Decide with Confidence

D&B Country RiskLine Report

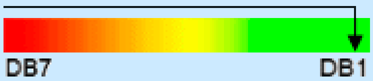
AUSTRALIA

Region : Asia Pacific

Edition : October 2011

D&B Country Risk Indicator

DB1d



This "DB" Rating Indicates:

Lowest risk

Lowest degree of uncertainty associated with expected returns, such as export payments, and foreign debt and equity servicing.

Trend

Deteriorating

The country's overall risk profile is deteriorating owing to adverse political, commercial, economic and/or external developments

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

Population:	21.6m
Surface area (sq km):	7,741,220
Capital:	Canberra
Timezone:	GMT +10:00
Official language:	English
Head of government:	Prime Minister Julia GILLARD
GDP (USD):	1,227bn
GDP per capita (USD):	56,880.9
Life expectancy (years):	81
Literacy (% of adult pop.):	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 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 20m 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 commodity-hungry China was maintained.

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

Minimum Terms:	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.

Recommended Terms:	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.

Usual Terms:	30-60 days

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

Transfer Situation

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.

Trade & Commercial Environment

The D&B National Business Expectations Survey for Q4 shows a deteriorating outlook. Sales expectations are down two points to an index of 8, the lowest in nine quarters, and five points below the 10-year average index. Profits expectations have risen, but despite the supposed strength of the recovery, remain below the 10-year average. Employment expectations fell two points to -5, the second negative in nine quarters and seven points below the 10-year average index of 2. Meanwhile, the inventories index was down three points to an index of 1, two points below the 10-year average index. Still, the capital investment index rose to 4, a turnaround of the rapid decline of the previous two quarters and just one point below the index average (5) of the past 10 years.

Export Credit Agencies

US Eximbank	Full cover available
Atradius	Full cover available
ECGD	Full cover available
Euler Hermes UK	Full ST cover available

Economic Indicators

	2008	2009	2010e	2011f	2012f
Real GDP growth, %	2.4	1.5	2.4	2.0	2.9
Inflation, annual ave, %	4.4	1.8	2.9	3.2	2.4
Govt balance, % GDP	1.1	-3.4	-3.1	-3.0	-1.4
Unemployment, %	4.3	5.6	5.2	5.5	5.2
C/A balance, % GDP	-4.7	-4.5	-2.8	-3.1	-4.0

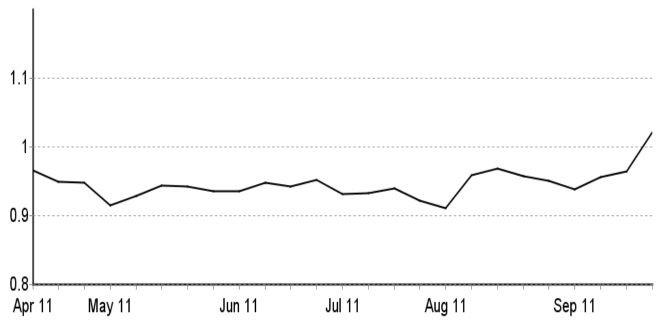
Economic Indicators: Government balance data are for fiscal years (July-June).

Currency Information

Exchange Rates (London, 19 Sep 11)	
EUR	1.3291
GBP	1.523
JPY*	1.2543
USD	0.9642
*(x 100)	

Local Currency

(Australian dollar [AUD]): USD)



Local Currency

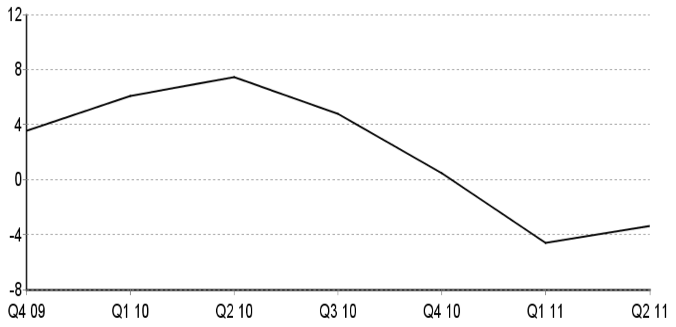
(Australian dollar [AUD]): USD)

