

Country Insight Snapshot

Australia

June 2017



Written 02 June 2017

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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.
- Australian households remain among the highest leveraged in the world, raising financial stability risks.
- Political posturing in key export markets could disrupt the stability of regional trade.
- Top export market China is experiencing the conditions that are common during the late stages of a credit cycle.

KEY DEVELOPMENT

The 2017 Budget represents a strategic shift as the government seeks new revenue in lieu of spending cuts, with targets including large financial institutions.

CREDIT ENVIRONMENT OUTLOOK



Trend: Stable

Key Development has had a negative impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK



Trend: Stable

Key Development has had a positive impact on the outlook.

MARKET ENVIRONMENT OUTLOOK



Trend: Improving

Key Development has had a negative impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK



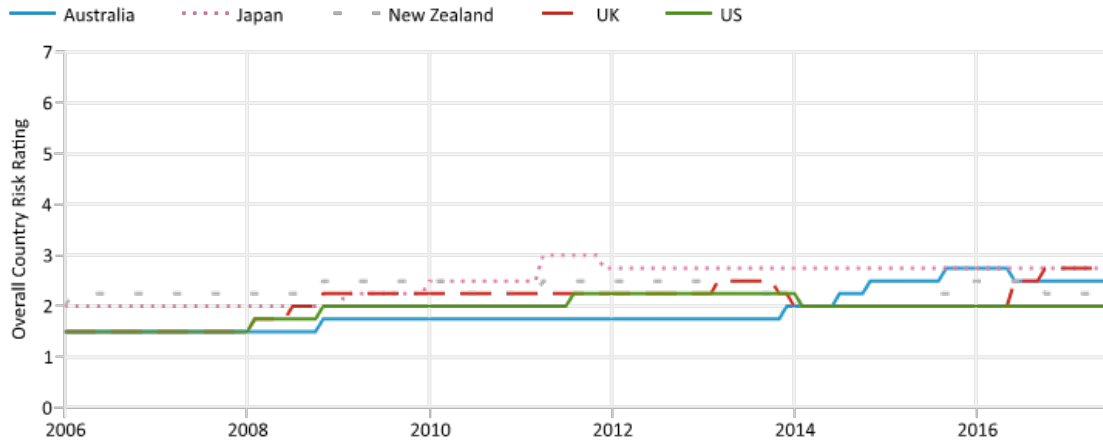
Trend: Stable

Key Development has had a positive impact on the outlook.



