INTERNATIONAL MONETARY FUND

IMF Country Report No. 24/360

AUSTRALIA

2024 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

December 2024

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2024 Article IV consultation with Australia, the following documents have been released and are included in this package:

- A **Press Release.**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis, following discussions that ended on October 3, 2024, with the officials of Australia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 13, 2024..
- An **Informational Annex** prepared by the IMF staff.

The documents listed below will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR 24/482

IMF Executive Board Concludes 2024 Article IV Consultation with Australia

FOR IMMEDIATE RELEASE

Washington, DC – December 23, 2024: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Australia on December 2, 2024, and endorsed the staff appraisal without a meeting on a lapse-of-time basis.[2]

Australia's economic growth slowed to 1.0 percent (y/y) in Q2 2024 from 1.9 percent a year prior, with private consumption growth dropping to 0.5 percent (y/y). Growth in private business investment also eased to 1.6 percent (y/y). Economic activity was bolstered by public demand and infrastructure projects. Labor market conditions have been softening gradually, with unemployment at 4.1 percent in September 2024, while job creation remains strong. The current account returned to deficit in early 2024, as commodity prices continued to normalize. Inflation has eased from post-pandemic highs, dropping to 2.8 percent (y/y) in Q3 2024, although underlying pressures persist, especially in non-tradable sectors. National housing prices have surpassed pandemic peaks and rents have risen amid historically low vacancy rates. The government achieved a budget surplus in FY2023/24, for the second year in a row, while implementing cost-of-living measures.

Growth is projected to pick up gradually, from 1.2 percent in 2024 to 2.1 percent in 2025. Real income growth from rising wages and tax cuts may boost private consumption, while public demand will remain strong. Private demand should also benefit from monetary easing and a pick-up in dwelling construction next year, but growth will remain below potential until 2026. Unemployment is projected to rise gradually to 4.5 percent. Trimmed mean inflation is expected to return to the RBA's target range by end-2025 and the mid-point in 2026 – with headline inflation more volatile reflecting the impact of temporary energy rebates.

With significant uncertainty surrounding the macroeconomic outlook, the balance of risks is tilted to the downside. Domestically, persistent labor market tightness, stronger than expected fiscal impulses and lower spare capacity than currently assessed could contribute to stalling the disinflation process, potentially leading to higher-for-even-longer interest rates that adversely impact consumption and investment. Conversely, weaker-than-expected growth or a faster-than-projected increase in unemployment may prompt the Reserve Bank to lower interest rates sooner. External risks include weakness in major trading partners, geoeconomic fragmentation affecting global trade, and rising shipping costs and volatile energy and food prices amid escalating geopolitical tensions, which could also complicate the disinflation process. Australia's role in the Pacific continues to enhance regional stability through aid and

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

remittances, while labor migration also helps alleviate Australia's domestic capacity constraints and skills shortages.

Executive Board Assessment[3]

In concluding the 2024 Article IV consultation with Australia, Executive Directors endorsed the staff's appraisal, as follows:

Australia remains on a narrow path to a soft landing, but risks are tilted to the downside. Growth slowed in the first half of the year, with household consumption weak as real incomes remained soft. Despite rising unemployment, the labor market remains resilient. Growth is expected to pick up over the following quarters, supported by a gradual recovery in private demand and robust public demand. Downside risks to growth include persistent weakness in private demand or a further slowdown in key trading partners.

Near-term policies should focus on managing the final descent of inflation to target, while nurturing growth. Inflation is anticipated to sustainably return to the RBA's target range only by the end of 2025, while a potential stall in disinflation poses a significant risk. In this context, the current restrictive monetary stance is appropriate, and needs to be supported by fiscal policy that avoids an expansionary stance and complements monetary policy's disinflation objective. Reforms aimed at further bolstering the RBA's independence and supporting the coordination of monetary and fiscal policies are important.

If disinflation stalls, tighter monetary and fiscal policies may be necessary. This contingent macro policy mix should ensure monetary and fiscal authorities complement each other to avoid overburdening any single policy instrument, while preserving targeted support amid rising living costs. Monetary policy should be prepared to tighten further if upside inflation risks materialize, and expenditure rationalization at all levels of government could help reduce aggregate demand and support a quicker return of inflation to its target. Specifically, reprofiling public infrastructure investments and improving the targeting of transfer programs can help mitigate excess demand while better supporting the most vulnerable.

Over the medium term, broader tax and expenditure policy reforms should reduce structural deficits, promote economic efficiency, and safeguard long-term fiscal sustainability. Tax reforms should focus on efficiency and fairness, reducing dependence on direct taxes and high capital costs, and phasing out tax breaks like capital gains tax discounts. In light of long-term spending pressures from ongoing demographic headwinds, coupled with climate change, expenditure reforms should aim at enhancing efficiency and containing structural spending growth at all levels of government. Due consideration should be given to further strengthening fiscal policy frameworks with a clearer medium-term anchor to guide buffer rebuilding for future challenges.

Financial sector policies should focus on preserving stability while addressing localized vulnerabilities arising from tightened conditions. Macroprudential policies should remain stringent to protect household balance sheets, especially in the context of rising housing prices. Additionally, the authorities are encouraged to proactively adapt their macroprudential tools to preempt excessive buildup in household indebtedness, including when the time is

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[3] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

appropriate for monetary policy easing. A comprehensive policy package is essential to tackle Australia’s housing affordability crisis, focusing on increasing the construction workforce, relaxing zoning regulations, advancing initiatives to boost new housing supply, and reevaluating property taxes and stamp duty.

Efforts to rejuvenate Australia’s productivity growth should be prioritized. Focus should be given to competition policy, reforms in capital and labor markets, and opportunities presented by AI technologies. Enhancing innovation by promoting R&D, supporting intellectual property rights, and ensuring policy certainty is vital. Improving the competition landscape, assessing the impact of non-compete clauses, and reforming merger rules are also crucial for productivity. Public awareness, access to training, and upskilling for affected workers are essential to maximize AI's productivity-enhancing benefits while mitigating its job displacement risks.

Australia's continued commitment to multilateral solutions, including the rules-based international trading system, is commendable. To avoid undue distortions, both domestically and internationally, green industrial policy (IP) initiatives should be confined to narrow objectives—where externalities or market failures prevent effective market solutions—and be consistent with the country’s international obligations. A stable climate is a global public good and the transition to a greener economy is a collective global responsibility, which requires a mix of mitigation, adaptation, and transition policies. Achieving Australia’s ambitious emission reduction goals depends on addressing construction bottlenecks and community engagement, with potential solutions like an economy-wide carbon price or targeted sectoral policies. Additionally, Australia's voluntary participation in reviewing transnational corruption sends a positive signal that could inspire improvements in global governance.

Table 1. Australia: Main Economic Indicators, 2019-2029

(Annual percent change, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
						Projections					
NATIONAL ACCOUNTS											
Real GDP	1.8	-2.1	5.5	3.9	2.0	1.2	2.1	2.3	2.2	2.3	2.3
Domestic demand	1.2	-2.2	6.0	5.0	2.6	1.5	1.7	2.1	2.0	2.1	2.1
Private consumption	0.9	-6.1	5.1	7.2	2.0	1.0	2.2	2.5	2.6	2.7	2.6
Public consumption	6.4	7.8	5.7	4.9	1.9	3.9	1.1	1.3	0.6	0.8	0.8
Investment	-2.4	-2.4	10.7	2.2	5.4	0.6	1.6	2.6	2.6	2.4	2.5
Public	2.1	-0.7	7.4	4.2	10.2	1.0	1.3	1.0	1.1	1.6	2.2
Private business	-0.7	-3.5	9.2	6.2	9.2	0.9	1.6	3.1	3.0	2.8	2.7
Dwelling	-7.0	-4.4	9.4	-4.0	-1.8	-2.2	1.6	2.9	2.9	2.4	2.4
Net exports (contribution to growth, percentage points)	1.2	-0.4	-1.6	-1.9	0.4	-0.6	0.5	0.2	0.2	0.2	0.3
Gross domestic income	3.2	-1.9	9.2	5.5	0.3	-0.2	1.0	2.2	2.1	2.3	2.3
Investment (percent of GDP) 1/	22.5	22.3	23.3	23.7	24.0	24.2	24.0	24.0	24.1	24.2	24.2
Public	5.1	5.1	5.0	5.0	5.5	5.6	5.5	5.5	5.4	5.4	5.4
Private	17.6	17.4	18.0	17.8	18.6	18.5	18.4	18.6	18.7	18.8	18.9
Savings (gross, percent of GDP)	23.1	24.6	26.2	24.8	24.2	23.0	22.7	22.7	22.8	22.8	22.8
Households	10.1	17.0	14.5	10.0	7.4	8.4	9.3	9.2	8.9	8.6	8.36
Potential output	2.3	0.7	2.0	2.1	2.2	2.3	2.3	2.4	2.2	2.3	2.3
Output gap (percent of potential)	-0.7	-3.4	-0.2	1.6	1.4	0.3	0.1	0.0	0.0	0.0	0.0
LABOR MARKET											
Employment	2.3	-1.7	3.1	4.5	3.4	2.1	1.3	1.5	1.6	1.5	1.7
Unemployment (percent of labor force)	5.2	6.5	5.1	3.7	3.7	4.2	4.5	4.5	4.5	4.6	4.5
Wages (nominal percent change)	2.3	1.6	2.0	3.0	4.0	3.7	3.4	3.4	3.3	3.1	2.9
PRICES											
Terms of trade index (goods, avg)	77	77	94	103	96	90	87	87	86	86	87
% change	8.2	0.2	22.0	9.8	-7.1	-6.1	-3.1	-0.5	-0.2	0.1	0.1
Consumer prices (avg)	1.6	0.9	2.8	6.6	5.6	3.3	3.3	3.0	2.5	2.5	2.5
Core consumer prices (avg)	1.6	1.2	2.8	5.7	5.3	3.6	3.0	2.6	2.5	2.5	2.5
GDP deflator (avg)	3.3	1.2	5.8	8.2	3.5	2.5	2.3	2.6	2.3	2.3	2.3
FINANCIAL											
Reserve Bank of Australia cash rate target (percent, avg)	1.2	0.3	0.1	1.6	4.0	4.4	4.0	3.5	3.5	3.5	3.5
10-year treasury bond yield (percent, avg)	1.4	0.9	1.6	3.6	3.9	4.2	4.3	4.2	4.3	4.3	4.3
Mortgage lending rate (percent, avg)	4.8	4.5	4.5	7.3	8.7	8.4	7.7	7.5	7.4	7.3	7.2
MACRO-FINANCIAL											
Credit to the private sector	2.5	2.1	7.4	8.3	4.9	5.7	5.4	4.9	4.5	4.5	4.7
House prices (% change)	2.5	3.6	23.7	-4.9	8.3	7.2	7.0	5.6	4.6	4.5	4.7
House price-to-income, national median value (ratio)	6.4	6.6	7.8	7.4	7.6	7.7	7.7	7.7	7.7	7.7	7.7
Estimated interest payments (percent of disposable income)	7.0	5.8	5.2	6.9	7.6	7.3	7.0	6.9	6.9	6.8	6.8
Household savings (percent of disposable income)	6.2	15.6	12.9	6.2	1.3	2.2	3.4	3.9	3.0	2.9	2.9
Household debt (percent of disposable income) 2/	186	181	187	188	185	182	178	177	177	176	176
Business credit (percent of GDP)	49.0	49.9	48.5	48.7	49.1	50.7	51.2	51.4	51.6	51.7	51.8
GENERAL GOVERNMENT (percent of GDP) 3/											
Revenue	35.6	34.4	34.9	35.6	36.1	36.7	36.1	35.8	36.1	36.2	36.2
Expenditure	36.8	42.0	44.1	39.3	36.9	37.6	38.5	37.6	37.0	37.1	37.1
Net lending/borrowing	-1.2	-7.6	-9.2	-3.7	-0.8	-0.9	-2.4	-1.8	-0.9	-1.0	-1.0
Commonwealth only	-0.1	-4.8	-6.9	-1.3	0.9	0.3	-1.1	-1.4	-0.9	-0.7	-0.6
Operating balance	0.9	-5.5	-7.0	-1.5	1.5	1.0	-0.4	-0.5	0.9	0.9	0.9
Cyclically adjusted primary balance	0.2	-6.1	-6.1	-2.6	-0.5	-0.3	-1.2	-0.6	0.4	0.1	0.1
Gross debt	42.1	52.5	58.0	52.9	49.2	49.0	49.8	49.4	48.4	47.5	46.5
Net debt	24.5	32.0	37.8	33.4	30.6	28.5	30.6	30.6	29.7	28.9	28.1
BALANCE OF PAYMENTS											
Current account (percent of GDP)	0.3	2.2	2.9	0.9	0.3	-1.2	-1.3	-1.4	-1.4	-1.4	-1.4
Export volume	3.1	-9.6	-2.4	2.6	6.7	1.8	3.7	3.1	2.6	2.7	2.9
Import volume	-1.0	-11.8	4.8	13.5	6.4	5.1	2.0	2.8	2.4	2.4	2.4
Net international investment position (percent of GDP)	-50.1	-53.2	-38.9	-38.4	-32.0	-27.1	-27.2	-27.3	-27.5	-27.7	-27.9
Gross official reserves (bn A$)	84	56	81	85	94	…	…	…	…	…	…
MEMORANDUM ITEMS											
Nominal GDP (bn A$)	1,996	1,977	2,206	2,481	2,618	2,716	2,837	2,978	3,114	3,257	3,409
Percent change	5.2	-1.0	11.6	12.5	5.5	3.7	4.5	5.0	4.5	4.6	4.7
Real GDP per capita (% change)	0.3	-3.0	5.2	2.3	-0.5	-0.4	0.8	1.1	1.0	1.1	1.1
Population (million)	25.5	25.6	25.8	26.3	27.0	27.3	27.6	28.0	28.3	28.7	29.0
Nominal effective exchange rate	86.3	86.0	90.8	90.3	88.1	…	…	…	…	…	…
Real effective exchange rate	86.0	85.3	90.5	90.8	90.3	…	…	…	…	…	…

Sources: Authorities' data; IMF World Economic Outlook database; and IMF staff estimates and projections.

1/ Includes changes in inventories.

2/ Reflects the national accounts measure of household debt, including to the financial sector, state and federal governments and foreign overseas banks and governments. It also includes other accounts payable to these sectors and a range of other smaller entities including pension funds.

3/ Fiscal year ending June.

INTERNATIONAL MONETARY FUND

AUSTRALIA

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

November 13, 2024

KEY ISSUES

Context. While progress in addressing pandemic-induced macroeconomic imbalances continues, challenges remain, with inflation proving persistent. Labor and housing markets are exhibiting resilience. Australia remains vulnerable to geoeconomic fragmentation risks and faces a critical transition to net-zero emissions. Fostering competition and a smooth adoption of digital technologies could boost productivity.

Policy Recommendations: Near-term policies should maintain a tightening bias through close coordination to ensure price stability, with well-targeted support aimed at protecting the most vulnerable. Structural reforms should focus on addressing long-term spending pressures and bolstering productivity and economic resilience.

- **Monetary policy** should maintain its restrictive stance given persistent inflation and upside risks, with readiness to tighten if disinflation stalls. Clear and effective communication is paramount in an uncertain global context. Continuing with reforms aimed at further bolstering the RBA's independence and supporting the coordination of monetary and fiscal policy are essential.
- **Fiscal Policy** should avoid an expansionary stance and prepare to tighten should disinflation stall, including by reprofiling public infrastructure investments to mitigate excess demand. Improving the targeting of transfer programs can more efficiently support the most vulnerable. Future tax policy reforms should aim for efficiency, fairness, and sustainability, while a medium-term fiscal anchor could guide consolidation and buffer rebuilding for future challenges.
- **Financial and Housing Sector Policy** should aim at maintaining stability, focusing on the vulnerabilities of low-income households and SMEs, and addressing the NBFI sector's data gaps. Addressing the undersupply of housing and its affordability through comprehensive strategies is crucial. Agile macro-prudential measures are needed to prevent excessive buildup of household debt.
- **Structural Policy** should prioritize enhancing productivity growth and mitigating climate change. Continued efforts to improve the business environment and address skill shortages are essential. Effective carbon pricing is needed, while energy transition risks should be mitigated. To avoid undue distortions, both domestically and internationally, green industrial policy (IP) initiatives should be confined to narrow objectives—where externalities or market failures prevent effective market solutions—and be consistent with international obligations.

Approved By
Sanjaya Panth (APD) and Anna Ilyina (SPR)

Discussions took place in Canberra, Melbourne, and Sydney, Australia during September 18-October 3, 2024. The staff team comprised Lamin Leigh (head), Mike Li, Monica Petrescu, John Spray (all APD), and Sneha Thube (RES). Robert Nicholl and Tanuja Doss (both OED) joined the discussions. Nadine Dubost, Seble Abebe, and Dan Zheng (all APD) assisted from HQ. Data used in this report for staff analyses are as of November 6, 2024, unless otherwise noted.

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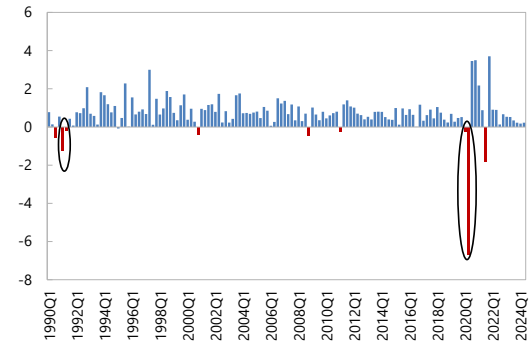
CONTEXT: ENHANCING ECONOMIC RESILIENCE AND PROMOTING STABILITY

1. In recent decades, the Australian economy has achieved stronger and more resilient growth than peer advanced economies (AEs). With higher average growth than peers, Australia's economy experienced only two technical recessions in the past 35 years – and none between 1992 and 2019, despite global downturns. Notable factors that underpinned this resilience include inbuilt stabilizers (including in the mining sector, where losses are absorbed through lower equity outflows to overseas owners), an agile macroeconomic policy toolkit, institutional strength, and flexible factor and product markets. Immigration boosted population growth (which averaged 1.3 percent a year between 1990 and 2022, the highest of any OECD economy) and consumption, while also helping resolve skill mismatches in the labor market. Robust growth in trading partners contributed to resilience in external demand.

2. The authorities have made significant strides in reducing macroeconomic imbalances in recent years, yet challenges persist. Policies have been tightened to curb excess demand following a robust post-pandemic economic rebound. Capacity constraints are gradually easing, with unemployment rates slowly rising from historically low levels. A surge in immigration and robust public demand have staved off a recession, paving the way for a narrow path toward a soft landing. Labor markets have been resilient, with a gradual softening preserving some gains made in the post-pandemic period. However, inflationary pressures have persisted, with upside risks stemming from the labor and housing markets, a more expansionary than expected fiscal stance in the future budgets of Commonwealth and State governments, and an uncertain external environment. Bringing inflation down to ensure price stability remains a key near-term policy priority.

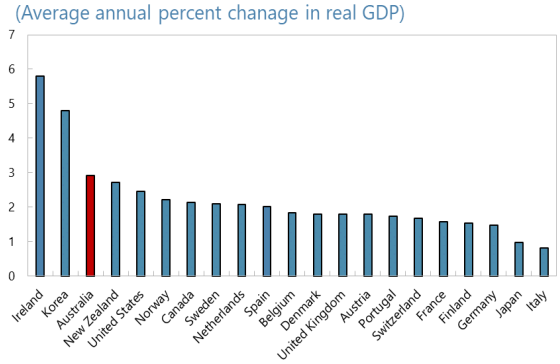
3. Heightened global risks and geoeconomic fragmentation underscore the critical need to strengthen Australia's economic resilience and growth prospects. Geopolitical tensions, trade disputes, and shifts in global economic policies can significantly impact the country's export-dependent sectors and foreign investment flows. In response, the authorities have prioritized promoting business dynamism, innovation, and digitalization across the economy and facilitating the transition to a net-zero emissions economy. This proactive approach includes attracting investment in key industries, positioning Australia as a renewable energy superpower, investing in digital technologies, science, and innovation, upgrading competition policies, and revisiting migration and education policies to reduce labor market skills gaps. With federal elections scheduled for next year, these strategic initiatives provide a pivotal opportunity to discuss long-term economic priorities.

GDP Growth Rates
(Qoq growth, percent)



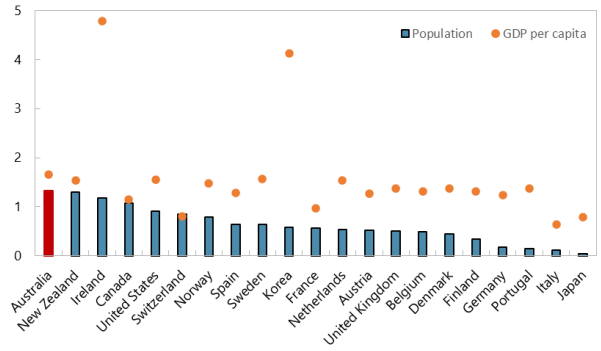
Sources: Haver Analytics, IMF staff calculations.

Growth in Advanced Economies, 1990-2023
(Average annual percent chanage in real GDP)



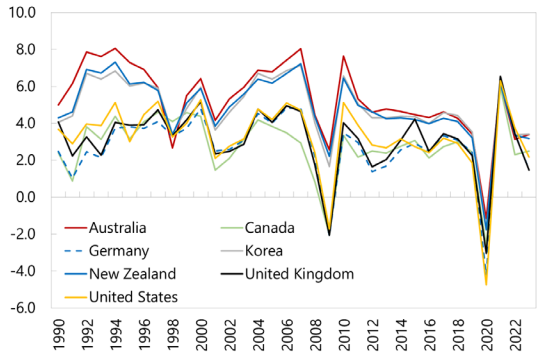
Sources: WEO and IMF staff calculations

Population and Growth per Capita in Advanced Economies, 1990-2022
(Average annual growth rate)



Sources: WEO and IMF staff calculations

Trading Partner GDP Growth
(GDP growth in trade partners, export-weighted, percent)

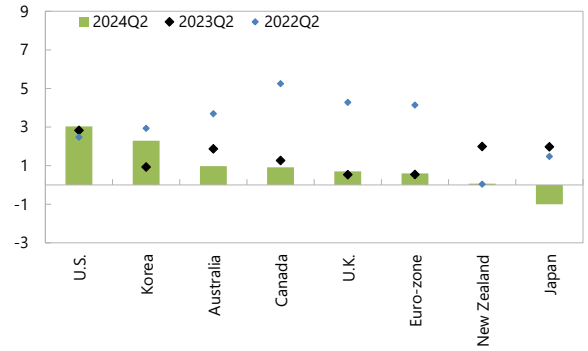


Sources: WEO and IMF staff calculations

RECENT DEVELOPMENTS: MODERATING GROWTH, SLOWED DISINFLATION, AMID ELEVATED GLOBAL UNCERTAINTIES

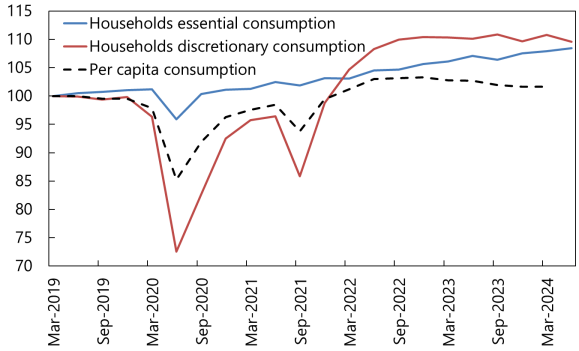
4. Growth has continued to slow, but remains in positive territory. Under tightened policies, growth slowed to 1.0 percent (y/y) in 2024Q2, from 1.9 percent (y/y) in 2023Q2 and 3.7 percent (y/y) in 2022Q2. The brunt of the adjustment was borne by households, with private consumption growth of only 0.5 percent (y/y) by 2024Q2, as real disposable income continued to decline on account of high inflation (eroding real wages), elevated interest rates, and growth in tax payments related to bracket creep. Spending has been disproportionally affected for younger cohorts, predominantly renters and mortgage holders. Strong public demand buoyed economic activity. Private business investment remained resilient, growing at 1.6 percent (y/y) in 2024Q2, while private dwelling investment continued to contract. Net exports have weakened as softer global commodity demand offset rising tourist arrivals and students onshore.

