Overall Country Risk Rating: DB1d

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

Rating Outlook: Stable

Rating History

Country Insight Headlines

Credit Environment Outlook

- The prospects for Australian economic growth are still favourable relative to many other developed economies. However, the economy is slowing.
- Credit risks are set to rise, particularly in the weaker and more sluggish sectors of the economy (e.g. manufacturing, tourism, education).

Supply Environment Outlook

- The World Bank rates Australia’s overall logistics capabilities relatively well; in its 2012 Logistics Performance Index it rated Australia 15th best out of 155 countries.
- Port infrastructure represents a bottleneck in the export process, resulting in delays and contractual issues.

Market Environment Outlook

- The corporate tax rate (set to drop 1.0 percentage point to 29% in 2013-14) is not impressively competitive in the context of the low rates seen in other OECD countries.
- Australia may initiate countervailing duties against foreign producers who appear to be undercutting domestic firms.

Political Environment Outlook

- Australia’s ratification of several international agreements governing investment protection and dispute resolution facilitates arbitration and conciliation of legal disputes.
- A change of government is likely in 2013.

Key Recommendations

- Anticipate downward pressure on the local currency in 2013 and consider hedging currency risk (also through future contracts) to avoid currency devaluation related losses.
- Expect Australian customers’ payments performance to deteriorate in early 2013, revise trade terms.
- Consider achieving ISO 22301 certification to provide key stakeholders confidence that your business continuity management system conforms to international best practice.
Global Insight

Trend: Deteriorating

Headline Global Issues:
- US sub-trend growth continues: new negotiations should prevent the 'fiscal cliff'.
- We expect no Greek exit before Q4 2013, but euro-zone sustainability still hangs in the balance.
- Emerging markets will enjoy fewer easy gains from credit growth or commodities in 2013.

Global Growth Forecast

![Graph showing global GDP growth forecast from 2009 to 2013.](image)

The global economy slowed in late 2012. Although we expect growth to pick up marginally in 2013, it still faces strong headwinds. The US grew at an annual rate of 2.0% in Q3, driven by improved consumer spending and productivity gains in the private sector. Meanwhile, the euro zone entered technical recession in Q3, with a contraction of 0.1% q/q following the contraction of 0.2% in Q2. Positively, China looks set to achieve at least its targeted growth of 7.5% in 2012, if below 9.2% in 2011.

Among the downside risks to growth in 2013 is the fiscal tightening being carried out in many OECD countries. In addition, rebalancing in a number of key emerging economies such as China, India and Brazil will add further pressure to the outlook. Furthermore, quantitative easing programs have the potential to increase exchange rate and commodity price volatility, and introduce asset bubbles or inflation pressures. Finally, consumer and corporate deleveraging will also impact negatively on growth rates outside the US.

Commodity Prices

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Aug-12</th>
<th>Sep-12</th>
<th>Oct-12</th>
<th>Latest</th>
<th>2011</th>
<th>2012f</th>
<th>2013f</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aluminium</td>
<td>1,838</td>
<td>2,053</td>
<td>1,975</td>
<td>1,921</td>
<td>2,395</td>
<td>2,004</td>
<td>1,950</td>
</tr>
<tr>
<td>Copper</td>
<td>7,492</td>
<td>8,068</td>
<td>8,069</td>
<td>7,573</td>
<td>8,810</td>
<td>7,936</td>
<td>8,010</td>
</tr>
<tr>
<td>Gold</td>
<td>1,626</td>
<td>1,744</td>
<td>1,747</td>
<td>1,644</td>
<td>1,571</td>
<td>1,670</td>
<td>1,690</td>
</tr>
<tr>
<td>Oil</td>
<td>113</td>
<td>113</td>
<td>112</td>
<td>108</td>
<td>111</td>
<td>112</td>
<td>110</td>
</tr>
<tr>
<td>Cocoa</td>
<td>2,770</td>
<td>2,943</td>
<td>2,779</td>
<td>2,713</td>
<td>3,350</td>
<td>2,659</td>
<td>2,400</td>
</tr>
<tr>
<td>Coffee</td>
<td>188</td>
<td>190</td>
<td>182</td>
<td>170</td>
<td>284</td>
<td>203</td>
<td>190</td>
</tr>
</tbody>
</table>

Source: Haver Analytics/D&B

Leverage lay at the heart of the economic crisis in 2008-09 and explains much of the turbulence since. Banks’ claims on the private sector, as a percentage of GDP, show that most high-income economies were still deleveraging as of end-Q2 2012; this process is likely to depress GDP growth well into 2014. Deleveraging has centred on Europe, but has also made cross-border financing more volatile. The IMF’s October Global Financial Stability report estimated that international US dollar credit collapsed by a third, Q2 2011 to Q1 2012 (and Europe’s deleveraging was worse than the IMF predicted in April).

All IMF scenarios see European banks’ credit to eastern Europe, Latin America and the US being cut further in 2013. Local banks may well replace European institutions, but are likely to depend on wholesale financing, increasing systemic risk. Emerging markets’ banks managed credit growth better than OECD counterparts pre-2008, but some credit growth has been rapid and could raise risks (e.g. in Thailand and Turkey). China’s slowdown since 2011 is due to lower credit growth, and Brazil may see credit growth slow in 2013. Credit growth can reflect structural deepening of the banking system or poor risk management.

Recommendations
- Look for opportunities in second-tier emerging markets at an earlier point in the business cycle.
- Be aware that strategic business plans based on a snap-back to average levels of growth in the past eight years are likely to be frustrated.
- Note that the parts of South America, and Southeast Asia, offer considerable opportunities.
- Europe and parts of Asia favoured by the 2000s boom may need progressively tighter credit control.
Regional Insight

Trend: Deteriorating

Headline Regional Issues:
- Chinese credit risks have risen due to recession in a specific set of industrial sectors;
- India’s development model faces real strain as inflation plateaus and investment stalls;
- The end may have come into view for Australia’s ongoing, still-intense resource boom.

Regional Growth Forecast

![Graph showing regional growth forecast](image)

Source: Haver Analytics/D&B

Asia-Pacific’s role as a significant driver of the global economy has been flagging, and short- and medium-term expectations are likely to shift downwards. Export-intensive Asian economies could yet be dragged into a period of stagnation or recession in the event of a deeper shock to Chinese and OECD demand. The region is still slated to grow by 4% in 2012-13, faster than the rest of the world, but risks are poised on the downside. Nevertheless, there is sizeable variety in growth, inflation and balance of payment forecasts.

Outlook for Key Regional Countries

![Graph showing country growth forecast](image)

Source: Haver Analytics/D&B

The Asian region presented stable prospects in 2012 even as pessimism about the short-to-medium term outlook increased, mostly for economies dependent upon Chinese/OECD demand. The divergence between countries driven ahead by domestic demand, those having to address the slowdown in trade and export-oriented investment, and those struggling with liquidity and supply bottleneck problems, became clearer. In the first group are Indonesia and Thailand, with private consumption and investment growth of over 5% and 10%, y/y, in Q3 2012, and credit rising strongly. Malaysia and the Philippines are also part of a Southeast Asian growth story that seems more soundly based than China’s post-2009 recovery. In contrast, Taiwan, South Korea and Japan in the second group are in a more muted economic cycle. Business investment has dropped, especially in Taiwan. Private consumption growth in these high-income economies and New Zealand will have be 1-2% at best in 2013.