KEY INDICATORS

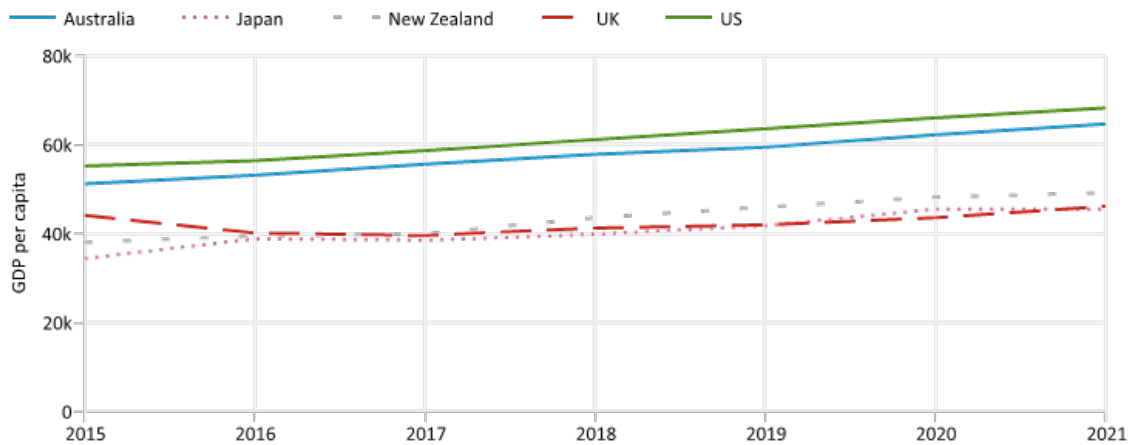
Rating History and Comparison



Source : Dun & Bradstreet

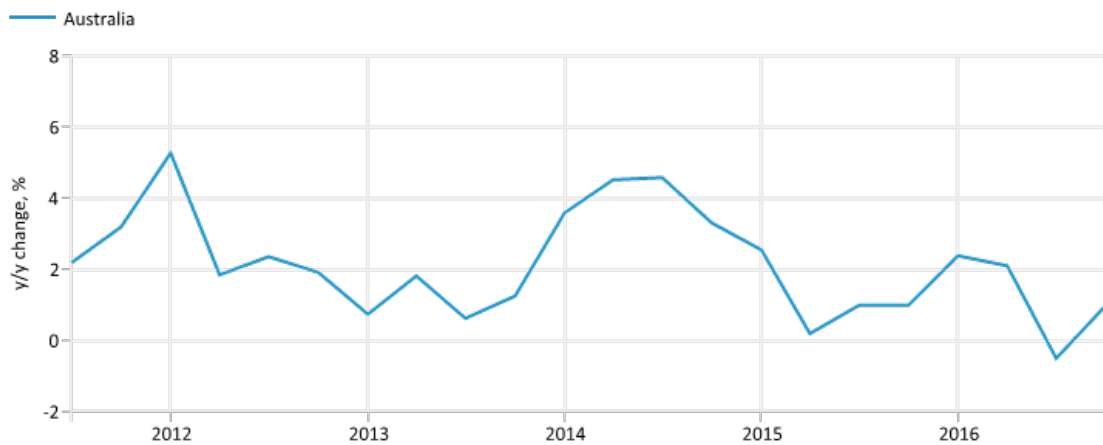
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Quarterly)



Source : Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2014	2015	2016	2017f	2018f	2019f	2020f	2021f
C/A balance % GDP	-2.9	-4.7	-2.6	-2.5	-2.6	-2.8	-3.0	-2.3
Govt balance, % GDP	-2.8	-2.2	-2.1	-2.2	-2.3	-1.8	-1.6	-1.5
Inflation, annual avge %	2.5	1.5	1.3	1.6	2.1	2.2	1.9	1.9
Real GDP Growth, %	2.8	2.4	2.4	2.3	2.6	2.8	3.0	2.2
Unemployment, %	5.9	5.5	5.6	5.5	5.3	5.2	5.4	5.5

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

Trade credit conditions have worsened, according to Dun & Bradstreet's Q1 *Late Payment Study*, with firms paying at the slowest rate since Q3 2014. The latest figures embody a recent trend of slower payment, which is worrying partly because payment times correlate strongly with overall business failures: as payment gets slower, failures tend to increase. Despite the deteriorating trend, the situation has not reached a critical point of concern, as overall payment delays still remain below the peaks seen in previous years. Payment delays could increase in coming quarters, depending upon how Australia's big-five banks respond to the newly instituted tax levies. There is a possibility that the tax could be passed on to customers, which would result in higher payment burdens and - probably - worsening payment performance.