Growth Momentum Continues to Slow
(GDP growth, y/y)



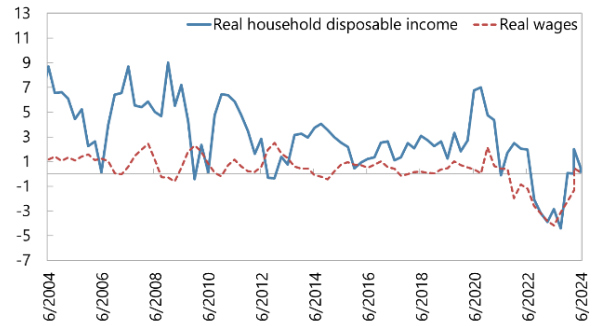
Sources: Haver Analytics., IMF staff calculations.

Consumption: Essential, Discretionary, and per Capita
(Index, March quarter 2019=100)



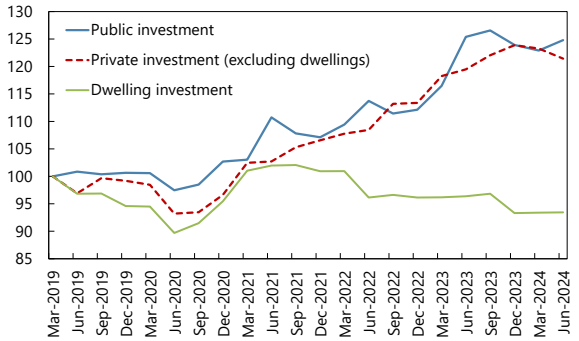
Sources: ABS, IMF staff calculations.

Real Household Disposable Income and Wages
(Percent, y/y)



Sources: ABS, CEIC, IMF staff calculations.

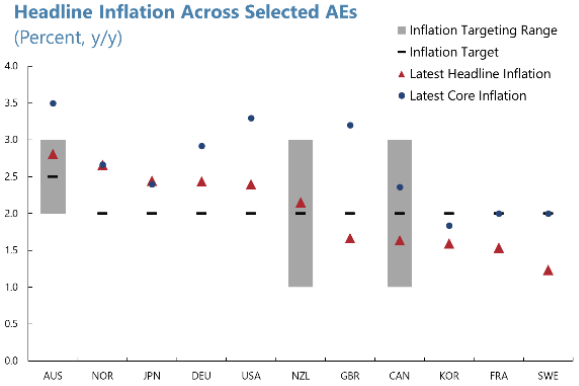
Public and Private Investment
(Index, March quarter 2019=100)



Sources: ABS, IMF staff calculations.

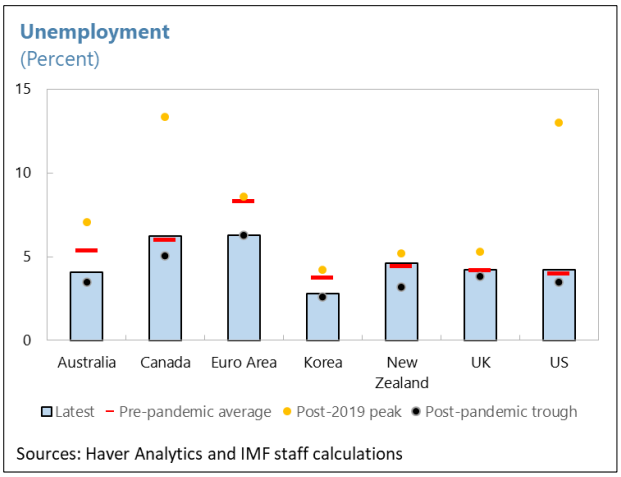
5. Inflation has continued to moderate, but price pressures persist amid supply and demand imbalances. Even as monetary policy moved further into restrictive territory, the pace of disinflation slowed. Headline inflation in 2024Q2, at 3.8 percent (y/y), was still above the RBA's target range of 2-3 percent. While headline inflation dropped to 2.8 percent in 2024Q3, reflecting the impact of new electricity rebates, trimmed mean inflation (excluding electricity and fuel prices) remains elevated at 3.5 percent. Underlying price pressures persist, especially in non-tradable sectors, notably insurance, education, health, and housing. These price dynamics reflect in part the lagged adjustment of indexed prices and passthrough of global reinsurance costs, but also the impact of the additional demand from immigration, underlying demand-supply imbalances in labor and housing markets, and fiscal policies:

Headline Inflation Across Selected AEs
(Percent, y/y)

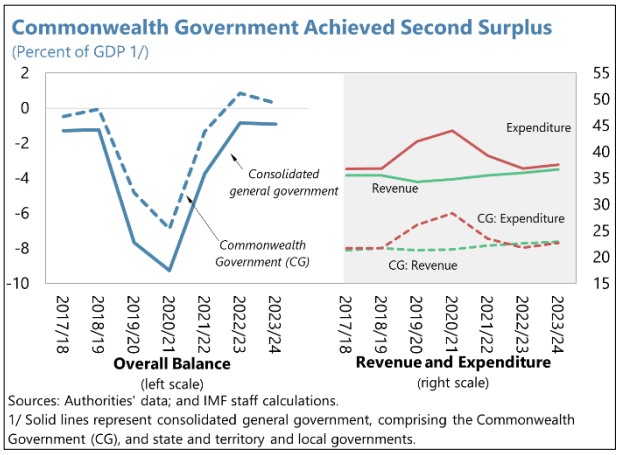


Sources: Haver Analytics and IMF staff calculations.
Note: Data as of November 4, 2024. In Australia, core represents trimmed mean inflation. In Canada, it represents CPI-trim.

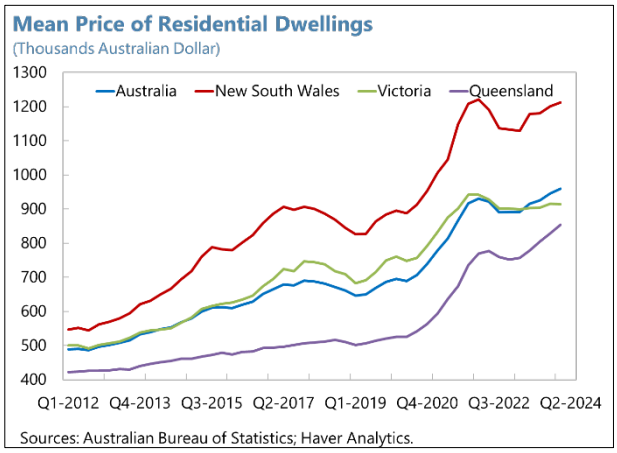
- **Labor market tightness.** The labor market has shown remarkable resilience during the monetary tightening cycle, easing only gradually amid strong job creation (see Annex VII). Unemployment has inched up to 4.1 percent in September 2024, still well below pre-pandemic levels. Australia thus remains one of the few large AEs to have preserved some gains made in the labor market post-pandemic. Labor supply was bolstered by migration inflows and record-high labor force participation, while vacancies have continued to decline. Nominal wage growth peaked in 2023Q4 (at 4.2 percent y/y)—later than in many AEs, due in part to the lagged adjustment in award and collective agreements; it remains elevated in some service sectors, reflecting labor shortages and contributing to price pressures.



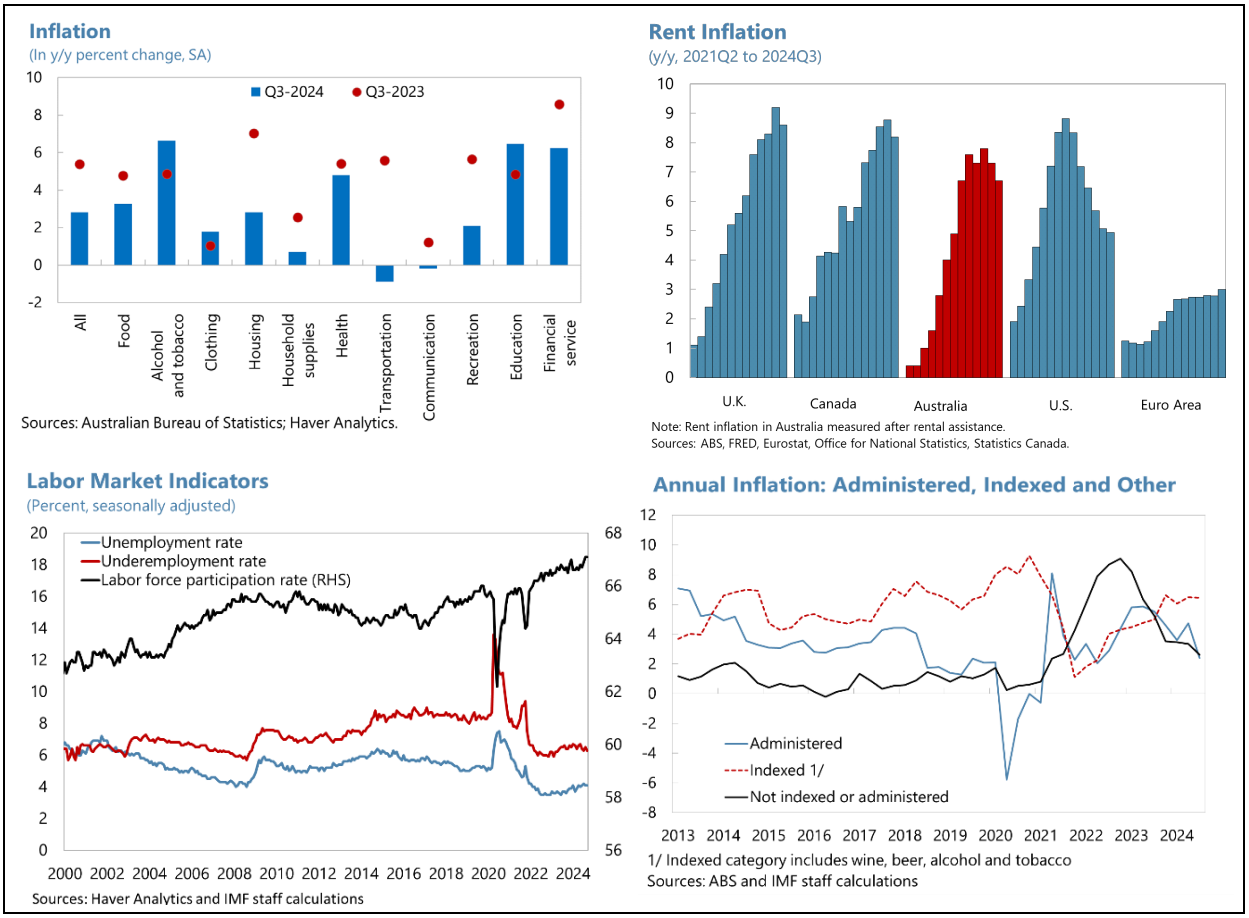
- **Fiscal support.** By saving revenue windfalls and identifying expenditure reductions or reprioritizations, the Commonwealth government achieved a budget surplus for the second consecutive year in FY2023/24. Additionally, cost-of-living relief measures like the Energy Price Relief Plan, childcare subsidies, and rent assistance have reduced the prices of essential items in the CPI basket. However, the consolidated government fiscal deficit widened by 0.1 percent of GDP in FY2023/24, largely due to the more gradual fiscal consolidation at the state level and slowing commodity prices.



- **Housing market pressures**. Acute imbalances remain in the housing market, with low housing approvals and completions constraining supply, and robust population growth (including through immigration) and smaller household size bolstering demand. This has led national housing prices to surpass pandemic-era peaks in nominal terms, rising by 6.7 percent (y/y) in September 2024, despite the recent slowdown in momentum. With vacancy rates at historic lows, rents increased by 6.7



percent (y/y) in the September quarter, directly contributing about 0.4 percentage points to CPI inflation. The increase in housing prices has bolstered household wealth and, *ceteris paribus*, may increase consumption, potentially mitigating some of the negative impact of monetary tightening on aggregate demand through higher mortgage payments (Annex V). Several existing Capital Flows Management (CFM) measures have been tightened, with an aim to ensure foreign investment in housing is consistent with the government's agenda to boost housing supply.[1] This tightening has been assessed as inconsistent with the Fund's Institutional View and the authorities are encouraged to reverse it.



6. The current account has returned to deficit as commodity prices normalized. The current account surplus declined to 0.3 percent of GDP in 2023, as coal and LNG prices continued their descent from post-pandemic peaks, and the recovery in Australian spending abroad accelerated. The external position in 2023 is assessed to be broadly in line with the level implied by

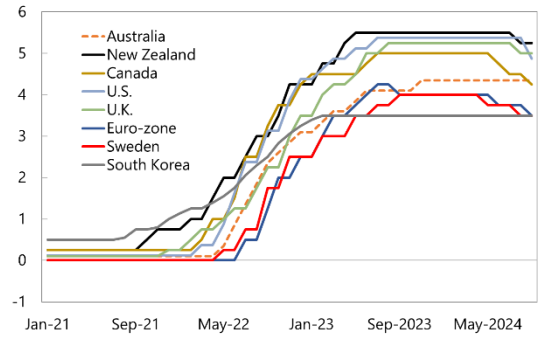
[1] From April 9, 2024, the Commonwealth Government increased application fees for the purchase of established dwellings by foreign persons, and the fee for vacant established dwellings that are owned by foreign persons. At the state government level, the absentee foreign owner land tax surcharge in Victoria increased from 2 to 4 percent from January 1, 2024; the additional foreign acquirer duty and the absentee foreign owner land tax surcharge in Queensland increased from 7 to 8 percent and from 2 to 3 percent, respectively, from July 1, 2024; the foreign purchaser duty surcharge and the foreign owner land tax surcharge in New South Wales will increase from 8 to 9 percent and from 4 to 5 percent, respectively, from January 1, 2025.

medium-term fundamentals and desirable policies (Annex III). The current account shifted back into deficit in early 2024, for the first time since 2019. Despite worsening terms of trade, the Australian dollar has remained broadly stable over the past year.

7. Monetary policy and financial conditions have remained tight. The RBA raised the policy rate in November 2023 to 4.35 percent (estimated to be above neutral) and has held steady since then. Medium-to-long-term inflation expectations appear anchored. Overall financial conditions remain restrictive, most notably for households grappling with higher debt payments from variable rate mortgages. Scheduled mortgage payments (principal and interest) reached a record 10 percent of household disposable income in 2024Q2, reflecting strong monetary policy transmission through the housing channel. Growth of credit to the private non-financial sector has recovered slightly to around 5⅔ percent y/y in August, with business credit showing slightly stronger momentum. The credit-to-GDP gap has moderated slightly but remains significantly negative. Although funding costs have remained high, the financial sector shows resilience, with delinquency rates low and credit default swap spreads normalized.

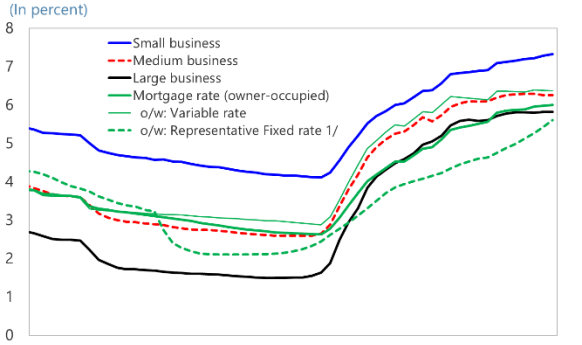
Monetary Policy Has Tightened and Remained Restrictive

Australian Policy Rates Have Risen, But Less Than Other AEs
(Selected Advanced Economies, Percent)



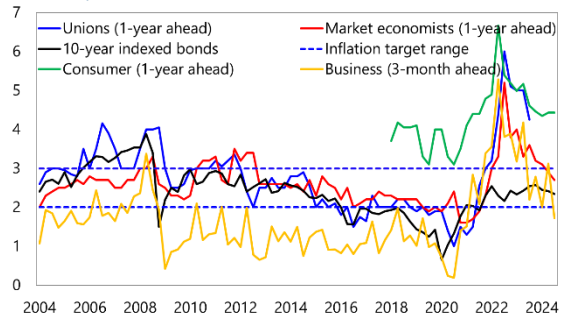
Source: Haver Analytics.

Lending Rates Have Increased With Monetary Tightening
(In percent)



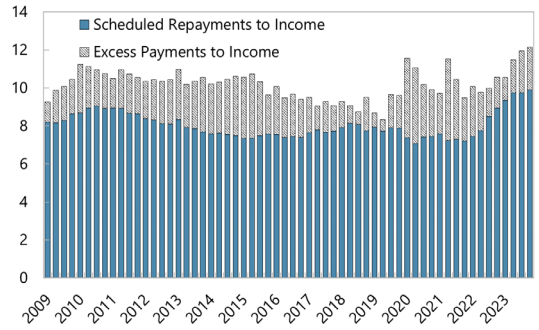
Source: RBA

Short-term Inflation Expectations Have Risen, But Medium-term Expectations Remain Anchored
(Inflation expectations, %)



Source: RBA

Mortgage Payments to Household Income
(In percent of household disposable income)



Sources: RBA and IMF staff calculations

8. Economic policies have been broadly consistent with past Fund advice (Annex I). The authorities have pursued post-pandemic budget repair in the past two years, and despite the slight

expansion in the FY2024/25 budget, they are continuing to pursue prudent medium-term fiscal policy objectives. Monetary policy has been data dependent, and the RBA remains resolute in navigating the last mile toward its inflation objective in line with staff advice.

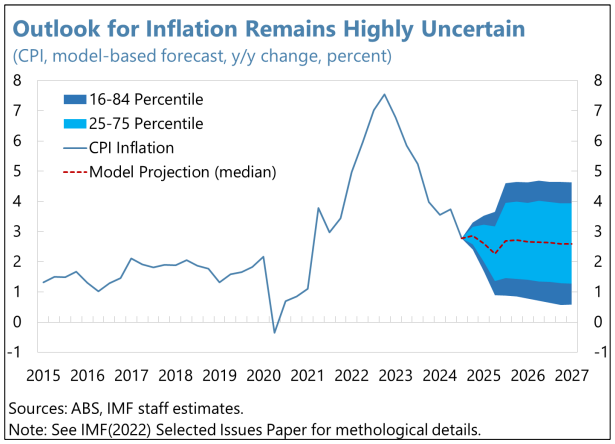
OUTLOOK AND RISKS: GROWTH RECOVERY ALONG A BUMPY AND PROTRACTED LAST MILE ON DISINFLATION

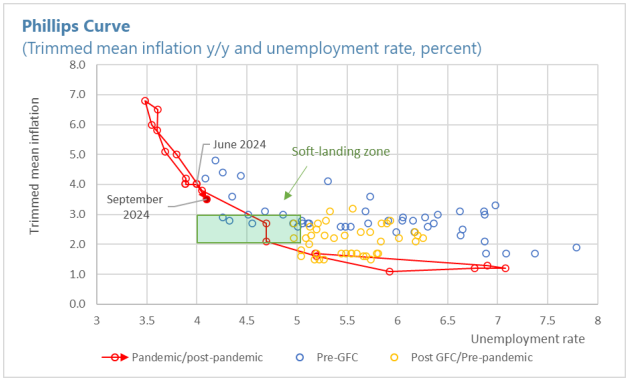
9. The economy is expected to rebound gradually, while demand and supply return to balance over the next two years.

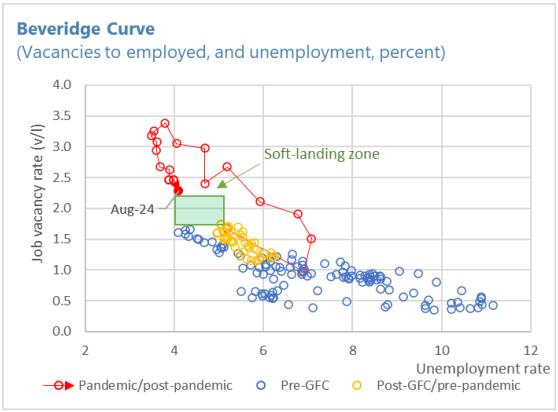
- **Growth** is projected to pick up, reaching 1.2 percent for the year, and 2.1 percent in 2025. Tax cuts and real wage growth may boost private consumption starting 2024Q3, though part of the rise in real disposable income is expected to be saved (including against mortgage debt). The expansionary State and Commonwealth FY24/25 budgets will fuel strong public demand, in addition to supporting consumption through transfers and tax cuts (see Annex VI). Starting in 2025, private demand is also expected to benefit from gradual monetary policy easing and a rebound in dwelling construction after the resolution of bottlenecks. With the economy nonetheless expanding more slowly than its potential rate through 2025, excess demand is expected to gradually resolve; growth is then forecast to converge to its medium-term potential rate of 2.3 percent in 2026.

- **Labor market** tightness is expected to gradually unwind. The unemployment rate remains below levels observed historically when inflation was within its target range. However, a high vacancy-to-unemployment ratio suggests there is scope for further adjustment in labor demand before significant movement in unemployment. A gradual softening in labor market conditions is thus expected through 2026, with a modest increase in unemployment to about 4.5 percent (around the NAIRU); wage pressures are also expected to continue to abate over this period.

- **Trimmed mean inflation** is forecast to remain above the RBA's target range until end-2025 and move toward the mid-point in 2026. Headline CPI is expected to be more volatile, slowing due to the impact of commonwealth and state-level electricity rebates, but then picking up again as these rebates are exhausted. With a rebound in private demand, price pressures in the service sectors are expected to soften only gradually.







Sources: ABS and IMF staff estimates.

- **The consolidated government fiscal deficit** is expected to widen in the near-term followed by a gradual reduction over the medium-term. The Commonwealth's 2024/25 budget unveiled in May projected a shift to fiscal deficits into the medium-term. However, staff baseline commodity price projections are more optimistic that those of the Commonwealth Treasury, leading to stronger revenue forecasts. Additionally, staff anticipate higher expenditure growth, driven by pressures identified in the 2023 Intergenerational Report, including the National Disability Insurance Scheme (NDIS), health, and aged care. States and territories' fiscal stances are expected to remain relatively loose in FY2024/25 due to temporary cost-of-living support measures and infrastructure spending. Over the medium-term, a fiscal consolidation is expected to be achieved through the removal of temporary welfare measures, and a normalization of infrastructure spending. Although higher than pre-pandemic, public debt remains low and sustainable at 28.5 and 50.5 percent of GDP in FY2023/24 on net and gross terms, respectively (Annex II).

- **The trade balance is expected to return closer to pre-pandemic levels** despite resilient external demand for commodities. Commodity price normalization is expected to continue, while growth in education exports should slow on the back of new restrictions. The widening current account deficit reflects a shift from pandemic-era savings highs to increased public and private investment.

10. The balance of risks is tilted to the downside (Annex IV). A slower-than-anticipated descent of inflation to target (due to continued labor market tightness, stronger persistence in services inflation, less spare capacity than currently assessed, stronger-than-expected fiscal impulses, and/or more persistent weakness in productivity growth) could see inflation expectations drift higher, requiring a longer period of monetary tightening to return inflation to target; the resulting higher interest rates would generate a drag on employment, consumption, and investment. On the other hand, weakness in consumption could persist (especially if households save a large share of growth in disposable income), and unemployment may rise faster than expected if current labor market tightness proves localized. This could prompt the Reserve Bank to loosen its policy rate earlier than anticipated given its dual mandate. A disorderly housing market adjustment—albeit very unlikely—could increase NPLs and, given high household debt levels and large exposures in the

banking sector, could pose financial stability risks. Disruptions to trade and global supply chains from escalation of the conflict in the Middle East, Russia's war in Ukraine, or other regional conflicts, could hamper the descent of inflation to target, while a sharper-than-expected contraction in the property sector in China could weigh on external demand. Australia's economy is also vulnerable to large-scale climate events including wildfires, floods, and droughts.

11. Given deep integration into the regional and global economy, geoeconomic fragmentation (GEF) risks continue to weigh on Australia's economic outlook. Against the backdrop of a sizeable commodities sector, GEF poses significant risks to Australia's economy, both through the potential for reduced external demand but also for increased volatility in global commodities prices as a result of trade realignment. At the same time, Australia's strategic economic partnerships, significant foreign investment, and aid programs in the Pacific region are bolstering the region's capacity to grapple with domestic and global challenges, and could be an important source of stability, counterbalancing the impact of GEF for this region. Australia is the Pacific region's largest trading partner, primary source of tourism and of remittances (from seasonal worker programs), and key provider of financial services, including correspondent banking relationships through its major banks.