Japan’s post-tsunami recovery was stalling in Q4 2012, while Australia’s powerful resource sector-driven boom is probably due to begin to fade as early as 2013. Credit growth is weak in most countries outside China and Southeast Asia. Central banks are cautious, with few changes to monetary policy outside India and Vietnam, where calibrating policy has been harder. In India and Pakistan, a third group, inflation and balance of payments pressures reflect structural problems. With Asia-Europe trades due to be depressed for several quarters (European container imports fell by some 5% y/y and Asian container exports by 4% y/y, in Q3), the region needs new sources of economic growth, beyond high-income country demand for Chinese manufacturing, and Chinese demand for natural resources. Not all economies will succeed.

Recommendations
- Customers serving home markets may be able to draw on positive underlying trends and prove to be better credit risks; likewise customers in services rather than industrial sectors.
- Be prepared to tighten terms even in commercial relationships of several years.
- Monitor FX liquidity in countries with balance of payments difficulties and weakening currencies.
Country Insight Headlines

Credit Environment Outlook

Current Issues

- The prospects for Australian economic growth are still favourable relative to many other developed economies. However, the economy is slowing.
- Capital investment will ultimately be the core driver of economic growth through end-2013, even as the mining sector mothballs some large-scale projects thanks to weaker demand from China.

Risks and Opportunities

- Australia’s stable macroeconomic situation and the government’s investor-friendly policies minimise the risk of unexpected exchange controls.
- The manufacturing and service sectors were in decline throughout much of 2012, with forward indicators suggesting the slump would continue through Q1 2013.

Trade Terms & Transfer Situation

<table>
<thead>
<tr>
<th>Trade Terms</th>
<th>Transfer Situation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum Terms: OA</td>
<td>Local Delays: 0-1 month</td>
</tr>
<tr>
<td>Recommended Terms: SD</td>
<td>FX/Bank Delays: 0-1 month</td>
</tr>
<tr>
<td>Usual Terms: 30-60 days</td>
<td></td>
</tr>
</tbody>
</table>

Source: D&B

Recommendations

- Businesses should anticipate downward pressure on the local currency in 2013 and consider hedging currency risk (also through future contracts) to avoid currency devaluation related losses.
- Be prepared for payment delays to increase in 2013 as the economy slows.
- Expect Australian customers’ payments performance to deteriorate in 2013; revise trade terms.

Supply Environment Outlook

Current Issues

- The country suffers regular natural disasters but these only intermittently pose a threat to the business environment.
- However, supply chains are still subject to bottlenecks and outages as a result of natural disasters. Wildfires, for instance, have been known to disrupt road and rail links.

Risks and Opportunities

- The country’s transport infrastructure is relatively poor compared to other high income OECD countries, with the ports system a notable bottleneck.
- Disasters on average cause annual insured losses of AUD1.0bn.

Natural Disaster Impact as a Percentage of GDP

Recommendations

- Consider achieving ISO22301 certification to provide key stakeholders confidence that your business continuity management system conforms to international best practice.
- Look for opportunities that may arise from government plans to improve the country’s ports.
Market Environment Outlook

Current Issues

- The corporate tax rate (set to drop 1.0 percentage point to 29% in 2013-14) is not impressively competitive in the context of the low rates seen in some other OECD countries and others across the Asia-Pacific region.
- The most important recent changes to the tax regime have come in the form of the carbon tax and the minerals resource rents tax. However the Liberal opposition party has promised to repeal them if it returns to power following the 2013 election.

Risks and Opportunities

- Australia has taken some steps to make its taxation system more investor-friendly; however, tax regulation can be complicated and contentious (e.g. carbon and minerals resource rent taxes).
- New anti-dumping regulations and a number of non-tariff barriers could constrain cross-border trade. Some of the nine FTAs under negotiation could help in some instances.

Nominal GDP Forecasts

![Nominal GDP Forecasts graph](image)

Source: D&B

Recommendations

- In August 2012, new transfer pricing regulations went into effect with retrospective application to July 2004; ensure compliance to avoid uncertain tax positions.
- Look for tax opportunities that may arise from a change of government.

Political Environment Outlook

Current Issues

- While direct expropriation is unlikely, changes to tax policy can create a degree of political risk. Since 2012, a new mineral resource rent tax has been levied on the profits of coal and iron ore companies.
- A change of government is likely in 2013.

Risks and Opportunities

- Although no major expropriations of businesses have happened, land is frequently bought back by the government for public works.
- Australia’s ratification of several international agreements governing investment protection and dispute resolution facilitates arbitration and conciliation of legal disputes.

Political Freedom

<table>
<thead>
<tr>
<th></th>
<th>Electoral Process</th>
<th>Pluralism/ Participation</th>
<th>Functioning of Govt.</th>
<th>Freedom of Expression/ Belief</th>
<th>Assoc./ Org. Rights</th>
<th>Rule of Law</th>
<th>Personal Autonomy/ Rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>12</td>
<td>15</td>
<td>12</td>
<td>16</td>
<td>12</td>
<td>14</td>
<td>15</td>
</tr>
<tr>
<td>Average for the region</td>
<td>7</td>
<td>6</td>
<td>10</td>
<td>7</td>
<td>7</td>
<td>9</td>
<td>12</td>
</tr>
<tr>
<td>OECD</td>
<td>12</td>
<td>8</td>
<td>11</td>
<td>15</td>
<td>12</td>
<td>14</td>
<td>14</td>
</tr>
</tbody>
</table>

Source: Freedom House

Recommendations

- Political risk insurance is unnecessary.
- Investors face very little risk of nationalisation and confiscation.
Detailed Analysis

The following sections analyse in more detail the nine core elements that influence the risks and opportunities involved when doing business in/with a given country.

The core categories that we analyse as part of our broader risks and opportunities model are as follows:

- Short-Term Economic Outlook
- Long-Term Economic Potential
- Market Potential
- FX Risk
- Transfer Risk
- Business Environment Quality
- Business Continuity
- Insecurity/Civil Disorder Risk
- Expropriation/Nationalisation Risk

*Descriptions for each of these categories can be found in the User Guide section of this report.*
Short-Term Economic Outlook

The prospects for Australian economic growth are still favourable relative to many other developed economies. However, the economy is slowing. Moreover, the ‘two-speed’ nature of the Australian economy, where the mining and oil and gas industries benefit handsomely from high international commodity prices and other sectors struggle, is becoming ever more apparent. Capital investment will ultimately be the core driver of economic growth through end-2013, even as the mining sector mothballs some large-scale projects due to weaker demand from China. D&B’s November 2012 National Business Expectations Survey found that firms’ capital investment expectations reached the highest level in ten years. However, soft job growth, high levels of household indebtedness and a cooling property market will make households more cautious about spending.