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

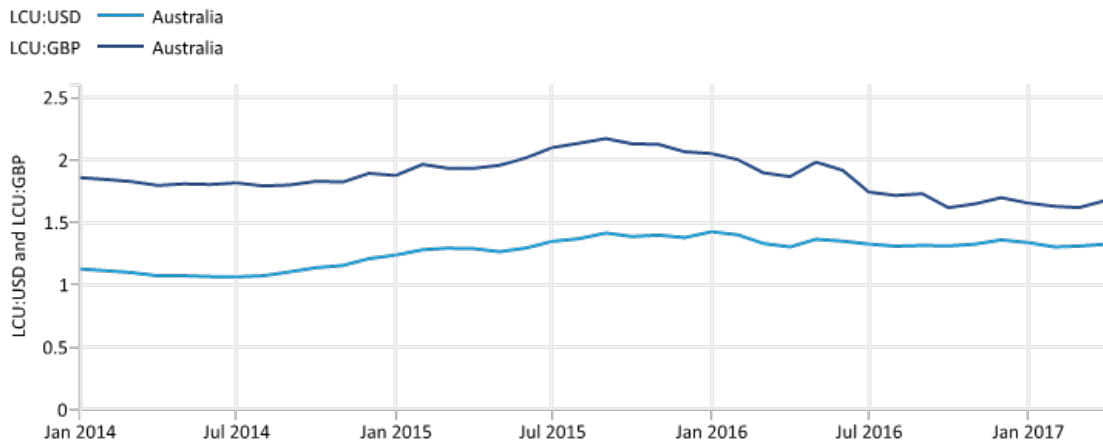
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

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.



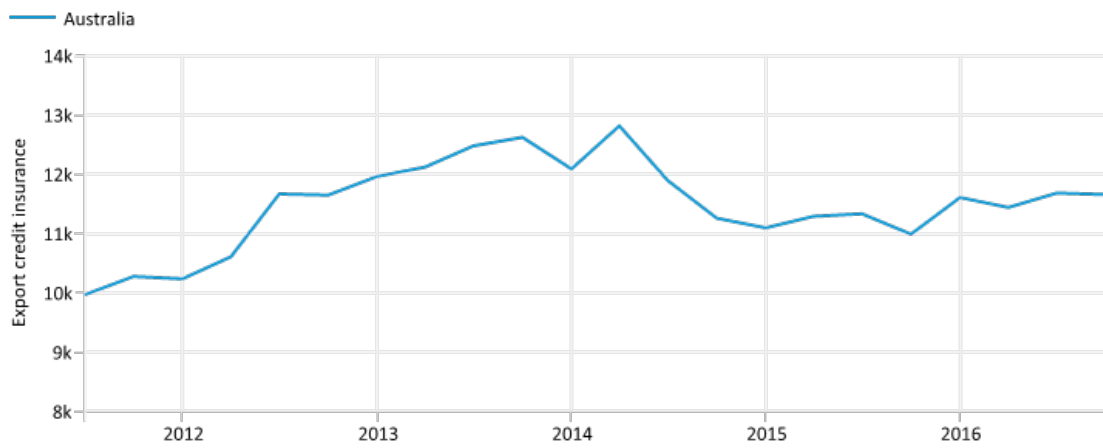
Exchange Rate



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

Business Regulatory Environment

Budget brings new levies

In a slight strategic shift, the Liberal-National Coalition Party is attempting to close the Federal Budget deficit by capturing more revenue through new - and higher - tax levies. This is a clear change from the party's previous strategy of aiming to reduce the current budget deficit (which remains between 2-3% of GDP) by way of spending cuts. Existing incentives for small businesses will remain in this Budget, while the new levies will generate revenue partly from Australian taxpayers who lack private healthcare coverage and earn above a specific threshold (through higher Medicare charges) and partly from Australia's largest banks (which will pay a new tax levy). Additionally, some revenue will be raised by fees associated with foreign buyers attempting to purchase property in Australia.

The national government has been attempting to secure higher tax revenues in recent times, beginning last year with the introduction of tax avoidance laws targeting multinational firms that try to shelter profits overseas; the number of tax specialists at the Australian Taxation Office was also increased. While the Medicare levy will affect take-home pay for the average Australian, its implementation will generate AUD3-4bn in additional government revenue from 2019 to 2021; the proceeds will help to fund the National Disability Insurance Scheme, contributing to narrowing the budget deficit.