	Apr 11	May 11	Jun 11	Jul 11	Aug 11	Sep 11
Week 1	0.965	0.914	0.935	0.932	0.910	0.938
Week 2	0.949	0.928	0.948	0.932	0.958	0.955
Week 3	0.948	0.942	0.942	0.940	0.968	0.964
Week 4		0.941	0.952	0.921	0.957	1.021
Week 5		0.936			0.950	

Industrial Production Growth

Industrial Production Growth

(y/y rate, %)



Data Table

Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
3.53	6.07	7.47	4.78	0.47	-4.62	-3.38

Risk Factor

Although Australia's country risk profile remains on a 'deteriorating' trend, there are grounds for mild optimism. Latest official data shows that real GDP climbed by an unexpectedly strong 1.4% year on year (y/y) in Q2, comfortably higher than market forecasts of a 0.5% y/y expansion. A key driver of growth in Q2 was stronger-than-expected household spending. Household confidence is buoyant: the Wespac Bank/Melbourne Institute consumer survey stood at 96.9 in September, up 8.1% on August (when the survey declined, as it had done in July). Consumers seem to have been mainly cheered by the reduced likelihood of short-term interest rate hikes. This was partly underpinned by a recent change in the way that inflation is calculated, the result being average core inflation of 0.6% in Q2, down from an initial figure of 0.9%.

With the Reserve Bank of Australia (the central bank) now set to keep interest rates on hold until at least early next year, the prospects for exports should be bolstered by a depreciating Australian dollar, this after falls in mid-September pushed the exchange rate down towards parity with the US dollar. Exports are also being supported by strong overseas demand and high international prices for mined commodities, notably gold, coal and iron ore. Although coal supply was subject to bottlenecks, Australia's trade surplus was a healthy AUD1.83bn in July, taking the total for the year to July to AUD21bn. Auspiciously, external demand is likely to be sustained, given that China, which buys over a quarter of Australian exports, has so far not been seriously affected by concerns about another global economic slowdown. However, the mining sector is far from being the whole solution to keeping the Australian economy on a solid growth path. For example, mining employs only 2% of the country's workforce. This dichotomy is further evident in recent labour market dynamics: unemployment rose to a 10-month high of 5.3% in August while, in the same month, employment fell by 9,700.

Growing political tensions could also affect economic prospects. In mid-September, embattled Prime Minister Julia Gillard unveiled controversial plans for a carbon tax. In what is the third attempt to get this legislation onto the statute books, Gillard's minority Labour government will have to rely on the support of independents and Greens. Although this support looks to have been secured, Gillard's position as premier is far from assured after a court decided in late August to reject government policy that would see asylum seekers sent to Malaysia. Although the next general election is not due for two years, with polls showing that former Labour party leader, Kevin Rudd, would have a much greater chance of winning the next election than Gillard, pressure on the premier is likely to grow.

Glossary & Definitions

DEFINITIONS

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Usual Terms:

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Local Delays:

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F/X Bank Delays:

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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

Customer Service & Support

D&B Country Risk Services
For information relating to D&B's Country Risk Services.

UK
Telephone: 01628 492700
Fax: 01628 492929
Email: CountryRisk@dnb.com

USA Inquiry
Telephone: 1-800 234-3867 option 1, 1 and then 2
Email: CountryRiskServices@dnb.com

Rest of World
Telephone: +44 1628 492700
Email: CountryRisk@dnb.com

D&B Customer Services
For all other information or queries relating to D&B products and services.

UK
Telephone: 0870 243 2344 (UK) / 1 890 923296 (IR)
Email: CustomerHelp@dnb.com

USA
Telephone: 1-800 234-3867 option 1, 1 and then 2
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