Country outlook Australia

CaixaBank

Closing date of this issue: March 2020

Australia

Form of Government: Federal parliamentary constitutional monarchy

Capital: Canberra

Official language: English

Population: 25 million inhabitants (2019)

Currency: Australian dollar (AUD)

Exchange rate: 1 EUR = 1.70 AUD (29/02/2020)
1 USD = 1.54 AUD (29/02/2020)

GDP: $1.376 trillion (1.0% of world GDP)

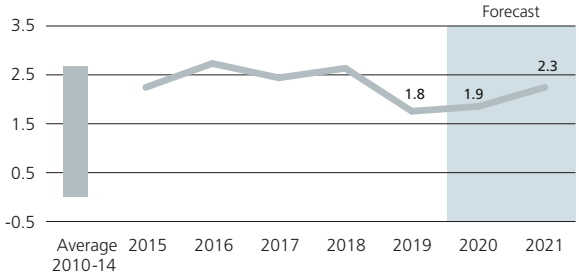
GDP per capita: $53,825 ($53,379 purchasing power parity)

Ease of doing business: 14th in the world out of 190 according to the World Bank (*Doing Business*)

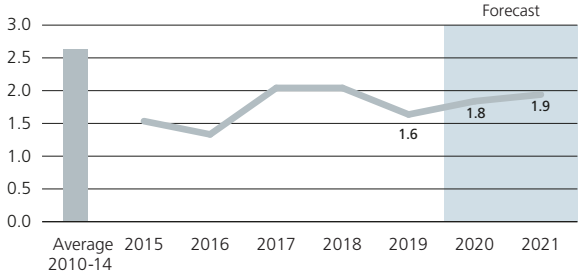
Religion: Christian: 52.1%. No religion: 30.1%

Economic forecast

GDP. Year-on-year change (%)



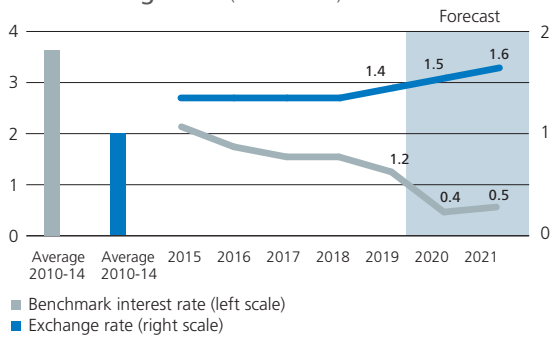
CPI. Year-on-year change (%)



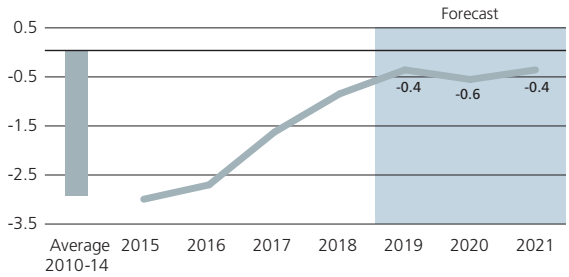
- In 2020-2021, the Australian economy will grow slightly below its historical average due to the impact of bushfires that ravaged the country on the nation's tourism and agricultural sectors, as well as the impact of COVID-19 (given the relationship with China, its main trading partner, as well as Japan and Korea, and the infection in the country itself). Yet, the rate of growth will remain at a reasonable level, in large thanks to fiscal stimulus measures aimed at lessening the economic consequences of the health emergency and the devastating fires, and a sustained accommodative monetary policy. With regard to this last point, a renewed real estate prices overheating is nevertheless a source of concern in the medium-term.
- Inflation will increase slightly due to the rise in food prices (as a result of the disruptions in the country's food value chains caused by the fires). However, it will remain at moderate levels (below the Central Bank's inflation target: 2%-3%) thanks to the containment of oil prices and the low pressure currently exerted by wages on the economy.