Short-Term Economic Outlook

Financial risks rise

A more immediate impact could be felt from the bank levy, which caught the banking sector off-guard and adds to already heightened risks stemming from Australia's high trade exposure to external economies and a domestic housing market that is highly leveraged by historical standards. Downside risk will persist in the form of a possible hard landing for China's economy: the country is entering the late stages of a booming credit cycle, a phase often characterised by excess credit capacity and rising defaults; in addition, an increasing share of Australia's external debt is being sourced from financial corporations that have been tapping wholesale funding markets to secure cash for loans for the booming housing market - the new levy adds another layer of risk to financial stability/institutions.

Political/Insecurity Risk

Security to be boosted

Other Budget spending measures also aimed to increase defence and security funding. Total defence spending will rise to 2% of GDP by 2021, an increase of around 0.5% from current levels amid renewed - and deepening - Australian involvement in Afghanistan and escalating terrorist attacks in the South Asia region. Terrorism remains a growing threat in the region, demonstrated most recently in May when ISIS-affiliated militants battled Philippine government forces in Marawi, a city on the southern island of Mindanao.



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 protected the country from the worst effects of the global slowdown in 2008-09, as demand from China was maintained; however, this has also contributed to the economy growing 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)	24.3
GDP (USD billions)	1,294.1
GDP per capita (USD)	53,235
Life expectancy (years)	82.3
Literacy (% of adult pop.)	99.9
Surface area (sq km)	7,741,220

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2012	2013	2014	2015	2016
Real GDP growth (%)	3.7	2.1	2.8	2.4	2.4
Nominal GDP in USDbn	1,562	1,510	1,449	1,229	1,294
Nominal GDP in local currency (bn)	1,507	1,559	1,606	1,634	1,740
GDP per Capita in USD	68,157	64,874	61,357	51,288	53,235
Population (year-end, m)	22.9	23.3	23.6	24.0	24.3
Exchange rate (yr avge, USD-LCU)	1.0	1.0	1.1	1.3	1.3
Current Account in USDbn	-64.5	-47.9	-42.3	-58.0	-33.9
Current Account (% of GDP)	-4.1	-3.2	-2.9	-4.7	-2.6
FX reserves (year-end, USDbn)	44.9	49.7	50.8	46.5	52.1
Import Cover (months)	1.6	1.9	2.0	2.1	2.4
Inflation (annual avge, %)	1.8	2.4	2.5	1.5	1.3
Govt Balance (% GDP)	-2.2	-1.9	-2.8	-2.2	-2.1

Source : Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2017f	2018f	2019f	2020f	2021f
Real GDP growth (%)	2.3	2.6	2.8	3.0	2.2
Nominal GDP in USDbn	1,331	1,396	1,447	1,527	1,600
Nominal GDP in local currency (bn)	1,730	1,717	1,751	1,802	1,840
GDP per Capita in USD	55,709	57,932	59,558	62,320	64,757
Population (year-end, m)	23.9	24.1	24.3	24.5	24.7
Exchange rate (yr avge, USD-LCU)	1.3	1.2	1.2	1.2	1.2
Current Account in USDbn	-33.3	-36.3	-40.5	-45.8	-36.8
Current Account (% of GDP)	-2.5	-2.6	-2.8	-3.0	-2.3
FX reserves (year-end, USDbn)	51.0	52.0	51.0	52.0	52.0
Import Cover (months)	2.2	2.3	2.2	2.2	2.2
Inflation (annual avge, %)	1.6	2.1	2.2	1.9	1.9
Govt Balance (% GDP)	-2.2	-2.3	-1.8	-1.6	-1.5

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Australia	Japan	NZ	UK	US
Income per Capita (USD)	51,288	34,521	38,095	44,210	55,326
Country Population (m)	24.0	127.0	4.5	64.7	321.8
Internet users (% of population)	84.6	93.3	88.2	92.0	74.6
Real GDP Growth (% p.a., 2017 - 2026)	0.9 - 3.3	-0.5 - 1.2	1.4 - 3.0	1.8 - 3.5	1.8 - 2.5

Source : Various sources/Dun & Bradstreet



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