Risks and Opportunities

- Historically high international prices for Australian commodities should ensure continued impressive revenue streams for the mining sector even as growth in that area slows.
- The manufacturing and service sectors were in decline throughout much of 2012, and forward indicators suggest the slump will continue through Q1 2013.
- Weaker domestic demand and the uncertain global business environment will dampen the investment and hiring prospects for many non-mining sector businesses in 2013.
- Housing prices, despite having been on the decline over the past year, are still at stretched valuations and household debt levels are very high. A sharp drop in property prices would take the shine off the economy’s still generally favourable prospects.

Investment and Imports

[Graph showing Imports and Investment growth from 2006 to 2011]

Source: Haver Analytics/D&B

Still largely dependent on the export-oriented mining sector for growth over the near to medium term, the economy is vulnerable in terms of trade shocks and softer external demand, particularly from the slowing Chinese economy. The central bank loosened policy repeatedly over 2012 thanks to weaker job prospects and a slowdown in mining investment. By December, the bank had lowered the policy interest rate by a cumulative 125 basis points in 2012 to 3.0%. Inflationary pressures remain benign, and monetary policy could be loosened further in 2013. Lower interest rates could help take pressure off the strong Australian dollar; this should help restore at least some competitiveness to manufacturers and exporters. While monetary policy will be accommodative, the government will press ahead with fiscal consolidation and debt reduction plans.

Real GDP Growth and Inflation

[Graph showing Real GDP and CPI inflation growth from 2003 to 2013]

Source: Haver Analytics/D&B

Recommendations

- Firms well positioned to service the mining sector will continue to see new business opportunities in spite of the slowdown.
- Be prepared for payment delays to increase in 2013 as the economy slows.
- Monitor firms in weaker and more sluggish sectors (e.g. manufacturing, tourism, education).
Long-Term Economic Potential

We expect Australia to experience average real GDP growth of 2.0-3.0% in the next ten years. The main structural threats are two-fold: Australia’s heavy reliance on external funding (owing to a domestic savings shortfall) which leaves the economy theoretically vulnerable to a reversal of investor confidence; and population ageing. On the first point, a sudden withdrawal of foreign investment seems unlikely, given the country’s low-risk environment and its attractive investment opportunities (the banking system has relative strengths and the economy will continue to benefit from demand for its natural resources from Asia). On the second, the government’s future financing ability has been vastly improved by reforms to pensions, healthcare costs and measures to improve labour force participation since the late 2000s.

Risks and Opportunities
- Domestic savings shortfall leaves the economy vulnerable to foreign capital inflows.
- Population ageing is a growing concern.
- Productivity growth has stagnated over the past decade.

Population Dynamics

Over the long term, the changing structure of Australia’s population and labour force (similar to that in many OECD countries) is set to increase costs and lower long-term economic growth prospects. The World Bank projects Australia’s dependency ratio (the number of people aged 0-14 and over 64 to those aged 15-64) to rise from 0.48 in 2005 to 0.50 in 2015 and 0.64 by 2050. The ageing population will lead to higher government expenditure on age-related pensions and healthcare, increasing the fiscal burden. In addition, a decline in the annual growth rate of the working age population will constrain labour-related output over the long term. The long-term growth rate of the Australian economy consequently depends on the government’s immigration policy, which needs to focus on attracting workers from abroad to increase the supply of labour, and encouraging Australians who have left the country to work overseas to return.

Changes in Wealth, 2000-2008 (average per year)

Productivity growth has slumped since the 1990s. Research released by the Reserve Bank of Australia in 2012 suggested that accelerated input growth in the mining and manufacturing sectors were key drivers of this downturn. The mining sector has vastly increased its inputs (labour and capital) in response to high international commodity prices. Output growth in the sector has not been able to keep pace because 1) in the short-term to medium-term inputs are not matched by outputs as capital intensive mine infrastructure and development is not matched by saleable outputs and 2) many mines (and oil and gas projects) are seeking to extract minerals from more physically demanding geological conditions (e.g. deeper) making these sites less productive than earlier ones, even if they are still very profitable. As for the manufacturing sector, the underlying reasons for its fall in productivity over the past decade are unclear but may well be indirectly linked to the mining boom and stronger exchange rate.

Recommendations
- Look for opportunities in the mining sector, Australia is well placed to benefit from Asian demand.
- Offshoring manufacturing activities outside Australia could be profitable.
- Careful monitoring of the government deficit, foreign investor appetite and the terms of trade.
Market Potential

Australia offers business opportunities across a broad range of sectors. Traditional industries, with well-recognised competitive advantages, include agribusiness and mining; however, the country’s technology and service sectors also offer potential. However, for some shippers, conditions may be in flux. In late 2012 the government announced it would put in place a number of new anti-dumping measures to counter an influx of cheap manufactured products from Asia. In addition, investment and other market barriers are still present. Officials have the power to reject investment proposals, even if they rarely do so. Takeovers of domestic firms by foreign investors tend to be treated under the same guidelines as any other foreign investment.

Risks and Opportunities

- Imports grew by a robust 11.0% in volume terms in 2011; however, domestic demand has since weakened. By Q3 2012, imports grew by just 3.5% y/y.
- We expect US dollar GDP to have grown just 1.7% annually on average over the 2012-16 period, limiting medium-term trade opportunities.
- New anti-dumping regulations and number of non-tariff barriers could also constrain cross-border trade.

Expected Nominal GDP Expansion (USD): 2012-16

<table>
<thead>
<tr>
<th>%</th>
<th>Australia</th>
<th>Japan</th>
<th>New Zealand</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.0</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>6.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8.0</td>
<td></td>
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</tr>
<tr>
<td>10.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: D&B

Australia’s market will grow by 8.8% in US dollar terms over the 2012-16 period, limiting new opportunities for both domestic and foreign investors. A drop-off in mining sector investment will drive the slowdown. However, other sectors of the economy will also struggle. Given the country’s very strong terms of trade environment, the manufacturing industry is likely to continue to struggle to compete internationally. Meanwhile, lower-priced imports will continue to displace domestically-produced goods and services. This will put even further pressure on the government to boost trade restrictions.

Main Restrictions on Imports

<table>
<thead>
<tr>
<th>Tariff barriers</th>
<th>Australia</th>
<th>Japan</th>
<th>NZ</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall Weighted mean tariff</td>
<td>1.9</td>
<td>1.6</td>
<td>1.7</td>
<td>1.5</td>
</tr>
<tr>
<td>Manufactures</td>
<td>2.5</td>
<td>1.7</td>
<td>2.3</td>
<td>1.8</td>
</tr>
<tr>
<td>Primary products</td>
<td>0.4</td>
<td>1.6</td>
<td>0.5</td>
<td>1.2</td>
</tr>
<tr>
<td>Share of tariff lines w/international peaks</td>
<td>0.0</td>
<td>8.7</td>
<td>0.0</td>
<td>4.1</td>
</tr>
<tr>
<td>Manufactures</td>
<td>0.0</td>
<td>3.8</td>
<td>0.0</td>
<td>0.2</td>
</tr>
<tr>
<td>Primary products</td>
<td>0.0</td>
<td>21.0</td>
<td>0.1</td>
<td>15.7</td>
</tr>
<tr>
<td>Services Restrictiveness Index</td>
<td>20.2</td>
<td>23.4</td>
<td>11.0</td>
<td>14.3</td>
</tr>
</tbody>
</table>

Source: World Bank

Australia’s overall weighted mean import duties remain relatively high compared with other OECD countries, according to World Bank data. Moreover, Australian law provides for the protection of domestic producers from unfair foreign competition in line with WTO regulations. In December 2012 the government announced new measures to enhance its anti-dumping regime (e.g. adding new staff and the adoption of stricter rules). Recent years have seen numerous investigations into alleged unfair practices. In 2012, the country’s anti-dumping authorities initiated investigations against South Korean PVC producers and reviewed measures against Japanese and US PVC producers.