Economic policy

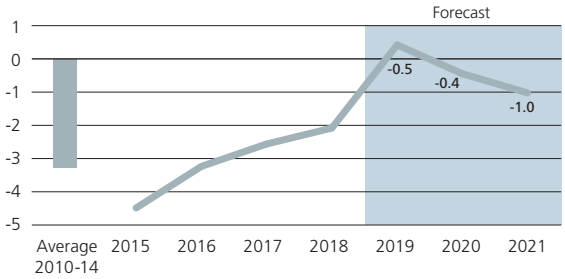
Benchmark interest rate (%) and exchange rate (AUD/USD)



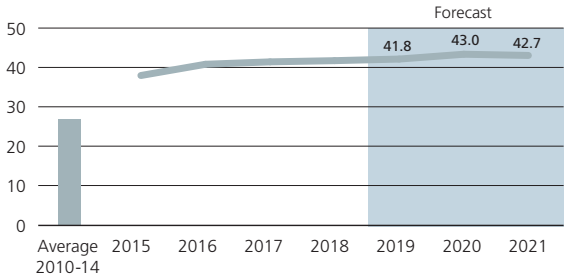
Fiscal balance (% GDP)



Current account (% GDP)



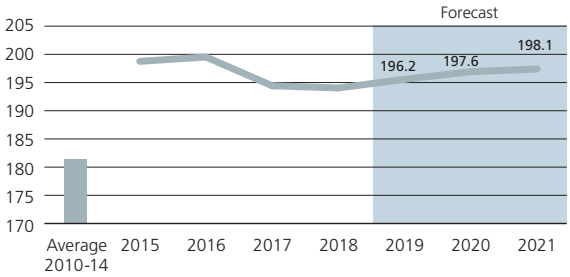
Public debt (% GDP)



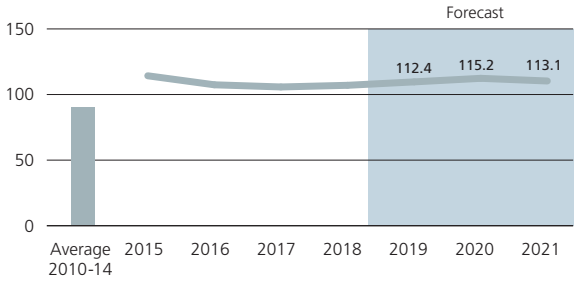
- The monetary policy, supported by what is still very subdued inflation, will remain highly accommodative. The process of increases in interest rates will be delayed beyond 2020, largely following the policy path of the central banks in developed economies (such as the Fed).
- On the fiscal side, the government has already announced a number of measures to support the economy in order to deal with the effects of the coronavirus and the severe fires of 2019 and 2020. These elements will be added to the measures aimed at improving infrastructures and research and development. Overall, the fiscal policy will therefore remain slightly expansive.
- In terms of the external sector, the 2019 current account surplus was the result of the sharp rise in the price of iron ore (the country's main export) in the first half of the year. Looking ahead, the current account balance will go back into negative territory. The main reasons behind this are the drop in the price of commodities exported by the country (including iron ore), the disruptions in the production of agricultural goods following the fires and a decreased demand from China (due to COVID-19, but also due to the diversion of some of its trade with Australia to the US, following the commitments acquired by the Asian giant under the First Phase trade agreement that it signed with the US).

Financial conditions

Private credit (% GDP)



Gross external debt (% GDP)



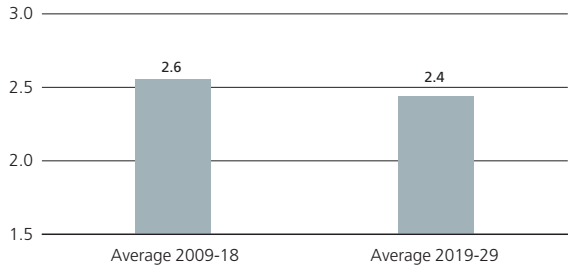
- The real estate sector, whose prices rose significantly in some of the country's large cities, continues to represent a significant macro-financial risk. This is especially the case in the context of a broadly accommodative monetary policy, high household debt and significant bank exposure to mortgage credit risk. For now, however, the real estate sector correction has been orderly. Furthermore, the country's banks have high levels of solvency (Tier 1 regulatory capital ratio stands at 12.9% and the NPL ratio is 1.0%).
- In terms of the external sector, the country's high external debt position does not represent a significant risk, as it should stabilise with the existing current account balances. It should also be noted that the structure of the debt position (where most of the debt is denominated in Australian dollars) reduces this vulnerability.