Authorities' Views

12. The authorities, like staff, view Australia's economy as being on a narrow path toward a soft landing whereby inflation returns to target without a sharp rise in unemployment. The timing of the pick-up in household spending, and the extent to which tax cuts will be spent or saved to rebuild buffers and reduce interest costs, remain uncertain. The authorities expect growth in private business investment to slow from recent highs, while growth in dwelling investment is projected to pick up gradually. They also expect inflationary pressures to continue to ease due to soft demand, although supply constraints and structural issues may keep them elevated in the housing, construction, and insurance sectors. Labor market conditions are expected to ease gradually, preserving most of the gains since the pre-pandemic period. While adjustment has occurred primarily on hours thus far, the authorities expect unemployment to gradually rise towards its natural rate. They consider a deeper growth slowdown and a sharper increase in unemployment as significant domestic risks, while economic weakness in trading partners poses a key external risk.

POLICIES TO ENSURE PRICE STABILITY, REBUILD BUFFERS, JUMPSTART PRODUCTIVITY, AND ADDRESS CLIMATE CHANGE

Steering inflation to target should remain Australia's key policy objective in the near-term. To achieve this, macroeconomic policies should maintain a tightening bias and be closely coordinated between the fiscal and monetary authorities. Housing affordability has worsened again, making it increasingly difficult for younger generations to afford homes — a holistic plan is imperative. The macro-prudential policy toolkit could be used to preempt excessive buildup in household indebtedness and to safeguard financial stability. Over the medium-term, structural reforms are needed to reverse the trend decline in

productivity growth, including through innovation to foster a smarter and more resilient economy, proactively address long-term spending pressures related to aging and health, and support a smooth transition to a low-carbon economy.

A. Near-Term Policy Mix: A Tightening Stance Across All the Policy Levers to Support the Inflation Objective, Ensure Price Stability, and Maintain Financial Sector Buffers

13. Near-term policies should focus on managing the final phase of returning inflation to target while nurturing growth. The baseline policy mix should be calibrated carefully to achieve these objectives and ensure price and financial stability. The current restrictive monetary policy stance is essential to address risks of prolonged inflation. Fiscal policy should avoid adding to excess demand as the economy continues to grapple with supply capacity constraints. Additionally, macroprudential policies should maintain a stringent stance to mitigate the risk of excessive vulnerabilities in household balance sheets, particularly in the context of rising housing prices. Should disinflation stall, monetary policy should be the first line of defense and may need to be further tightened, supported by tighter fiscal policy while nurturing growth, and preserving targeted support to vulnerable households amid rising living costs. This contingent policy mix should ensure monetary and fiscal authorities complement each other to avoid overburdening any single policy instrument. Should downside risks to growth materialize, Australia has substantial fiscal space to deploy further policy support, targeting affected sectors and households. In the face of external shocks, Australia's commitment to a flexible exchange rate, will allow monetary policy to focus on domestic policy objectives.

Authorities' Views

14. The authorities broadly concurred with the staff's recommendations for the near-term baseline policy mix but noted that fiscal and monetary policy may need prudent recalibration if disinflation stalls or growth falters. They generally agreed on the importance of ensuring that monetary and fiscal policy tools complement each other to support growth and bring inflation sustainably back to target. The authorities noted that work was under way to respond to the RBA Review recommendation to promote a better understanding of the relative roles of fiscal and monetary policy.

B. Monetary Policy and Managing the Last Mile of Disinflation

15. The need for a longer period of higher rates remains necessary due to persistent inflation and emerging upside risks. Monetary policy tightening since May 2022 has transmitted through the economy via tighter financial conditions, notably for households and more leveraged firms (see Selected Issues Paper, Chapter 1). However, significant upside inflation risks persist (¶10). In this context, the RBA has kept the policy rate unchanged and retained a tightening bias by effectively ruling out rate cuts in the near-term, pointing to more evident excess demand and persistent labor market tightness. Experience from other countries underscores the importance of

labor market adjustments in the final stages of disinflation, while a nonlinear relationship between inflation and unemployment suggests that disinflation process may slow in the final phase. In addition, staff analysis finds transmission via the corporate balance sheet channel may be softer in the current tightening cycle due to firms' large cash buffers and robust funding structures, which may weaken the drag on investment.[2] In this context, maintaining the current restrictive stance is warranted until clear signs emerge of easing labor market tightness and wage pressures consistent with inflation sustainably falling toward the target range. Staff projections indicate this may not occur until the first half of 2025. While a soft-landing scenario remains plausible, where labor demand (reflected in job vacancies) gradually returns to pre-pandemic levels to rebalance the labor market without sharp increase in unemployment, this path is narrowing with prolonged inflation above target risking expectations becoming de-anchored. The RBA should stand ready to tighten policy further if signs emerge that the disinflation process is stalling.

16. Monetary policy communication is important for anchoring market expectations particularly in an environment of elevated global policy uncertainty. Following the independent RBA review, the Reserve Bank has adapted its meeting schedule and format and started to hold regular press conferences to communicate its monetary policy decision. Its press statements and the quarterly Statement on Monetary Policy (SMP) now provide greater clarity in its decision-making process. In an era with important monetary policy divergence among major central banks and heightened global economic and policy uncertainty, clear communication of the RBA's data-dependent decision-making process and particularly how incoming data will be interpreted to inform monetary policy adjustments is essential for guiding market expectations. An option would be for the RBA to consider augmenting the scenario analysis in the risks section of its quarterly SMP by including a qualitative discussion of the potential responses of monetary policy, in each alternative scenario. This nuanced approach could provide the market with a clearer understanding of the central bank's monetary policy reaction function and avoid the intricacies of conditional forward guidance in an environment with large uncertainties.

17. Reforms to the monetary policy framework and arrangements, and the operations of the Reserve Bank will enhance the effectiveness of monetary policy.

- Transition toward **an ample reserves system** can enhance monetary policy implementation. This shift announced in April 2024 aims to ensure banks can access enough liquid assets without relying heavily on central bank funding. The move reflects a broader trend among central banks globally towards more flexible and resilient monetary policy frameworks in response to economic challenges. The transition should be coordinated closely with the RBA's ongoing quantitative tightening (QT; although not a primary tool of the RBA to contain price pressures), through close monitoring, by thoroughly assessing reserves demand to help inform the QT strategy and pace. Regular communication with the market, coupled with developments in the repo market will strengthen liquidity management infrastructure.

[2] Selected Issues Paper (SIP) Chapter 1 looks at the anatomy of the monetary transmission during the "last mile" of disinflation and the final descent of inflation to target.

- **The RBA reform** should be carried through with a focus on strengthening and clarifying its mandate, further bolstering the RBA's operational independence, reinforcing its governance and accountability, and enhancing monetary-fiscal policy coordination. In this regard, the Statement on the Conduct of Monetary Policy has been updated by the Treasurer and the RBA's Board to confirm the Reserve Bank's dual mandate of price stability and full employment and clarify its responsibility in safeguarding financial stability. Most other recommendations from the 2023 independent RBA review that do not require legislative changes have already been implemented or are in the process of being implemented. The proposed bill to formally repeal the Treasurer's power to overrule the RBA's monetary policy decisions and establish a new Monetary Policy Board (MPB) separated from the Governance Board remains under legislative review. It will be important to ensure a transparent and merit-based process for appointing MPB's external members. Additionally, the Treasury Secretary, as an *ex officio* member at the MPB (as recommended by the independent review, which, however, does not align with international leading practices), should be clearly defined to act in an individual capacity, not at the direction of the Treasurer. Furthermore, strengthening the institutional framework for monetary-fiscal policy interactions—currently characterized by close communication between senior policymakers, and frequent information sharing and joint forecasting at the staff level—without undermining the RBA's operational independence is also crucial. This can be achieved through continued information sharing, joint scenario analysis, shared research agenda, and a framework for the use of additional monetary policy tools in the future, as recommended by the independent review. Additionally, the RBA could benefit from a Central Bank Transparency review by the Fund (2023 IMF staff report).

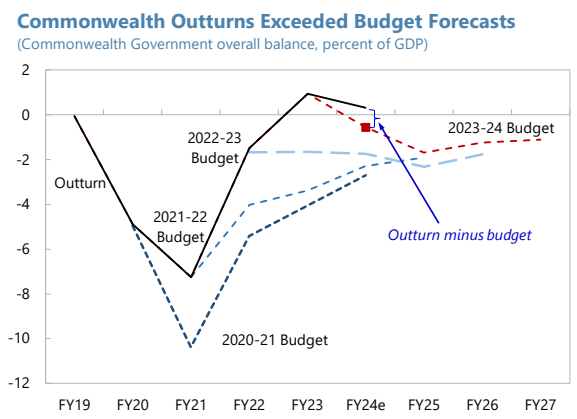
Authorities' Views

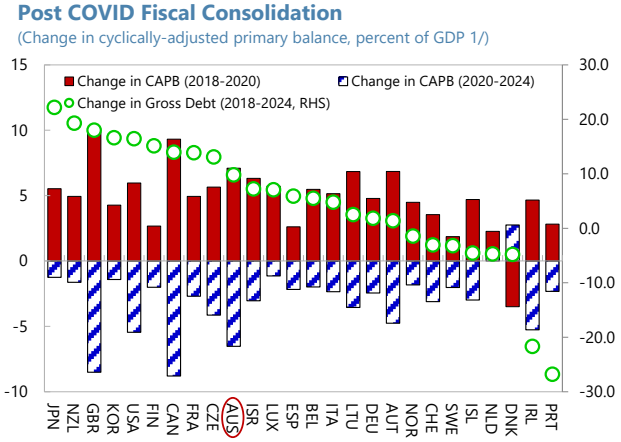
18. The authorities reiterated their commitment to reducing inflation while preserving employment gains. With labor market indicators and model-based estimates continuing to suggest excess demand in the economy, the Reserve Bank of Australia (RBA) has kept the cash rate unchanged since it was last raised in November 2023 to maintain a tight monetary policy. Amid significant uncertainties, the RBA remains data-driven, agile, and prepared to tighten policy as necessary if upside inflation risks materialize. They also emphasized the potential downside risks to inflation arising from a quicker-than-expected adjustment in the labor market, particularly if the current strength proves localized and the margin of adjustment shifts from hours to employment. In this context, the RBA has enhanced its policy communication to help anchor inflation expectations and is actively exploring ways to improve this further, including through more detailed scenario analysis to better inform policy discussions and decisions. Finally, the authorities remain dedicated to executing the RBA review recommendations, many of which are well progressed or already implemented. However, several recommendations require new legislation, which has not yet been passed. They also acknowledged the positive impact of the Treasury Secretary's role on the RBA board, a point that was corroborated by the independent review.

C. Fiscal Policy, Supporting Disinflation and Safeguarding Long-term Sustainability

19. The 2024/25 Commonwealth Budget will affect growth and inflation through a positive fiscal impulse. Following two consecutive surpluses, it is expected that the Commonwealth budget will record a fiscal deficit of 1.2 percent of GDP in FY2024/25, including through implemented changes to personal income tax brackets and expanded near-term cost-of-living relief measures. Aimed at alleviating the regressive effects of high inflation and enhancing the participation benefits, the preannounced PIT cuts were adjusted in a revenue-neutral way to provide greater tax relief to low- and middle-income earners, who also tend to have higher propensity to spend. The AU$300 per household energy rebate, if spent, has the potential to boost aggregate demand, thereby mitigating its direct effect on reducing energy prices (with subsidies captured in headline inflation). Staff analysis shows that while the untargeted cost-of-living support measures will mechanically lower the price level (CPI) on a temporary basis, these measures will inject additional stimulus into the broader economy, which, together with higher disposable income from permanent PIT cuts, will stimulate aggregate demand (Annex VI). However, it remains too early to assess the extent to which they will be saved or spent and therefore the extent and timing of any impulse to demand. Additionally, the projected increase in public infrastructure spending in FY2024/25 will bolster strong public demand in already-tight labor markets, which may in turn contribute to wage pressures and potentially complicate the disinflation process.[3] It could also further worsen construction bottlenecks and crowd out the residential construction projects (and particularly high-density developments), where existing capacity constraints have led to substantial supply-demand imbalances and persistent price pressures.

Commonwealth Revenue Windfalls Drove Second Consecutive Commonwealth Surplus and Continued Post-Covid Budget Repair

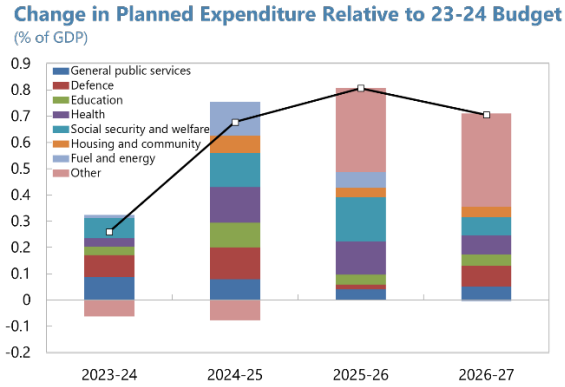


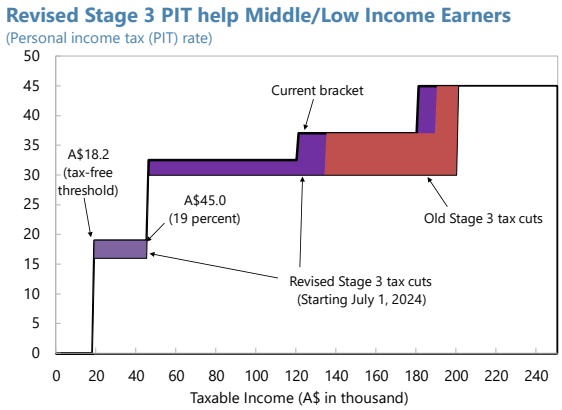


Sources: Haver Analytics; and IMF staff calculations.
1/ Based on cyclically adjusted primary balance (CAPB). A positive (negative) difference in CAPB shows fiscal expansion (contraction). 2024 is estimated from partial data.

[3] See Annex VII. While vacancies are declining, public sector vacancies are further above pre-pandemic levels than private sector vacancies.

The Commonwealth Budget Outlined New Spending Priorities and Revised Tier 3 Tax Cuts





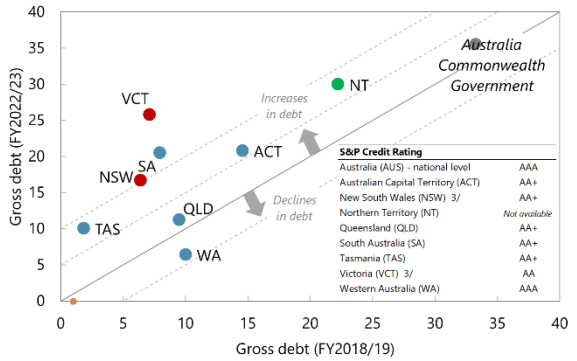
Sources: Authorities' data; and IMF staff calculations.

20. The consolidated government fiscal balance remains in deficit as states budget repair lagged the Commonwealth.[4] Constituting 39 percent of total government expenditure and 24 percent of net debt in 2023/24, Australia's state, territories and local governments are active users of fiscal policy. Compared to the Commonwealth government, they have experienced slower budget repair, with fiscal deficits of 1.6 and 1.4 percent of GDP in 2022/23 and 2023/24, respectively. This slow repair, coupled with high interest costs, has resulted in escalating net debt levels from 1.4 percent of GDP in 2018/19 to 6.9 percent of GDP in 2023/24. Outcomes have diverged across states: VCT and NSW ran large budget deficits during the pandemic contributing toward credit rating downgrades (VCT, NSW), which in turn, further inflated interest costs. Conversely, other states benefited from robust commodity prices (WA, QLD) and substantial migration inflows (ACT, QLD, WA), boosting revenues but also increasing demands for amenities. For FY2024/25, states have adopted relatively loose fiscal policy with new spending commitments on cost-of-living relief measures (QLD, NSW, VCT, WA, SA), subsidies and tax breaks for new housing (NSW, QLD, VCT, SA, NT), and continued strong infrastructure investments across all states and territories. By contrast, a significant fiscal consolidation is projected for FY2025/26 due to a removal of these temporary measures and a normalization of infrastructure spending. The varying pace of fiscal consolidation across states reflects differences in growth performance.

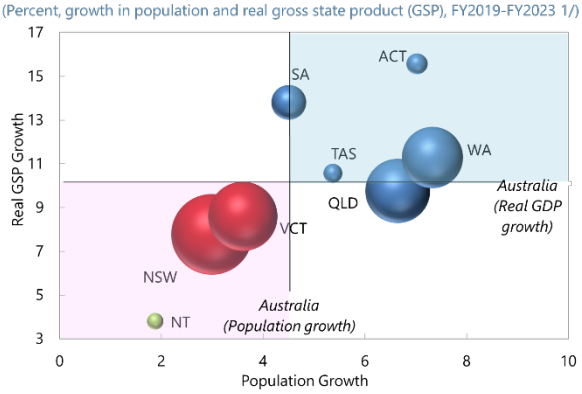
[4] In this paragraph and the text charts below, ACT=Australia Capital Territory, NSW = New South Wales, NT = Northern Territories, QLD = Queensland, SA = Southern Australia, TAS = Tasmania, WA = Western Australia, VCT = Victoria.

State-Level Fiscal Positions Vary Substantially, Underscoring need for Coordination

Debt Increased Most in States With Limited Population Growth
(Percent of gross state product (GSP) or indicated otherwise 2/)



Post-Pandemic Recovery Varies Across States and Territories
(Percent, growth in population and real gross state product (GSP), FY2019-FY2023 1/)

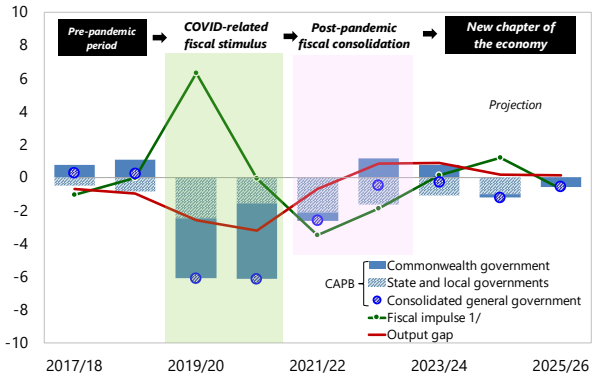


Sources: Authorities' data and IMF staff calculations.

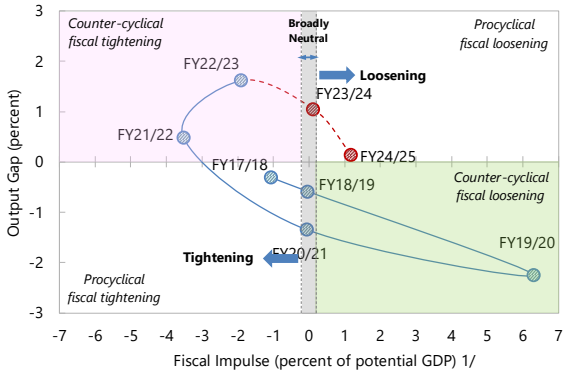
21. Should disinflation stall, a tighter fiscal stance would be warranted, while better targeting of transfers could more efficiently support vulnerable households. Both Commonwealth and State budgets have been more expansionary than anticipated, and the overall positive fiscal impulse risks potential setbacks in disinflation (see Annex VI for details). Should inflation continue to prove persistent, expenditure rationalization at all levels of government could help lower aggregate demand and support a return of inflation to target without large losses to output. In particular, infrastructure spending could be carefully prioritized to avoid aggravating capacity constraints. However, expanding the productive capacity of the economy and supporting the green transition remain key priorities. Additionally, transfers should be targeted where possible. If targeted transfers are not feasible, an alternative to universal energy rebates would be to institute block pricing for electricity.

Consolidated Government Fiscal Stance Loosening as Output Gap Narrowing

Consolidated Government Fiscal Stance
(Cyclically-adjusted primary balance (CAPB); percent of potential GDP)

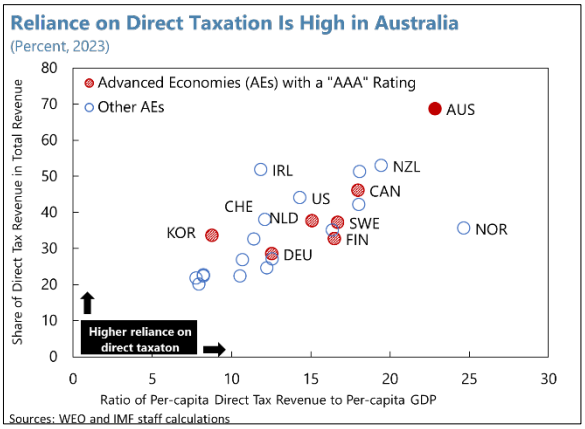


Fiscal Stance and Output Gap
(Percent)



Sources: Authorities' data; and IMF staff calculations.
1/ Based on the calculation of cyclically adjusted primary balance in percent of potential GDP.

22. Over the medium term, broader tax and expenditure policy reforms could boost productivity and safeguard long-term fiscal sustainability.



- **Tax policy reforms** should aim at improving the efficiency, equity, and sustainability of the tax system. Australia's heavy reliance on direct taxes and its relatively high effective cost of capital hinders investment and productivity growth. In addition, stamp duty on housing transactions has failed to fully capture capital gains, hinders mobility, and exacerbates housing affordability issues. To address these issues, the Commonwealth government could consider a revenue neutral increase in Goods and Services Tax (GST) offset by Corporate Income Tax (CIT) reforms aimed at promoting investment and productivity growth. Options include implementing an allowance for corporate equity and/or lowering the CIT rate, possibly alongside compensatory measures (e.g., adjustments to resource rent taxes) to maintain the corporate tax system's integrity. Tax breaks, including from superannuation concessions (to be scaled back starting July 2025) and capital gains tax discount, could be phased out to generate a more equitable and efficient tax system. At the state and territory level, implementing recurring property taxes in lieu of stamp duty would promote housing affordability, more efficient use of the housing stock, labor mobility, and a more stable tax base over the medium term.

- **Expenditure policy reforms** should focus on improving spending efficiency, promoting sustainability, and improving outcomes including a focus on coordination across Commonwealth and Federal State governments. Implementing policies outlined in the national disability insurance scheme (NDIS) review and aged care reforms will help contain expenditure growth. Similar approaches could be adopted for other large and growing items identified in the 2023 Intergenerational Report including health and climate related spending. Infrastructure governance remains a perennial issue and intergovernmental coordination continues to be a high priority to heighten spending efficiency and avoid spending overlap.

23. As long-term spending pressures rise, the authorities can consider bolstering their fiscal policy framework with clearer anchors. Although government debt levels are low and sustainable, they remain well above pre-pandemic levels. Moreover, climate-change spending and demographic shifts present upcoming headwinds. The 2023 Intergenerational Report forecast increasing expenditure needs in health, aged care, NDIS, defense, and debt interest payments, expected to grow by 5.6 percent of GDP by 2062/63 and account for half of the Commonwealth budget. The authorities can consider supplementing the Commonwealth government's existing principle-based fiscal strategy "to limit growth in spending until gross debt as a share of GDP is on a downward trajectory, while growth prospects are sound, and unemployment is low" with clearer fiscal anchors. Such a reform to the fiscal policy framework would help guide discussions around long-term spending pressures and necessary policy reforms. Successful examples from peer countries include a medium-term debt target, often paired with an operational rule on fiscal balance to guide the annual budget process. These fiscal anchors should be calibrated to country-specific

circumstances and designed with enough flexibility to respond to business cycle fluctuations, including by providing clearly circumscribed ex ante escape clauses for exceptional circumstances.

Authorities' Views

24. The authorities emphasized that current fiscal policy settings are consistent with a sustainable return to the inflation target. They noted that the second consecutive Commonwealth surplus has helped monetary policy in bringing inflation down and lowered debt. They view the existing cost-of-living relief to be helpful for supporting vulnerable households and not sufficient in scale to influence aggregate demand. They agreed that infrastructure bottlenecks could lead to cost pressures, and are continuously reviewing the infrastructure pipeline. Overall, they emphasized that fiscal policy is not the optimal tool for fine tuning demand to short-term macroeconomic fluctuations in Australia and that much of the recent increased infrastructure spending is aimed at facilitating the energy transition or boosting productivity. They agreed with staff that growing expenditure pressures, most notably due to demographic headwinds and responding to climate change, necessitate careful fiscal reforms, but indicated that the existing system-wide fiscal framework has served them well. In particular, the fiscal strategy has guided the saving of revenue upgrades, the Intergenerational Report has helped to inform policy on medium term structural reforms including in the NDIS and aged care sectors, and the fiscal institutions provide transparency and clear guidance. Tax reforms, including changes to superannuation system, petroleum resources rent tax, and the reprofiling of the PIT cuts are argued to already be addressing the equity and efficiency of the tax system.

