



Decide with Confidence

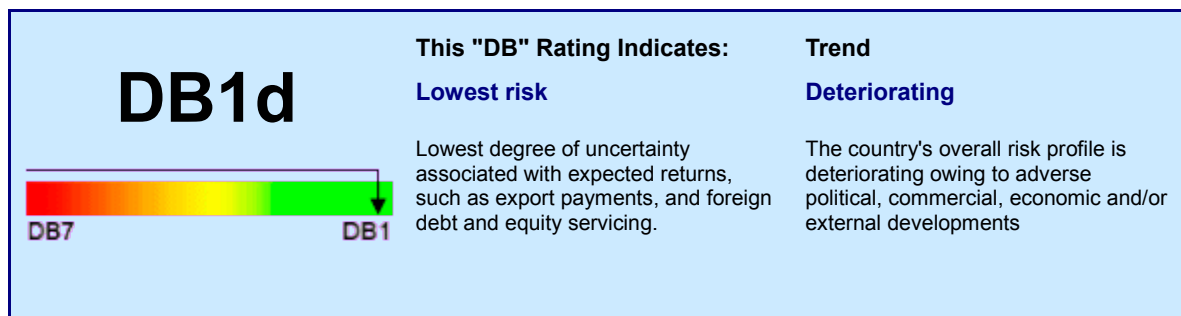
## D&B Country RiskLine Report

# AUSTRALIA

Region : Asia Pacific

Edition : August 2013

### 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>                 | 22.9m                     |
| <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 Kevin RUDD |
| <b>GDP (USD):</b>                  | 1,542bn                   |
| <b>GDP per capita (USD):</b>       | 67,280                    |
| <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 |
|-----------------------|----|

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 |
|---------------------------|----|

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 |
|---------------------|------------|

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

### Transfer Situation

|                      |           |
|----------------------|-----------|
| <b>Local Delays:</b> | 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.

**Trade & Commercial Environment**

Australian mining companies will have reported lower Q1-Q2 profits across the board. The Reserve Bank for its part noted a 'significant' decline in development and planning work for future mining projects from a year ago, even if mining investment remains at a high level. Meanwhile, the unemployment rate in both Queensland and Western Australia has risen in recent quarters, while in the non-mining states it has fallen, in a reversal of the pattern of the past few years. The mining sector is still profitable, despite rising costs, due to labour issues and the lack of efficiencies available to rival, co-located projects which each install their own construction supply chains. However, there is no guarantee that China iron ore imports will stay over 200m tones per quarter and further adjustment is due.

**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**

|                                 | 2010 | 2011 | 2012 | 2013f | 2014f |
|---------------------------------|------|------|------|-------|-------|
| <b>Real GDP growth, %</b>       | 2.6  | 2.4  | 3.6  | 2.5   | 2.3   |
| <b>Inflation, annual ave, %</b> | 2.9  | 3.3  | 1.8  | 2.2   | 1.9   |
| <b>Govt balance, % GDP</b>      | -4.3 | -2.6 | -2.2 | -0.8  | -1.0  |
| <b>Unemployment, %</b>          | 5.2  | 5.1  | 5.2  | 5.6   | 5.7   |
| <b>C/A balance, % GDP</b>       | -2.9 | -2.2 | -3.7 | -4.5  | -3.0  |

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

## Currency Information

### Exchange Rates

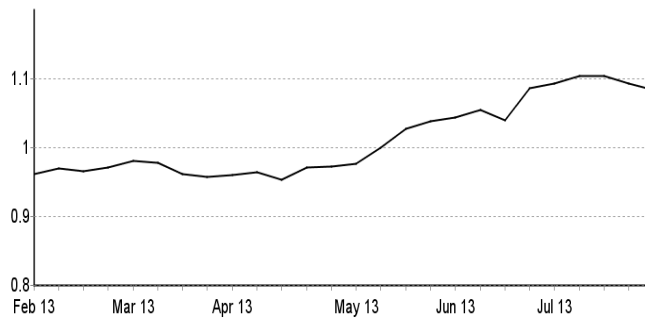
(London, 29 Jul 13)

|      |        |
|------|--------|
| EUR  | 1.4366 |
| GBP  | 1.6647 |
| JPY* | 1.1037 |
| USD  | 1.083  |

\*(x 100)

