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## Commonwealth of Australia's rating reaffirmed at 'CareEdge AA+ / Stable'

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Issuer rating (Long-Term Foreign Currency)

CareEdge AA+/Stable (Unsolicited)

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CareEdge Global has reaffirmed the Long-Term Foreign Currency issuer rating for the **Commonwealth of Australia** at '**CareEdge AA+ / Stable**' (Unsolicited).

### Rationale

The rating's reaffirmation stems from Australia's strong credit position, supported by a diverse economy, sound fiscal position, and a robust institutional framework. This is further bolstered by a well-capitalised banking sector and a credible policy framework.

Australia's medium-term growth outlook remains favourable, with real GDP expected to average 2.2% over 2026-2030, comparing favourably with most advanced economy peers. The economy has demonstrated resilience to external shocks, supported by a strong labour market. Unemployment remained low at 4.2% in 2025, below the pre-pandemic range of 5-5.5%, supporting household income and domestic demand.

Fiscal metrics are projected to remain sound. General government debt is estimated at ~51.4% of GDP in 2025 and projected to gradually decline to ~49.4% by 2031, staying lower than other advanced economies. Further, the fiscal profile benefits from high debt affordability with interest-to-revenue averaging 5.3% over during 2020-2024. Following fiscal expansion in 2024 and 2025, the deficit is projected to decline gradually over the medium term.

The banking sector remains strong, supported by prudent supervision and a sound regulatory framework, reinforcing financial stability. Australia's strong institutional framework and credible policy setting continue to support macroeconomic stability and effective policy implementation.

However, these strengths are partially offset by significant trade exposure to China, high external debt of 94% of GDP in 2025, a negative net international investment position of -22.4% of GDP over the same period, as well as housing sector imbalance.

### Outlook: Stable

Australia's stable outlook reflects expectations of fiscal discipline with relatively low gross general government debt and a gradual reduction in fiscal deficit over the medium term. Growth is projected at 2.2% over 2026-2030, underpinned by a gradual recovery in private consumption and continued strength in the labour market.

## Upside scenario

A marked improvement in external metrics, including a sustained reduction in external debt, would support a positive outlook. Economic resilience would be enhanced by stronger-than-expected economic growth and a steady decline in housing sector imbalances, supported by effective government initiatives. Furthermore, diversification of trade beyond traditional partners would strengthen external resilience and reduce concentration risks.

## Downside scenario

The fiscal profile could weaken if general government gross debt increases significantly and remains above current projections. Additionally, a wider-than-expected current account deficit and rising external debt may heighten external vulnerabilities, particularly if key trading partners experience an economic slowdown. High household debt also remains a concern, as it could weigh on banks' asset quality and pose risks to financial stability.

## Key rating drivers

### Economic structure & resilience

Australia's economic structure is supported by its large economic size, high-income levels, a diversified economic base (with the services sector accounting for around 66% of total value added), low growth volatility, and a high degree of resilience. Competitiveness and innovation are the key strengths of the economy. The mining industry, representing 9.9% of GDP in 2025, is a key sector that plays a vital role in the country's economic structure. Australia is one of the top destinations for renewable energy investments.

Following subdued growth of 1% in 2024, primarily supported by public demand, economic activity strengthened in 2025 as private domestic demand recovered. Real GDP grew by around 2% y-o-y in 2025, with growth gradually shifting toward private domestic demand, supported by a recovery in real household disposable income. The labour market conditions remain strong, with unemployment at 4.2% in 2025 vs the pre-pandemic level 5-5.5%. Over 2026-2030, growth is projected to average 2.2%, comparing favourably with the advanced economy average of 1.6%.

However, persistently weak labour productivity growth represents a structural constraint on Australia's medium-term growth prospects. Additionally, 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 low debt levels (estimated at ~51.4% of GDP in 2025), sound debt affordability (interest payments to revenue of ~6.2% in 2024), and comfortable access to external funds. Additionally, the Future Fund (Sovereign Wealth Fund) plays a crucial role in enhancing fiscal stability by managing long-term liabilities and generating investment returns.