Political situation

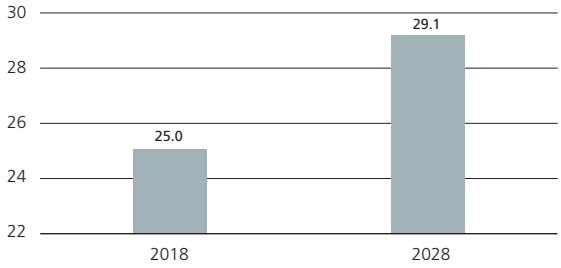
- Regarding the internal policy, the current centre-right (Liberal-National) coalition is expected to remain stable until the next elections in 2022. As such, we expect economic policy measures aimed at increasing potential growth (for example, investment in infrastructure) to continue being implemented.
- With regards to foreign policy, Australia will continue its long-standing alliance with the US, despite the complexity of the situation under Trump's leadership. Additionally, the country has strengthened its ties with Japan, in the face of China's growing maritime influence in the Indo-Pacific region and North Korea's conduct.

Long-term outlook

GDP growth (%)



Population (milions of inhabitants)



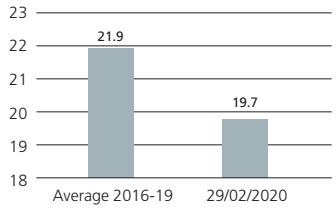
- Various factors will aid the country's growth in the medium-term: (i) the recent structural measures to support research and development and improve competitiveness, in addition to investment in infrastructures; (ii) the workforce's educational level; (iii) the institutional quality, (iv) and the country's innovation capacity.
- Nonetheless, the ageing population, the difficulty of translating the efforts in innovation into better productivity growth and the remaining gap in terms of infrastructure (partly due to significant population growth), are factors which pose a substantial challenge in the medium-term.

Country risk

	Rating	Last changed	Outlook
STANDARD & POOR'S	AAA	16/02/03	Stable
Moody's	Aaa	20/10/02	Stable
FitchRatings	AAA	28/11/11	Stable

■ Indicates that the country has "investment grade".
□ Indicates that the country does not have "investment grade".

CDS* 5 years (basis points)



Credit default swap: medida de riesgo país que refleja el coste de asegurar el impago del bono soberano.

Risks

SHORT-TERM

- China's slowdown
- Overheating of real estate prices
- Impact of the coronavirus on the world economy

LONG-TERM

- Potential for weak economic growth
- Climate change
- Shift towards protectionism

Business environment

STRENGTHS

- Ease of setting up a business.
- Educational level of the workforce.
- Institutional quality.
- Innovation capacity.

WEAKNESSES

- Geographical distance.
- Importance of the mining industry.
- Ageing population.

Main sectors

EXPORTERS

- Minerals and metals, mining waste and by-products, meat and cereals.

IMPORTERS

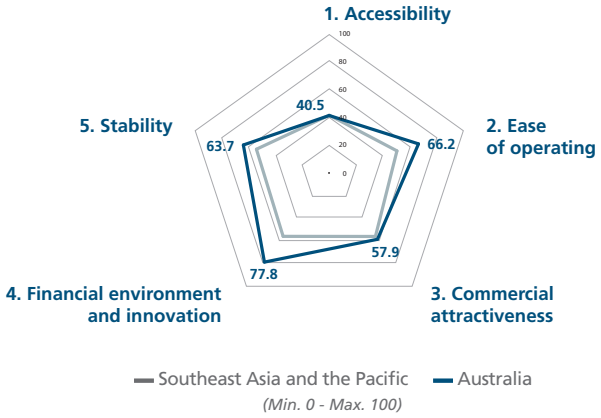
- Vehicles, machinery, fuel, electronics and pharmaceutical products.

CIBI | CaixaBank Index for Business Internationalisation

POSITION IN COUNTRY RANKING

31/67

PILLARS



SUBPILLARS

Top

Easiness of operating a business

Labour conditions

Credit and financial development

Bottom

Distance, communications, and agreements with Spain

Similar tastes to Spain

Investment relations with Spain

Source: CaixaBank Research, based on data from Bloomberg, IMF, OECD, Oxford Economics and Thomson Reuters Datastream.

Taxation

In Australia, the tax structure is divided into federal, state and local levels. Federal taxation is regulated at a national level by the Australian Taxation Office (ATO), covering taxes on individuals and legal entities, the goods and services tax (GST), tariff barriers and so on. At a state level, there are taxes such as payroll tax and taxes on transactions and territories, which are governed by each state. Locally, most taxation is aimed at taxing land ownership.

Income tax for individuals differs according to their residency status. For non-residents, income that originates in Australia is taxed at progressive rates of between 32.5% and 45%. Residents are taxed on their entire income, regardless of the source of that income, also at a progressive rate of between 0% and 45%.

