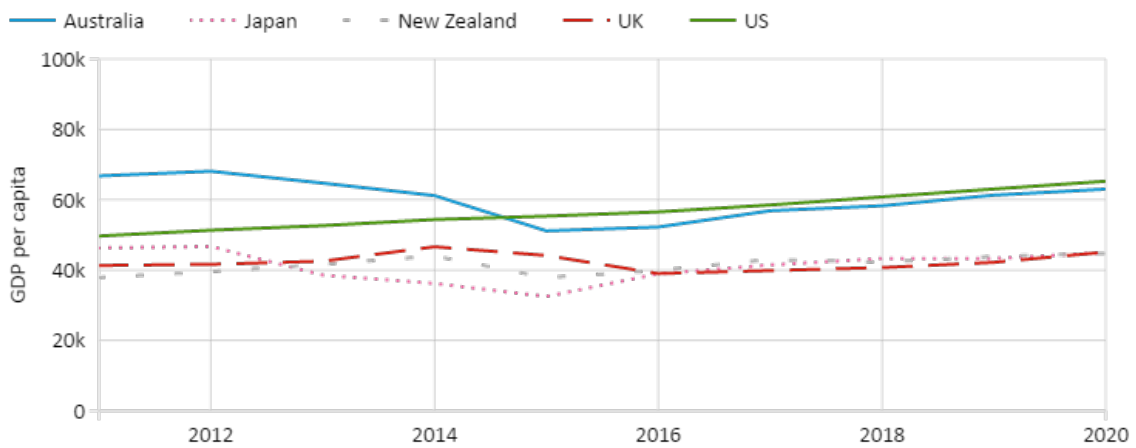
Rating History and Comparison



Source : Dun & Bradstreet

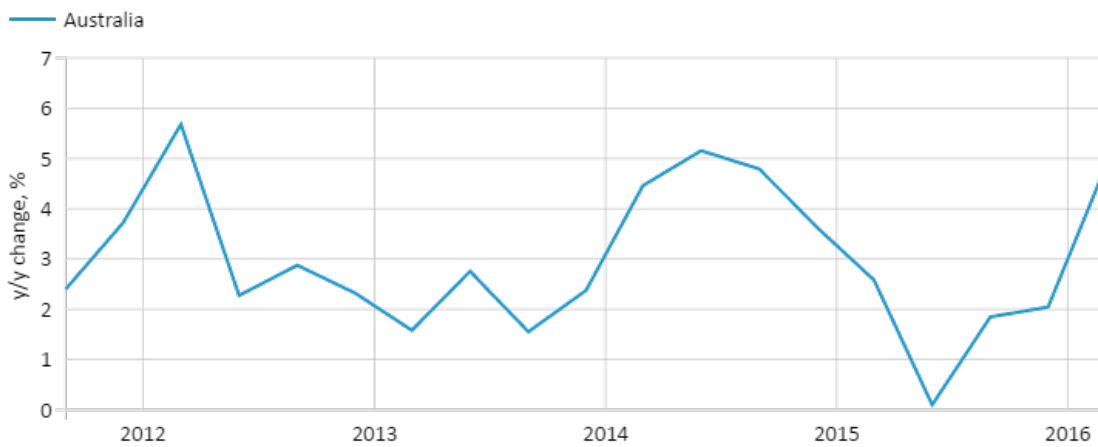
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Quarterly)



Source : Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2013	2014	2015	2016f	2017f	2018f	2019f	2020f
C/A balance % GDP	-3.4	-3.1	-5.0	-4.1	-3.1	-3.0	-2.8	-3.0
Govt balance, % GDP	-1.9	-2.8	-2.3	-2.1	-2.0	-2.2	-2.4	-2.6
Inflation, annual avge %	2.4	2.5	1.5	1.4	1.6	1.8	2.1	1.9
Real GDP Growth, %	2.0	2.7	2.5	2.8	2.4	2.2	2.5	2.0
Unemployment, %	5.7	6.1	6.1	5.7	5.5	5.3	5.4	5.5

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

Surging exports during Q2 helped narrow the trade deficit, which improved from -2.1% to -1.8% of nominal GDP. In addition, despite a cut to the cash rate in August the local currency has strengthened, but Philip Lowe, who took over for Glen Stevens as the Reserve Bank of Australia's Governor in September, remains committed to weakening the Australian dollar against its peers; a weaker currency will aid exporters. Inflation remains below the Reserve Bank's target rate, and the Bank is likely to remain accommodative over the near term until inflation returns to target, potentially moving to even more accommodation to meet its goal. Meanwhile, Dun & Bradstreet's *Q4 2016 Business Expectations Survey* cites Australian firms as having become more optimistic from the beginning of 2016. Improving business confidence, an accommodative monetary policy, and better domestic growth and export prices mean that trade and commercial conditions are generally improving.

