



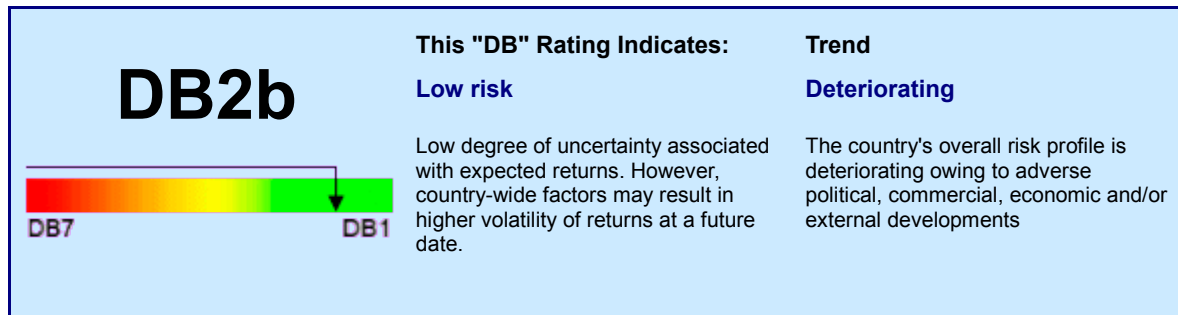
Decide with Confidence

# AUSTRALIA

Region : Asia Pacific

Edition : July 2014

## D&B Country Risk Indicator



The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is 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;

*External risk* - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;

*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 to provide further expansion in business opportunities.

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.

## Key Facts

<b>Population:</b>	23.3m
<b>Surface area (sq km):</b>	7,741,220
<b>Capital:</b>	Canberra
<b>Timezone:</b>	GMT +10:00
<b>Official language:</b>	English
<b>Head of government:</b>	Prime Minister Tony ABBOTT
<b>GDP (USD):</b>	1,506.5bn
<b>GDP per capita (USD):</b>	64,539
<b>Life expectancy (years):</b>	81
<b>Literacy (% of adult pop.):</b>	99.9

### Country 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 economic growth in recent years, as well as cushioning 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.

## Trade & Commercial Environment

### Trade Terms

<b>Minimum Terms:</b>	OA
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The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

<b>Recommended Terms:</b>	SD
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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.

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

### Transfer Situation

<b>Local Delays:</b>	0-1 month
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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:**

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.

**Trade & Commercial Environment**

The Australian dollar appreciated in June, moving closer to near parity with the US dollar. Despite the higher currency, exports have remained strong and have had a minimal impact in trade. The Reserve Bank of Australia decided to continue its accommodative policy in July, keeping the cash rate at a historic low of 2.5%. The historically-low rate enables the credit market to remain attractive to borrowers and as such they have taken advantage. The historically-low rates have raised red flags in terms of risk as the household debt in Australia continues to climb. According to the latest available data, total household debt stood at 114.8% of GDP in Q1 2014, the highest ratio ever recorded. Despite elevated levels of risk, conditions are currently favorable.

**Export Credit Agencies**

<b>US Eximbank</b>	Full cover available
<b>Atradius</b>	Full cover available
<b>ECGD</b>	Full cover available
<b>Euler Hermes UK</b>	Full ST cover available

**Economic Indicators**

	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014f</b>	<b>2015f</b>
<b>Real GDP growth, %</b>	2.6	3.7	2.4	2.2	2.6
<b>Inflation, annual ave, %</b>	3.3	1.8	2.4	1.9	1.4
<b>Govt balance, % GDP</b>	-2.6	-2.2	-2.1	-1.5	-1.8
<b>Unemployment, %</b>	5.1	5.2	5.7	5.9	5.8
<b>C/A balance, % GDP</b>	-2.7	-4.2	-3.2	-3.0	-5.2

Economic Indicators: Government balance data are for fiscal years (July-June).

## Currency Information

### Exchange Rates

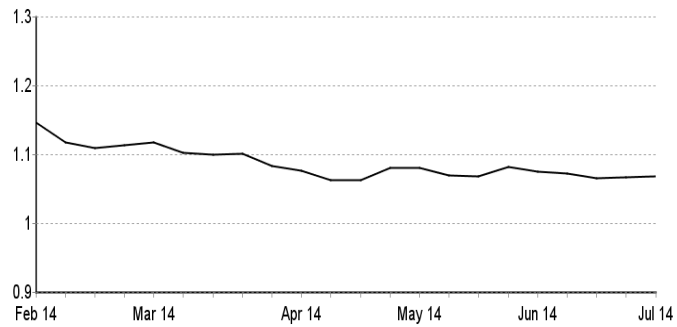
(London, 07 Jul 14)

