

Australia Retains AAA Rating as Credit Ratings Lift Across Asia

Australia's strong credit rating and impressive economic performance over the past decade has been the envy of many economies in the world. Australia remains one of only nine countries rated AAA with a stable outlook by the three major international credit rating agencies, Moody's, Standard & Poor's and Fitch. Moody's recently confirmed Australia's sovereign credit rating outlook has remained stable amid global financial uncertainty.

Over the past 10 years, Moody's also raised the credit ratings of 10 of Australia's major trading partners in the Asian region to investment grade. Australia's trade links with these 10 economies are increasingly significant. Together, they account for 64 per cent of our two-way merchandise trade or about A\$339 billion in FY2013–14. That's up from 50 per cent and A\$119 billion a decade ago. Stronger credit ratings and an improved outlook for our major trading partners are important for Australia's economic growth and stability.

- **Australia** is one of only two countries with a triple-A rating in the Asian region. Moody's noted recently that "its outlook for Australia's **Aaa** foreign and local currency ratings remains stable. Australia's Aaa ratings are based on the country's very high economic resiliency, very high government financial strength, and very low susceptibility to event risk." Moody's classifies Australia's strength as very high, based on the country's size, economic diversity, the economy's performance during the past two decades, and favourable long-term growth prospects. Moody's also stressed that Australia not only has a significant natural resources sector – including minerals and agriculture – but also well-developed manufacturing and service sectors. In addition, Australia's economic diversity and financial system strength imply a very low level of event risk.
- The only other economy in Asia with a triple-A rating is **Singapore**. According to Moody's latest assessment, Singapore's rating has been supported by the country's very strong fiscal and debt metrics, solid growth outlook over the coming five years, and a large net external creditor position. Singapore's rating has been raised twice from the Aa2 position since May 1994. Over the past decade, Australia's two-way trade with Singapore has surged, growing more than 150 per cent to A\$20 billion in FY2013–14. This figure accounted for over a quarter of total ASEAN two-way trade with Australia (A\$75 billion).

Foreign Currency Sovereign Bond Rating of Australia's Major Trading Partners in Asia



Note: Other Moody's non-investment grades lower than B3 are Caa1, Caa2, Caa3 and C in descending order.
Sources: Moody's Investors Services, Special Comment: Sovereign Default and Recovery Rates, 1983-2012, Appendix III – Sovereign Bond Rating Histories (released June 2013); Latest credit rating of individual economy sourced from Moody's most recent assessment; trade data from ABS Cat. No. 5368.0 International Trade in Goods and Services, Australia, Table 14a and Table 14b, (released 04 Sept 2014); Austrade

- In the North East Asian region, **China, Japan, South Korea, Taiwan** and **Hong Kong** have collectively dominated Australia's two-way merchandise trade, accounting for over 50 per cent or more than A\$260 billion of Australia's total goods trade in FY2013–14. The totals are a sharp increase from 36 per cent or A\$86 billion of Australia's total trade a decade ago.
- Over the same period, many of these economies' credit ratings have been upgraded, and all of Australia's major regional trading partners are now classed as investment grade. Australia's largest trading partner, **China**, has had its sovereign credit rating raised three times since 2003. Moody's latest decision occurred in November 2010 when the Chinese rating was improved to **Aa3** from A1. The credit agency recently confirmed that China's Aa3 rating and its stable outlook are underpinned by the country's macroeconomic strengths and its fiscal and external cushions, and that it expects the sovereign's credit profile to withstand rebalancing challenges.
- Following three ratings increases since 2003, **Hong Kong's** government bond rating has remained at Moody's second highest rank, **Aa1**, supported by the economy's very strong fiscal position and robust external position. **South Korea's** credit ratings have been upgraded twice since 2002 to its current **A1** rank. Moody's stated in its latest assessment that South Korea's real GDP growth will continue to outperform most high-income and advanced economies, both in the immediate term and further ahead. **Taiwan's** credit rating has remained stable at **Aa3** since 1994, largely reflecting its economic resilience and stable growth outlook, which in turn is supported by closer trade relations with mainland China.
- Meanwhile, signs that **Japan's** economy is on the road back to healthier rates of growth bode well for the Asian region as a whole. Japan is now Australia's second largest trading partner and its third largest foreign direct investor. Further, the Japan-Australia Economic Partnership Agreement signed in July 2014 is expected to secure more trade and investment opportunities between the two economies in the coming years. Moody's stated on 27 June that the recently approved revitalisation strategy in Japan was credit-positive for the country's **Aa3** credit rating. The agency said the strategy will help boost the weak economic growth rate. Over the medium to long term, economic benefits from the planned corporate tax cuts will likely be reflected in higher confidence levels and improved demand for goods and services.
- In the South East Asian region, the 10 members of **ASEAN** have become increasingly important to Australia's economic and trade interests over the past decade. The strong economic growth and development of these nations during this period has broadened and deepened trade and investment relations between Australia and the region. Australia's two-way trade with this group has grown by 129 per cent to A\$75 billion. Closer economic engagement has resulted in more opportunities for Australia to share in the dynamism of an increasingly integrated ASEAN market. To some extent, closer engagement also means Australia's economic interests are more influenced by the fortunes of ASEAN economies than at any time previously.
- Moody's March 2014 edition of *Sovereign Monitor* highlighted a wide range of credit-related themes affecting the ASEAN-10. The report points out that ASEAN members' sovereign creditworthiness remained largely unscathed in the wake of global economic uncertainties. According to Moody's, this was partly the result of the benefits derived from ASEAN's focus on accelerating economic growth, protecting regional peace and security, and promoting active collaboration, cooperation and mutual assistance on economic, technical and administrative affairs. As such, Moody's noted that the ASEAN-10 continue to garner much investment interest. Since 1998, Moody's has upgraded the credit ratings of **Malaysia, Thailand** and **Indonesia** several times. The latest ratings of these three major ASEAN economies are **A3, Baa1** and **Baa3** respectively, which are all classified as investment grade.