

CareEdge Global assigns Long Term Foreign Currency Rating of AA+ (Unsolicited) to Commonwealth of Australia

Credit Profile

Australia's strong credit profile reflects its strong fiscal position, the benefits of an actively traded currency coupled with a flexible exchange rate regime, sound institutions, and a broadly resilient banking system. These strengths are partly offset by the economy's relatively higher trade linkages with China, a high external debt, and a highly negative net international investment position (NIIP).

The government has recently introduced a migration strategy to increase the number of skilled migrants in the workforce. Additionally, the National Housing Accord's strategy plans to provide 1.2 million houses over the next five years, addressing the housing shortage problem. The success of these initiatives can stabilize rents and house prices and ease the increasing cost of living pressures, further enhancing the country's growth prospects going forward.

Strengths

- Large and resilient economy with high GDP per capita
- Low levels of government debt
- Rich in mineral resources
- Status of Australian dollar as an actively traded currency

Weaknesses

- Relatively weaker external position due high external debt and highly negative NIIP
- Australia's significant trade linkages with China may expose it to the risks of shifts in Chinese economic conditions

Key Monitorables

- Stabilization of house prices and affordability with government initiatives

Key Rating Drivers

Economic Structure & Resilience

Australia's economic structure is supported by its large economic size, high-income levels, good diversity (service sector accounting for 64% of total value added), low growth volatility, and high resilience. The competitiveness and innovation are the key strengths of the economy. The mining industry, accounting for 13.6% of Australia's GDP in 2023, is a key sector that plays an important role in the country's economic structure. The economy is expected to grow at a sustained rate of 2% despite recent tight monetary conditions and low domestic demand amidst high inflationary pressures. Australia is one of the top destinations of renewable energy investments.

However, trade linkages with China, low labour productivity growth, and high housing prices partly offset these strengths.

Fiscal Strength

Australia's strong fiscal profile is highlighted by the relatively low debt levels at 49.4% of GDP in 2023, sound debt affordability (interest payments to revenue of ~3.1% in 2023), and good accessibility to external funds. The fiscal deficit narrowed down from 2.3% in 2022 to 0.9% in fiscal year 2023, driven by high revenues, especially from the mining sector. Additionally, the Future Fund (Sovereign Wealth Fund) plays a crucial role in enhancing fiscal stability by managing long-term liabilities and generating investment returns.

However, high committed expenditure towards employee compensation, subsidies, and net social benefits (~65% of total expenditure) limits fiscal space, which is expected to get further constrained with government's continued spending to mitigate climate transition risks and achieve net zero emissions by 2050.

External Position & Linkages

Australia's external financial profile is marked by a steady current account surplus since 2019 and its attractiveness to foreign investors. The current account surplus has moderated to 1.2% of GDP in 2023, owing to a reduced trade surplus, as well as deficit in services due to slow recovery in tourism and education, and is projected to shift to a small deficit by 2025. Australia draws foreign direct investment (FDI) due to its stable economic climate, business-friendly environment, and robust legal system. Its broad economic landscape, spanning sectors such as mining, agriculture and technology, enhances its attractiveness to investors. However, FDI growth slowed down from 4% of GDP in 2022 to 1.8% of GDP in 2023, owing to global slowdown in FDI.

These strengths are partly offset by a substantially negative NIIP at -32.8% of GDP in 2023 and high external debt at 92.8% of GDP in 2023.

Monetary & Financial Stability

Australia has a floating exchange rate regime and benefits from its actively traded currency status. Australian dollar enjoys significant liquidity and acceptance in international markets. Elevated inflation has eased down from 6.6% in 2022 to 5.6% in 2023 and is expected to come down within the central bank's target range by next year. Australia's stock market capitalization to GDP reflects investors' confidence in the economy. The banking sector is well-capitalized with low non-performing loans (0.9% of total loans in 2023). However, levels of high household debt reaching 185% of total household income, present a potential risk to the asset quality of banks.

Institutions & Quality of Governance

Australian credit profile is characterized by its strong institutions marked by an effective regulatory framework and governance standards. Australia ranks in the 90th percentile for five out of the six World Bank's worldwide governance indicators (WGI). These scores reflect a commitment to the rule of law, accountability and transparency, creating a favourable environment for economic development and foreign investment. The Australian government has generally maintained policy continuity in the past.

However, with the recent increase in the strength of minor parties in the parliament, it will be important to assess any potential implications on future policy framework.