### Local Currency

(Australian dollar [AUD]): USD

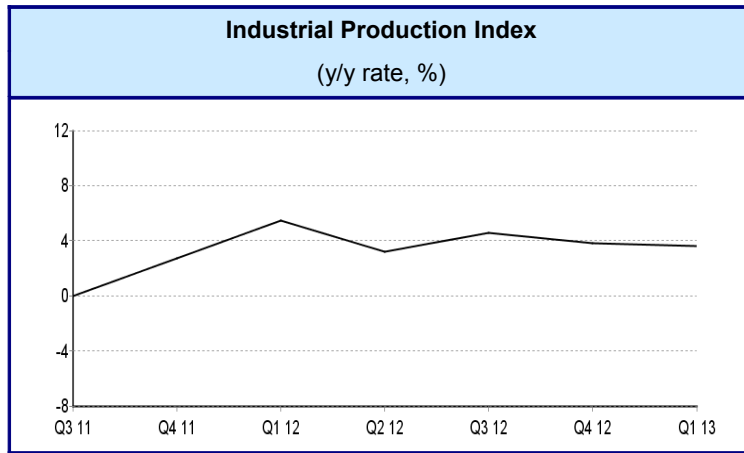


### Local Currency

(Australian dollar [AUD]): USD

|               | Feb 13 | Mar 13 | Apr 13 | May 13 | Jun 13 | Jul 13 |
|---------------|--------|--------|--------|--------|--------|--------|
| <b>Week 1</b> | 0.962  | 0.980  | 0.960  | 0.976  | 1.043  | 1.092  |
| <b>Week 2</b> | 0.969  | 0.978  | 0.964  | 1.000  | 1.054  | 1.103  |
| <b>Week 3</b> | 0.966  | 0.961  | 0.952  | 1.027  | 1.039  | 1.104  |
| <b>Week 4</b> | 0.970  | 0.957  | 0.970  | 1.038  | 1.086  | 1.092  |
| <b>Week 5</b> |        |        | 0.972  |        |        | 1.083  |

## Industrial Production Index



| Data Table |       |       |       |       |       |       |
|------------|-------|-------|-------|-------|-------|-------|
| Q3 11      | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 | Q1 13 |
| 0.0        | 2.73  | 5.48  | 3.17  | 4.54  | 3.83  | 3.6   |

## Risk Factor

Australia has undergone two mild negative shocks that are having wider macroeconomic effects outside the sectors immediately affected. However, its macroeconomic situation is not characterised by serious policy dilemmas and there is scope for a safe rebalancing of the economy and continued moderate economic growth. First, export earnings have been falling on a year-on-year (y/y) basis for the past five quarters (up to and including Q1 2013) including goods and services. This reflects the approximate 10% drop in Australia's export price index since 2011, and the more precipitous drops in the price of iron ore, which made up 64% of Australia's exports to China in Q2 2013, and comparable falls in international coal and copper prices. Chinese resource demand appears to have stabilised but in June the Australian Bureau of Resources and Energy Economics cut its estimate for minerals and energy export earnings by 5% to AUD177bn for the fiscal year ending June 2013. Second, there has been a recession in Australian manufacturing, with production falling y/y in nine of the past ten quarters as the strong local dollar told on competitiveness. Capacity utilisation has not been so low in Australian manufacturing since Q2 1991, in the midst of the post-Gulf war global recession.

To have weathered these shocks, the economy has drawn on its other strengths, including a financial sector unaffected by the 2008-09 financial crisis in Atlantic OECD economies, room for counter-cyclical policy adjustment given that the Reserve Bank's policy interest rate remains far from zero, and relatively healthy fiscal fundamentals. The result has been only a mild decline in private consumption growth (to post 2% y/y growth in Q1, compared to over 3% in much of 2010-12), and an edging up of the unemployment rate in 2013. Fortunately, housing market investment is on a recovery track, in line with the policy-guided decline in rates since 2011, while a substantial weakening of the Australian dollar since Q1 has defended export earnings from global price falls and granted relief to beleaguered manufacturers. The Reserve Bank minutes released in July noted leading indicators for the residential construction market remained positive. However, the outlook for non-mining investment is negative and D&B July Business Expectations Survey showed that firms' hiring expectations declined for six consecutive quarters, with the employment index for Q3 2013 falling to -3.3 points, its lowest level in four years.

Australia's 'still-normal' macroeconomic circumstances are a major positive, helping it keep its risk indicator in the DB1 range. Few northern hemisphere OECD governments would be able to manage long-term funding costs of 3.5% as Australia is doing (with its 10-year bond yields averaging this level in June). Indeed, even if bond yields rise globally, the Reserve Bank may be able to mitigate this with rate cuts.

## 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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