Recommendations

- Companies should consider decreasing their business in Australia; the risk-return ratio may not be as favourable as in other similarly risky economies.
- Be aware that Australia may initiate countervailing duties against foreign producers that appear to be undercutting domestic manufacturing firms.
FX Risk

Over the past decade, the country’s external accounts and terms of trade has benefited enormously from the run-up in global commodity prices and demand from China (and the rest of Asia) for Australian commodities (iron ore and coal in particular). This dynamic drove not only much larger export revenues but also stronger capital inflows. After a sharp decline during the global financial crisis, the exchange rate appreciated considerably from 2009 to mid-2011 due to widening interest rate spreads and a recovery in commodity prices. Throughout 2012 the currency saw bouts of volatility but remained relatively close to its near-term highs against the US dollar. Strong capital inflows offset weaker exports (hampered by softer global iron ore and coal prices) and an overall wider current account deficit.

Risks and Opportunities

- After suffering some volatility in 2012, the Australian dollar could see some weakening into 2014 if policymakers drop interest rates further and exports remain relatively soft.
- Australia’s strong balance of payments position has been driven (in particular) by strong capital inflows; these should begin to moderate with interest rate differentials narrowing and investment in the country’s mining sector set to slow.
- More moderate inflows and a weaker currency will limit import growth allowing the balance of payments to rebalance.

Current Account (USDm)

![Current Account Chart]

Source: Haver Analytics/D&B

The import-intensive expansion of Australia’s mining and LNG sectors meant that imports grew by 9.4% in y/y nominal terms over the first three quarters of 2012. Meanwhile, exports struggled, shrinking by 2.1% y/y with commodity prices easing. The current account deficit almost doubled compared to a year earlier, reaching a three-quarter total of AUD40.0bn. Fortunately, capital inflows remained robust: over the three quarters, FDI inflows reached AUD30.1, while portfolio inflows were AUD32.1bn. In 2013, capital intensive imports should begin to ease, limiting any further widening of the current account; however, capital inflows are also likely to ease. A weaker balance of payments position will provide at least some limited downward pressure on the currency. Positively, this will be a relief to many of those sectors that have not benefited directly from the country’s natural resources boom (e.g. the manufacturing, tourism and education sectors).

Import Cover (months)

![Import Cover Chart]

Source: Haver Analytics/D&B

Recommendations

- Businesses should anticipate downward pressure on the local currency into 2014 and consider hedging currency risk (also through future contracts) to avoid currency devaluation related losses.
- Monitor firms with exposure to world commodity prices, because softer prices could undermine balance sheet liquidity and payments performance.
- Look for opportunities in sectors that may benefit from a drop in the currency.
Transfer Risk

Australia accepts the obligations of IMF Article VIII (General Obligations of Members). Countries which do so agree not to impose restrictions on current payments or discriminatory currency practices, and to maintain the convertibility of foreign-held balances and furnish information such as data on FX reserves consistent with IMF policies. Australia maintains full current account convertibility, but with some limited capital controls on inward foreign direct investment. Inflation is low and stable, and policymakers are very unlikely to implement currency controls. The Australian dollar has been allowed to float free of any exchange rate controls since 1983. The free-floating currency is subject to considerable volatility because of the importance of commodity exports. Extensive hedging of currency risk helps banks and other firms to mitigate the effects of currency volatility.

Risks and Opportunities

- The high degree of economic and financial integration with the global economy (as indicated by WTO membership and an extensive network of free-trade associations) minimises transfer and convertibility risk.
- Australia’s stable macroeconomic situation and the government’s investor-friendly policies minimise the risk of unexpected exchange controls.
- Profit repatriation for foreign-held enterprises can typically be done at any time without restriction, although dividends paid to foreign shareholders may be subject to withholding tax.

Restrictions

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>restrictions on non-residents accounts</td>
<td>restrictions on payments for invisible and other current transfers</td>
<td>restrictions on payments for imports</td>
</tr>
<tr>
<td>Australia</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>0.13</td>
<td>0.30</td>
</tr>
<tr>
<td>OECD average</td>
<td>0.06</td>
<td>0.12</td>
</tr>
</tbody>
</table>

Source: IMF

The risks connected to Australia’s external debt (about 95% of GDP in 2012) are manageable, and we do not believe there is any danger of destabilising FX flows upsetting the currency; most of the external debt is hedged or denominated in Australian dollars. Australia’s external debt and default risk is very low. The likelihood of a sovereign default is negligible. That said, the private sector (which holds over 85% of Australia’s external debt) represents higher risks. Disruptions to global capital markets could result in substantial pressure on Australian banks (which hold 60% of the country’s external debt) owing to their short-term offshore funding positions. Almost half of bank’s external liabilities consist of short-term obligations. As such, global financial market volatility resulting, for example, from a deterioration of the European sovereign debt crisis could raise the cost of capital for Australian banks or create some liquidity problems. Fortunately, the risks of such exposures are limited by 45% of all external debt being denominated in Australian dollars.

Total Foreign Debt

![Total Foreign Debt Graph](image)

Source: Haver Analytics/D&B

Recommendations

- Investors and shippers should expect a low risk of exchange controls or/capital controls.
- Expect Australian customers’ payments performance to deteriorate in 2013; revise trade terms.
- Australia’s dollar is an OECD currency with reserve-like status (accounting for at least 5% of global FX turnover); exchange risks can and should be identified, measured and priced.
Business Environment Quality

Australia’s commercial environment remains among the most favourable in the world, offering an array of advantages. The World Bank’s Doing Business 2013 survey ranked Australia 10th in the world (out of 185 countries) for the ease of doing business. Australia scored particularly highly for setting up a new business (2nd overall), accessing credit (4th) and contract enforcement (15th). Corruption is low, the infrastructure is adequate (albeit ports can be a bottleneck in the export process) and the economy overall is among the most competitive in the world.

Risks and Opportunities

- Australia has taken some steps to make its taxation system more investor-friendly; however, tax regulations can be complicated and contentious (e.g. carbon and minerals resource rent taxes).
- The corporate tax rate (set to drop one percentage point to 29% in 2013-14) is not impressively competitive in the context of the low rates seen in some other OECD countries and others across the Asia-Pacific region.
- The Doing Business survey ranks Australia 70th for success in protecting investors, much worse than many of its OECD competitors (e.g. New Zealand ranks 1st); in the survey, only three of seven assessed methods of legal recourse in holding directors liable were available.

Corruption Perceptions

![Corruption Perceptions Graph](image_url)

Source: Transparency International, Corruption Perceptions Index

Australia’s depth of credit information is very good, and in line with OECD norms, according to the Doing Business survey. Despite some relative institutional weakness in terms of protecting investors, Australia has a sophisticated, independent and effective judicial system, making contract enforcement straightforward. Corruption rarely creates compliance risk for foreign firms. In Transparency International’s 2012 Corruption Perceptions Index Australia was ranked 7th out of the 176 countries and territories surveyed.

