

Highlights of the Sovereign Rating on the Commonwealth of Australia

Updated Rating

Long-term Local Currency: AAA_i

Long-term Foreign Currency: AAA_i

Outlook: Negative

Previous Rating

Long-term Local Currency: AAA_i

Long-term Foreign Currency: AAA_i

Outlook: Stable

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Rating Opinions

United Ratings has decided to maintain the long-term local and foreign currency ratings of the Commonwealth of Australia (hereafter referred to as “Australia”) at AAA_i, with the outlook adjusted from Stable to Negative.

Australia has an outstanding economic strength and the Liberty Alliance party has achieved a renewed victory at the general election, indicating continuity in the government’s basic policies. However, the impact of sluggish commodity prices worldwide means the economy is going through a rebalance process, which will come as a constraint of growth in the medium term. And we expect to see slow growth in the medium and long run. The limited contraction in fiscal deficit will keep shoring up government debt. Risk in the real estate market and hefty household debt have increased the economic risk for the country. Foreign debt keeps edging higher, with increased pressure on external liquidity. To conclude, no significant changes are observed in the Australian government’s domestic and foreign debt servicing capability and the country’s outlook is adjusted to Negative.

Reasons for Outlook Adjustment

- The right-wing Liberty Alliance party has again won the general election, which generally guarantees policy continuity of the Australian government, but the decline in status of the ruling alliance has undermined the government’s ability to coping with crises.
- The economy is going through a rebalance process, which will limit its growth in the medium term .
- Limited contraction in fiscal deficit will keep pushing up government debt .
- Risk in the real estate market and hefty household debt increased the economic risks of the country.
- Foreign debt keeps increasing, with equally rising pressure on external liquidity.

To conclude, Australia's government liabilities are pushed up by slow economic growth and limited narrowing in fiscal deficit. Risks in the real estate and exorbitant household debts increased the country's economic risks. The size of

foreign debt and pressure on external liquidity keep increasing. As such, United Ratings has adjusted the outlook on Australia's local and foreign currency ratings to Negative for the coming 1-2 years.

Key Indicators of the Sovereign Rating on the Commonwealth of Australia

	2011	2012	2013	2014	2015	2016 ^f
Nominal GDP (billion USD)	1,504.6	1,559.8	1,505.8	1,444.1	1,225.7	1,258.0
GDP per capita (USD)	66,810.3	68,053.0	64,665.1	61,179.7	51,191.4	51,830.6
Real GDP growth (%)	2.7	3.5	2.0	2.6	2.5	2.5
Inflation rate (%)	3.3	1.8	2.5	2.5	1.5	1.6
Total lending/GDP (%)	147.7	151.9	164.7	198.4	207.9	208.7
Domestic credit growth (%)	5.2	4.8	4.9	7.2	6.6	6.1
M2 growth (%)	9.6	7.8	6.7	7.2	6.8	8.5
Budget balance of governments/GDP (%)	-3.5	-3.0	-2.0	-2.3	-1.7	-2.2
Primary balance of governments/GDP (%)	-2.9	-2.6	-1.4	-1.6	-1.1	-1.7
Public debt/GDP (%)	34.0	37.3	38.2	42.2	44.2	45.7
Current-account balance/GDP (%)	-3.0	-4.3	-3.4	-3.1	-4.6	-4.3
Total foreign debt/GDP (%)	93.8	98.1	100.0	107.3	133.2	136.0
Total external debt/Current-account credit (%)	371.3	416.8	416.2	443.5	579.5	635.9
Short-term foreign debt/Total foreign debt (%)	11.0	9.3	8.9	8.5	8.4	7.7
International reserves/Total foreign debt (%)	3.3	3.2	3.5	3.5	3.0	2.9
Gross external financing requirement/GDP (%)	30.1	35.0	33.3	34.1	40.8	40.6

Source: Sovereign Rating Database of United Ratings.

Note: The fiscal data are of a fiscal year ending up by June 30th, "f" stands for forecasts.