Corporate tax is levied on all companies that have their headquarters in Australia or are based in or trade in the country, also depending on the type of entity they are. It is a fixed rate of 30%. It is worth mentioning the *Diverted Profits Tax*, whose main purpose is to prevent corporate tax evasion through agreements and the diversion of profits obtained in the country. This tax has a rate of 40% and is levied on any revenue that is considered potentially fraudulent or evasive and it is only applicable to multinationals with revenues above 1 billion AUD, 2.5% of which is of Australian origin.

The consumption-based tax called GST consists of a 10% levy on a set of goods and services, with some products exempt, such as essential goods.

Investment

In terms of territorial taxation in Australia, we can distinguish between SME investments and venture capital investments, both of which are incentivised by the government through various initiatives and agreements between countries.

These can be divided into: the foreign tax credit system (FTC), controlled foreign companies (CFC) and foreign investment funds (FIF). It should be noted that the foreign tax credit system (FTC) is responsible for regulating controlled companies and for the income tax rate levied on revenue from abroad that is not exempt from and is subject to income tax, with a credit granted for taxes paid abroad, offset against tax payable for foreign investment funds.

The measures relating to capital gains tax and taxes on foreign residents are designed to encourage foreign investment in Australia, through actions such as reducing the assets on which tax is payable by foreign residents (properties within the national territory and shares of companies based in Australia), and interest on direct investments (10% or above) in companies inside and outside the national territory, provided that they 50% or more of them relate to Australian assets.

In terms of the imputation and franking of dividends, they are governed differently if they are categorised as residents or non-residents. If an entity pays dividends from income that originates from profits generated in Australia, the recipient has the right to receive full or partial payment to offset other taxes. Any income that non-residents earn from shares exceeding the amount of franked dividends is exempt from tax.

Establishment

The steps for incorporating a company in Australia are as follows:

1. Complete form 201 and register the company with the Australian Securities and Investments Commission (ASIC).
2. Once incorporated, it will be allocated a company number (ACN).
3. Then, with the ACN, it is necessary to obtain a business number (ABN) and a tax file number (TFN).

Sole trader

This is the equivalent of a self-employed worker. The person runs the business and the profit from the trade is the individual's income. They have a TFN, which they use to file their tax returns and it is used for any procedures relating to the Australian tax authority.

General partnerships

This category includes any entity composed of several individuals or legal entities that carry out joint economic activity and receive income from it. They need an ABN to carry out any business transactions, but when they file their tax return they also need a TFN, and they will declare a proportional part of the revenues according to their share in the company.

Trust companies

This consists of an association with a person acting as a representative or trustee who acts as the custodian of a property on behalf of others. The representative (trustee) must have an ABN, and a TFN to file their tax return. However, the beneficiaries are the ones who file tax returns for the profits obtained from the economic activity.

Companies

Companies are classified as separate entities to shareholders. They must have an ABN and a TFN. They are divided into: holding companies and state-owned enterprises, and they can have limited or unlimited liability. They are regulated by the Australian Securities and Investments Commission (ASIC).

Alliances strategic

JOINT VENTURE

Joint ventures are associations between several companies that set up a third company with its own assets and legal liabilities. There are two types in Australia:

Joint ventures with their own legal identity
The participants in these joint ventures can agree to assume all risk between them from the start.
The articles of association and incorporation of a joint venture between companies must be matter of record when it is created and all profits obtained from the shares will be taxed on the profits of the joint venture. Furthermore, any liabilities assumed by the joint venture may not be charged against the profits of the participants.

Joint ventures with no legal personality
In this type of agreement between companies, the shareholders keep their own interests and rights separate to the company, despite their commercial partnership. The contract must cover all regulatory stipulations between the parties and their operations, rights and obligations. In this case, the company created for the joint venture has no legal personality or equity.
The profits become part of the company's capital and the shareholders only receive profits when the company is sold, so it offers significant tax advantages. Any loss incurred by the participants will be passed on to the company. Any asset attached to the company continues to be the property of its owner, and the latter is liable for any debts generated.
The parties must agree that none of them may act independently, neither on behalf of other shareholders nor on behalf of the company, except in specific cases.