D. Financial Stability and Housing Affordability

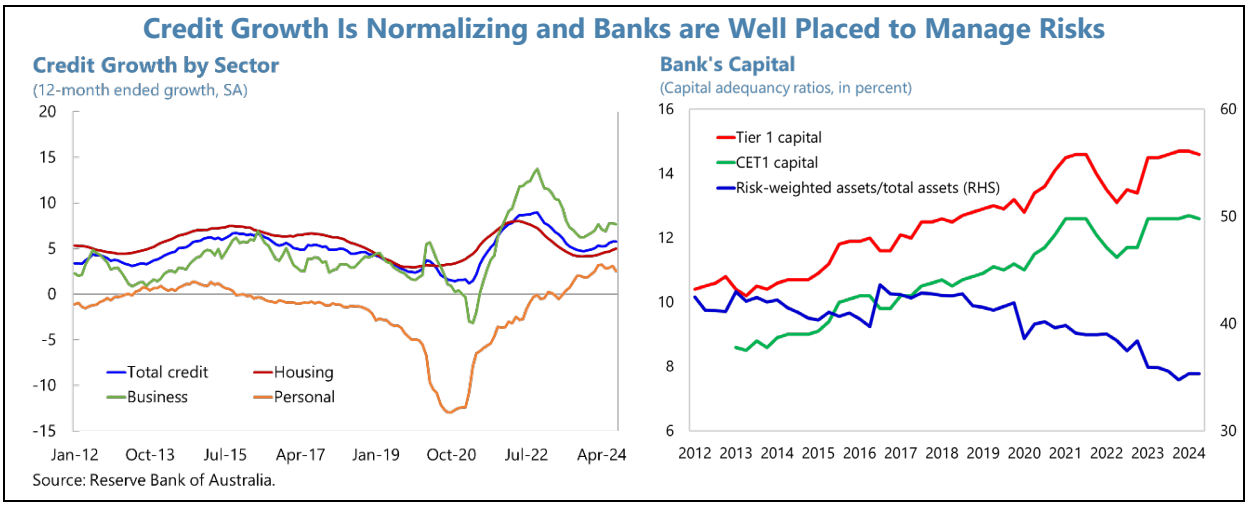
25. The Australian financial system is generally robust, with systemic financial risks contained, but localized vulnerabilities exist. Banks continue to demonstrate resilience with high capital levels, strong liquidity positions, and healthy profits. While strong labor market conditions and large savings buffers (including in mortgage offset and redraw accounts) have provided cushions against increased mortgage payments, arrears have risen (to 1.6 percent in March 2024), around pre-pandemic levels. Pressure on firms' profitability continues amidst tight financial conditions, subdued demand, and lingering wage pressures, though delinquency rates remain manageable. The recent stress test by the Australian Prudential Regulation Authority (APRA) finds major banks to be resilient to a severe (but plausible) economic downturn. However, sectors with weaker balance sheets, such as low-income households (in particular those with mortgages originated during low interest periods which have yet to be refixed to higher rates) and small-medium enterprises, remain vulnerable. The commercial real estate (CRE) sector, while not currently posing systemic risks with the financial positions and funding arrangements of

Selected Financial Soundness Indicators of the Banking Sector
(Year-end unless otherwise noted, in percent)

	2022	2023	2024Q1
Regulatory capital to risk-weighted assets	17.8	20.0	20.4
Regulatory Tier 1 capital to risk-weighted assets	13.4	14.7	14.7
Nonperforming loans to total gross loans	0.7	0.9	0.9
Return on assets	1.3	1.0	...
Return on equity	14.1	11.3	...
Liquid assets to short-term liabilities	41.2	42.8	41.6

Source: IMF, Financial Soundness Indicators (FSI) database.

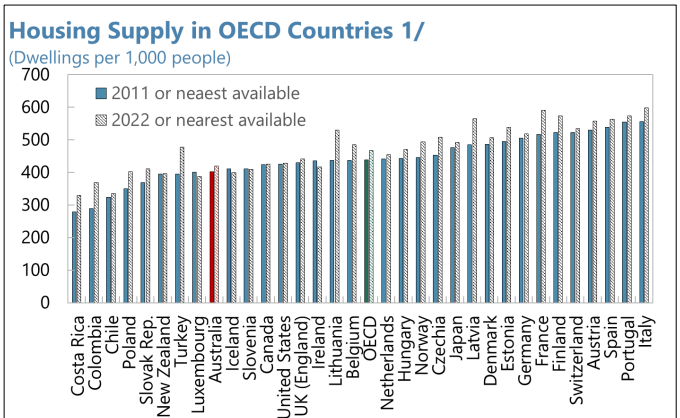
CRE owners well managed and the share of non-performing CRE loans very limited, is exposed to possible withdrawal of foreign lenders and investors amid international market uncertainties.



26. Financial supervisory and regulatory reforms are aimed at enhancing the resilience of the financial sector. The Council of Financial Regulators has adopted a revised framework to identify systemic vulnerabilities, focusing on assessing factors that could potentially cause or exacerbate instability in the Australian financial system. This includes hidden leverage, cyber-attacks, geopolitical events, climate change impacts, and the adoption of new technologies. This is expected to be further supported by a new post-pandemic system-wide stress test design, which would help improve corporate sector surveillance. With China being Australia's largest trading partner, the authorities should strengthen its systemic risk analysis of China-related exposures (both direct and indirect) and credit risks. Meanwhile, APRA is consulting on targeted adjustments to liquidity and capital requirements to bolster the banking sector's resilience to future stresses. Legislation mandating climate disclosures has been passed by Parliament, with requirements to be phased in starting in 2025. Moreover, Australia is also actively engaged in global initiatives to address corresponding banking relationship (CBR) issues in the Pacific. Finally, further progress in implementing 2019 Financial Sector Assessment Program (FSAP) recommendations has been made, in the areas of financial sector risk monitoring and management, macroprudential policy analysis, resolution policy framework, financial market infrastructure regulations, and the AML/CFT regime (Annex X).

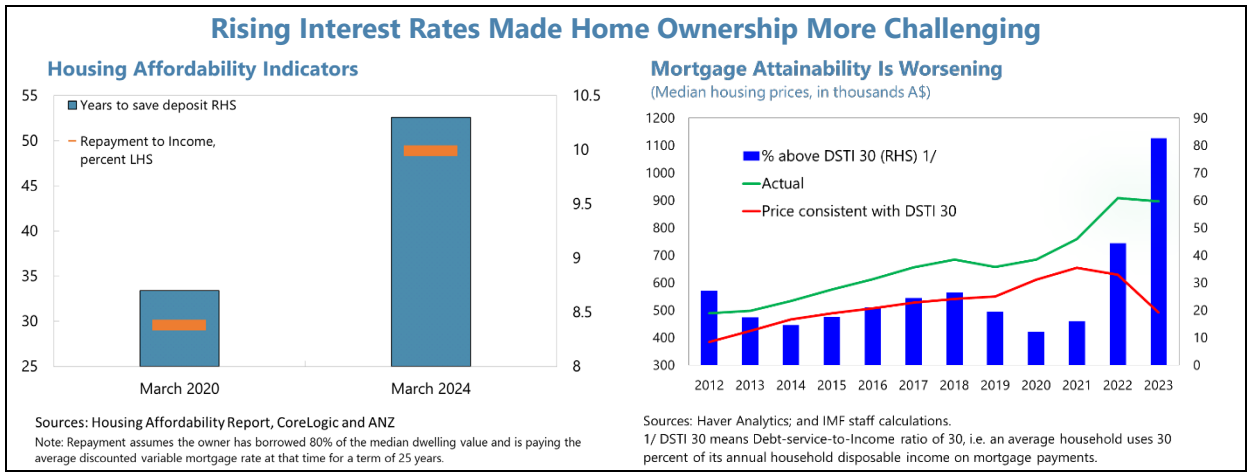
27. Data gaps on Non-Bank Financial Institutions (NBFIs) impede effective risk oversight and management. Australia's NBFI sector, excluding prudentially regulated superannuation funds, is relatively small, and its interconnections with banks are diminishing. This said, NBFI credit growth has picked up recently which signals potential leakages from the banking sector during the monetary policy tightening cycle. In addition, competition with banks has led non-bank lenders to relax lending standards, favoring riskier borrowers, which has resulted in deteriorating asset quality. Despite overall manageable risks, significant data gaps can complicate timely identification of potential vulnerabilities in the NBFI sector, including its exposure to CRE. Regulatory agencies are actively addressing these gaps to enhance the visibility into the activities of less-regulated NBFIs.

28. Housing in Australia remains undersupplied compared to many other advanced economies. Australia's 420 dwellings per 1,000 people (2022) is about 90 percent of the OECD average. Persistent structural impediments such as planning, zoning, and building restrictions, high costs of land for development, and infrastructure gaps, continue to escalate the cost of housing supply and cause significant delays. Building activities are currently at their lowest in a decade, with delays and difficulties in obtaining approvals from local councils persisting, compounded by community resistance to increased density. Additionally, high interest rates, rising costs, and labor shortages further challenge the profitability of starting construction even after securing development approval, leading to a substantial backlog and a slow response in housing supply to robust demand, exacerbating price pressures. As a result, about 176,000 new dwellings were added in FY2023/24, significantly below the 240,000 a year needed to meet the authorities' target of 1.2 million new homes (over 5 years) announced in 2023.

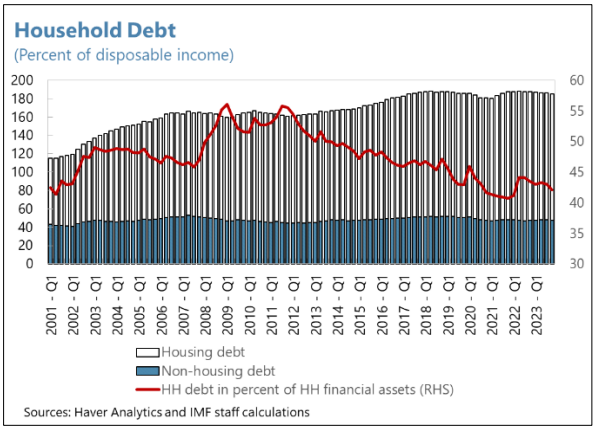


Source: OECD (2024), OECD Affordable Housing Database.
1/ Data are not available for the same reference year(s) across countries, and are not always up to date.

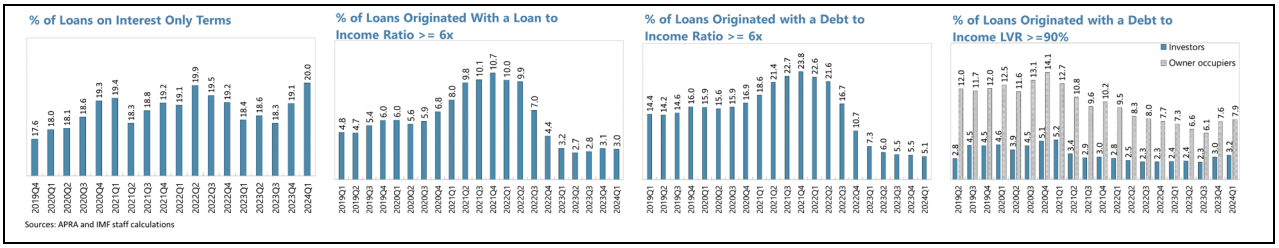
29. Housing affordability challenges pose significant threats to inclusive growth and more broadly intergenerational equity; thus, a holistic strategy is needed to unlock new housing supply. Recent increase in housing prices have significantly exacerbated housing affordability issues, particularly affecting younger generations. With the price-to-income ratio nearing historical highs and surpassing that of many comparable economies, concerns about the potential overvaluation of housing prices are growing stronger. Key policy priorities in the near-term policy could include (i) ensuring an adequate supply of construction workers through training initiatives and skilled migration; (ii) providing more effective financial incentives to state governments and local authorities to support infrastructure, relax stringent zoning and building restrictions, and expedite approval and land release process for housing development (drawing from successful practices in Canada and Auckland); (iii) further supporting the built-to-rent sector by incentivizing investment, including from superannuation funds and foreign institutional investors; (iv) expanding public and affordable housing—which have declined as a share of total housing stock—to bolster support for low-income families; (v) reviewing tax concessions for property investors (such as capital gains tax discounts) to curb property speculation, improve housing affordability, and reorient potential fiscal savings to support new housing supply; and (vi) considering replacing stamp duty levied by state governments with a recurring property tax to promote more efficient land use.



30. Macro-prudential policy stance remains broadly appropriate and should be agile to preempt an excessive buildup in household indebtedness amidst increasing housing prices.



APRA tightened its mortgage serviceability buffers requirement from 2.5 to 3 percentage points in October 2021 and has kept it, along with the 1 percent countercyclical capital buffer, unchanged since then. Together with higher mortgage rates, this has led to a sharp decrease in the proportion of mortgages with high Debt-to-Income (DTI) and high Loan-to-Value Ratio (LVR). The recent swift rebound in housing prices seems to be driven more by fundamental supply-and-demand imbalances than by excessive leverage. However, as housing prices continue to rise, risks of borrowers taking on unsustainable levels of debt relative to their income and from borrowing excessively against the value of their property may increase, posing challenges to financial stability. The authorities should continue to closely monitor mortgage lending standards and prepare to activate additional borrowers-based limits in their macro-prudential toolkit to guard against further housing price acceleration and contain rising share of high-risk mortgage lending, including when monetary policy appropriately transitions to an easing cycle. The introduction of DTI and LVR measures have shown effectiveness in other countries (e.g., Canada, New Zealand). With no clear evidence of a recent and significant inflow surge in foreign capital to Australia's residential property sector, the authorities should also consider phasing out the existing CFM measures (¶5), with due regard to market conditions, and replacing them with non-discriminatory measures to support new housing supply.



Authorities' Views

31. The authorities view financial sector risks as contained despite tightened conditions and global uncertainty. The latest Financial Stability Review (FSR) emphasizes the resilience of the Australian financial system, aligning with APRA stress tests that indicate banks are well-positioned to withstand severe downside scenarios, including significant declines in housing prices.[5] They continue to prioritize strengthening operational resilience given the operational vulnerabilities stemming from increased complexity and interconnectedness in the digital economy. They have increased the frequency of their public communications regarding macroprudential assessments to inform the decisions regarding policy changes, including whether to activate additional borrowers-based limits, and are engaging with counterparts in other jurisdictions to share insights. They continue to monitor developments in nonbank lending and remaining data gaps in the NBFI sector but emphasized its limited scale and interconnectedness with the banking system. Additionally, they recognized the importance of monitoring new and emerging risks, including those related to geopolitical risk, climate change and digitalization, and noted their ongoing efforts to make progress on sustainable finance and climate data disclosures.

32. Like staff, the authorities remain concerned about the worsening in housing affordability. They concurred with staff's assessment and policy recommendations, acknowledging the challenges of implementing reforms at the subnational level due to the heterogeneity across states and territories. The Commonwealth is engaging state governments through bilateral discussions, exploring financial incentives to relax zoning restrictions and expedite approval processes, alongside initiatives for training and skilled migration aimed at alleviating labor shortages in the construction sector. The Commonwealth Government's $32 billion housing investment aims to address the underlying capacity issues constraining the sector more broadly, coupled with significant new investment in public and affordable housing. They also acknowledged the need to tackle labor productivity issues in the construction sector to improve efficiency.

E. Productivity and Climate Change

33. Reforms to capital and labor markets can help reverse the recent downtrend in productivity growth. Beyond slow labor productivity growth, recent research from the Treasury, RBA, and Productivity Commission also highlights weakening business dynamism and a waning in the reallocation of capital. While efforts to draft and implement productivity-enhancing reforms along the five pillars identified by the 2023 Productivity Inquiry are underway, steady and measured progress – especially in incentivizing innovation, leveling the playing field for firms, and boosting human capital – are critical to securing resilient medium-term growth.

- **Leveraging new AI technologies and boosting innovation:** Reforms that incentivize innovation and R&D to build up intangible capital are critical to bolster productivity. Proactive labor market policies are also needed to leverage AI benefits on productivity, while mitigating

[5] The March 2024 FSR includes a scenario analysis that finds most borrowers will have sufficient income to meet their debt payments and other essential spending needs through 2025, even if interest rates were to increase by another 50 basis points.

job displacement risks for those workers most exposed (Annex VIII). Staff analysis finds that in Australia, around 60 percent of occupations are highly exposed to AI (consistent with the evidence found in other AEs), with professionals facing the highest exposure and elementary occupations facing the least, but variation within each occupational category. Proactive policy measures, including training or upskilling, improving labor mobility, strengthening of the safety net for displaced workers, as well as public awareness and consultations programs, particularly in sectors most exposed to AI, are required to leverage AI's benefits, while mitigating its risks. Continuous reassessment and policy agility are crucial as new technologies evolve.

- **Boosting competition and business dynamism:** The establishment of a task force to identify priority reform areas in competition policy based on data-driven analysis and global best practices is a welcome step. Moving to a mandatory suspensory merger reporting regime should help reduce inefficiencies in the regulatory oversight of mergers. Reforms to reduce barriers to labor mobility including from the over-use of non-compete clauses and differential occupational licensing requirements across states could also boost business dynamism. Efforts to revitalize the national competition policy should continue to be data driven and focused on delivering productivity improvements.

- **Labor markets:** Despite high labor force participation – including of women, boosted by childcare reforms, efforts to reduce pay differentials, and policies to encourage women into male-dominated professions – Australia will continue to contend with skill shortages. The authorities' efforts to harmonize skill recognition for qualified migrants, as well as dynamic updating of skills lists and requirements, are essential for ensuring migration can help address persistent labor market needs. Reforms to educational and training programs and the immigration system should continue to be closely aligned with medium-term structural changes in labor demand linked to the net zero transition and an aging population, drawing from independent advice from the recently established Jobs and Skills Australia.

34. To meet Australia's decarbonization goals and mitigate risks associated with climate change and the global energy transition, additional policies are needed that leverage price signals and address market failures:

- **Mitigation.** Australia emitted around 1 percent of global GHG emissions in 2022 making it one of the twenty largest emitters. The country is making progress towards its ambitious 2030 goals of a 43 percent reduction in GHG emissions from 2005 levels and 82 percent renewables electricity share, and Net Zero 2050 target. IMF Staff expect that there will be a gap to the NDC under current policies (Figure 9).[6] Alongside current policies, increasing the share of renewables to the 82 percent target would align Australia's GHG emissions with its 2030 NDC target (SIP:

[6] For Australia, the CPAT estimates exclude the Safeguard Mechanism and the government's existing renewable energy plans up to 2030. Differently, authorities' projections are used as inputs into the IMF-ENV model employed in the SIP and these projections include major climate policies including the Safeguard mechanism reform and support for renewables (excluding the capacity investment scheme).

Chapter 2).[7] However, bottlenecks in construction, need for upgrading and expanding the grid and issues surrounding community engagement presents a threat of delays warranting reforms identified in the December 2023 Community Engagement Review.[8] Additional policies would be needed to meet the long-term Net Zero target. The most efficient option to bridge any remaining gap would be a broad-based carbon price. However, if the implementation of such a measure proves to be politically challenging, strong sectoral policies using price signals could also prove effective. An option is to expand the safeguard mechanism (a baseline and credit system[9]) by lowering the threshold, including more sectors and tightening the emissions decline rate. Additional sectoral policies should prioritize addressing market failures identified in the forthcoming sector pathways. Australia has committed to deliver AU$3 billion over 2020-25 in climate finance focused on the Pacific region and is an active member of multiple international mitigation initiatives including the Global Methane Pledge.

- **Energy transition risks.** Australia's shift towards renewable energy and the global move away from fossil fuels will affect jobs, exports, and tax revenues. As the largest coal exporter in value terms, Australia may face notable economic adjustment costs from a rapid global transition. Staff analysis suggests the speed of global energy transition will create wide ranging outcomes, including especially for the coal sector, which could see shrinking labor demand (-250 to -8800 jobs, relative to baseline), capital stock (-4 to -22 percent, relative to baseline), and export revenues (-4 to -12 percent relative to baseline). However, its low extraction costs and high-quality coal increase the sector's resilience. Additionally, natural gas exports could increase as a transitional fuel and essential minerals like copper, lithium, and nickel will support global electrification efforts amid ongoing technological uncertainties (see Selected Issues Paper (SIP), Chapter 2).[10] A resource rent tax could incentivize a faster phase-out of fossil fuels and provide revenues needed in the transition. Reforms identified in the Critical Minerals Strategy 2023-2030 and the related areas of the 2023 Intergenerational Report can help create an attractive investment environment alongside narrowly targeted green industrial policy that aims to address market failures and externalities (¶35). Clearly communicated and consistent government policy can help investors to make informed investment decisions, especially in the renewable electricity sector. Further strategies could include social assistance to impacted households and active labor market policies, including addressing any sub-national impacts. Monitoring financial sector vulnerabilities in impacted sectors is also crucial for bolstering resilience in this transition.

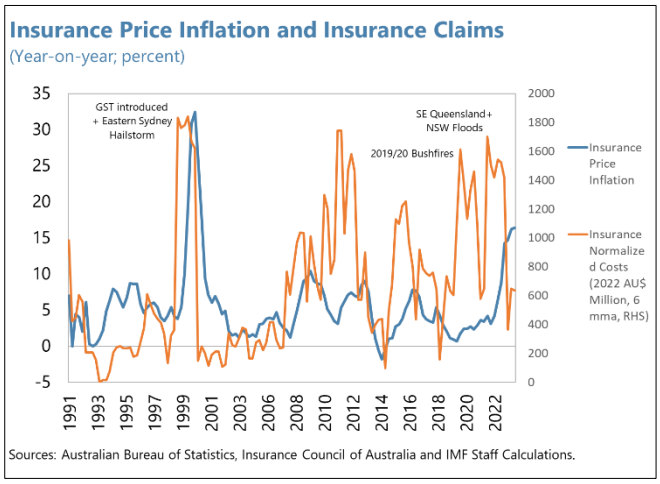
[7] As with all projections significant uncertainty remains on the baseline projection including from changes in technology, LULUCF, and the success of policy initiatives.

[8] The review made multiple recommendations on identifying opportunities to foster community support and improve participation in planning, development, and operational phases.

[9] The safeguard mechanism sets an emission reduction trajectory for all firms emitting more than 100,000 tonnes of carbon dioxide equivalent a year at an annual GHG reduction rate of 4.9 percent or an equivalent purchase of carbon credits.

[10] This SIP uses a dynamic CGE model to simulate multiple global climate scenarios in order to quantify the scale of transition risks for Australia from different global actions.

- **Adaptation.** Rising temperatures, wildfires, and other natural disasters have contributed to a rapid rise in insurance premiums over recent years. While climate stress tests show limited direct effects of climate risks on the financial system as a whole, geographically localized and sector-specific risks create a need for close monitoring and measures to build resilience. The National Adaptation Plan, scheduled for release in 2025, will help guide policy. Options include property-level mitigation measures, climate-stress testing of the financial system, data enhancement for location-based risks, investment in resilient infrastructure including flood defenses and forest firefighting sources, and strategic residential zoning in flood plains.



35. Australia's efforts to support multilateral solutions are welcome, including the rules-based international trading system and measures taken to address transnational aspects of corruption.

- Thus, in line with the authorities' support for a multilateral approach, and to avoid undue distortions, both domestically and internationally, staff advised that the recently announced "Future Made in Australia (FMiA)"—Australia's approach to green industrial policy (IP)—should be confined to narrow objectives where externalities or market failures prevent effective market solutions and be consistent with the country's international obligations, including to the WTO[11]. While the FMiA amounts to AU$23 billion over a decade (0.07 percent of annual GDP) and aims to enhance economic resilience and facilitate the net-zero transition (Annex IX), if not carefully designed with appropriate guardrails, it could mark an important deviation from Australia's long-standing policy of preserving market-based principles, with attendant implied effects of "picking winners", provide a competitive advantage to domestic producers, and could encounter enormous administrative challenges beyond the capacity of the Treasury to manage.