Ease of Paying Taxes

![Ease of Paying Taxes Graph](image_url)


Australian businesses have long lobbied for a simplification of the tax system and a reduction in the headline corporate tax rate to bring Australia more in line with its major trading partners, particularly Asian nations. Australia’s headline corporate tax rate was cut from 36% to 30% in 2001 and it will fall to 29% for the 2013-14 tax year (July-June); however, the advantages of this reduction will be limited, given how much many other countries have reduced their own rates in recent years. The corporate tax regime is also fairly complex with a large number of business taxes and differences among the states to consider. The most important recent changes to the tax regime have come in the form of the carbon tax and the minerals resource rents tax. However, these remain subject to considerable uncertainty with the Liberal opposition party threatening to repeal them if it returns to power following the 2013 election.

Recommendations

- In August 2012, new transfer pricing regulations went into effect with retrospective application to July 2004; ensure compliance to avoid uncertain tax positions.
- Prospectively, consider advanced pricing arrangements to mitigate transfer pricing risks and limit tax uncertainty.
- Look for tax opportunities that may arise from a change of government.
Business Continuity

The country suffers regular natural disasters but these only intermittently pose a threat to the business environment. Nevertheless, vulnerability to extreme weather and disasters can be acute. Extensive flooding in Queensland and Western Australia in 2011 caused severe damage to cities and agricultural output; the flooding also disrupted supply chains, curtailing iron ore and coal exports.

Risks and Opportunities

- The country’s transport infrastructure is adequate but relatively poor compared to other high income OECD countries with the ports system a notable bottleneck.
- Supply disruptions can arise due to risk events such as the flooding seen in 2011.

Natural Disaster Impact as a Percentage of GDP

![Natural Disaster Impact as a Percentage of GDP](image)

Source: Emergency Events Database (EM-DAT)

Disaster Risk: The country is subject to a wide range of disasters on a regular basis. Among the most common are earthquakes, cyclones, coastal and river flooding, hailstorms and bushfires. According to estimates made in 2008 based on the Insurance Council of Australia’s Disaster Event List, disasters cause annual insured losses of AUD1.0bn (in 2008 Australian dollars). Losses have increased considerably over the past two decades largely as a result of social factors (i.e. building homes, businesses and infrastructure in disaster prone areas). In 2011, the Council of Australian Governments adopted a National Strategy for Disaster Resilience to provide high-level guidance on disaster management to a wide range of stakeholders (i.e. government officials, business people, community leaders and non-profit organisations).

Logistics Performance Index

![Logistics Performance Index](image)

Source: World Bank

Logistics and Infrastructure: Transport infrastructure is critical given Australia’s large land mass, remoteness and trade profile as one of the world’s largest commodity exporters. The government has admitted that a deficient port infrastructure represents a bottleneck in the export process, resulting in delays and contractual issues. Although Australia is ranked highly by the World Economic Forum’s 2012/13 Global Competitiveness Report, in 20th place overall (out of 142 countries), this masks the fact that it is only 36th in terms of the overall quality of its infrastructure, and for ports specifically it is only 38th. There are over 800,000 kilometres of roads; however, given the large expanses of desert and rural areas, it is unsurprising that less than half of these are paved. The report rates the quality of Australia’s roads at 36th best in the world. The quality of its air transport infrastructure (29th) and railways (28th) are also lag behind most other developed economies and, given the size of the country, transport times can be long. On the other hand, the World Bank rates Australia’s overall logistics capabilities relatively well; in its 2012 Logistics Performance Index it rated Australia 15th best out of 155 countries.

Recommendations

- Consider achieving ISO 22301 certification to provide key stakeholders confidence that your business continuity management system conforms to international best practice.
- Look for opportunities due to accompany government plans to improve the country’s port system and boost supply-chain efficiencies.
- Look for opportunities to follow from the government’s AUD43bn National Broadband Programme due for completion in 2018.
Insecurity / Civil Disorder Risk

Australia is a stable society with a relatively low level of crime. The Australian police force is highly effective at enforcing law and order. Racial tensions in a multi-ethnic suburban area of Sydney led to rioting in December 2005, but the situation calmed and in any event did not affect business operations or destabilise the political environment. The risk of terrorism is quite low, although bombings in neighbouring Indonesia in July 2009 (which killed three Australians) and the bombing of the Australian embassy in Jakarta in 2004 underline the fact that the country is not immune. Cyber espionage and attacks are in the meantime developing as a larger threat, given the economy’s increased dependence on technology.

Risks and Opportunities

- World Economic Forum surveys show terrorism risk is limited for business. It is lower in Australia than in many other OECD countries including the US and UK.
- According to the Fund for Peace’s Failed States Index the level of national grievance is even lower than in Japan, the UK or US.

Business Cost of Terrorism

Immigration and border security has re-emerged as a political issue, given an increase in the number of asylum seekers arriving by boat from Asia. In 2012, lawmakers voted to re-open detention and processing centres for asylum seekers in PNG and Nauru (after previously shutting processing centres in these countries in 2007). The centres opened in November 2012. The UN High Commissioner for Refugees, as well as many human rights organisations, has criticised the policy.

Level of National Grievance

The land rights of Aborigines (the indigenous peoples that lived in Australia before European settlement in the 18th century, and who comprise below 3% of the country’s population) have been contentious. In 1992, the High Court declared that native title could exist where Aborigines had retained a close association with the land. A ruling followed in 1996, whereby Aborigines under the native title law could claim land given to farmers by the government. However, access to Aboriginal land is not a major risk for mining companies: e.g. 80% of value of minerals mined in Northern Territory comes from mines on Aboriginal land. Delays are possible if there are disputes over title or benefits within a community and, compared to 20-30 years ago, natural resource companies have to provide more compensation and go through ‘transparent’ mechanisms for gaining access to the land and ensuring ‘consensus’ through Aboriginal land councils. Activist groups criticise that land is destroyed and compensation captured by a few. In 2012, the government postponed a referendum on recognising indigenous peoples in the constitution to build support for the proposal.

Recommendations

- Natural resource development projects targeted for Aboriginal lands can be subject to delays in states such as Western Australia; but this reflects regulatory complications, and not insecurity.
- Look for opportunities in the security sector that may accompany the build-up of US forces in Australia over the next three years. The US marine base that opened in Darwin in 2012 is set to be one of the world’s largest military training facilities.
Expropriation / Nationalisation Risk

Expropriation and nationalisation risk in Australia is low. The Australian legal system is based on the premise of equality before the law, an independent judiciary and legal precedents. Safeguards exist to prevent people and investors from being treated arbitrarily or unfairly. However, according to Section 51 (xxxi) of the Australian Constitution, the government can expropriate private property and according to the Land Acquisition Act (1998) can acquire privately held land ‘for any purpose whatever’. In practice, any public acquisition of private property and land (referred to as resumption or compulsory acquisition in Australia) is likely to be done in accordance with established principles of international law where appropriate compensation is paid promptly and owners are given the opportunity to seek redress through dispute resolution mechanisms.