EUR	1.4519
GBP	1.8321
JPY*	1.0467
USD	1.0684

\*(x 100)

### Local Currency

(Australian dollar [AUD]): USD

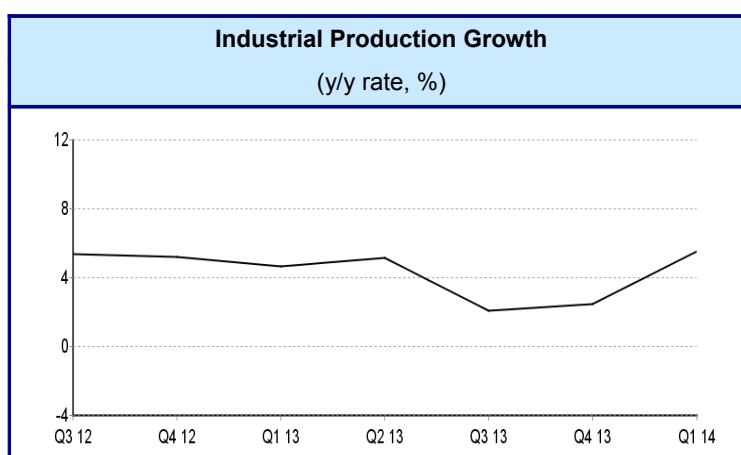


### Local Currency

(Australian dollar [AUD]): USD

	Feb 14	Mar 14	Apr 14	May 14	Jun 14	Jul 14
<b>Week 1</b>	1.146	1.118	1.076	1.080	1.074	1.068
<b>Week 2</b>	1.117	1.102	1.062	1.070	1.072	
<b>Week 3</b>	1.109	1.100	1.062	1.068	1.065	
<b>Week 4</b>	1.113	1.100	1.080	1.081	1.066	
<b>Week 5</b>		1.082				

## Industrial Production Growth



Data Table						
Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14
5.35	5.18	4.62	5.13	2.07	2.42	5.52

## Risk Factor

The lack of conviction among major macroeconomic indicators resumed as the economy continued down its path of slow and steady consolidation. Housing prices are still high but there are possible signs of easing growth as the price trend of dwellings slowed in June. In addition, the labor market is holding up; although elevated, the unemployment rate stood at 5.8% for the third consecutive month. Strong GDP growth in Q1 and a decision to leave the cash rate unchanged at 2.5% in this month's monetary policy meeting pushed up the currency to a 13-month high. A stronger Australian dollar and weaker commodity prices could impact domestic exports and strain future GDP growth prospects.

Home price appreciation, which has been a cause for concern in Australia and in the Asia-pacific region, slowed as shown in recent data. According to the *RP Data-Rismark Index*, dwelling values gained 10.1% on the financial year among all capital cities but home prices were down 0.2% in Q2. The government has stated that there is no sign of a speculative credit bubble in the housing market. D&B believes that despite a Q2 slowdown in prices, historically-low interest rates will continue to keep housing prices elevated and encourage the speculative buying of properties. On the one hand, high housing prices should receive temporary relief as new construction permits will provide new supplies. Total authorised dwelling units increased to a three-month high in May. That said, foreign purchases of housing properties are providing additional fuel that is keeping the Australian property market attractive. As long as the property market remains hot, demand from abroad for housing investments will continue to be elevated. A more significant risk remains in a quick exit in the housing market from foreign investors, which make up almost 25% of the value of total sales in capital cities, such as Melbourne and Sydney.

Iron ore prices worldwide continued to fall last month and will continue to fall by nearly 17.0% throughout the rest of the year, according to Australia's Bureau of Resources and Energy. Years of domestic investment in mining activity produced a boom in iron ore output capabilities and a strong uptick in supply. Most of Q1 real GDP growth came from exports of natural resources, as they climbed by 10.4% year on year. Iron ore accounted for nearly 22.0% of the value of all exports in 2013. In addition to lower prices, iron ore demand is expected to rise by 7.0% throughout 2014, potentially offsetting the drop in prices. Taking into account the importance of iron ore on exports, D&B is shaving ten basis points off our real GDP growth projection for 2014. We now expect the economy to grow 2.2%, below the near-trend growth of 3.0%.

## Glossary & Definitions

### DEFINITIONS

#### Minimum Terms:

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

#### Recommended Terms:

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:

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

#### Local Delays:

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

#### F/X Bank Delays:

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.

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

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

#### DSR (debt service ratio), %:

Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

#### Govt balance, % GDP:

The balance of government expenditure and receipts.

#### Real GDP growth, %:

GDP adjusted for inflation.

#### Inflation, %:

The increase in prices over a given period.

### GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

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