- Australia also continues to address transnational aspects of corruption, but further efforts are needed to mitigate risk (Annex XI). On supply side, amendments to the criminal law strengthen the foreign bribery offence (in particular, penalizing the failure to prevent foreign bribery and removing impediments to foreign bribery enforcement). However, foreign bribery enforcement remains low and should be prioritized. On facilitation of corruption, the latest national risk assessment finalized in July 2024 provides updates on understanding of risks for laundering of foreign corrupt proceeds. Staff encourages the Treasury to accelerate the establishment of a publicly accessible beneficial ownership register to improve transparency of legal persons.

[11] See Industrial Policy Coverage in IMF Surveillance—Broad Considerations.

Australia should also proceed with passing the recently introduced legislation that expands Australia's AML/CFT framework to Designated Non-Financial Businesses and Professions (DNFBPs), especially high-risk ones such as accountants, lawyers, and real estate professionals.

36. Australia's data provision is adequate for surveillance based on the Fund's new data adequacy assessment (Annex XII). Australia has subscribed to the Special Data Dissemination Standard (SDDS) since April 1996. The Australian Bureau of Statistics (ABS) has taken several initiatives to further improve the quality of the data, including further progress is finalizing the compilation and dissemination of monthly inflation data, the addition of which to the suite of statistics would further strengthen data adequacy for surveillance purposes.

Authorities' Views

37. The authorities emphasize a critical need to enhance productivity, including through competition policy and labor market reforms. They regard the findings of the 2023 Productivity Commission's *Advancing Prosperity* Five Year Productivity Inquiry as helpful for guiding policy reforms and prefer a gradual approach to implementing changes. They highlight that reducing barriers to competition, including across states (such as from occupation licensing), could significantly improve productivity and raise growth. Building up on data-driven analysis and public consultations, the authorities are gearing up to introduce competition policy reforms expected to improve business dynamism and reduce inefficiencies, including moving to a mandatory suspensory merger reporting regime, reforming the use of non-competes, and revitalizing the National Competition Policy. The authorities are aware of the costs of persistent skill mismatches in the labor market. They highlight recent reforms responding to skill and labor shortages, including greater investment in domestic skills training and the reformed Temporary Skill Shortage visa. They acknowledge the potential productivity enhancement and labor displacement effects of AI, and consider that such a global technological transition warrants close monitoring, including its safe and responsible use.

38. The authorities are committed to achieving their 2030 emissions reduction target and net zero goal by 2050, and recognized the challenges and opportunities associated with the green transition. They agreed with staff on value of market-based solutions where possible and point to the success of the safeguard mechanism in mitigating emissions in the industrial sector. They are adopting a sectoral approach to decarbonization including the electricity and energy sector plan. They recognize the challenges inherent in the rapid speed needed to meet the renewable energy share target but consider that policy well placed to support this transition. Like staff, the authorities recognize the medium- to long-term challenges from a global transition away from fossil fuels, especially when coupled with policy and technology uncertainty and the risk of geoeconomic fragmentation, but emphasize Australia's upside potential to becoming a renewable energy superpower. They are dedicated to fostering emerging sectors that can leverage Australia's renewable potential and natural resources such as green metals, green hydrogen and critical minerals and being an indispensable part of the global supply chains in the energy transition. The establishment of the Net Zero Economy Authority is intended to promote an orderly and positive economic transformation.

39. The authorities see the Future Made in Australia proposal as a way to establish an enabling environment for the development of domestic green sectors and technologies. Like staff, the authorities agree that the Future Made in Australia agenda should adhere to market-based principles and should complement decarbonization strategies. They stated that it will focus on areas where Australia may have a future competitive advantage and where market failures exist, such as negative externalities from emissions and insufficient private investment without government support. Additionally, they noted the need for support to foster adequate early investments in nascent technologies essential for the net-zero transition, where positive externalities, like learning by doing, can be realized. Furthermore, the authorities highlighted that the National Interest Framework will provide suitable guardrails for time-bound and narrowly targeted interventions while minimizing the fiscal costs and ensuring alignment with the country's WTO obligations.

STAFF APPRAISAL

40. Australia remains on a narrow path to a soft landing, but risks are tilted to the downside. Growth slowed in the first half of the year, with household consumption weak as real incomes remained soft. Despite rising unemployment, the labor market remains resilient. Growth is expected to pick up over the following quarters, supported by a gradual recovery in private demand and robust public demand. Downside risks to growth include persistent weakness in private demand or a further slowdown in key trading partners.

41. Near-term policies should focus on managing the final descent of inflation to target, while nurturing growth. Inflation is anticipated to sustainably return to the RBA's target range only by the end of 2025, while a potential stall in disinflation poses a significant risk. In this context, the current restrictive monetary stance is appropriate, and needs to be supported by fiscal policy that avoids an expansionary stance and complements monetary policy's disinflation objective. Reforms aimed at further bolstering the RBA's independence and supporting the coordination of monetary and fiscal policies are important.

42. If disinflation stalls, tighter monetary and fiscal policies may be necessary. This contingent macro policy mix should ensure monetary and fiscal authorities complement each other to avoid overburdening any single policy instrument, while preserving targeted support amid rising living costs. Monetary policy should be prepared to tighten further if upside inflation risks materialize, and expenditure rationalization at all levels of government could help reduce aggregate demand and support a quicker return of inflation to its target. Specifically, reprofiling public infrastructure investments and improving the targeting of transfer programs can help mitigate excess demand while better supporting the most vulnerable.

43. Over the medium term, broader tax and expenditure policy reforms should reduce structural deficits, promote economic efficiency, and safeguard long-term fiscal sustainability. Tax reforms should focus on efficiency and fairness, reducing dependence on direct taxes and high capital costs, and phasing out tax breaks like capital gains tax discounts. In light of long-term spending pressures from ongoing demographic headwinds, coupled with climate change,

expenditure reforms should aim at enhancing efficiency and containing structural spending growth at all levels of government. Due consideration should be given to further strengthening fiscal policy frameworks with a clearer medium-term anchor to guide buffer rebuilding for future challenges.

44. Financial sector policies should focus on preserving stability while addressing localized vulnerabilities arising from tightened conditions. Macroprudential policies should remain stringent to protect household balance sheets, especially in the context of rising housing prices. Additionally, the authorities are encouraged to proactively adapt their macroprudential tools to preempt excessive buildup in household indebtedness, including when the time is appropriate for monetary policy easing. A comprehensive policy package is essential to tackle Australia's housing affordability crisis, focusing on increasing the construction workforce, relaxing zoning regulations, advancing initiatives to boost new housing supply, and reevaluating property taxes and stamp duty.

45. Efforts to rejuvenate Australia's productivity growth should be prioritized. Focus should be given to competition policy, reforms in capital and labor markets, and opportunities presented by AI technologies. Enhancing innovation by promoting R&D, supporting intellectual property rights, and ensuring policy certainty is vital. Improving the competition landscape, assessing the impact of non-compete clauses, and reforming merger rules are also crucial for productivity. Public awareness, access to training, and upskilling for affected workers are essential to maximize AI's productivity-enhancing benefits while mitigating its job displacement risks.

46. Australia's continued commitment to multilateral solutions, including the rules-based international trading system, is commendable. To avoid undue distortions, both domestically and internationally, green industrial policy (IP) initiatives should be confined to narrow objectives—where externalities or market failures prevent effective market solutions—and be consistent with the country's international obligations. A stable climate is a global public good and the transition to a greener economy is a collective global responsibility, which requires a mix of mitigation, adaptation, and transition policies. Achieving Australia's ambitious emission reduction goals depends on addressing construction bottlenecks and community engagement, with potential solutions like an economy-wide carbon price or targeted sectoral policies. Additionally, Australia's voluntary participation in reviewing transnational corruption sends a positive signal that could inspire improvements in global governance.

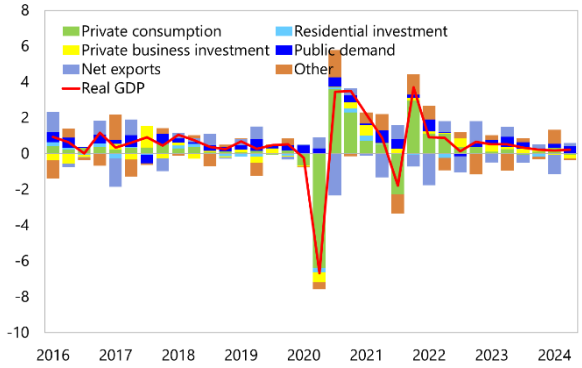
47. It is recommended that the next Article IV consultation be held on the standard 12-month cycle.

Figure 1. Economic Stabilization is Underway

Growth is slowing as tighter financial conditions dampen private consumption.

GDP Growth Decomposition

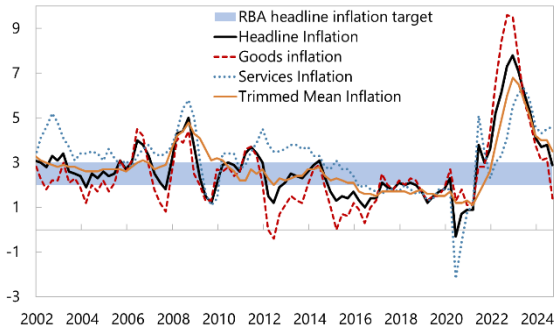
(Contributions to q/q growth, %)



Inflation is decelerating but price pressures in the service sector remain persistent.

Inflation

(Year-on-year; percent; seasonally adjusted)

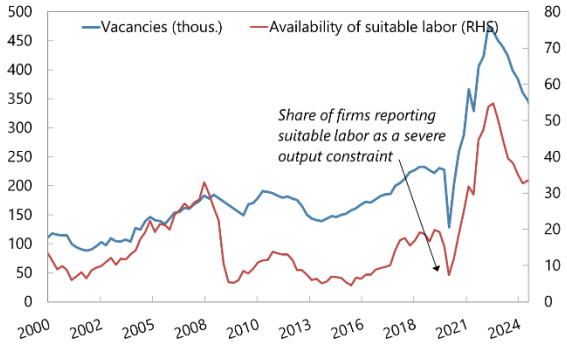


Sources: ABS; and IMF staff calculations.

The labor market is easing, but still tight by historical norms…

Labor Market Tightness

(Percent)

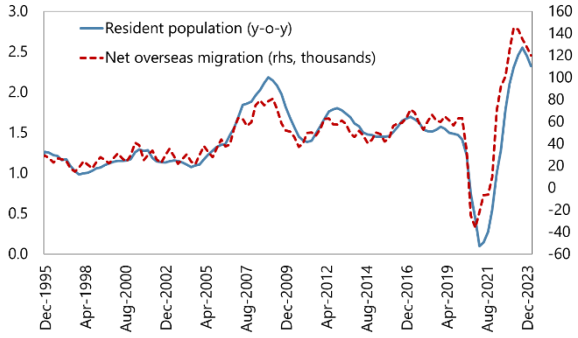


Sources: ABS; NAB; and IMF staff calculations.

…with migration bolstering labor supply….

Migration Inflows Have Been Significant

(LHS: year-on-year change, RHS: thousands, 2-quarter moving average)

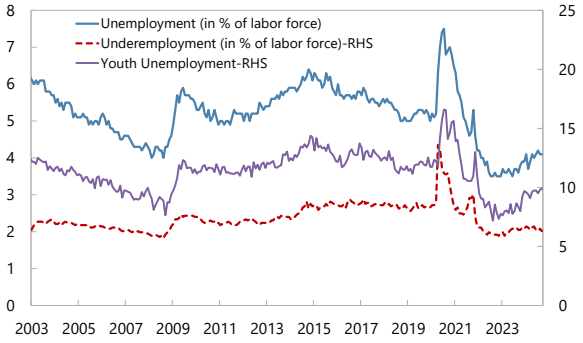


Sources: CEIC, ABS, IMF staff calculations.

… and unemployment inching up only gradually, and still below pre-pandemic levels.

Labor Market Indicators

(Percent, seasonally adjusted)

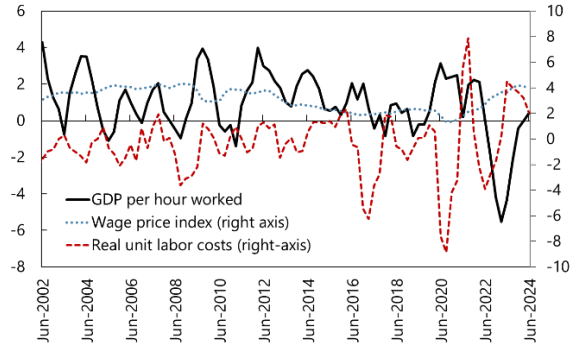


Source: ABS.

Productivity is stabilizing, while unit labor costs continue to rise as wages grow.

Productivity and Labor Costs

(Year-on-year, SA)



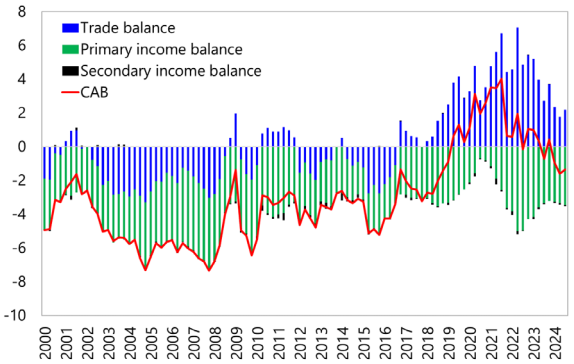
Sources: ABS, IMF staff calculations.

Sources: ABS; Haver Analytics; RBA; and IMF staff calculations.

Figure 2. The External Position Has Been Normalizing as Commodity Prices Soften

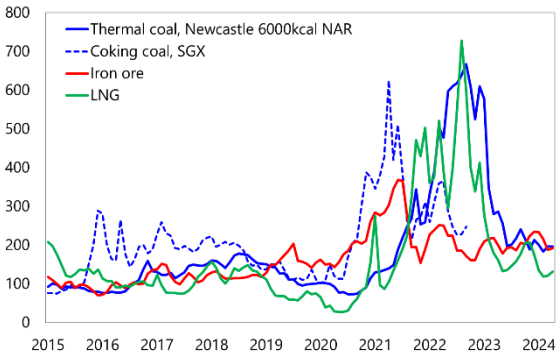
The current account has returned to deficit as the trade surplus continues to shrink…

Current Account Balance
(Percent of GDP)



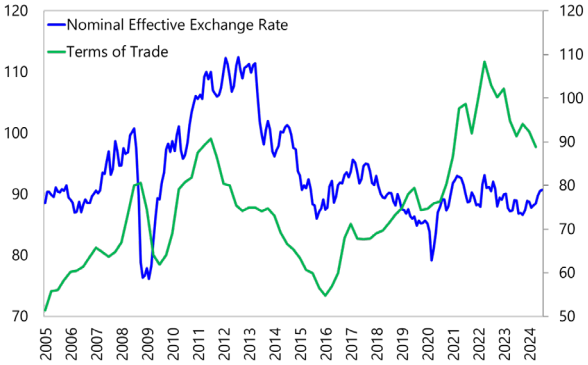
…on the back of the normalization in commodity prices.

Export Prices
(2016=100)



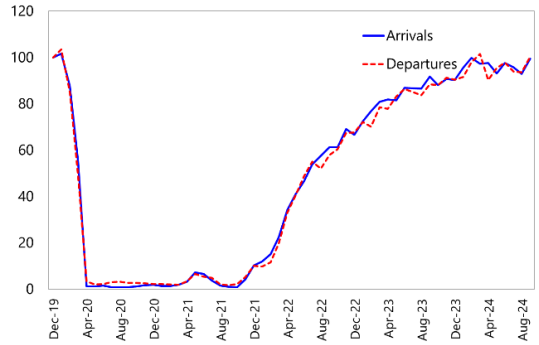
The exchange rate remains stable, despite the further deterioration in terms of trade over the last year.

Nominal Effective Exchange Rate and Terms of Trade
(Nominal Effective Exchange Rate, 2010=100, LHS; Terms of Trade, 2022=100, RHS)



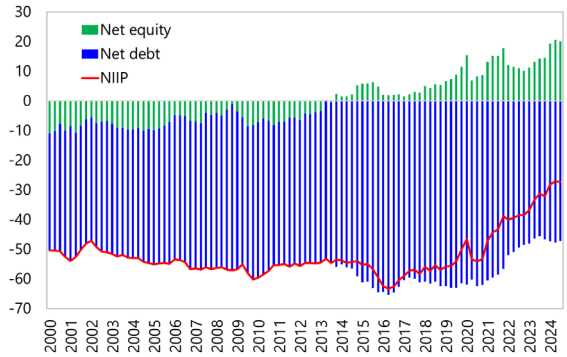
Total arrivals and departures flows have returned to around pre-pandemic levels.

Arrivals and Departures
(Index, 2019=100)



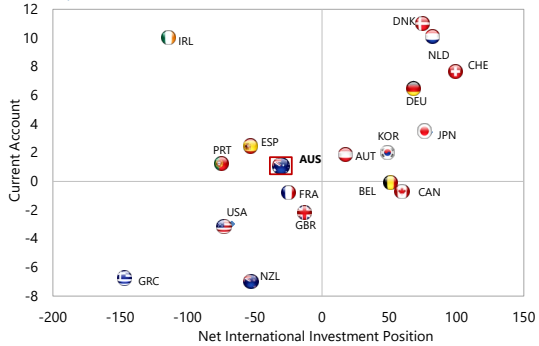
Recent current account surpluses have contributed to an improvement in the net investment position…

International Investment Position, Net
(Percent of GDP)



… bringing net external liabilities closer in line with peers.

External Position in Comparison
(2023, in percent of GDP)



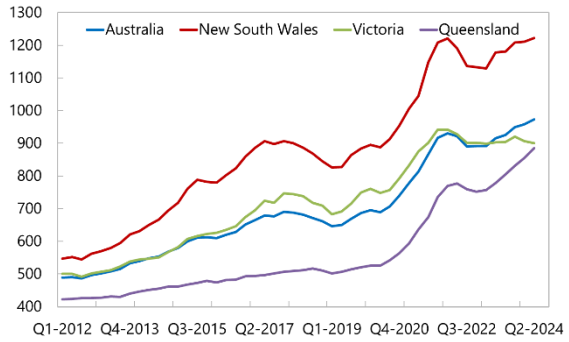
Sources: Australia's Merchandise Exports and Imports; Haver Analytics; IMF, World Economic Outlook; and IMF staff calculations.

Figure 3. The Housing Market is Facing Acute Imbalances

The housing market has recovered rapidly, with nominal prices now above pandemic era peaks.

Mean Price of Residential Dwellings

(Thousands Australian Dollar)

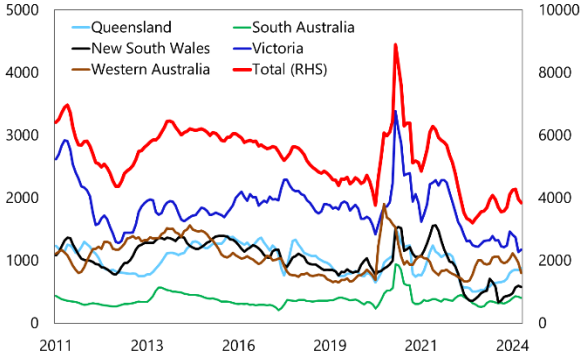


Sources: Australian Bureau of Statistics; Haver Analytics.

This comes on the back of recovering home sales, under robust housing demand…

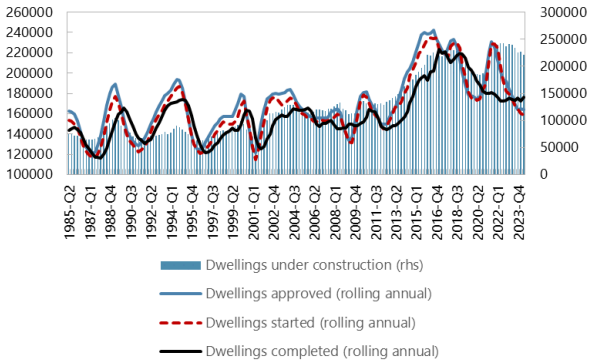
New Home Sales

(Detached Houses Units, SA, 3-month moving average)



… while supply has yet to adjust up with construction activities remaining subdued.

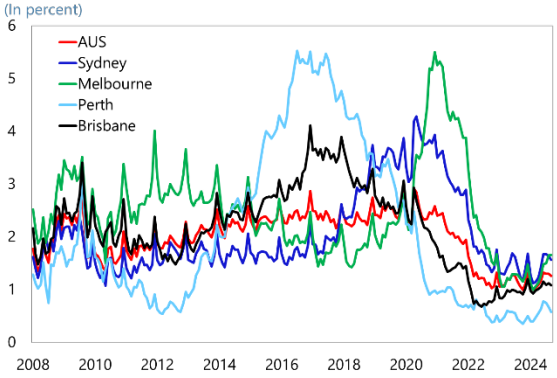
Housing Construction Activities



The rental market remains very tight, with vacancy rate at historical lows.

Residential Rental Vacancies

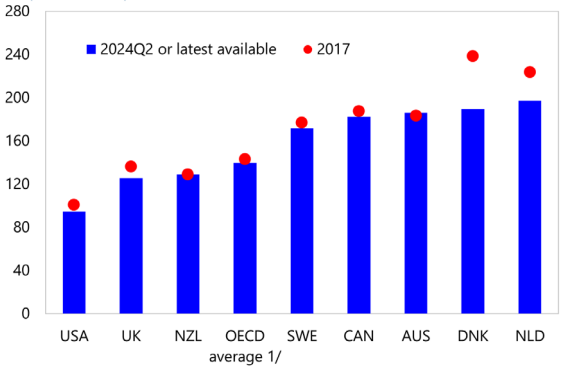
(In percent)



Household debt continues to be among the highest in OECD countries …

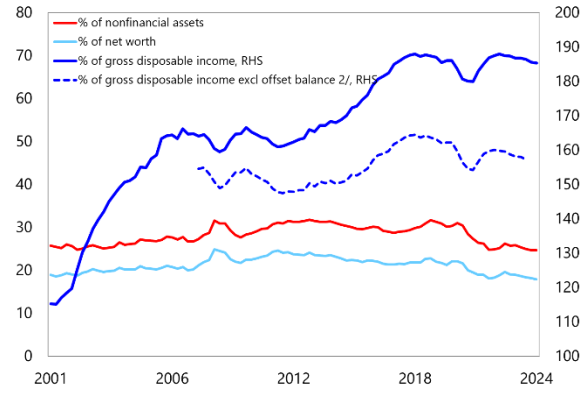
Household Debt

(In percent of disposable income)



… even as higher interest rates prompted households to reduce leverage, with offset accounts offering additional buffers.

Household Debt



Sources: OECD; RBA; Haver Analytics, and IMF staff estimates.

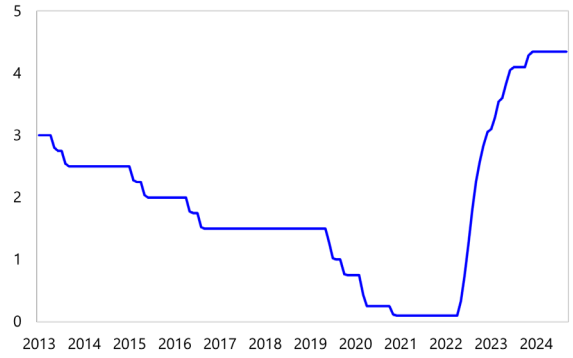
1/ Based on a limited number of countries due to the lack of data.

2/ Offset accounts are deposit accounts that are linked to mortgage loans such that funds deposited into an offset account effectively reduce the borrower's net debt position and the interest payable on the mortgage.