Risks and Opportunities
- Although no major expropriations of private businesses have occurred, land is frequently bought back by the government for public works.
- Australia’s ratification of several international agreements governing investment protection and dispute resolution, as well as numerous bilateral investment agreements, facilitates arbitration and conciliation of legal disputes.

FDI Stocks

As a result of investment promotion initiatives and other deregulation measures Australia has attracted a large amount of FDI, especially from the US and UK, over the past decade. Australia’s inward FDI stock reached USD386bn at end-2011 and should reach over USD400bn by 2013. Large FDI flows into the country’s booming resource sector since the mid-2000s have greatly increased the country’s stock of FDI. Australia’s states actively compete against each other to attract new foreign investment. Incentive packages are tailored for individual companies and may be financial, such as grants, loans, tax reductions and financed industrial premises, or non-financial, such as employee recruitment, industry and network introductions or help with site selection. Investors are unlikely to face unfair competition from state-owned enterprises (few remain in operation, with most having been privatised). While direct expropriation is unlikely, changes to tax policy can create a degree of political risk. Since 2012, a new mineral resource rent tax has been levied on the profits of coal and iron ore companies.

Efficiency of the Legal System in Challenging Government Regulations

Australia is a signatory to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, the World Bank Multilateral Investment Guarantee Association and the ‘Washington Convention’, the Convention on the Settlement of Investment Disputes between States and Nationals of Other States. It is signatory to at least 23 bilateral investment treaties and six free trade agreements. The Australia-US Free Trade Agreement, for instance, includes a dispute settlement mechanism specifically for settling disputes subject to the agreement.

Recommendations
- Political risk insurance is unnecessary.
- Investors face very little risk of nationalisation and confiscation.
Perspectives

The following sections provide an overview of the broader/longer-term factors that influence the way that business is done in Australia. These factors provide the foundations upon which the economy is built and the frameworks within which business is done, and provide a richer insight into the background influences that lie beyond the raw data and focused insight that is supplied elsewhere in the report.

The Economy

Economic Overview

Australia is a high-income developed country, based around a liberal market economy. Successive Australian governments have pursued an ongoing programme of reform, aimed at boosting the efficiency and competitiveness of the economy. Legislation has been introduced to liberalise domestic market structures (for instance in the financial services, telecommunications and energy sectors) and lower external barriers to trade.

Fiscal and monetary policy has strengthened government finances considerably and delivered relatively low and stable inflation. As a result, the economy has become more resilient to external economic shocks. Although Australia is not immune to the business cycle, with its inherent upswings and downswings, it has achieved a strong economic growth trend.

Economic Framework

Industrial Relations and the Labour Market

Industrial relations have been a major focus of reform. While the Labor government that came to power in 2007 pledged to re-establish some trade union power, diluted by the previous government's reforms, they did not create a situation where unions have an unassailable position at the bargaining table. We believe the longer-term risk implications are fairly limited in terms of the impact on business dealings and the labour market.

Fiscal Framework

In terms of the longer-term fiscal burden, the government’s compulsory pension programme and growth in private pension schemes is alleviating the burden on state provision for old age. Of greater concern is the sustainability of healthcare expenditures as the population ages.

Fortunately, steps have been taken to limit the growth in health outlays. In addition, by continuing to target budget balance over the course of the economic cycle, the government ought to be able to free sufficient resources to meet the rising cost of care over the long term.

Monetary Regime

The Reserve Bank of Australia (central bank) aims to ensure a medium-term average annual inflation rate of 2-3%. This has the benefit of allowing the central bank to take a wide range of factors into account when setting monetary policy. As a result, potentially destabilising factors can be contained in a way that they are not in many other developed economies that focus purely on a narrow definition of inflation targeting.

The central bank maintains conditions in the money market to keep the cash rate at or near an operating target decided by its policy Board. The central bank made some notable improvements to monetary policy transparency in December 2007 when it announced three changes to its interest rate communications.

Exchange Rate Regime

The Australian dollar has also been allowed to float free of any exchange rate controls since 1983. The free-floating currency is subject to considerable volatility because of the importance of commodity exports, although this flexibility can help to protect the economy from global economic instability.

Currency depreciation can act as a key buffer to exporters and the economy in general as it shields exporters from sharp falls in US dollar-denominated commodity prices and aids competitiveness. Extensive hedging of currency risk helps banks and other firms to mitigate the effects of any currency volatility.

Export Profile

Australia is reliant on primary commodities (e.g. metals, minerals, fuels) for the bulk of its export earnings. Because of the dominance of commodities in Australia’s export profile, and the fact that many commodities are priced in US dollars, export receipts are vulnerable to changes in the AUD:USD exchange rate.

Australia’s export profile is becoming more diversified and is shifting in favour of the provision of higher value-added commodities and services. That said, resource-based exports, including coal, iron ore and gold, will continue to feature prominently for the foreseeable future. Indeed, high international commodity prices and investment aimed at expanding output in key sectors (such as the extractive industries) have seen Australian commodities rise as a share of overall exports in recent years.

Export markets are relatively diversified. Although Asia features highly as a region, the general mixture of economies is diverse and includes major European states and the US. The share of goods destined for China has grown enormously, and it has now replaced Japan as Australia’s single largest export market.
**Export Mix**

![Export Mix Chart]

Source: IMF/national statistics office

**Export Markets**

![Export Markets Chart]

Source: IMF/national statistics office

**Import Profile**

Australia's import profile reflects the sophistication of its economy. Australia's growing ties to Asia have become evident in recent years: China has overtaken the US as the country's main individual source of imports, and the EU as Australia's most prominent supplier. Asia's share of the total is likely to increase over the medium term as Australia signs new bilateral and multilateral free-trade deals with countries in the region. Economic growth is also stronger in Asia than in other developed economies and Asian exporters are moving up the value-added chain.

**Import Mix**

![Import Mix Chart]

Source: IMF/national statistics office

**Import Sources**

![Import Sources Chart]

Source: IMF/national statistics office

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Politics

Australia operates a federal system of government. The federal government is responsible for national issues such as foreign policy, defence, immigration, customs and excise duties, external trade and commerce, communications and tax collection. Those powers not allocated specifically to the federal government lie with the individual states.

Each state has its own constitution, government and legislature (all of which are bicameral except for that of Queensland). State governments have wide powers in areas such as education, transport, law enforcement, healthcare and agriculture.

Constitutional Arrangements

Australia is a well-functioning parliamentary democracy that operates under a federal system and a constitutional monarchy as an independent state within the Commonwealth. The political system has demonstrated long-term political stability and, although there is a governor general who performs a number of duties on behalf of the British Queen, on virtually all matters they act on the advice of the Senate and House of Representatives.

Executive: Executive authority lies with the prime minister, who governs with the assistance of an appointed cabinet, all of whom must be members of, and responsible to, the legislature. The executive is responsible for the day-to-day running of the country.

Legislature: Legislative authority is vested in a bicameral parliament. The more important chamber is the 150-member House of Representatives (lower house), whose members are directly elected for a three-year period. The prime minister may seek the dissolution of both houses in the event of deadlock between the two chambers. Over the years, the Senate has frequently blocked legislation on partisan grounds rather than for ideological reasons.