Following a period of fiscal consolidation, the fiscal deficit widened to -1.6% in 2024 and is estimated to increase further to -3.2% of GDP in 2025, reflecting discretionary cost-of-living support, infrastructure spending, and softer revenue growth. Thereafter, the deficit is expected to gradually narrow over the medium term, supported by restraint in operating expenditure, reforms in the care and disability insurance sectors, and the infrastructure spending normalises.

Committed expenditure on employee compensation, subsidies, and net social benefits (~65% of total expenditure) limits the fiscal space and is likely to face additional pressure from ageing demographics, healthcare-related spending, defence outlays, as well as spending on climate transition and net-zero commitments by 2050.

### External position & linkages

Australia's external profile is characterised by persistent current account deficit, largely driven by primary income deficit, reflecting dividend and interest payments to foreign investors. The current account recorded surplus temporarily during 2020-2022, following a broadly balanced position in 2019. As commodity prices normalised and demand from key trading partners moderated, the current account slipped back into a deficit, at -2.2% of GDP in 2024 (from -0.4% in 2023). The deficit widened further to -2.6% of GDP in 2025, reflecting lower bulk commodity export prices and rise in imports of goods and services. Over 2026–2030, the current account deficit is projected to average around -2.3% of GDP, while remaining below the historical average.

Further, the external position is weighed by high external debt, low FX reserve buffers, and a negative net international investment position (NIIP), though the status of the Australian dollar as an actively traded currency and deep financial markets partially offset these risks.

Australia's net international investment position remains negative, at -22.4% of GDP in 2025, although it is improved compared with the pre-pandemic average (below -50% of GDP). Gross external debt remains elevated at ~94% of GDP in 2025.

These vulnerabilities are mitigated by the structure and currency composition of the external balance sheet. A significant portion of external debt is denominated in the domestic currency or effectively hedged, limiting the exchange rate risk. Moreover, net external liabilities are considerably lower than gross external debt as a share of GDP, reflecting substantial foreign asset holdings by Australian households and institutional investors.

Australia continues to attract foreign direct investment, supported by a stable macroeconomic framework, transparent institutional setting, and broad-based economic structure spanning mining, agriculture, and technology. Net FDI inflows stood at ~2% of GDP in 2025.

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## Monetary & financial stability

Australia has a floating exchange rate regime and benefits from its actively traded currency status. The Australian dollar enjoys significant liquidity and acceptance in international markets.

After peaking in 2022, inflation eased through the first half of 2025, supporting a gradual loosening of the monetary policy. In the second half, price pressure resurfaced, driven by rising housing and service costs, as well as temporary factors such as the end of energy rebates. Headline inflation reached 3.8% y-o-y, with core inflation at 3.4% y-o-y, in January 2026. Following the February 2026 rate hike, the Reserve bank of Australia (RBA) is expected to implement up to two further increases this year. Inflation is projected to gradually return to the target range, approaching the midpoint of 2-3% by late-2027.

Australia's stock market capitalisation to GDP reflects investor confidence in the economy. The banking sector is well-capitalised, with a low non-performing loan ratio 1.2% as of Q2 2025. Household debt remains high at ~176% of disposable income in 2025, though easing, and presents a potential risk to bank asset quality. To address the recent pickup in riskier mortgage lending and pre-empt the buildup of housing-related vulnerabilities, the Australian Prudential Regulation Authority introduced a debt-to-income limit in November 2025. Overall, credit risks from households, corporates, and commercial real estate appear contained.

## Institutions & Quality of Governance

Australia's institutional framework is robust, underpinned by well-established regulatory systems and high governance standards. The country ranks in the 90th percentile for five 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 maintained policy continuity in the past, as indicated by the May 2025 federal election under the Albanese government. However, the recent rise in the strength of minor parties in the parliament warrants close, it will be important to monitor potential implications for the future policy framework.