Figure 4. Monetary Policy Has Maintained a Restrictive Stance

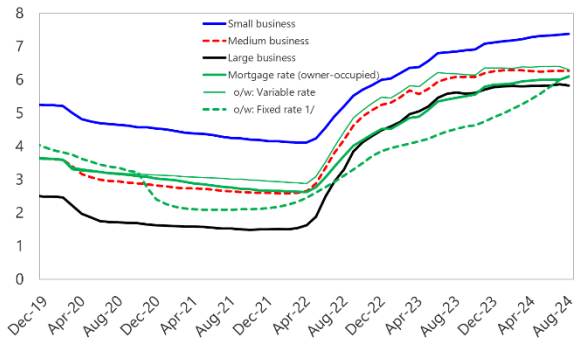
The RBA has held its cash rate at 4.35 percent since it was last hiked in November 2023 …

Policy Rate
(In percent per annum)



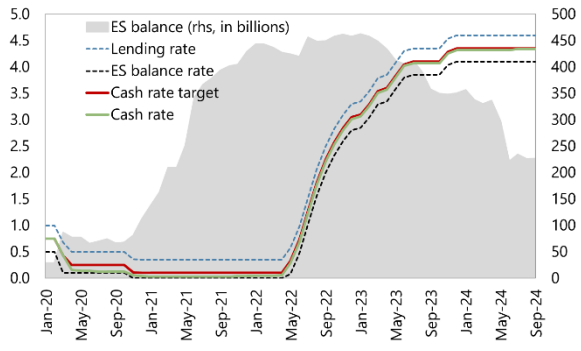
Under higher lending rates, …

Lending Rates Have Increased With Monetary Tightening
(In percent)



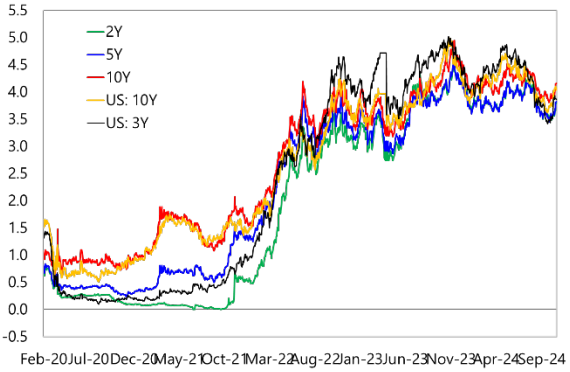
There remains ample liquidity despite policy tightening …

Overnight Interest Rates and Exchange Settlement Balance
(Interest rates, in percent; exchange balance, in billions)



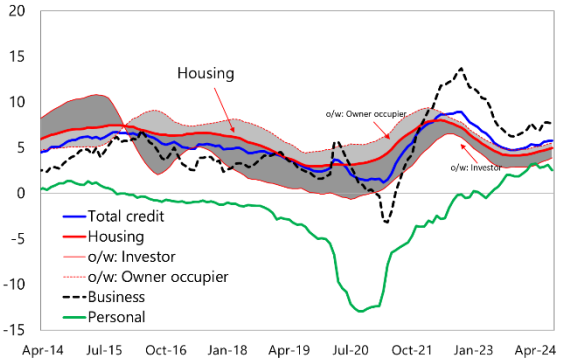
… with bond yields remaining at high levels, supporting monetary policy transmission…

Bond Yields
(In percent)



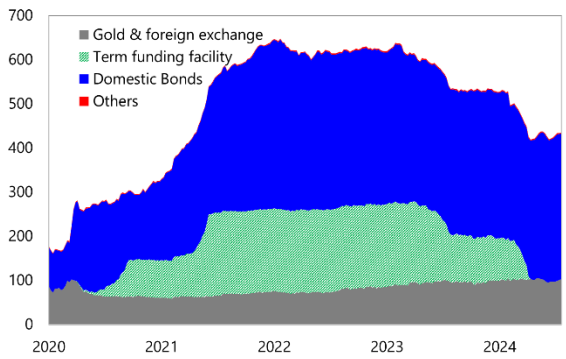
… private credit growth has slowed, while business credit remains robust.

Credit Growth by Sector
(Percent change, year-ended)



… while the size of the Reserve Bank's balance sheet continued to normalize.

Reserve Bank Assets
(In AUD billion)



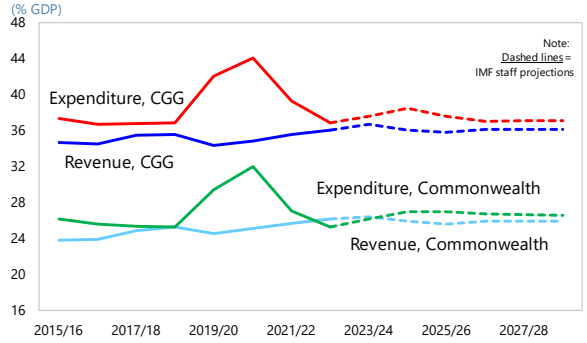
Sources: RBA; Haver Analytics; and IMF staff estimates.
1/ By residual fixed term, greater than 3 years.

Figure 5. The Public Sector Balance Sheet Continues to Improve

Following a period of fiscal consolidation, expenditures are forecast to outgrow revenues in 2024/25…

Consolidated General Government (CGG) and Commonwealth Government Revenue and Expenditure

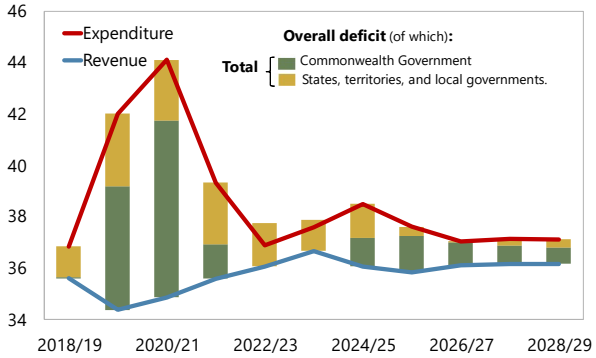
(% GDP)



… fiscal deficits are forecast into the medium term.

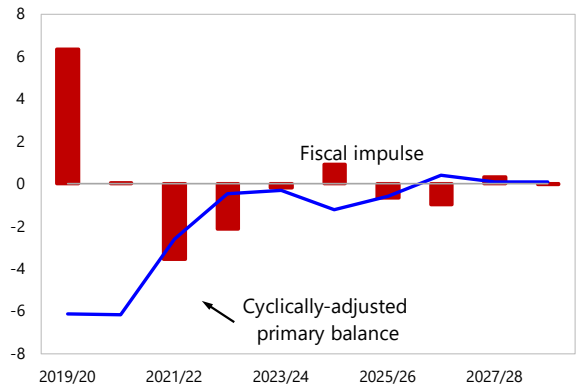
Consolidated General Government

(Percent of GDP)



The consolidated government fiscal stance is expected to be broadly neutral over the medium term…

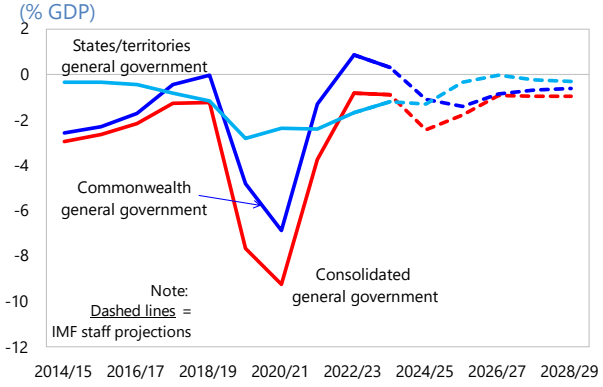
Cyclically-adjusted Primary Balance and Fiscal



… prolonging the period of budget deficits.

Fiscal Balances

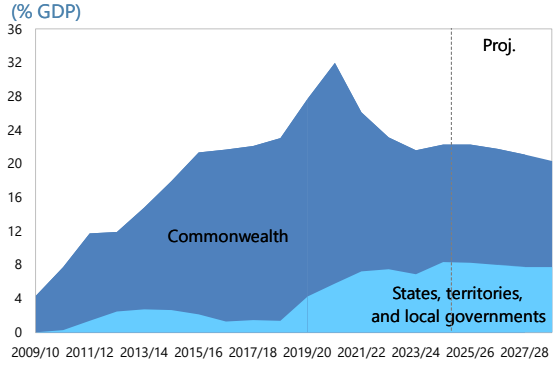
(% GDP)



Net public debt has come down with fiscal consolidation, and is projected to stabilize over the medium term …

Net Public Debt

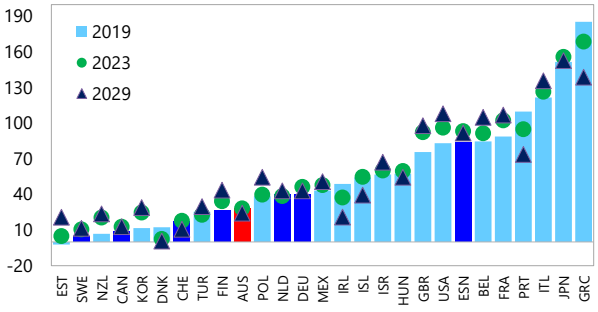
(% GDP)



…and remains low compared to other advanced economies.

Net Public Debt

(% GDP)



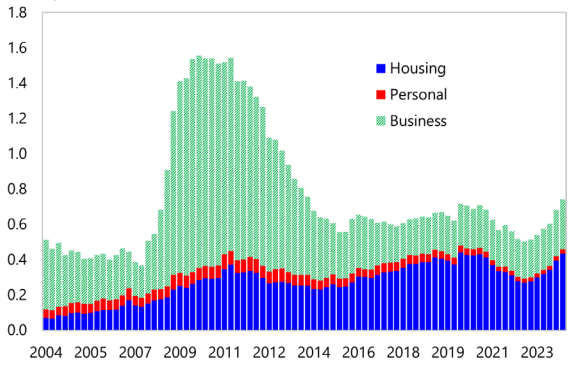
Note: Dark blue and red refer to AAA-rated countries.

Sources: Commonwealth and State/Territory Treasuries, FY2022/23 budgets; IMF, *World Economic Outlook*; and IMF staff estimates and projections.

Figure 6. The Banking Sector Remains Resilient

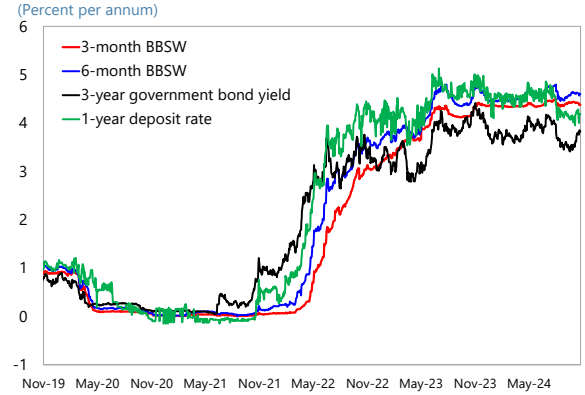
The NPL ratio remain low despite recent increase in insolvencies…

Banks' Non-performing Household Loans
(In percent of all assets, domestic books)



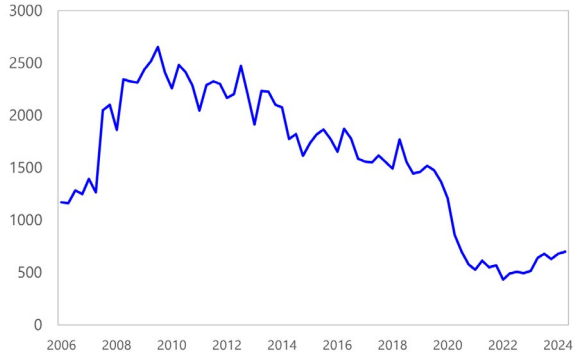
Funding costs have increased rapidly with domestic and global financial tightening…

Banks' Funding Costs
(Percent per annum)



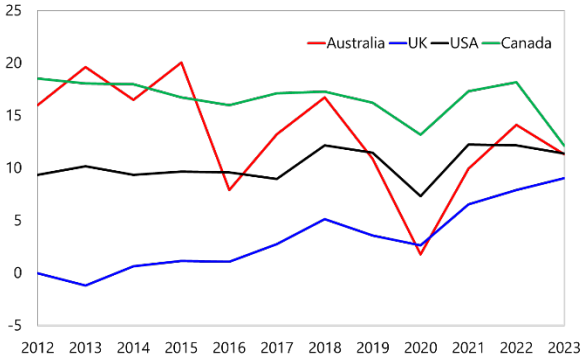
Business-related personal bankruptcies have remained low overall when compared with the Global Financial Crisis…

Business Bankruptcy
(Number of business-related bankruptcies)



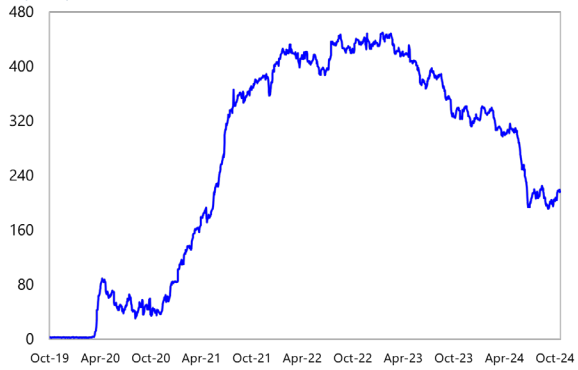
…and banks remain profitable.

Return on Equity
(In percent)



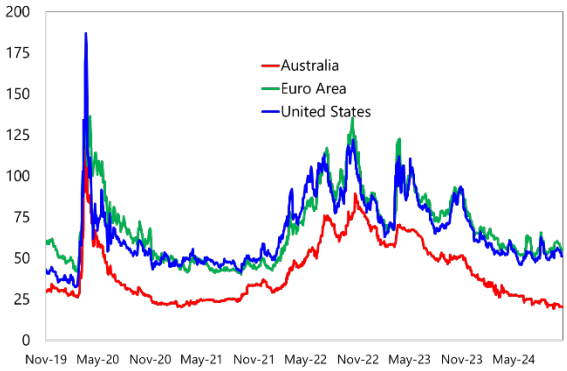
…but there remains ample liquidity reflected also in banks' still high reserves balances at the RBA.

Exchange Settlement Balances
(Bil A$)



…and market-perceived bank default risk is contained.

Credit Default Swap (CDS) Spreads
(Five-year, average of four largest banks)

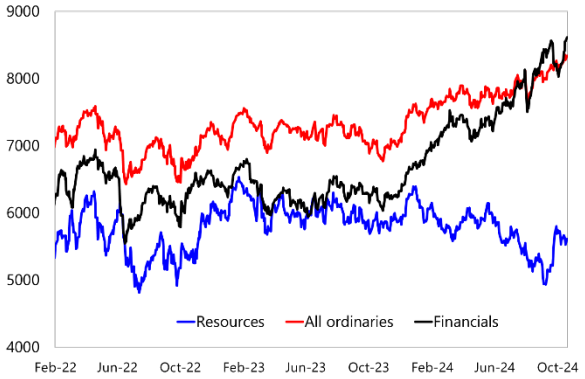


Sources: Bloomberg; and IMF staff calculations.

Figure 7. Financial Markets Have Been Generally Stable

Australian equity prices have fluctuated but overall remain robust…

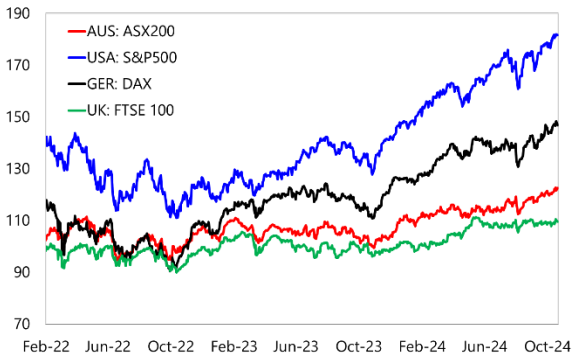
Stock Market Indices



…following global markets.

Advanced Economies: Stock Market Indices

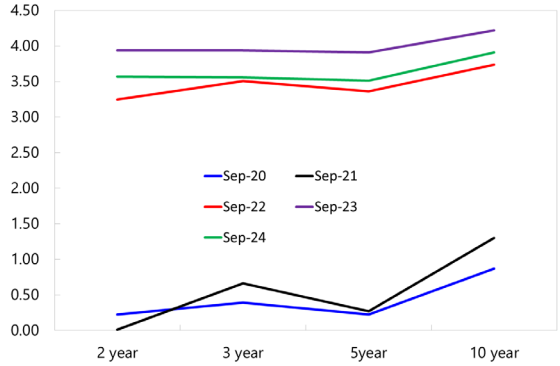
(End-2019=100)



The yield curve has shifted up significantly following the monetary policy tightening …

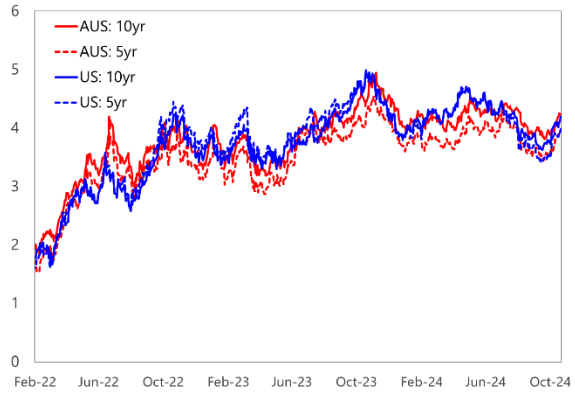
Australia Commonwealth Yields Curves

(In Percent)



… with longer-term yields broadly tracking global developments.

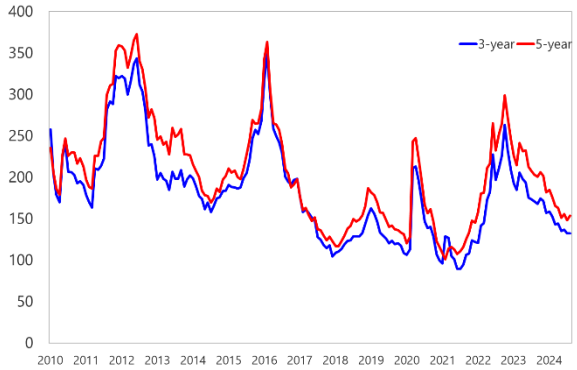
Government Bond Yields



Corporate bond spreads have normalized but have been slowly rising of late ….

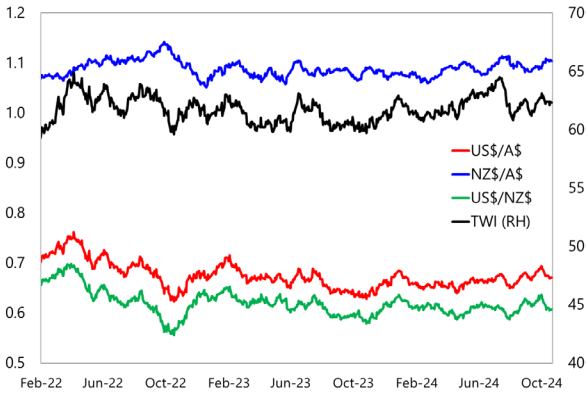
Non-Financial Corporate Bond Spreads

(BBB-rated corporate bond spread to government yields, in basis points)



The exchange rate remained largely stable against the US dollar and in trade-weighted terms (TWI).

Exchange Rates



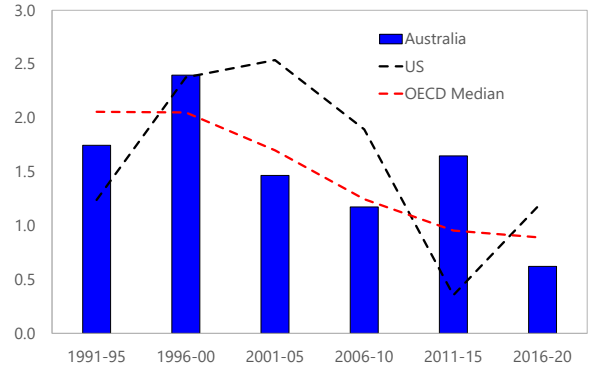
Sources: RBA; Bloomberg; and IMF staff calculations.

Figure 8. Australia's Macro-Structural Position Highlights Issues Predating the Pandemic

Labor productivity growth in Australia slowed significantly pre-pandemic…

Labor Productivity Growth

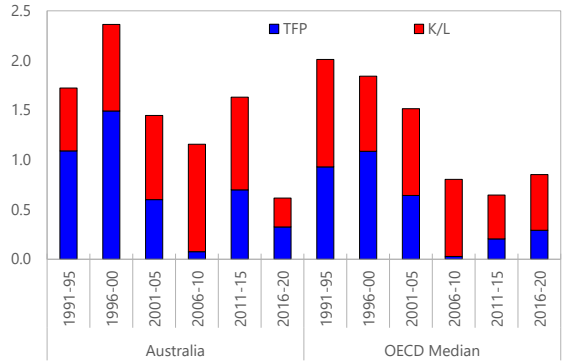
(In percent)



…driven by lower TFP growth as well as a smaller contribution from capital deepening.

Labor Productivity Growth, Role of TFP & Capital Deepening

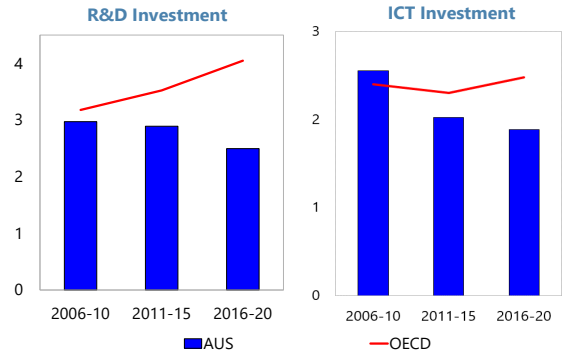
(In percent)



R&D and ICT investment declined, potentially contributing to the productivity slowdown.

R&D and ICT Investment

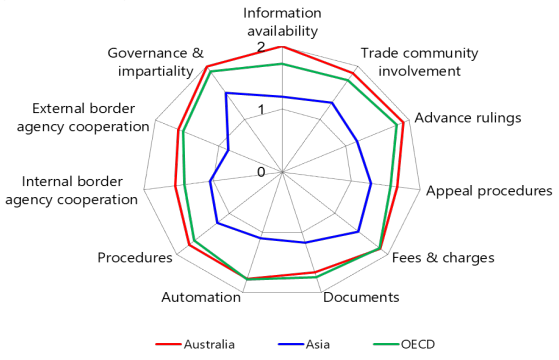
(In percent of GDP)



Australia's trade environment remains open and conducive to growth.

Ease of Conducting Trade

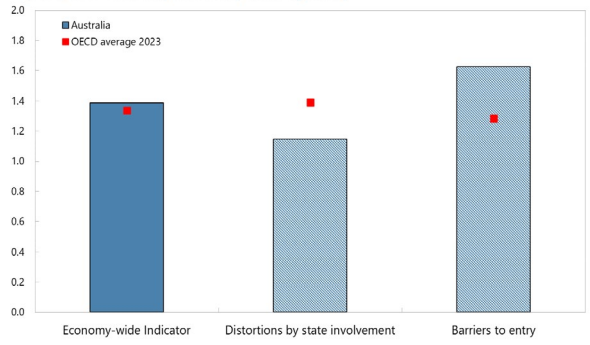
(0 to 2; 2 is best)



The OECD flags the current regulatory framework resulting in higher barriers to entry in Australia relative to peers…

Product Market Indicators: Economy-wide and High Level, 2023

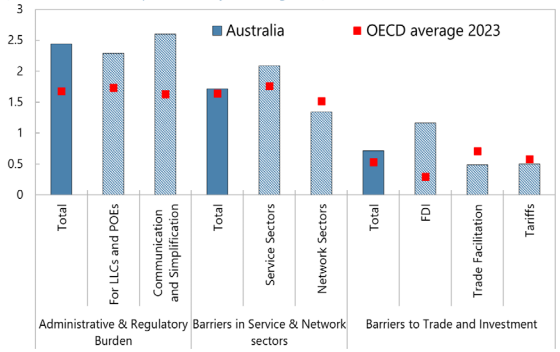
(0 to 6, lower = more competion-friendly market regulations)



…primarily reflecting administrative and regulatory burdens.

Product Market Indicators: Medium and Lower Level, 2023

(0 to 6, lower = more competition friendly market regulation)

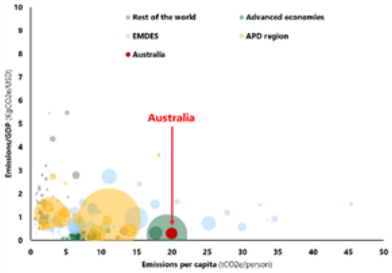


Sources: ABS; OECD Stat; De Locker and Eackout (2020); OECD Trade Facilitation Indicators; and Global Database on Intergenerational Mobility. LLC = Limited liability corporation; POE = personally owned Enterprise. The OECD Product Market Regulations indicator measures de jure (not de facto) regulations and relies on a simple average across sub-indicators. Uncertainty bands around point estimates are not provided by the compiler.