Political Parties

Although there are other, smaller political parties, the following dominate the centre-ground of the political spectrum and are normally responsible for forming governments.

Labor Party: A centre-left social democratic party that is now supported largely by the urban working class.

Australian Greens: The party’s influence has grown over the past decade at both the local and state government levels as well as nationally.

Liberal Party of Australia: A centre-right, socially conservative party, founded in 1944, largely supported by businesses and middle-class voters. It advocates economic liberalism and social conservatism.

National Party: This is now a conservative, agrarian party and usually the junior member in coalitions with the Liberals.

Interest Groups

Aborigines

The land rights of Aborigines (the indigenous peoples who lived in Australia before its settlement by Europeans in the 18th century, and who now comprise below 3.0% of the country’s population) have been a particular area of contention. In 2008, the Labor government made a formal apology to Australia’s indigenous peoples for their past mistreatment, singling out the ‘stolen generations’, those children removed forcibly from their families in a policy of assimilation from the late 19th century through to the late 1960s. The apology may well go some way toward healing the divisions in Australian society.

Trades Unions

The election of the Labor Party signalled a major shift in labour relations, restoring power to the trades unions eroded under the former coalition. Positively, the Labor Party had a good record of keeping the level of strikes down in Australia during its previous term in office. Although Labor is promising to restore some of the trade union power that was taken away by the previous government, the business risk associated with disruptive union action should remain low compared with similar industrialised countries.
International Environment

Current Prime Minister Julia Gillard has pledged not to withdraw Australian troops from Afghanistan ahead of the 2014 schedule. Australia remains a key ally of the US on security issues and the US is Australia’s most important defence relationship, providing access to technology, training, intelligence and R&D that would otherwise be beyond Australia’s budget. This arrangement is formalised in the ANZUS Security Treaty, which does not commit either party to a specific action, but does provide a clear expectation of support.

From a trade perspective, Australia’s huge mineral resource endowment and geographical position continue to foster close trade relations with China, India and other fast-growing Asian economies. Australia has devoted particular attention to relations between developed and developing nations, with emphasis on the ten countries of the Association of Southeast Asian Nations (ASEAN) and the island states of the South Pacific.
Commercial Culture

Australia’s commercial environment remains among the most favourable in the world, offering an array of advantages. The World Bank’s Doing Business 2013 survey shows that Australia is ranked 10th in the world (out of 185 countries) for the ease of doing business. Corruption is low, the infrastructure is highly developed and the economy overall is among the most competitive in the world.

Export Payment Indicators

<table>
<thead>
<tr>
<th>Agency</th>
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<tr>
<td>US Eximbank</td>
<td>Full cover available</td>
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<tr>
<td>Atradius</td>
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<tr>
<td>ECGD</td>
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<tr>
<td>Euler Hermes UK</td>
<td>Full ST cover available</td>
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</table>

Sources: Export credit agencies

Competitiveness

![Competitiveness Chart]

Source: World Economic Forum, Global Competitiveness Report

Infrastructure

Infrastructure is a key element in Australia’s economy, given its large land mass, remoteness and trade profile as one of the world’s largest commodity exporters. The government has admitted that a deficient port infrastructure represents a bottleneck in the export process, resulting in delays and contractual issues, and ultimately hurting the country’s competitiveness.

The quality of airports and railways are above average, but tend to lag behind most other developed economies and, given the size of the country, transport times can be long. Electricity supply, telephone lines and the number of broadband internet users are all above average, as is to be expected for a large developed economy.

Legal and Regulatory Environment

Judicial Environment

In common with many other high-income countries, Australia has a highly sophisticated, independent and effective judicial system, with strong protection of (intellectual) property rights. The constitution vests federal jurisdiction in the High Court, which consists of a chief justice and six associate justices appointed by the governor general. This court has the authority to conduct constitutional reviews of state and federal legislation, and is the supreme authority on constitutional interpretation. The state and federal courts are fully independent.

The Australian legal system compares well in terms of contract enforcement in the World Bank’s Doing Business 2012 survey; it ranks 15th out of the 185 countries assessed. According to the survey, it takes 395 days to enforce a commercial contract, from the moment a plaintiff files the lawsuit until actual payment, with the cost of this amounting to 21.8% of the claim. The OECD average values are 510 days and 20.1% of the claim.

Bankruptcy and Insolvency

According to the World Bank’s Doing Business 2013 report, Australia ranks highly in terms of the ease of setting up and closing a commercial enterprise. Under Australia’s bankruptcy laws, a person may be declared bankrupt either voluntarily or by the actions of a creditor. A debtor may file for bankruptcy for any amount outstanding. However, a creditor can only have a debtor made bankrupt if the debtor owes the creditor AUD2,000 or more.

Although some debts (including fines for breaches of the law, fraud debts, taxes, maintenance payments and debts to the Department of Social Security) are not protected during bankruptcy, most liabilities are protected by the bankruptcy provisions.

Corporate Governance

All usual forms of association are represented, with a limited liability company the preferred corporate structure for foreign investors. Joint ventures are normally established for a specific business purpose; they

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do not need to be incorporated separately from co-ventures and are not regulated by any specific legislation.

A uniform system known as the Companies Act 1981 regulates business company laws throughout Australia. According to this law, any foreign company incorporated outside Australia must register in each state where it intends to carry out business, and comply with Australian business regulations.

There are strict requirements regarding the filing of financial documents. A copy of the latest balance sheet and profit/loss account, plus a detailed annual return, must be filed every year with an interval of less than 15 months required between each copy.

Australia strengthened its anti-money laundering laws by passing the Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) Act in December 2006. The law introduced a new regulatory and reporting regime, imposing various obligations on banks and other organisations. These obligations include verifying customers' identities, monitoring transactions, reporting suspicious activity, record keeping and setting up an AML/CTF programme.

**Corruption**

Australia is a relatively safe place to do business and is ranked among the least corrupt countries in the world in Transparency International’s latest Corruption Perceptions Index, with legal systems, business practices and commercial transactions exhibiting a high degree of integrity and accountability. However, the risks from corruption are not evenly distributed in Australia and risks to doing business can vary between the regions.