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: OA

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: SD

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: 0-1 month

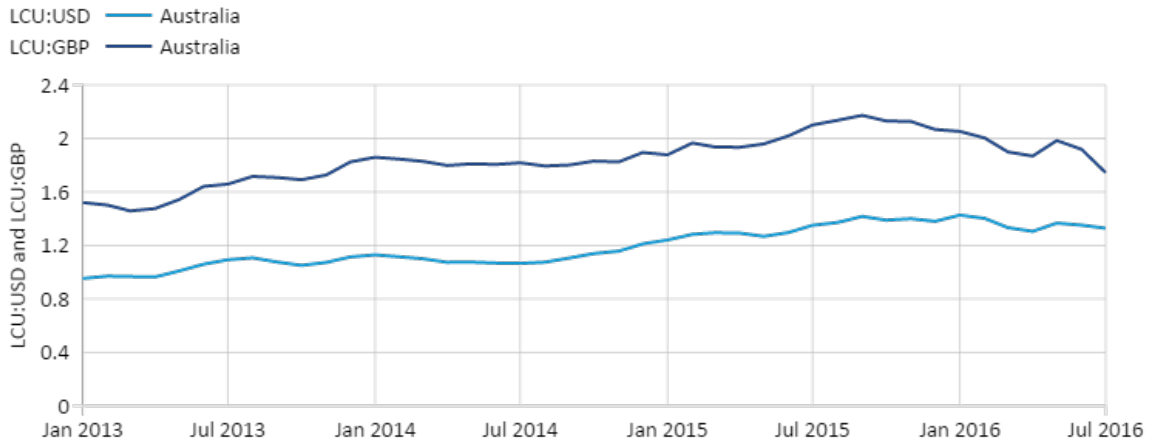
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-1 month

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.



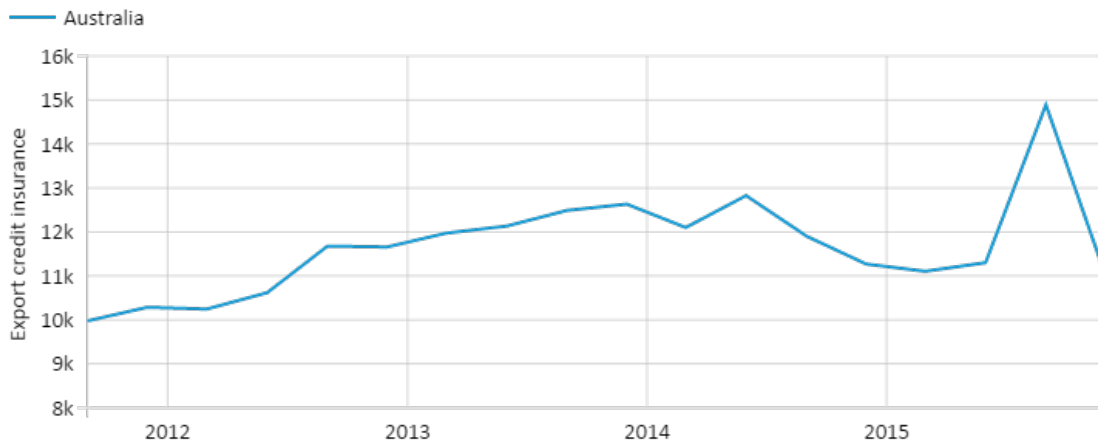
Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Australian dollar

Credit Conditions



Source : Export Credit Agencies

Insured export credit exposures, USDm



RISKS AND OPPORTUNITIES

Short-Term Economic Outlook

Rating outlook upgraded

We have upgraded our rating outlook for Australia amid improving growth fundamentals. Positive momentum continued during Q2 as real GDP grew at an annualised 2.1% from Q1. A rise in key commodity export prices is helping to lift export revenues and could provide a positive tailwind regarding wage growth. The average prices for a metric ton of coal/iron ore have risen about 29% and 48% respectively, but remain below the highs recorded in 2011. In addition, a boost of government spending by way of defence purchases that were initially outlined in the 2016 federal Budget strongly added to the Q2 number. While y/y growth is currently at about a 3.1% annual pace, we expect slightly slower growth through the remainder of 2016. As imbalances in terms of both supply and fluctuating demand within the commodity mining vertical continue to work out, it is likely that key commodity export prices will recede. In addition, strong positive contributions from public consumption and a bump in Q2 inventories will be one-off events, also receding in the months ahead. Pockets of weakness remain in Western Australia.

Temporary bumps aside, the outlook is improving in the wake of better economic growth, improving terms of trade, and favourable tax cuts for small businesses that went into effect beginning 1 July. While gross fixed capital formation continues to drag on growth, due mainly from the slowdown in business investment after the mining investment phase, the negative effects are likely to decline in the quarters ahead. Meanwhile, in addition to the small business tax cuts, enough labour slack remains, as labour underutilisation is still elevated; for the moment this will alleviate wage price pressures, allowing for improving conditions for Australian businesses. But much of the outlook continues to hinge upon China's efforts to achieve sustainable growth. We also continue to stress caution regarding elevated (and rising) debt-to-income levels, which remain well above those of most advanced nations. We expect real GDP to grow at 2.8% in 2016.