Figure 9. Progress is Ongoing Towards Climate Goals (1/2)

M1. GHG Emissions Intensity Vs. Total Emissions, 2021

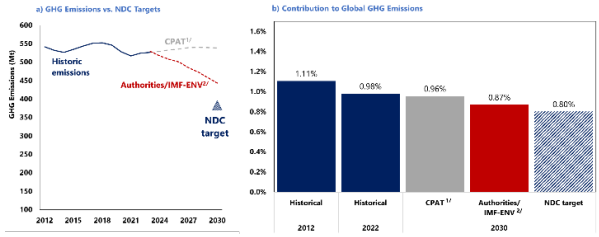
Australia is one of the top global emitters on both a per capita and absolute basis.



Note: Bubble size indicates total GHG emissions excluding land-use and land-use change and forestry. Outlier Palau is excluded.
Sources: IMF Climate Change Indicators Dashboard (2021) and World Economic Outlook (2021)

M2. GHG Emissions vs. NDC targets

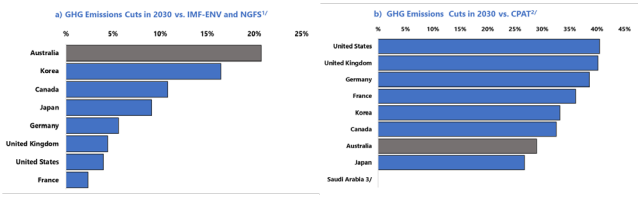
Australia contributes with nearly 1% of global GHG emissions. The country's mitigation gap, i.e., the deviation of emissions under the baseline from the NDC target, is moderate and scenario dependent.



Sources: IMF Climate Change Dashboard, UNFCCC, EDGAR, FAO and IMF Staff-calculations
Note: GHG emissions exclude Land Use, Land-Use Change and Forestry.
1/ CPAT estimations are indicative as they are based on uniform assumptions across all countries across the globe (i.e., no new mitigation policies, 50% reduction in explicit subsidies -if applicable-, energy prices based on average IMF-WB forecasts, and macroeconomic projections from the latest WEO). For Australia, the CPAT estimations do not include the Safeguard Mechanism and the authorities' current plans for renewables through 2030.
2/ Authorities projections are used as inputs in IMF-ENV, where IMF-ENV estimations are tailored to the Australian context and the authorities' current policies. For more details see Selected Issues Paper, Chapter 2.

M3. Multilateral Component: Comparison vs. Peers

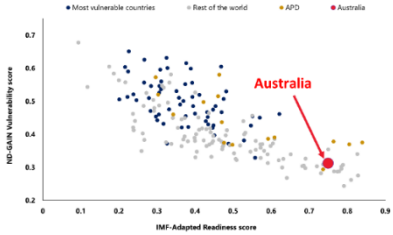
The comparison to peers and the distance from BAU are heavily influenced by the assumptions underlying the BAU.



Sources: IMF Climate Change Dashboard with data from the UNFCCC, EDGAR, FAO and IMF Staff-calculations.
Note: Based on the unconditional NDC target of GHG emissions excluding LULUCF since consistent LULUCF measurements are not available across countries.
1/ Authorities projections are used as inputs in IMF-ENV, where IMF-ENV estimations are tailored to the Australian context and the authorities' current policies. For more details see Selected Issues Paper, Chapter 2.
2/ CPAT estimations are indicative as they are based on uniform assumptions across all countries across the globe (i.e., no new mitigation policies, 50% reduction in explicit subsidies-if applicable, energy prices based on average IMF-WB forecasts, and macroeconomic projections from the latest WEO). For Australia, the CPAT estimations do not include the Safeguard Mechanism and the authorities' current plans for renewables through 2030.
3/ There is no difference in GHG emissions between the baseline and the country's NDC in 2030.
Notes: M=Mitigation, T=Transition, A=Adaptation.

A1. Climate risks and readiness (NDGAIN, 2021)

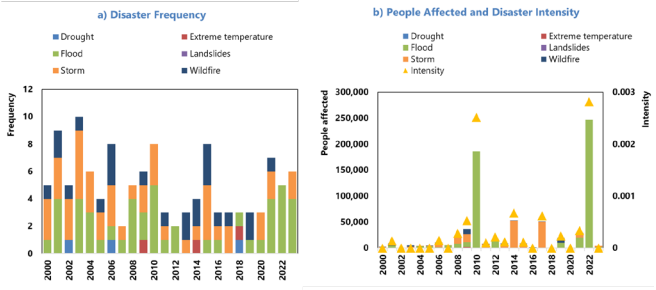
The country faces very low vulnerability and strong readiness to face climate change risks. Australia's high-quality institutions and low public debt help to lower its vulnerability.



Sources: IMF Climate Change Indicators Dashboard (2021)
Note: The Vulnerability Score assesses a country's current vulnerability to climate reflecting exposure, sensitivity, and adaptive capacity. The Readiness Score assesses a country's readiness to leverage public and private sector investment for adaptative actions.

A2. Key Natural Hazard Statistics

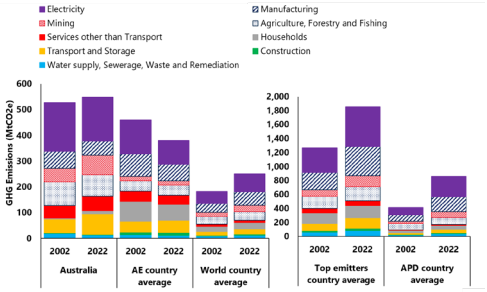
Australia's most frequent hazards are floods, storms, and wildfires, although not largely vulnerable to climate risks, while floods have historically impacted more people.



Note: Intensity is defined as (Total death+30% Total Affected)/Total population.
Sources: EMDAT and Staff calculations using Pondi and others (2022).

M4. GHG Emissions by Sector

Over 60% of the country's emissions come from electricity, transportation, and agriculture. In contrast to other top emitters, agriculture and mining are significant contributors to total emissions.

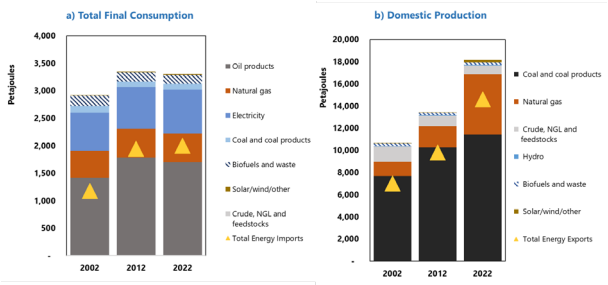


Note: GHG emissions excluding land-use and land-use change and forestry are shown.
Sources: OECD Air Emission Accounts; UNFCCC; EDGAR; IMF staff calculations.

Figure 10. Progress is Ongoing Towards Climate Goals (2/2)

T1. Energy Mix

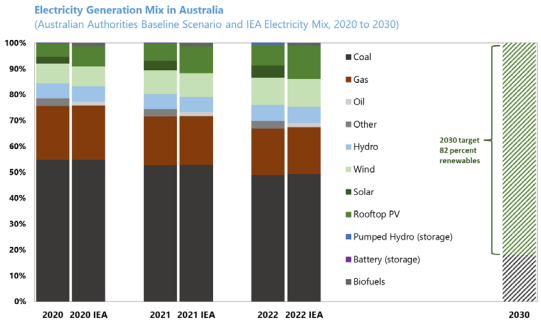
The country is a major coal producer and a net exporter of coal and natural gas. Renewable energies continue to play a small role in the overall energy mix.



Source: IEA World Energy Balances.

T2. Electricity Mix

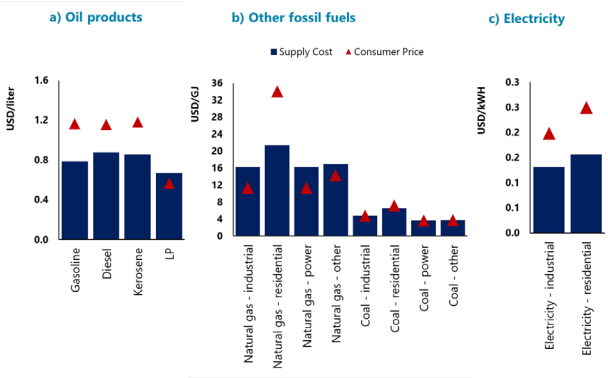
Despite renewable energy's impressive growth, achieving the 2030 target of 82 percent necessitates an acceleration.



Source: Australian Authorities and International Energy Agency Electricity Mix.

T3. Explicit Consumer Fuel Subsidies

Consumer prices are well above supply costs for most fuels, but natural gas subsidies are estimated at 0.3% of GDP.

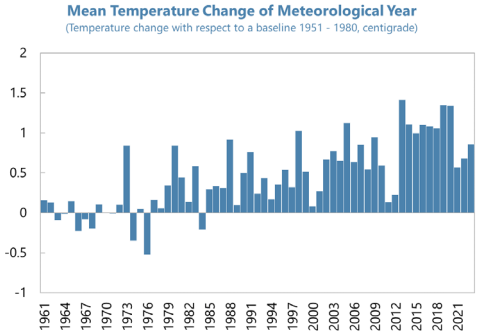


Sources: IMF Climate Change Dashboard (2021) with data from the IMF Fossil Fuel Subsidies database.

Notes: M=Mitigation, T=Transition, A=Adaptation.

A3. Average Temperatures

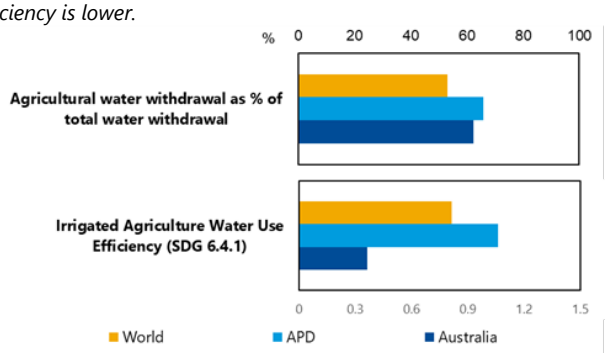
Average temperatures have already risen 1 degree since a baseline of 1951-198.



Source: IMF Climate Dashboard

A4. Water Withdrawal and Efficiency

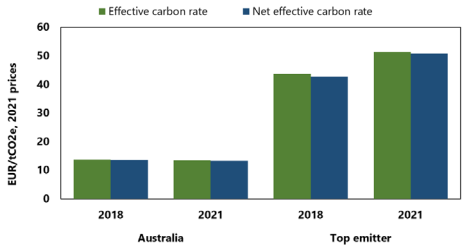
Agricultural water withdrawal is similar to the region while the water use efficiency is lower.



Source: IMF Staff estimates based on FAO Aquastat and WRI Aqueduct 4.0 (2023).

M5. Effective Carbon Pricing

Effective carbon rates[1/] are low compared to other large emitters. In the country, effective carbon rates are primarily driven by fuel excise taxes with some fossil fuel subsidies. The 2023 reforms to the Australian Safeguard Mechanism introduced tradeable permits and aligned the baseline and decline rate with Australia's 2030 targets (ICAP 2024).



Source: OECD Effective and Net Effective Carbon Rates

1/ Effective carbon rates measure the price of carbon emissions arising from the sum of taxes and tradeable permits. The term "effective" indicates that ECR components are calculated over a tax base and are net of exemptions, rate reductions, and refunds. Net effective carbon rates indicate that the ECR is estimated net of pre-tax fossil fuel support.

Table 1. Australia: Main Economic Indicators, 2019-2029

(Annual percent change, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
						Projections					
NATIONAL ACCOUNTS											
Real GDP	1.8	-2.1	5.5	3.9	2.0	1.2	2.1	2.3	2.2	2.3	2.3
Domestic demand	1.2	-2.2	6.0	5.0	2.6	1.5	1.7	2.1	2.0	2.1	2.1
Private consumption	0.9	-6.1	5.1	7.2	2.0	1.0	2.2	2.5	2.6	2.7	2.6
Public consumption	6.4	7.8	5.7	4.9	1.9	3.9	1.1	1.3	0.6	0.8	0.8
Investment	-2.4	-2.4	10.7	2.2	5.4	0.6	1.6	2.6	2.6	2.4	2.5
Public	2.1	-0.7	7.4	4.2	10.2	1.0	1.3	1.0	1.1	1.6	2.2
Private business	-0.7	-3.5	9.2	6.2	9.2	0.9	1.6	3.1	3.0	2.8	2.7
Dwelling	-7.0	-4.4	9.4	-4.0	-1.8	-2.2	1.6	2.9	2.9	2.4	2.4
Net exports (contribution to growth, percentage points)	1.2	-0.4	-1.6	-1.9	0.4	-0.6	0.5	0.2	0.2	0.2	0.3
Gross domestic income	3.2	-1.9	9.2	5.5	0.3	-0.2	1.0	2.2	2.1	2.3	2.3
Investment (percent of GDP) 1/	22.5	22.3	23.3	23.7	24.0	24.2	24.0	24.0	24.1	24.2	24.2
Public	5.1	5.1	5.0	5.0	5.5	5.6	5.5	5.5	5.4	5.4	5.4
Private	17.6	17.4	18.0	17.8	18.6	18.5	18.4	18.6	18.7	18.8	18.9
Savings (gross, percent of GDP)	23.1	24.6	26.2	24.8	24.2	23.0	22.7	22.7	22.8	22.8	22.8
Households	10.1	17.0	14.5	10.0	7.4	8.4	9.3	9.2	8.9	8.6	8.36
Potential output	2.3	0.7	2.0	2.1	2.2	2.3	2.3	2.4	2.2	2.3	2.3
Output gap (percent of potential)	-0.7	-3.4	-0.2	1.6	1.4	0.3	0.1	0.0	0.0	0.0	0.0
LABOR MARKET											
Employment	2.3	-1.7	3.1	4.5	3.4	2.1	1.3	1.5	1.6	1.5	1.7
Unemployment (percent of labor force)	5.2	6.5	5.1	3.7	3.7	4.2	4.5	4.5	4.5	4.6	4.5
Wages (nominal percent change)	2.3	1.6	2.0	3.0	4.0	3.7	3.4	3.4	3.3	3.1	2.9
PRICES											
Terms of trade index (goods, avg)	77	77	94	103	96	90	87	87	86	86	87
% change	8.2	0.2	22.0	9.8	-7.1	-6.1	-3.1	-0.5	-0.2	0.1	0.1
Consumer prices (avg)	1.6	0.9	2.8	6.6	5.6	3.3	3.3	3.0	2.5	2.5	2.5
Core consumer prices (avg)	1.6	1.2	2.8	5.7	5.3	3.6	3.0	2.6	2.5	2.5	2.5
GDP deflator (avg)	3.3	1.2	5.8	8.2	3.5	2.5	2.3	2.6	2.3	2.3	2.3
FINANCIAL											
Reserve Bank of Australia cash rate target (percent, avg)	1.2	0.3	0.1	1.6	4.0	4.4	4.0	3.5	3.5	3.5	3.5
10-year treasury bond yield (percent, avg)	1.4	0.9	1.6	3.6	3.9	4.2	4.3	4.2	4.3	4.3	4.3
Mortgage lending rate (percent, avg)	4.8	4.5	4.5	7.3	8.7	8.4	7.7	7.5	7.4	7.3	7.2
MACRO-FINANCIAL											
Credit to the private sector	2.5	2.1	7.4	8.3	4.9	5.7	5.4	4.9	4.5	4.5	4.7
House prices (% change)	2.5	3.6	23.7	-4.9	8.3	7.2	7.0	5.6	4.6	4.5	4.7
House price-to-income, national median value (ratio)	6.4	6.6	7.8	7.4	7.6	7.7	7.7	7.7	7.7	7.7	7.7
Estimated interest payments (percent of disposable income)	7.0	5.8	5.2	6.9	7.6	7.3	7.0	6.9	6.9	6.8	6.8
Household savings (percent of disposable income)	6.2	15.6	12.9	6.2	1.3	2.2	3.4	3.9	3.0	2.9	2.9
Household debt (percent of disposable income) 2/	186	181	187	188	185	182	178	177	177	176	176
Business credit (percent of GDP)	49.0	49.9	48.5	48.7	49.1	50.7	51.2	51.4	51.6	51.7	51.8
GENERAL GOVERNMENT (percent of GDP) 3/											
Revenue	35.6	34.4	34.9	35.6	36.1	36.7	36.1	35.8	36.1	36.2	36.2
Expenditure	36.8	42.0	44.1	39.3	36.9	37.6	38.5	37.6	37.0	37.1	37.1
Net lending/borrowing	-1.2	-7.6	-9.2	-3.7	-0.8	-0.9	-2.4	-1.8	-0.9	-1.0	-1.0
Commonwealth only	-0.1	-4.8	-6.9	-1.3	0.9	0.3	-1.1	-1.4	-0.9	-0.7	-0.6
Operating balance	0.9	-5.5	-7.0	-1.5	1.5	1.0	-0.4	-0.5	0.9	0.9	0.9
Cyclically adjusted primary balance	0.2	-6.1	-6.1	-2.6	-0.5	-0.3	-1.2	-0.6	0.4	0.1	0.1
Gross debt	42.1	52.5	58.0	52.9	49.2	49.0	49.8	49.4	48.4	47.5	46.5
Net debt	24.5	32.0	37.8	33.4	30.6	28.5	30.6	30.6	29.7	28.9	28.1
BALANCE OF PAYMENTS											
Current account (percent of GDP)	0.3	2.2	2.9	0.9	0.3	-1.2	-1.3	-1.4	-1.4	-1.4	-1.4
Export volume	3.1	-9.6	-2.4	2.6	6.7	1.8	3.7	3.1	2.6	2.7	2.9
Import volume	-1.0	-11.8	4.8	13.5	6.4	5.1	2.0	2.8	2.4	2.4	2.4
Net international investment position (percent of GDP)	-50.1	-53.2	-38.9	-38.4	-32.0	-27.1	-27.2	-27.3	-27.5	-27.7	-27.9
Gross official reserves (bn A$)	84	56	81	85	94	...	...	...	...	...	...
MEMORANDUM ITEMS											
Nominal GDP (bn A$)	1,996	1,977	2,206	2,481	2,618	2,716	2,837	2,978	3,114	3,257	3,409
Percent change	5.2	-1.0	11.6	12.5	5.5	3.7	4.5	5.0	4.5	4.6	4.7
Real GDP per capita (% change)	0.3	-3.0	5.2	2.3	-0.5	-0.4	0.8	1.1	1.0	1.1	1.1
Population (million)	25.5	25.6	25.8	26.3	27.0	27.3	27.6	28.0	28.3	28.7	29.0
Nominal effective exchange rate	86.3	86.0	90.8	90.3	88.1	...	...	...	...	...	...
Real effective exchange rate	86.0	85.3	90.5	90.8	90.3	...	...	...	...	...	...

Sources: Authorities' data; IMF *World Economic Outlook* database; and IMF staff estimates and projections.

1/ Includes changes in inventories.

2/ Reflects the national accounts measure of household debt, including to the financial sector, state and federal governments and foreign overseas banks and governments. It also includes other accounts payable to these sectors and a range of other smaller entities including pension funds.

3/ Fiscal year ending June.

Table 2. Australia: Fiscal Accounts, 2018/19-2028/29

(In percent of GDP, unless otherwise indicated)

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24 Est	2024/25 Projections	2025/26	2026/27	2027/28	2028/29
CONSOLIDATED GENERAL GOVERNMENT OPERATIONS 1/											
Revenue	**35.6**	**34.4**	**34.9**	**35.6**	**36.1**	**36.7**	**36.1**	**35.8**	**36.1**	**36.2**	**36.2**
Tax revenue	28.7	27.8	28.4	29.2	29.5	30.4	29.9	29.7	30.0	30.0	30.1
Direct taxes	21.4	20.5	20.9	22.4	22.5	23.2	22.8	22.6	22.8	22.9	22.9
Individual and withholding	14.5	14.4	14.2	14.5	14.6	15.9	15.3	15.4	15.5	15.8	15.8
Corporate	6.9	6.1	6.7	7.9	7.8	7.3	7.5	7.1	7.3	7.1	7.1
Indirect taxes	7.3	7.3	7.5	6.8	7.0	7.1	7.1	7.1	7.2	7.1	7.1
Of which: GST	3.3	3.2	3.5	3.2	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Non-tax revenue	6.9	6.5	6.5	6.4	6.6	6.3	6.2	6.1	6.2	6.1	6.1
Expenditure	**36.8**	**42.0**	**44.1**	**39.3**	**36.9**	**37.6**	**38.6**	**37.6**	**37.1**	**37.2**	**37.1**
Expense	34.8	39.8	41.8	37.1	34.6	35.6	36.5	36.3	35.3	35.3	35.3
Employee expenses	8.5	8.9	8.8	8.3	8.1	7.7	7.8	7.9	7.7	7.7	7.7
Other operating expenses (excl. depreciation)	11.6	12.5	12.8	12.8	12.5	12.3	12.6	12.5	12.2	12.2	12.2
Transfers	9.7	13.4	15.4	11.3	9.2	10.2	10.1	9.9	9.5	9.6	9.6
Interest (excl. superannuation)	1.3	1.3	1.2	1.2	1.4	1.7	2.0	2.0	2.0	1.9	1.9
Other	3.7	3.7	3.5	3.4	3.3	3.7	4.0	4.0	3.9	3.9	3.8
Net acquisition of nonfinancial assets	2.1	2.2	2.3	2.3	2.3	1.9	2.0	1.3	1.8	1.9	1.9
Of which: Gross fixed capital formation	3.7	3.7	3.7	3.6	3.6	3.9	4.1	4.0	3.8	3.9	3.9
Operating balance	0.9	-5.5	-7.0	-1.5	1.5	1.0	-0.4	-0.5	0.9	0.9	0.9
Primary balance	-0.4	-6.8	-8.3	-2.9	-0.1	0.1	-1.2	-0.5	0.3	0.2	0.2
Net lending (+)/borrowing (-)	**-1.2**	**-7.6**	**-9.2**	**-3.7**	**-0.8**	**-0.9**	**-2.5**	**-1.8**	**-0.9**	**-1.0**	**-1.0**
CONSOLIDATED GENERAL GOVERNMENT BALANCE SHEET											
Liabilities	**82.8**	**95.5**	**97.4**	**83.4**	**77.8**	**77.0**	**76.6**	**75.4**	**73.7**	**72.7**	**71.7**
Gross debt	42.1	52.5	58.0	52.9	49.2	49.0	50.0	49.5	48.5	47.6	46.6
Commonwealth	33.3	40.8	43.6	37.9	33.7	32.8	32.9	32.6	32.1	31.4	30.7
States, territories and local governments	8.8	11.8	14.4	15.0	15.5	16.2	17.1	16.9	16.4	16.2	16.0
Other liabilities	40.7	42.9	39.4	30.6	28.6	28.0	26.6	25.9	25.2	25.1	25.0
Assets	**123.9**	**130.1**	**130.3**	**127.1**	**125.3**	**127.5**	**126.2**	**123.0**	**121.2**	**119.5**	**117.8**
Financial assets	51.1	54.8	54.8	52.6	51.5	54.7	53.9	53.0	52.4	52.0	51.3
Debt relevant	17.6	20.6	20.2	19.5	18.6	20.5	19.3	18.9	18.7	18.6	18.5
Other	33.5	34.3	34.6	33.1	32.9	34.2	34.6	34.1	33.7	33.4	32.8
Other assets	72.7	75.3	75.5	74.5	73.9	72.8	72.3	70.0	68.7	67.6	66.5
Net financial worth	**-31.7**	**-40.6**	**-42.6**	**-30.8**	**-26.3**	**-22.2**	**-22.7**	**-22.5**	**-21.3**	**-20.7**	**-20.4**
Net debt	**24.5**	**32.0**	**37.8**	**33.4**	**30.6**	**28.5**	**30.7**	**30.6**	**29.8**	**29.0**	**28.2**
Commonwealth 2/	23.0	27.7	32.0	26.1	23.1	21.6	22.4	22.4	21.8	21.2	20.4
States, territories and local governments	1.4	4.3	5.8	7.2	7.5	6.9	8.3	8.3	8.0	7.8	7.8
Net worth	**41.0**	**34.7**	**32.9**	**43.7**	**47.5**	**50.5**	**49.7**	**47.5**	**47.4**	**46.9**	**46.1**
Commonwealth	-28.4	-33.7	-35.2	-25.3	-21.4	-19.0	-18.7	-18.2	-17.2	-16.2	-15.8
States, territories and local governments	69.5	68.4	68.1	68.9	68.9	69.6	68.4	65.7	64.6	63.1	61.9
MEMORANDUM ITEMS											
Cyclically adjusted primary balance (in percent of potential GDP)	0.2	-6.1	-6.1	-2.6	-0.5	-0.3	-1.2	-0.6	0.4	0.1	0.1
Fiscal impulse (change in CAPB; in percent of potential GDP)	0.0	6.3	0.0	-3.5	-2.1	-0.2	0.9	-0.6	-1.0	0.3	0.0
Change in real revenue (percent)	4.2	-3.1	5.2	9.3	3.8	1.8	-0.9	1.0	2.7	2.2	2.1
Change in real primary expenditure (percent)	3.9	17.3	13.4	-9.9	-4.8	3.1	3.6	1.7	1.0	1.6	2.0
Commonwealth general government 3/											
Revenue	21.7	21.3	21.5	22.2	22.7	23.0	22.4	22.1	22.3	22.4	22.4
Expenditure	21.8	26.1	28.4	23.6	21.8	22.7	23.6	23.5	23.2	23.1	23.1
Net lending (+)/borrowing (-)	-0.1	-4.8	-6.9	-1.3	0.9	0.3	-1.2	-1.4	-0.9	-0.7	-0.7
States, territories and local governments 4/											
Revenue	12.7	11.8	12.3	12.3	12.5	13.4	13.5	13.6	13.6	13.6	13.6
Expenditure	13.7	14.5	14.7	14.7	14.1	14.8	14.9	14.1	13.9	14.1	14.1
Net lending (+)/borrowing (-)	-1.0	-2.7	-2.4	-2.4	-1.6	-1.4	-1.4	-0.5	-0.3	-0.5	-0.5
Commonwealth transfers to subnational governments	6.1	6.0	6.6	7.2	6.7	6.6	6.9	6.6	6.7	6.5	6.5
Of which: General revenue assistance	3.5	3.3	3.6	3.5	3.5	3.5	3.5	3.5	3.6	3.6	3.6
Nonfinancial public sector capital stock	98.5	101.4	100.0	98.0	96.8	100.6	100.6	98.7	97.9	96.7	95.2
GDP (in billion A$)	1,949	1,983	2,088	2,336	2,561	2,671	2,765	2,912	3,044	3,185	3,332

Sources: Authorities' data and IMF staff estimates and projections.