Customs conditions

FREE TRADE AGREEMENTS

Tariffs on imports have gradually fallen over the last few decades. The average duties agreed by the Australian government range from 3.5% and 10.5%, which is the bound rate. With regard to imported products from the industrial sector, in Australia they are subject to a 10% tariff, while they are only taxed at 1% in the EU, for example.
A tax of 3.1% is levied on the FOB price in the country, with a bound rate of 10.5% (with only 3% of the total not considered in the bound tariff). The most common duty levied on Spanish products is 5%.
The most important free trade agreements of which Australia is a party are:

- The AUSFTA. Which was signed in 2005 to improve trade with the US.
- CHAFTA. A free trade agreement between China and Australia, in force since 2015.
- AANZFTA. This was signed in 2010, establishing a free trade customs union between Australia, New Zealand, Brunei, Burma, Malaysia, the Philippines, Singapore and Vietnam. Thailand later joined in 2010, followed by Laos in 2011, Cambodia in 2011 and Indonesia in 2012.
- Partial inclusion in the Pacific Alliance Free Trade Agreement.

FREE TRADE ZONE

There are no special economic zones in the entire national territory.

GENERALISED SYSTEM OF PREFERENCES (GSP)

The generalised system of preferences provides favourable conditions for developing countries that intend to establish themselves in the Australian market, enabling them to secure a competitive position and leaving some products free or partially exempt from tariffs. The requirements for entering the market under these conditions are to have a TIN (tax identification number) and a level 2 tax code and to count as a remote filing entity. This type of GSP does not favour Spain, as it is not classified as a "developing" country.

Negotiations and protocol

BUSINESS CULTURE

When doing business, in Australia they value courtesy, mutual trust, respect and punctuality. When first making contact, it is advisable to arrange meetings at least two weeks in advance. Avoid the first two weeks in January and the last two weeks in December as they fall within the Christmas period. For greetings, we recommend shaking hands when you are introduced to meet another person. Business cards are exchanged at the first meeting, without any particular formality. If the card is in Spanish, adding an English translation on the back will be seen favourably. It is rare to exchange gifts and this is limited to special occasions.
During a negotiation process, it is not advisable to use confrontational or pressure tactics or to present preconceived ideas or solutions, but you should not hesitate to discuss and defend your point of view. A very clear, written contract will enable the agreement to be made official.

Top fairs

- FOODPRO
- LUPUS and ACA
- Australian International Jewellery Fair
- Australian International Furniture Fair
- APCS Summit
- Sibos
- Fine Food Australia
- AAAE
- AIMEX Asia-Pacific International Mining Exhibition
- IMC

Websites of interest

- Reserve Bank of Australia (RBA) - http://www.rba.gov.au/
- Business Council of Australia (BCA) - http://www.bca.com.au/
- National Office for the Information Economy (NOIE) - http://www.noie.gov.au/
- Australian Bureau of Agricultural and Resource Economics (ABARE)
- Department of Foreign Affairs and Trade (DFAT) - t.gov.au/pages/default.aspx
- Department of Industry - http://www.industry.gov.au/Pages/default.aspx
- Minister for Finance- http://www.financeminister.gov.au/
- Government Division of the Department of Industry, Innovation and Science - https://www.business.gov.au/
- Government Productivity Commission - http://www.pc.gov.au/

Payment and charging methods

MEANS OF COLLECTION

While you can feel assured of receiving a payment, you may consider the option of speeding up the process, but this will entail a higher cost.
The negotiations between the buyer and the seller will always alter the commercial agreements, which to some degree will dictate the means of collecting payment and the operations that are necessary in the transaction. In terms of financing, both the payment and collection methods require some form of financing, simply to ensure that the transaction is completed.

MEANS OF PAYMENT

The payment methods include:

- Cash: by virtue of the Anti-Money Laundering and Counter-Terrorism Financing Act, the institutions that provide a designated service must report any cash transactions that exceed 10,000 Australian dollars to the AUSTRAC.
- Cheques: infrequently used in domestic and international transactions.
- Credit cards: the main method of payment.
- Electronic transactions: in the process of becoming the predominant means of payment. This includes electronic transactions at points of sale (POS), and with mobile applications, electronic fund transfers (EFT) and online transactions.
- EFTs and SWIFT bank transfers: the most widely used method of payment for international transfers. Most banks are connected to the SWIFT electronic network.
- The Australian dollar is also part of the continuous linked settlement system (CLS), a highly automated inter-bank transfer system that simultaneously processes both components of foreign currency transactions.

