Australia

Outlook

	Average 10-14	2015	2016	2017	2018	2019	2020	Forecasts 2021	2022
GDP growth (%)	2.7	2.3	2.7	2.4	2.8	1.9	-2.4	3.5	2.9
CPI Inflation (%)*	2.6	1.5	1.3	2.0	1.9	1.6	0.8	1.3	1.5
Fiscal balance (% of GDP)	-3.0	-3.1	-2.8	-1.7	-0.9	-0.4	-9.9(e)	-5.9	-4.5
Public debt (% of GDP)	27.3	37.7	40.5	41.1	41.7	46.3	60.4(e)	70.2	74.4
Reference rate (%)*	3.6	2.1	1.7	1.5	1.5	1.2	0.3	0.0	0.1
Exchange rate (AUD/USD)*	1.0	0.7	0.7	0.8	0.7	0.7	0.7	0.8	0.8
Current balance (% of GDP)	-3.5	-4.6	-3.3	-2.6	-2.1	0.7	2.5(e)	-0.1	-1.4
External debt (% of GDP)	92.8	117.2	110.2	108.8	110.0	108.5	103.8(e)	97.5	96.7

Notes: * Annual average. (e) estimation.
Source: BPI Research, based on data from national statistical agencies and IMF.

- **The COVID-19 shock has wreaked less havoc on the Australian economy than many other advanced economies and its recovery is also expected to be stronger,** thanks to several factors. Firstly, the boost in consumption, which will be favoured by the rapid recovery shown in the labour market and by increased savings (in 2020, the savings rate reached 20% of income, +15 pp). Secondly, the strong increase in public investment which, according to the state budgets, should be similar to the increase that took place after the global financial crisis of 2008-2009. Finally, the contribution of the foreign sector will also support the recovery, fuelled by the sound progress of the country's main trading partners (especially China) and the continuity of COVID-19 economic support policies globally. In fact it is estimated that Australia's GDP will reach pre-pandemic levels by mid-2021. Based on this generally positive scenario, risks continue to be tilted to the downside, one of the main ones being an unforeseen slowdown in the pandemic vaccination campaign which, as is the case in many countries, should accelerate its pace to meet the immunity targets set.

- **Real shock of COVID-19.** With the number of infections and deaths per million inhabitants among the lowest in the world, the incidence of the pandemic has been much lower than in other advanced economies. This has allowed for more limited restrictions on mobility which, together with strong economic policy support (see next point), resulted in a relatively moderate economic contraction in 2020 (–2.4%). Likewise, the new containment measures introduced at the end of December have had a very limited impact on economic activity in the early part of 2021, which reaffirms the strength of the recovery that began in Q3 2020.

- **Economic policy response**

  - **Fiscal policy.** The fiscal response has been swift and decisive. Overall, it is estimated that the measures approved during 2020 are slightly in excess of 316 billion Australian dollars (about 16% of GDP). Of note are the labour market support programmes (with extra unemployment subsidies and wage subsidies for companies with problems), direct payments to citizens and guarantees to companies. So too, for 2021, are the plans to increase public investment, especially in infrastructure. Overall, the fiscal stimulus will be similar to that introduced after the global financial crisis, according to estimates by the Reserve Bank of Australia (RBA).

Closing date of this edition: 10 March 2021

Outlook (continued)

- **Monetary policy.** The RBA has supported the Australian economy since early March 2020 with various measures, such as: lowering interest rates to levels approaching 0%, increased purchasing of assets (sovereign bonds) and the opening of a programme to provide credit to SMEs (Term Funding Facility). These accommodative monetary measures have helped to maintain easy financial conditions. Likewise, in its most recent meetings, the RBA has made it clear that it will maintain a clearly accommodative policy for a long period of time.

Macrofinancial imbalances

- **Real estate sector.** The real estate sector, still with high prices that have increased during the pandemic in the country as a whole, constitutes a relevant macro-financial imbalance. 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.
- **Dependence on commodities.** Commodities make up more than 50% of the country's exports (for example, iron ore, coal and gas). This specialisation in exports of little complexity represents a medium-term weakness for the country. Even more so in a context in which China (large importer of Australian coal) has proposed to reduce its CO_2 emissions substantially.

Main risks

The unfolding of the pandemic and the success of the health and vaccination campaigns continue to be the country's main risks in the short-term. To these risks shared by most countries are added:

- **Consumption and private investment risk** with the dissipation of most of the direct aid to households and businesses, which should occur during the second half of 2021, once economic recovery is more consolidated.
- **External risk,** due to the accentuation of trade and political tensions with China. This is a significant risk for the country's foreign sector, since the Asian giant is its main trading partner (it represents 40% of total exports).
- **Public investment risk.** The high level of budgeted public investment, largely in infrastructure, could materialise more slowly due to capacity constraints.

	Rating	Last changed	Outlook	Last changed
Standard & Poor's	AAA	16/02/03	Negative	07/04/20
Moody's	Aaa	20/10/02	Stable	15/11/03
Fitch Ratings	AAA	28/11/11	Stable	28/11/11

■ Indicates that the country is rated as "investment grade".
□ Indicates that the country is not rated as "investment grade".