

Towards a modest acceleration

General Information



GDP	USD1339.1bn (World ranking 13, World Bank 2015)
Population	23.8mn (World ranking 53, World Bank 2015)
Form of state	Federal Parliamentary Democracy (Commonwealth)
Head of government	Malcolm TURNBULL
Next elections	2019, Federal elections



Strengths

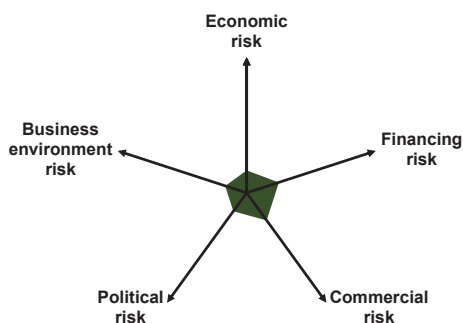
- Large natural resource endowments
- Strong infrastructure and business environment
- Proximity with Emerging Asia
- Low public debt
- Top touristic destination

Weaknesses

- Dependent on Chinese demand and commodity prices evolution
- Highly exposed to a change in climate and to natural hazards
- External vulnerabilities stem from chronic current account deficit and high external debt
- High household debt (above 180% of disposable incomes)

Country Rating

AA1



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
China	32% 1	23% China
Japan	16% 2	11% United States
Korea, Republic of	7% 3	7% Japan
United States	5% 4	5% Korea, Republic of
India	4% 5	5% Thailand

By product (% of total)

Exports	Rank	Imports
Metalliferous ores	28% 1	12% Road vehicles
Coal, coke and briquettes	15% 2	11% Petroleum
Gas	7% 3	6% Other industrial machinery
Gold, non-monetary	6% 4	5% Telecommunication
Meat	5% 5	5% Electrical machinery

Source: UNCTAD 2015

Economic Overview

Dragged by bad weather...

Bad weather conditions (Cyclone Debbie) put a drag on first-semester economic performance. Coal production and exports have been disrupted due to mines closures and damaged freight infrastructure. Tourism and agriculture have also been affected.

GDP growth is set to pick up speed in the remainder of the year. The policy mix will aim to boost economic growth with a loose stance on fiscal and monetary policy.

Public spending and investment are set to gather pace due to rebuilding efforts. Exports may accelerate at a gradual pace in line with improving global demand, stronger LNG exports capacity and a rebound in tourism.

The scale of acceleration will depend on household consumption. It is likely to be moderate due to high leverage (189% of disposable incomes) and modest growth in wages. Against this backdrop, we expect GDP growth to rise by a humble +2.3% in 2017 before accelerating to +2.6% in 2018.

The balance of risks has somewhat improved. Externally, global demand and commodity prices have gained some traction since last year. Domestically, high household's debt and unbalanced property market pose significant risks.

Solid buffers provide leeway to support growth

The Reserve Bank of Australia is expected to stay on hold in 2017, maintaining its accommodative policy stance.

First, inflation should remain in the target range of 2% to 3% on average in 2017. Second, the institution will likely wait for more tangible evidence of sustainable recovery before raising policy rates. These include growth acceleration from the second semester onwards and a signal of wage reflation. Post-2017, the likelihood of a rate hike will increase with stronger growth and higher inflation (2.5% on average).

On the fiscal side, the rate of consolidation will be lowered. Public finances are sound with low debt (43% of GDP) and lower deficit compared to other high-income economies. This provides some leeway to support growth. Potential supportive measures include a corporate tax cut, additional infrastructure spending, and more inclusive growth-supportive measures.

External vulnerabilities remain manageable

The large current account deficit is expected to narrow gradually in the medium term (-1.5% GDP in 2018) on the back of rising exports of services dedicated to wealthier Asian economies, improving goods exports as LNG exports capacity strengthen and commodities' prices potentially maintain their recovery.

At over 100% GDP, external debt remains a source of vulnerability. However, policy buffers such as low public debt, favorable investors' confidence, and relatively positive economic outlook (compared to other high-income economies) provide some cushion.

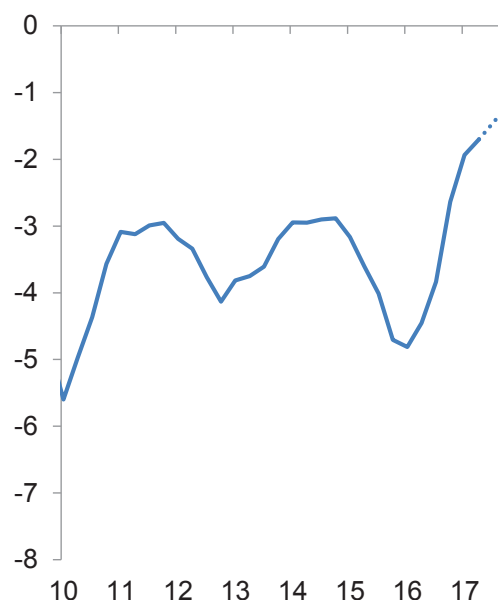
Key economic forecasts

	2015	2016	2017f	2018f
GDP growth (% change)	2.4	2.5	2.3	2.6
Inflation (% , year average)	1.5	1.3	2.2	2.5
Fiscal balance (% of GDP)*	-2.7	-2.7	-2.8	-1.9
Public debt (% of GDP)*	37.6	41.1	43.0	42.9
Current account (% of GDP)	-4.7	-2.6	-1.2	-1.5
External debt (% of GDP)	114.7	111.0	111.3	111.8

* Perimeter is general government as defined by the IMF WEO. It includes notably Central Government, State Government, Local Government and Territory governments

Sources: national sources, IMF, Euler Hermes

Figure 1: Current account (% GDP)



Sources: IHS, Euler Hermes

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