

COMMONWEALTH OF AUSTRALIA
NOVEMBER 2008

CREDIT GUARANTEE COUNTRY PROFILE:

IES/02: ATTACHMENT N

Country Rating	S/T Business Cycle Indicator	S/T Political Indicator	Debt Recovery
1A	↓	→	Either the legal route or a debt collection agent may be used for recoveries.

Credit Guarantee Experience

We are open for cover without restriction in this market where we have a large exposure and favourable experience, but it has not been a claims-free climate.

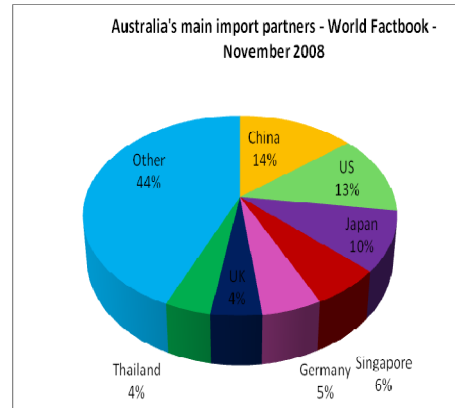
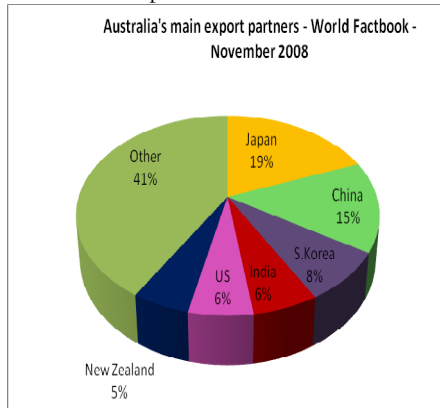
Political Highlights

- The monarch – with Queen of Australia Elizabeth II – is hereditary and has been represented by Governor General Quentin Bryce since September 2008. He serves as chief of state, with head of Government Prime Minister Kevin Rudd since December 2007.

Recent Economic Highlights

- Australia has always had an enviable economy that showed degrees of strength and resilience that favoured it as a destination to either relocate to or holiday in. It has won the title of the world's top country brand for the third consecutive year. This however was unable to shield Australia from the wrath of the global economic crisis. The Australian Bureau of Statistics noted a 2.8% drop in overseas travelers in September from the previous year and a slight fall from August 2008. The tourism industry is expecting further tourist declines as people reduce holidays to tighten their budgets.
- In mid-October, The Economist had forecast that the Australian economy would expand 2.6% in 2008 and 2.1% in 2009 on the back of stable domestic demand. The Reserve Bank of Australia came out more recently saying that it was slashing its growth forecast to 1.5% for 2008 from 2% and 1.75% for 2009 from 2.5%. The IMF released its economic growth forecast where it expects the economy to expand by 1.8% in 2009.
- The RBA is also not opposed to further interest rate cuts in the hopes that it will prop up the economy, subsequent to the 75 basis points cut to 5.25% in the first week of November which was the third cut in as many months. They are looking for another cut in mid-December to hopefully take rates down to 4.75%.
- The Bank foresees an increase in consumer prices and job losses but remains optimistic on averting a recession. Government has pledged a A\$10.4bn economic stimulus in the immediate term to support jobs and growth. Australian Treasurer Wayne Swan feared that a recession was imminent. With subdued export demand (the biggest income booster in over 30 years), Australia's economy would have likely contracted by 0.2% in the second quarter of this year. China's performance – its fastest growing export market – will invariably decide if the Australian economy shrinks.
- A survey by the Australian Chamber of Commerce and Industry and Commonwealth Bank of Australia disclosed that business confidence fell to 29.9 in the third quarter from 51.3 a year earlier, its lowest level since the survey began in 1994. The Australian Bureau of Statistics indicated that a downturn in the construction sector was already underway with building approvals falling over 7% in October from the previous month. Other figures reveal sharp declines in the manufacturing and services sectors.
- More job losses loom in the auto industry, which has already seen significant job cuts at Ford Australia, GM Holden and across auto component companies. The sector is expected to receive A\$3.4bn in an assistance fund through to 2020 as it seeks to develop environmentally friendly cars. A further A\$1.3bn will be available for an expanded Green Car Innovation Fund to enable the transformation of the sector to make it more competitive. The car industry is Australia's largest manufacturing export worth A\$5.6bn in overseas sales and employs over 200,000 people. Further job cuts loom in the financial and banking sector, with financial adviser KPMG warning that 10,000 positions could be lost over the next twelve months.
- Slowing economic growth in China and Japan has begun to impact on Australia's mining industry with cuts to steel production in both countries reducing demand for iron ore and coal and undermining commodity prices. Rio Tinto, the world's second-largest iron ore exporter, planned on cutting output at its mines in Western Australia by 10% this year to 175m tones due chiefly to weakening demand from China. Rio Tinto believes that China's slowdown will be short-lived and expects demand to rebound during 2009. Its major products include aluminium, copper, diamonds, energy (coal and uranium), gold, industrial minerals and iron ore. With Rio's cuts, BHP Billiton remains the only large iron ore miner not to initiate production cuts this year.

Trade Developments



- ❑ Main trading commodities: coal, iron ore, gold, meat, wool, alumina, wheat, machinery, machinery and transport equipment, computers and office machines, telecommunication equipment and parts, crude oil and petroleum.
- ❑ Australia's biggest wheat crop in three years may reach the world market more slowly than normal over the coming months as a rail car shortage stymies deliveries from eastern farms to ports. The delays risk causing a short term supply squeeze and highlight the challenges facing the world's second-biggest exporter after the end of AWB Ltd's decades-long marketing monopoly. Australia, the world's third-largest exporter of canola oil may be forced to import the oil seed after dry weather hurt production. The country was forced to import its first ever commercial shipment of canola two years ago after drought reduced production to a ten-year low. The crop output forecast has been cut 19% for this harvest due to ongoing dry weather with total production down to 1.3m metric tons from an earlier estimate of 1.6m metric tons.
- ❑ South African exports to Australia totaled R9.7bn in 2005, R9bn in 2006, R10bn in 2007 and R2.8bn in the year to March 2008. Australia is South Africa's 13th-largest export destination and 16th-largest import source, with imports totaling R10.2bn in 2007 and R9.6bn in 2006.

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