EXCHANGE RATE INSURANCE

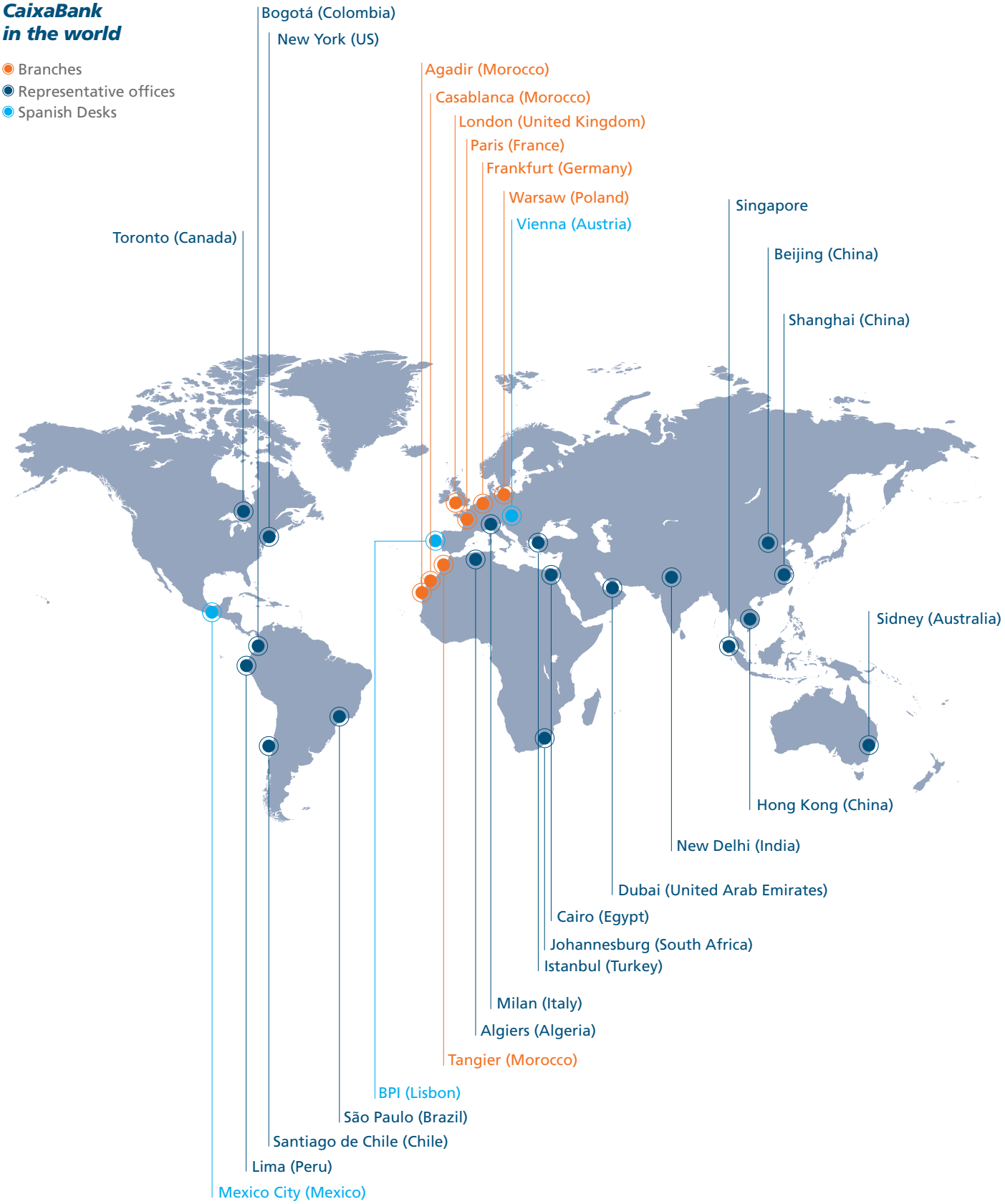
There is a high level of certainty in the Australian market. However, for future transactions, it is advisable to take out exchange rate insurance to insure any international transactions involving different currencies.

CaixaBank in the country

The main objective of the Australian office is to improve communication channels with local financial institutions, supporting CaixaBank customers' activities in the country, be they foreign trade or investment and deployment projects. It also provides consulting services and supports Spanish companies that wish to develop their business abroad.

CaixaBank in the world

- Branches
- Representative offices
- Spanish Desks



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