**Sanctions**

There are no known sanctions in place against Australia.
### Key Indicators and Forecasts

#### Historical Data

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<th>2002</th>
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<td>21.9</td>
<td>22.27</td>
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<td>1.31</td>
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Source: Haver Analytics/D&B

#### Forecasts

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<td>23.0</td>
<td>23.3</td>
<td>23.5</td>
<td>23.7</td>
</tr>
<tr>
<td>Exchange rate (year-average, LCU:USD)</td>
<td>0.98</td>
<td>1</td>
<td>1.05</td>
<td>1.15</td>
<td>1.19</td>
</tr>
<tr>
<td>Current account (USDbn)</td>
<td>-61.7</td>
<td>-78.9</td>
<td>-48.0</td>
<td>-77.0</td>
<td>-61.8</td>
</tr>
<tr>
<td>C/A balance, % GDP</td>
<td>-4</td>
<td>-5</td>
<td>-3</td>
<td>-5.2</td>
<td>-4.1</td>
</tr>
<tr>
<td>FX reserves (year-end, USDbn)</td>
<td>45.0</td>
<td>44.0</td>
<td>48.0</td>
<td>43.0</td>
<td>47.0</td>
</tr>
<tr>
<td>Import cover (months)</td>
<td>2.08</td>
<td>1.7</td>
<td>2.65</td>
<td>1.8</td>
<td>2.19</td>
</tr>
<tr>
<td>Inflation, annual ave, %</td>
<td>2.2</td>
<td>2.4</td>
<td>3.4</td>
<td>0.4</td>
<td>3.4</td>
</tr>
<tr>
<td>Govt balance, % GDP</td>
<td>-1.4</td>
<td>-0.3</td>
<td>-0.7</td>
<td>-1.5</td>
<td>-1.1</td>
</tr>
</tbody>
</table>

Source: Haver Analytics/D&B

#### Comparative Market Indicators

<table>
<thead>
<tr>
<th>Country</th>
<th>Australia</th>
<th>Japan</th>
<th>NZ</th>
<th>UK</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income per capita (USD)</td>
<td>65,754</td>
<td>46,432</td>
<td>36,045</td>
<td>38,995</td>
<td>48,152</td>
</tr>
<tr>
<td>Country population (m)</td>
<td>23</td>
<td>127</td>
<td>4</td>
<td>62</td>
<td>313</td>
</tr>
<tr>
<td>Internet Users (% of population)</td>
<td>79.0</td>
<td>79.8</td>
<td>86.1</td>
<td>81.7</td>
<td>77.9</td>
</tr>
<tr>
<td>Real GDP growth (% p.a., 2012-2021)</td>
<td>2-3</td>
<td>-0.5-1.2</td>
<td>1.5-2.8</td>
<td>0-2.5</td>
<td>1.5-2.5</td>
</tr>
</tbody>
</table>

Source: Haver Analytics/InternetWorldStats.com/D&B
**User Guide**

**Ratings and Indicators**

**Traffic Light System**

The traffic light system used in this report gives you a speedy way of assessing the balance of risks and opportunities in a given country or category of analysis for that country. Three traffic lights are used:

- **Green**: indicates that positive factors/influences dominate.
- **Amber**: indicates that there is a balanced mixture of negative/positive factors/influences.
- **Red**: indicates that negative factors/influences dominate.

The traffic light indicators act as a quick guide to the overall balance between the detailed analytical components covered elsewhere in the report. This allows you to rapidly identify areas of concern or promise, which you can then explore further, either elsewhere in the report or via the content of the other products in our portfolio. You should always use the more detailed analysis as the basis for any further investigation/assessment/decision-making.

**D&B Risk Indicator**

D&B’s Country Risk Indicator provides a comparative, cross-border assessment of the risk of doing business in a country. The risk indicator is divided into seven bands, ranging from DB1 to DB7. Each band is subdivided into quartiles (a-d), with ‘a’ representing slightly less risk than ‘b’ (and so on). Only the DB7 indicator is not divided into quartiles.

The individual DB risk indicators denote the following degrees of risk:

<table>
<thead>
<tr>
<th>DB1</th>
<th>Lowest risk</th>
<th>Lowest degree of uncertainty associated with expected returns, such as export payments and foreign debt and equity servicing.</th>
</tr>
</thead>
<tbody>
<tr>
<td>DB2</td>
<td>Low risk</td>
<td>Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns at a future date.</td>
</tr>
<tr>
<td>DB3</td>
<td>Slight risk</td>
<td>Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.</td>
</tr>
<tr>
<td>DB4</td>
<td>Moderate risk</td>
<td>Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.</td>
</tr>
<tr>
<td>DB5</td>
<td>High risk</td>
<td>Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high-return transactions only.</td>
</tr>
<tr>
<td>DB6</td>
<td>Very high risk</td>
<td>Expected returns subject to large degree of volatility. A very high expected return is required to compensate for the additional risk or the cost of hedging such risk.</td>
</tr>
<tr>
<td>DB7</td>
<td>Highest risk</td>
<td>Returns are almost impossible to predict with any accuracy. Business infrastructure has, in effect, broken down.</td>
</tr>
</tbody>
</table>

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Headline Category Descriptions

These headline categories combine the analysis from a number of detailed categories in order to provide focused analysis of business-critical issues.

Credit Environment Outlook

This category assesses the factors that affect the country’s credit environment, and helps cross-border traders and investors understand the level of risk related to non-payment or delayed payment.

Supply Environment Outlook

This category covers the factors that could disrupt supply chains associated with the country, thus allowing cross-border traders and investors to assess risks in this area.

Market Environment Outlook

This category provides an assessment of the factors affecting the market environment over the short- to long-term; this assessment will help businesses involved in cross-border trade and/or investment to make informed decisions about increasing, maintaining or decreasing business links in a country.

Political Environment Outlook

This category helps cross-border traders and investors to understand the risks associated with expropriation/nationalisation, and also takes account of intentional human actions that could affect the quality of the business environment.

Detailed Analytical Category Descriptions

These analytical categories provide our most detailed, in-depth coverage of the core components of risks and opportunities associated with a given country. Together, they embody our broadest, deepest assessment of a country’s risk and opportunity environment.

Short-term Economic Outlook

Analyses the economy/business cycle over the next 2-8 quarters, identifying recession, recovery, growth or stagnation. Helps businesses anticipate the impact of short-term developments in the sphere of aggregate supply and demand.

Long-term Economic Potential

Assesses long-term economic prospects over the next 5-15 years on the basis of trends in the physical environment, natural and human capital, and demographics and labour supply. Helps businesses foresee the long-term impacts on market potential of factors such as ageing, resource depletion and innovation.

Market Potential

Covers the ability of foreign providers of goods and services to access a target country’s markets. This helps businesses understand the practical and regulatory barriers, as well as incentives and opportunities.

FX Risk

Looks at the risk of lack of FX, significant devaluation or depreciation, or any instability of the exchange rate over the next 90-180 days. This helps businesses anticipate the pressures facing customers billed in foreign currency, or the risks if their receivables are in local currency.

Transfer Risk

Covers the risk of existing or new regulations, requirements or other government actions preventing, delaying or burdening cross-border transactions. This helps businesses to anticipate risks related to cross-border payments arising from the regulatory environment.

Business Environment Quality

Assesses the risks and opportunities in the business environment associated with regulations, institutions and business culture. This helps businesses assess how intangible aspects of the business environment can facilitate business operations or otherwise.
Business Continuity

This category looks at factors that could affect the physical supply chain due to the effects of natural phenomena or other unintended consequences. This helps businesses anticipate the likely/current impacts of extreme weather, seismic activity and inadequate/improved infrastructure.

Insecurity / Civil Disorder Risk

This covers the risk of disruption of business operations and the services of a functioning economy due to the negative effects of intentional human action on civil peace and internal/cross-border security. This helps businesses to understand the context and risk spectrum for threats arising from social and political disturbances.

Expropriation / Nationalisation Risk

This category assesses the risk of forcible/compulsory, full/partial loss of control or ownership of assets at the hands of a sovereign government, and whether or not there is compensation or judicial redress. This helps businesses understand the country's track record in this respect and highlights the risks posed by acts of expropriation/nationalisation.
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