

# CareEdge Global has assigned a 'Stable' outlook to the credit rating of the Commonwealth of Australia

## Reaffirms Long-Term Foreign Currency Rating of 'CareEdge AA+ (Unsolicited)'

|               |                                    |
|---------------|------------------------------------|
| Issuer rating | CareEdge AA+/ Stable (Unsolicited) |
|---------------|------------------------------------|

CareEdge Global has assigned a 'Stable' outlook to the rating of the Commonwealth of Australia (Australia) while reaffirming the Long-Term Foreign Currency rating of 'CareEdge AA+ (Unsolicited)'.

Australia's strong credit profile is underpinned by its large and diverse economy, sound fiscal position, and robust institutional framework, supported by low government debt, a well-capitalized banking sector, and a credible policy framework. The economy benefits from a strong labour market, with the unemployment rate remaining below pre-pandemic levels. Government's plans to mitigate deteriorating demographics by increasing skilled migration, is expected to lead to expansion of workforce and support long-term growth. 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.

These strengths are partly offset by the economy's relatively high trade linkages with China, a high level of external debt, and a highly negative net international investment position (NIIP). While the current account deficit is expected to widen, it is expected to be manageable.

### Rating Outlook: Stable

Australia's Stable outlook reflects expectations of sustained economic resilience, with growth projected to rise from 1.1% in 2024 to 2.1% in 2025 and supported by a strong labor market. Additionally, the widening current account deficit is expected to have a limited impact on the credit profile, as it will be cushioned by its actively traded currency status, which enhances liquidity and helps absorb external shocks. Moreover, the capital flows are expected to be supported by strong investor confidence.

### Upside Scenario

Stronger-than-expected growth and a marked improvement in external metrics, including a reduction in external debt, would support a positive outlook. A sustained decline in housing market imbalances, supported by effective government initiatives, would further enhance economic resilience. Additionally, greater diversification of trade beyond traditional partners would strengthen economic stability.

## **Downside Scenario**

A deterioration in the fiscal profile could result from higher government debt beyond current projections. Additionally, a higher-than-expected current account deficit and a rise in already elevated external debt could heighten external vulnerabilities, particularly in the event of a slowdown in key trading partners. Additionally, deterioration in the banking sector asset quality due to high household debt remains a key downside risk to the rating.

## **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. Competitiveness and innovation are the key strengths of the economy. The mining industry, which accounted for 12.2% of Australia's GDP in 2024, is a key sector that plays a vital role in the country's economic structure.

The economy is expected to grow at a sustained rate of around 2.2% in the medium term, supported by easing monetary conditions. Australia is one of the top destinations for renewable energy investments.

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

### **Fiscal Strength**

Australia's strong fiscal profile is highlighted by its relatively low debt levels at 49.0 % of GDP in 2023, sound debt affordability (interest payments to revenue of ~3.1% in 2023), and good accessibility to external funds. Following a period of fiscal consolidation, the fiscal deficit is projected to rise to 1.7% of GDP in 2024 and 2.0% in 2025 before gradually declining over the medium term. 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 the government's continued spending to mitigate climate transition risks and achieve net-zero emissions by 2050.

### **External Position & Linkages**

Australia's external profile is supported by a steady current account surplus since 2019 and its attractiveness to foreign investors. However, the current account returned to a deficit in early 2024 as commodity prices continued to normalize and is expected to widen over the medium term while remaining lower than historical levels. 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 a global slowdown in FDI.

These strengths are partly offset by a substantially negative NIIP at -32.8% of GDP in 2023 and a 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. Further, inflation has eased to 2.4% year-on-year in Q4 2024, marking a decline from post-pandemic highs and is expected to come down within the central bank's target range by the end of this year.

Australia's stock market capitalization to GDP reflects investors' confidence in the economy. The banking sector is well-capitalized, with a low non-performing loan ratio (0.9% of total loans in 2023). However, levels of high household debt reaching 182% of total household income present a potential risk to the asset quality of banks.

### **Institutions & Quality of Governance**

The 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 favorable 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 parliament, it will be important to assess any potential implications for the 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  | 1,724  | 1,741  | 1,802  | 1,881  |
| GDP Per Capita (Constant-PPP)                     | USD         | 58,893 | 59,088 | 57,598 | 60,422 | 61,489 | 61,180 | 61,138 | 61,632 |
| Real GDP Growth                                   | %           | 2.8    | 1.8    | -2.1   | 5.5    | 3.9    | 2.0    | 1.1    | 2.1    |
| GFCF/GDP  | %           | 24.4   | 23.3   | 22.6   | 22.5   | 23.0   | 23.2   | -      | -      |
| 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   | -6.4   | -2.2   | -0.9   | -1.7   | -2.0   |
| Revenue/GDP                                       | %           | 35.6   | 34.5   | 35.7   | 35.3   | 35.4   | 36.3   | 36.4   | 36.0   |
| Expenditure/GDP                                   | %           | 36.8   | 38.9   | 44.4   | 41.7   | 37.6   | 37.2   | 38.0   | 38.0   |
| GG Gross Debt/GDP                                 | %           | 41.7   | 46.7   | 57.0   | 55.5   | 50.3   | 49.0   | 49.3   | 49.6   |
| 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   | 0.3    | 2.2    | 2.9    | 0.9    | 0.3    | -1.2   | -1.3   |
| 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    | 2.8    | 6.6    | 5.6    | 3.3    | 3.3    |
| 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

## Solicitation Status

The rating is unsolicited

## Rating History

| Instrument           | Type  | Rating                  | Date                |
|----------------------|---|-------------------------|---------------------|
| <b>Issuer Rating</b> | Long Term Foreign Currency<br>(Unsolicited) | CareEdge AA+/<br>Stable | April 02, 2025      |
| <b>Issuer Rating</b> | Long Term Foreign Currency<br>(Unsolicited) | CareEdge AA+            | October 03,<br>2024 |

## Criteria Applied

[CareEdge Sovereign Rating Methodology](#)

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