Australia – Select Indicators									
	Unit	2018	2019	2020	2021	2022	2023	2024 F	2025 F
Economic Indicators									
Nominal GDP	USD Billion	1,419	1,388	1,365	1,658	1,725	1,742	1,790	1,863
GDP Per Capita (Constant-PPP)	USD	50,313	50,475	49,188	51,636	52,517	52,965	53,207	53,757
Real GDP Growth	%	2.8	1.8	-2.1	5.6	3.8	2.1	1.5	2.0
GFCF/ GDP	%	24.4	23.3	22.6	22.5	23.0	24.0	-	-
Gross Domestic Savings/ GDP	%	24.9	25.7	26.1	27.0	29.3	29.0	-	-
Exports (G&S)/GDP	%	21.9	24.1	24.0	22.0	25.4	26.7	-	-
Working-Age (15-64) Population (% Share in Total)	%	65.6	65.4	65.2	65.1	64.9	64.8	64.6	64.5
Old-Age (65+) Population (% Share in Total)	%	15.7	15.9	16.2	16.6	16.9	17.2	17.6	17.9
Fiscal Indicators – General Government									
Fiscal Balance/ GDP	%	-1.3	-4.4	-8.7	-6.5	-2.3	-0.9	-1.3	-1.4
Revenue/ GDP	%	35.6	34.5	35.7	35.4	35.3	36.2	35.2	33.9
Expenditure/ GDP	%	36.8	38.9	44.4	41.8	37.6	37.1	36.6	35.3
GG Gross Debt/ GDP	%	41.7	46.7	57.0	55.5	50.1	49.4	49.6	49.3
GG External Debt (by Creditor)/ GG Gross Debt	%	27.0	26.2	26.7	23.3	20.5	22.5	-	-
Interest/ Revenue	%	3.9	3.7	3.7	3.5	3.4	3.1	-	-
External Indicators									
Current Account Balance/ GDP	%	-2.2	0.4	2.2	2.9	1.1	1.2	0.5	-0.2
FDI, Net Inflows/ GDP	%	4.2	2.8	1.2	1.7	4.0	1.8	-	-
Outstanding FII Liabilities/ GDP	%	92.3	101.1	115.3	94.4	84.7	89.8	-	-
NIIP/ GDP	%	-53.7	-50.4	-58.9	-36.7	-37.1	-32.8	-	-
Foreign Exchange Reserves	USD Billion	57.5	60.0	45.9	61.6	63.6	64.9	-	-
Import Cover	Months	2.2	2.4	2.2	2.5	2.1	2.1	-	-
External Debt/GDP	%	107.0	111.5	122.9	97.7	86.7	92.8	-	-
Monetary and Financial Indicators									
CPI Inflation	%	1.9	1.6	0.9	2.9	6.6	5.6	3.5	3.0
Exchange Rate (Average)	LC per USD	1.3	1.4	1.4	1.3	1.4	1.5	-	-
Non-Performing Loans/ Total Gross Loans	%	0.9	1.0	1.1	0.9	0.7	0.9	-	-
Private debt, loans and debt securities/ GDP	%	195.5	191.4	193.8	183.7	173.6	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2023

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long Term Foreign Currency (Unsolicited)	AA+	October 3, 2024

Analytical Contacts

Amya Parmar

amy.parmar@careedgeglobal.com

Anurag Chandra

anurag.chandra@careedgeglobal.com

Kiran Kavala

kiran.kavala@careedgeglobal.com

Media Contact

Mradul Mishra

mradul.mishra@careedge.in

Criteria Applied

CareEdge Sovereign Rating Methodology

About Us

CareEdge Global IFSC Limited (CareEdge Global) is a full-service Credit Rating Agency (CRA) with a mission of **Empowering Global Capital Market Participants Through Unrivalled Insights and Expertise**. As the first CRA registered and authorized by the International Financial Services Centres Authority (India), CareEdge Global is uniquely positioned to provide comprehensive ratings on a global scale. A part of the CareEdge Group, which is a knowledge-based analytical organisation offering a wide range of services in Credit Ratings, Analytics, Consulting, and Sustainability. Established in 1993, our parent company, **CARE Ratings Limited (CareEdge Ratings)**, stands as India's second-largest rating agency.

Disclaimer

This disclaimer applies to each credit rating report and/ or credit rating rationale ('report') that is provided by CareEdge Global IFSC Limited ('CareEdge Global').

Ratings from CareEdge Global are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold or sell any securities/ instruments or to make any investment decisions. The report is not a solicitation of any kind to enter into any deal or transaction with the entity to which the report pertains. Any opinions expressed here are in good faith, are subject to change without notice, and are only current as of the stated date of their issue. CareEdge Global assumes no obligation to update its opinions following publication in any form or format although CareEdge Global may disseminate its opinions and analysis. The rating contained in the report is not a substitute for the skill, judgment and experience of the investor, user, its management, employees, advisors and/ or clients when making investment or other business decisions. The recipients of the report should rely on their own judgment and take their own professional advice before acting on the report in any way. Therefore, the report is not intended to and does not constitute an investment advice. The report should not be the sole or primary basis for any investment decision. CareEdge Global is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CareEdge Global. CareEdge Global does not act as a fiduciary by providing the rating.

Any unsolicited ratings assigned by CareEdge Global are based on publicly available information as CareEdge Global may or may not have access to documents / information or participation from management of such issuers. While CareEdge Global has obtained information from sources it believes to be reliable, CareEdge Global does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives and/ or relies on in its reports. CareEdge Global ratings are subject to a periodic review, which may lead to revision in ratings. CareEdge Global has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process. CareEdge Global has in place a ratings code of conduct and policies for managing conflict of interest.

Neither CareEdge Global nor its affiliates, third-party providers, as well as their directors, officers, shareholders, employees or agents guarantee the accuracy, completeness or adequacy of the report, and shall not have any liability for any errors, omissions or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the report. CareEdge Global DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING BUT NOT LIMITED TO ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall any CareEdge Global or its associated entities or persons be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the report even if advised of the possibility of such damages.

This report does not constitute an offer of services. This report is for use in the jurisdiction of IFSCA, GIFT City in Gandhinagar. Without limiting the generality of the foregoing, nothing in the report is to be construed as CareEdge Global providing or intending to provide any services in jurisdictions where CareEdge Global does not have the necessary licenses and/ or registration to carry out its business activities referred to above. Access or use of this report does not create a client relationship between CareEdge Global and the user.

For latest rating information on any instrument of any company rated by CareEdge Global, you may visit our website www.careedgeglobal.com.

This report should not be reproduced or redistributed to any other person or in any form without prior written consent from CareEdge Global.

All rights reserved @CareEdge Global IFSC Limited.

CareEdge Global IFSC Limited
(A subsidiary of CARE Ratings Ltd.)
Unit No. 06, 11 T-2, Block-11, GIFT SEZ, Gift City, Gandhi Nagar, Gujarat – 382355
CIN-U66190GJ2024PLC151103