Long-Term Economic Potential

Inaction may lead to quota shortfalls

A lack of immediate action on Australia's commitment during the Paris climate change conference to reduce carbon emissions by 26-28% on 2005 levels may require more regulations or sharper future interventions to meet the goal. Australia is one of the highest per capita emissions generators in the world. Existing government agencies such as the Emissions Reduction Fund have been in place to combat growing emissions and achieve the target by 2030, but projections by S&P suggest that emissions are on course to grow instead of shrink by 2030, due in part to current policy. While the agreement is non-binding, Australia acted in good faith to meet the targets. Policy changes will likely be necessary to meet this long-term target. Likely outcomes include a return of the carbon and mining tax that was repealed in 2015, or new incentives to encourage investment and development of clean energy.



COUNTRY PROFILE AND STATISTICS

Overview

Australia is situated in the South Pacific; its immediate neighbours include Indonesia, Papua New Guinea and New Zealand. It is a member of the British Commonwealth and the OECD. The economy has undergone considerable liberalisation in recent years and offers a conducive environment in which to do business.

Australia's population numbers around 23m and income levels are on a par with other developed economies. While the economy is diversified, mineral and agricultural commodities still play an important role in the country's export profile. This has helped the economy to enjoy a prolonged period of growth in recent years, and has protected the country from the worst effects of the global slowdown in 2008-09, as demand from China was maintained; however, as a result the economy has grown unevenly, complicating policy responses.

The political system is generally stable and policy risk is low, with broad policy agreement between the main parties. The bicameral parliamentary model helps to ensure a robust system of checks and balances, although an opposition-held Senate occasionally frustrates policy initiatives.

Key Facts

Key Fact	Detail
Head of government	Prime Minister Malcolm Turnbull
Capital	Canberra
Timezone	GMT +10-00
Official language	English
Population (millions)	24
GDP (USD billions)	1,225.5
GDP per capita (USD)	51,130
Life expectancy (years)	82
Literacy (% of adult pop.)	99.9
Surface area (sq km)	7,741,220

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2011	2012	2013	2014	2015
Real GDP growth (%)	2.6	3.6	2.0	2.7	2.5
Nominal GDP in USDbn	1,505	1,560	1,506	1,445	1,226
Nominal GDP in local currency (bn)	1,457	1,505	1,555	1,600	1,629
GDP per Capita in USD	66,746	68,082	64,709	61,160	51,130
Population (year-end, m)	22.5	22.9	23.3	23.6	24.0
Exchange rate (yr avge, USD-LCU)	0.97	0.97	1.03	1.11	1.33
Current Account in USDbn	-44.0	-66.4	-51.2	-44.1	-61.3
Current Account (% of GDP)	-2.9	-4.3	-3.4	-3.1	-5.0
FX reserves (year-end, USDbn)	42.8	44.9	49.7	50.8	46.5
Import Cover (months)	1.6	1.6	1.9	2.0	2.1
Inflation (annual avge, %)	3.3	1.8	2.4	2.5	1.5
Govt Balance (% GDP)	-2.6	-2.2	-1.9	-2.8	-2.3

Source : Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2016f	2017f	2018f	2019f	2020f
Real GDP growth (%)	2.8	2.4	2.2	2.5	2.0
Nominal GDP in USDbn	1,236	1,358	1,404	1,489	1,544
Nominal GDP in local currency (bn)	1,632	1,657	1,656	1,683	1,698
GDP per Capita in USD	52,227	56,854	58,267	61,282	63,004
Population (year-end, m)	23.7	23.9	24.1	24.3	24.5
Exchange rate (yr avge, USD-LCU)	1.32	1.22	1.18	1.13	1.1
Current Account in USDbn	-50.7	-42.1	-42.1	-41.7	-46.3
Current Account (% of GDP)	-4.1	-3.1	-3.0	-2.8	-3.0
FX reserves (year-end, USDbn)	48.0	48.0	52.0	51.0	52.0
Import Cover (months)	2.2	2.1	2.3	2.3	2.2
Inflation (annual avge, %)	1.4	1.6	1.8	2.1	1.9
Govt Balance (% GDP)	-2.1	-2.0	-2.2	-2.4	-2.6

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Australia	Japan	NZ	UK	US
Income per Capita (USD)	51,130	32,487	37,873	44,136	55,326
Country Population (m)	24	127	4.5	64.7	321.8
Internet users (% of population)	84.6	90.6	85.5	91.6	87.4
Real GDP Growth (% p.a., 2016 - 2025)	0.9 - 3.3	-0.5 - 1.2	1.4 - 3	1.8 - 3.5	1.8 - 2.5

Source : Various sources/Dun & Bradstreet



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