Australia – Select Indicators									
	Unit	2020	2021	2022	2023	2024	2025	2026 F	2027 F
<b>Economic Indicators</b>									
Nominal GDP	USD Billion	1,363	1,656	1,725	1,742	1,795	1,840	1,948	2,036
GDP Per Capita (Constant-PPP)	USD	57,541	60,322	61,510	61,305	60,924	61,261	61,805	62,387
Real GDP Growth	%	-2.0	5.4	4.2	2.1	1.0	2.0	2.1	2.2
GFCF/GDP	%	22.8	22.6	23.2	23.3	24.3	-	-	-
Gross Domestic Savings/GDP	%	25.7	26.7	28.9	28.2	26.4	-	-	-
Exports (G&S)/GDP	%	23.9	22.0	25.5	26.7	24.6	-	-	-
Working-Age (15-64) Population (% Share in Total)	%	65.1	64.8	64.7	64.6	64.4	64.2	64.0	63.8
Old-Age (65+) Population (% Share in Total)	%	16.3	16.7	17.1	17.4	17.7	18.1	18.5	18.8
<b>Fiscal Indicators – General Government</b>									
Fiscal Balance/GDP	%	-8.7	-9.2	-3.7	-0.9	-1.6	-3.2	-2.9	-2.0
Revenue/GDP	%	35.7	34.8	35.5	35.9	36.5	36.6	36.8	36.7
Expenditure/GDP	%	44.4	44.1	39.3	36.7	38.2	39.8	39.6	38.7
GG Gross Debt/GDP	%	57.1	57.9	52.8	48.9	50.0	51.4	51.5	51.2
GG External Debt (by Creditor)/GG Gross Debt	%	26.5	23.2	21.9	22.2	20.9	-	-	-
Interest/Revenue	%	5.2	4.8	4.8	5.8	6.2	-	-	-
<b>External Indicators</b>									
Current Account Balance/GDP	%	1.7	2.3	0.3	-0.4	-2.2	-2.6	-2.1	-2.2
FDI, Net Inflows/GDP	%	1.3	1.9	3.9	2.0	3.0	2.0	-	-
Outstanding FII Liabilities/GDP	%	103.1	97.6	86.4	86.9	93.2	95.6	-	-
NIIP/GDP	%	-59.4	-37.7	-37.2	-30.0	-23.0	-22.4	-	-
Foreign Exchange Reserves	USD Billions	43.0	58.6	57.9	64.2	63.6	75.3	-	-
Import Cover	Months	2.0	2.3	1.8	2.0	1.9	2.1	-	-
External Debt/GDP	%	106.1	99.4	88.5	87.8	96.7	94.0	-	-
<b>Monetary and Financial Indicators</b>									
CPI Inflation	%	0.9	2.8	6.6	5.6	3.2	2.8	3.4	2.7
Exchange Rate (Average)	LC per USD	1.5	1.3	1.4	1.5	1.5	1.6	-	-
Non-Performing Loans/Total Gross Loans	%	1.1	0.9	0.7	0.9	1.1	-	-	-
Private debt, loans and debt securities/GDP	%	191.8	181.4	170.8	169.0	173.0	-	-	-

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 2025

### Solicitation status

The rating is unsolicited, but with limited interaction with Department of Treasury, Australia.

### Rating history

Instrument	Type	Rating	Date
<b>Issuer Rating</b>	Long-Term Foreign Currency (Unsolicited)	CareEdge AA+/Stable	March 11, 2026
<b>Issuer Rating</b>	Long-Term Foreign Currency (Unsolicited)	CareEdge AA+/Stable	April 02, 2025
<b>Issuer Rating</b>	Long-Term Foreign Currency (Unsolicited)	CareEdge AA+	October 03, 2024

### Criteria applied

[CareEdge Sovereign Rating Methodology](#)

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