1/ Accrual basis; GFS. Comprises the Commonwealth, and state, territory, and local goverments.

2/ Includes Future Fund assets.

3/ Excludes general revenue assistance to states and territories from revenue and expenditure.

4/ Excludes Commonwealth payments for specific purposes from revenue and expenditure.

Table 3. Australia: Balance of Payments, 2019-2029

(In percent of GDP, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
						Projections					
Current account	0.3	2.2	2.9	0.9	0.3	-1.2	-1.3	-1.4	-1.4	-1.4	-1.4
Balance on goods and services	3.3	3.6	5.4	5.5	3.9	2.2	1.9	1.7	1.6	1.6	1.6
Exports of goods and services	24.7	22.1	23.5	27.0	25.7	24.0	23.4	23.2	23.0	22.9	22.8
Exports of goods	19.6	18.4	20.8	24.0	21.4	19.2	18.4	18.2	18.1	18.0	17.9
Of which: Resources	13.3	12.4	14.8	17.5	15.1	13.4	13.3	12.8	12.4	11.9	11.5
Exports of services	5.1	3.6	2.7	3.0	4.3	4.7	5.0	5.0	5.0	4.9	4.9
Imports of goods and service	21.3	18.5	18.1	21.5	21.8	21.8	21.5	21.4	21.4	21.3	21.2
Imports of goods	16.1	15.5	15.6	17.5	16.6	16.6	16.2	16.1	16.0	15.8	15.7
Imports of services	5.2	3.0	2.5	4.1	5.2	5.2	5.3	5.3	5.4	5.5	5.6
Primary income, net	-3.0	-1.3	-2.3	-4.5	-3.6	-3.3	-3.2	-3.1	-2.9	-2.9	-2.9
Interest payments	-1.0	-0.7	-0.6	-1.0	-1.3	-1.5	-1.4	-1.3	-1.3	-1.3	-1.2
Equity income	-1.5	-0.3	-1.5	-3.1	-1.7	-1.1	-1.1	-1.1	-1.1	-1.2	-1.3
Secondary income, net	0.0	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Capital and financial account											
Capital account, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account, net	-0.3	-2.3	-2.6	-0.6	-0.3	1.3	1.3	1.4	1.4	1.4	1.4
Direct investment	2.1	0.8	1.5	-3.1	1.0	2.6	3.9	4.0	4.2	4.2	4.3
Equity	2.7	1.2	1.5	-2.6	1.7	3.2	4.4	4.4	4.5	4.5	4.6
Debt	-0.6	-0.4	0.0	-0.5	-0.7	-0.5	-0.5	-0.4	-0.4	-0.3	-0.3
Portfolio investment	-2.2	-0.3	-5.1	4.6	-0.8	1.5	-0.7	-1.2	-1.2	-1.4	-1.5
Equity	-2.2	-0.7	-5.3	2.1	-1.8	-1.7	-1.8	-2.3	-2.4	-2.5	-2.6
Debt	0.0	0.5	0.3	2.5	0.9	3.2	1.1	1.1	1.2	1.0	1.1
Financial derivatives	-0.3	-1.1	-0.7	0.0	-0.7	-1.7	-1.3	-1.0	-0.9	-0.7	-0.6
Other investment	0.4	-3.0	2.8	-1.9	0.3	-1.0	-0.6	-0.4	-0.7	-0.6	-0.8
Reserve assets	-0.2	1.3	-1.1	-0.2	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	0.0	0.1	-0.3	-0.2	0.1	-0.3	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET											
Net international investment position 1/	-50.1	-53.2	-38.9	-38.4	-32.0	-27.1	-27.2	-27.3	-27.5	-27.7	-27.9
Equity, net	11.5	8.8	17.8	10.0	14.6	19.3	15.8	12.9	10.3	7.7	5.4
Assets	85.0	84.5	93.1	82.1	85.3	94.5	95.1	94.8	94.9	94.9	94.9
Liabilities	73.5	75.7	75.3	72.0	70.7	75.2	79.3	81.9	84.7	87.1	89.5
Debt, net	-61.5	-62.0	-56.7	-48.5	-46.6	-46.3	-43.0	-40.2	-37.7	-35.4	-33.3
Assets	65.3	70.7	60.3	68.0	63.4	58.7	59.1	58.9	58.9	58.9	58.9
Liabilities	126.8	132.6	116.9	116.5	110.0	105.0	102.1	99.1	96.6	94.3	92.2
External assets (gross)	150.2	155.2	153.3	150.1	148.7	153.2	154.2	153.7	153.8	153.7	153.8
Equity	85.0	84.5	93.1	82.1	85.3	94.5	95.1	94.8	94.9	94.9	94.9
Debt	65.3	70.7	60.3	68.0	63.4	58.7	59.1	58.9	58.9	58.9	58.9
External liabilities (gross)	200.3	208.4	192.2	188.5	180.8	180.2	181.4	181.0	181.3	181.4	181.7
Equity	73.5	75.7	75.3	72.0	70.7	75.2	79.3	81.9	84.7	87.1	89.5
Debt	126.8	132.6	116.9	116.5	110.0	105.0	102.1	99.1	96.6	94.3	92.2
Of which: A$-denominated	59.7	68.6	61.7	61.2	58.5	56.1	54.6	53.0	51.7	50.4	49.3
Short-term	40.8	43.0	43.8	44.8	34.9	33.5	32.6	31.6	30.8	30.1	29.4
MEMORANDUM ITEMS											
Gross official reserves (bn A$)	84	56	81	85	94	...	...	...	...	...	...
In months of prospective imports	2.8	1.7	1.8	1.8	1.9	...	...	...	...	...	...
In percent of short-term external debt	10.3	6.6	8.4	7.7	10.3	...	...	...	...	...	...
Net official reserves (bn A$)	63	61	84	85	89	...	...	...	...	...	...

Sources: Authorities' data and IMF staff estimates and projections.
1/ NIIP figures as a percent of GDP for 2022 differ from those reported in Annex III. Before computing ratios, Annex III converts NIIP stocks to USD using end-of-period exchange rates while GDP is converted to USD using average exchange rates. Table 3 computes ratios based on AUD numbers reported by

Table 4. Australia: Monetary and Financial Sector, 2019-2029

(Year-end, unless otherwise noted)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
						Projections					
BALANCE SHEET					In billions of A$						
Total assets 1/	5,464	6,428	6,834	7,326	7,310	7,588	7,924	8,293	8,668	9,062	9,476
Currency and deposits	76	157	463	491	388	404	421	442	462	483	506
Securities other than shares	825	1110	1031	1099	1104	1149	1199	1257	1314	1375	1439
Loans	3,521	3,999	3,839	4,251	4,356	4,586	4,821	5,058	5,284	5,522	5,780
Claims on government	30	31	24	28	22	23	24	25	26	28	29
Claims on MFI	740	997	881	1004	962	1001	1045	1095	1145	1198	1254
Claims on non-MFIs	2,607	2,784	2,855	3,086	3,235	3,419	3,604	3,781	3,949	4,126	4,318
o/w private sector	2,607	2,784	2,855	3,086	3,235	3,419	3,604	3,781	3,949	4,126	4,318
Claims on non-residents	144	187	79	132	137	143	149	156	163	171	179
Shares and other equity	6	5	10	8	10	11	11	12	12	13	14
Other	1037	1157	1491	1477	1451	1438	1472	1524	1595	1668	1737
Total liabilities 1/	5,464	6,428	6,834	7,326	7,310	7,588	7,924	8,293	8,668	9,062	9,476
Capital and reserves	291	310	311	318	329	342	357	374	391	409	428
Borrowing from RBA	76	133	204	211	121	88	92	96	101	105	110
Liabilities to other MFIs	592	644	672	703	734	767	802	838	876	915	956
Deposits of non-banks	2,735	3,137	3,278	3,425	3,579	3,740	3,909	4,085	4,268	4,460	4,661
Debt securities	948	833	885	967	1061	1104	1152	1208	1263	1321	1383
Other liabilities	821	1372	1483	1702	1486	1546	1613	1691	1769	1850	1936
					In percent of GDP						
Total assets (w/o residual) 1/	274	325	310	295	279	279	279	278	278	278	278
Loans	176	202	174	171	166	168	170	170	170	169	169
Claims on MFI	37	50	40	40	37	37	37	37	37	37	37
Claims on non-MFIs	131	141	129	124	124	126	127	127	127	127	127
					Percent change						
Credit non-bank private sector 2/	2.4	1.8	7.2	8.3	4.9	5.7	5.4	4.9	4.5	4.5	4.7
o/w Household credit	2.5	2.7	6.9	6.1	4.1	4.9	5.4	4.7	4.2	4.3	4.6
o/w Housing credit	3.0	3.5	7.4	6.4	4.3	5.1	5.6	4.8	4.2	4.4	4.6
Personal credit	-4.9	-12.5	-3.7	-0.5	1.2	0.5	1.0	3.0	3.0	3.0	3.0
Business credit	2.4	0.9	8.4	12.9	6.4	7.3	5.4	5.3	5.0	4.8	4.9

Sources: IFS (Other Depository Corporations, Table ODC-2SR) , RBA, APRA, and IMF staff projections.

1/ IFS (Other Depository Corporations, Table ODC-2SR).

2/ RBA (Table D1 Growth in selected financial aggregates).

Table 5. Australia: Selected Financial Soundness Indicators of the Banking Sector

(Year-end, unless otherwise noted, in percent)

	2017	2018	2019	2020	2021	2022	2023	2024Q1
Capital Adequacy								
Regulatory capital to risk-weighted assets	14.6	14.8	15.7	17.6	17.9	17.8	20.0	20.4
Regulatory Tier I capital to risk-weighted assets	12.4	12.7	13.1	14.0	13.9	13.4	14.7	14.7
T1 capital to assets	5.9	5.9	6.2	6.4	6.2	5.9	6.1	6.2
Large exposures to capital	82.7	84.8	99.7	82.7	82.9	89.4	88.6	93.5
Nonperforming loans net of loan-loss provisions to capital	6.9	7.5	7.6	7.7	6.5	4.5	5.9	6.4
Asset Quality								
Nonperforming loans to total gross loans	0.9	0.9	1.0	1.1	0.9	0.7	0.9	0.9
Earnings and Profitability								
Return on assets	1.2	1.4	1.0	0.3	1.0	1.3	1.0	…
Return on equity	13.2	16.8	10.9	1.8	9.9	14.1	11.3	…
Interest margin to gross income	71.3	64.9	74.3	91.1	76.7	67.4	83.6	…
Noninterest expenses as a percentage of gross income	47.5	44.7	52.6	66.7	55.2	45.7	35.4	…
Liquidity								
Liquid assets to total assets	18.6	18.7	16.5	20.2	23.2	23.7	23.8	23.1
Liquid assets to short-term liabilities	40.1	41.9	34.2	37.0	37.7	41.2	42.8	41.6

Source: IMF, Financial Soundness Indicators (FSI) database.

Annex I. Previous IMF Policy Recommendations

Sound macroeconomic policies contributed to further progress toward a soft landing. Policies have been broadly consistent with staff's advice. All levels of government have consolidated their fiscal positions, albeit at different paces, and the RBA has significantly raised its policy rate and maintained a restrictive stance. As a result, output gap has narrowed, and inflation has fallen significantly from its peak.

1. The fiscal consolidation was supported by the strength of the underlying economic recovery. The Commonwealth Government achieved two consecutive surpluses in FY2022/23 and FY2023/24, by saving additional tax receipts generated by favorable terms-of-trade and strong labor market developments. This follows the fiscal strategy of budget repair and is in line with staff advice to calibrate the fiscal stance to support the disinflation process. The cyclically adjusted primary balance is getting closer to its pre-pandemic levels.

2. RBA has maintained a restrictive monetary policy stance to address above-target inflation. RBA has hiked the policy rate cumulatively by 425 basis points since May 2022. This has resulted in a moderation in credit growth and a tightening of financial conditions, as mortgage rates reset. It has further transmitted to the real economy mainly through weaker private consumption and dwelling investment. The RBA review concluded in 2023 proposed further reforms to strengthen the Reserve Bank's independence and its collaboration with the fiscal authority, which are being implemented.

3. Financial sector reforms have focused on building resilience, while the housing market staged a strong rebound. The Australian financial system remains stable, bolstered by strong capital positions and lower leverages. APRA has kept its minimum serviceability buffer requirement at 3 percent following the recent increase, including to curb excessive buildup of household debt, which remains at high levels. APRA continues to closely monitor lending standards and has increased the frequency of its public communications regarding macroprudential policy reviews to more aptly adapt its toolkit based on the evolvement of risks and vulnerabilities. Progress is being made in addressing climate and cyber risks, which is essential to ensure financial resilience in a changing environment.

4. Progress has been made on structural policies, especially in climate change mitigation, though the scope of tax policy reforms has been more limited. Fuel efficiency standards were legislated for the first time, the Capital Investment Scheme has been expanded to encourage new investment in renewable energy, while the 2024/25 Commonwealth budget's focus on the Future Made in Australia on Net Zero industries can help lower the cost of renewable energy production. The roll out of the reformed Safeguard mechanism has gone smoothly. The government's focus on education and female labor force participation is also consistent with previous staff recommendations, though the longstanding policy advice of rebalancing the tax structure away from direct taxes to indirect taxes has yet to be implemented.

Annex II. Sovereign Risk and Debt Sustainability Assessment

Australia is at a low overall risk of sovereign stress, and debt is sustainable with an AAA sovereign credit rating. A strong post-pandemic recovery, favorable commodity prices, and Commonwealth government fiscal discipline has left Australia in a strong fiscal position relative to many other AEs. Looking forward, the deficit is expected to widen in the near term, as new expenditure commitments combine with cuts to personal income tax brackets. However, over the medium-term debt is expected to gradually decline to pre-pandemic levels and debt levels remains low relative to other AEs. Australia's deep and liquid financial system and relatively modest GFN needs suggest liquidity risks are low. Although long-term challenges exist from demographics and climate-change, Australia's strong fiscal position means that long-term risks are also assessed to be low.

Figure 1. Australia: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Low	The overall risk of sovereign stress is low, reflecting low levels of vulnerability in the short-, medium-, and long-term horizons.
Near term 1/			
Medium term	Low	Low	Medium-term risks are assessed as low due to mechanical low signals on the debt fan chart (showing debt dynamics are likely to remain stable), GFN module (showing financing needs are likely to be met even in a stress scenario), and medium term index (showing across the board resilience).
Fanchart	Low	...	
GFN	Low	...	
Stress test		...	
Long term	...	Low	Long-term risks ase assessed as low. Debt amortization is expected to be higher than historical levels, and aging and climate change could present risks. However, under current scenarios these risks are expected to be contained due to low debt level, fiscal buffers and strong institutions.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Commentary: Australia is at a low overall risk of sovereign stress, and debt is sustainable with an AAA sovereign credit rating. A strong post-pandemic recovery, favorable commodity prices, and Commonwealth government fiscal discipline has left Australia in a strong fiscal position relative to many other AEs. Looking forward, the deficit is expected to widen in the near term, as new expenditure commitments combine with cuts to personal income tax brackets. However, over the medium-term debt is expected to gradually decline to pre-pandemic levels and debt levels remains low relative to other AEs. Australia's deep and liquid financial system and relatively modest GFN needs suggest liquidity risks are low. Although long-term challenges exist from demographics and climate-change, Australia's strong fiscal position means that long-term risks are also assessed to be low.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure 2. Australia: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	
2. Subsectors included in the chosen coverage in (1) above:						

			Subsectors captured in the baseline	Inclusion	
CPS / NFPS / GG: expected / CG	1		Budgetary central government	Yes	
	2		Extra budgetary funds (EBFs)	No	Not applicable
	3		Social security funds (SSFs)	No	
	4		State governments	Yes	
	5		Local governments	Yes	
	6		Public nonfinancial corporations	No	
	7		Central bank	No	
	8		Other public financial corporations	No	

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:	Consolidated	Non-consolidated

Color code: chosen coverage | Missing from recommended coverage | Not applicable

Reporting on Intra-Government Debt Holdings

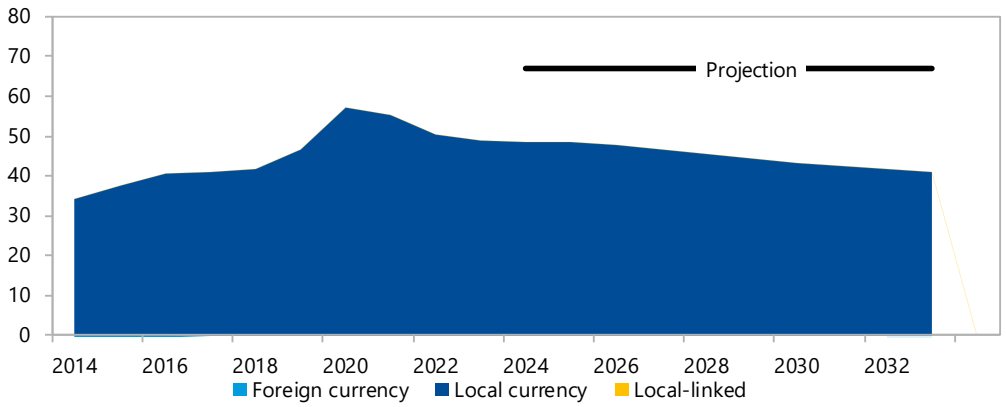
		Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS / NFPS / GG: expected / CG	1	Budget. central govt									0
	2	Extra-budget. funds									0
	3	Social security funds									0
	4	State govt.									0
	5	Local govt.									0
	6	Nonfin pub. corp.									0
	7	Central bank									0
	8	Oth. pub. fin. corp									0
		Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: In Australia the general government is made up of the Commonwealth government, State and Territory governments, and local government.

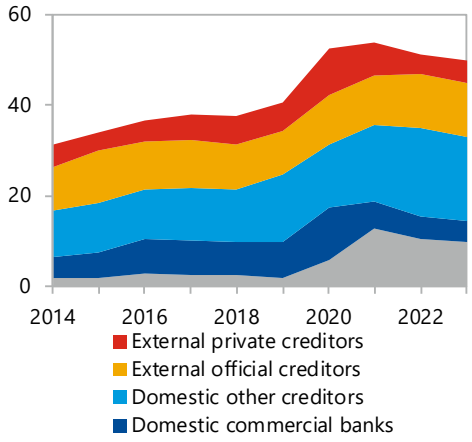
Figure 3. Australia: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



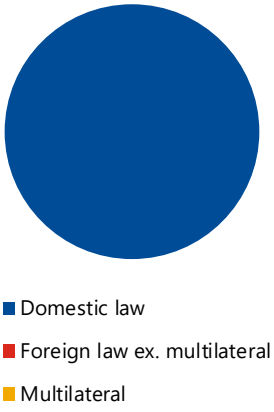
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



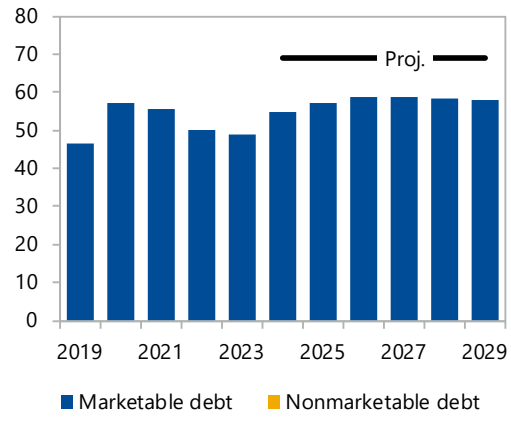
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2023 (percent)



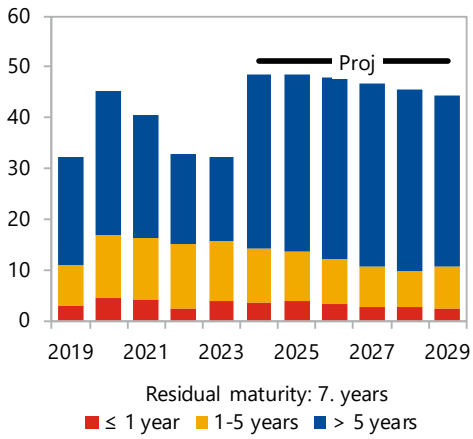
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

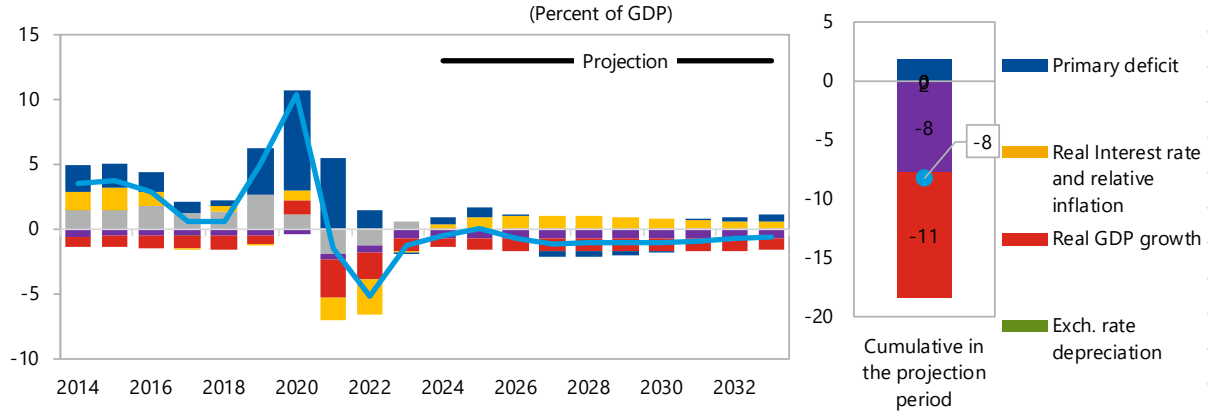
Commentary: Public debt in Australia increased over the pandemic, but has since stabilized and is expected to gradually decline to pre-pandemic levels. Public debt is held by a diversified set of creditors.

Figure 4. Australia: Baseline Scenario

(Percent of GDP unless indicated otherwise)

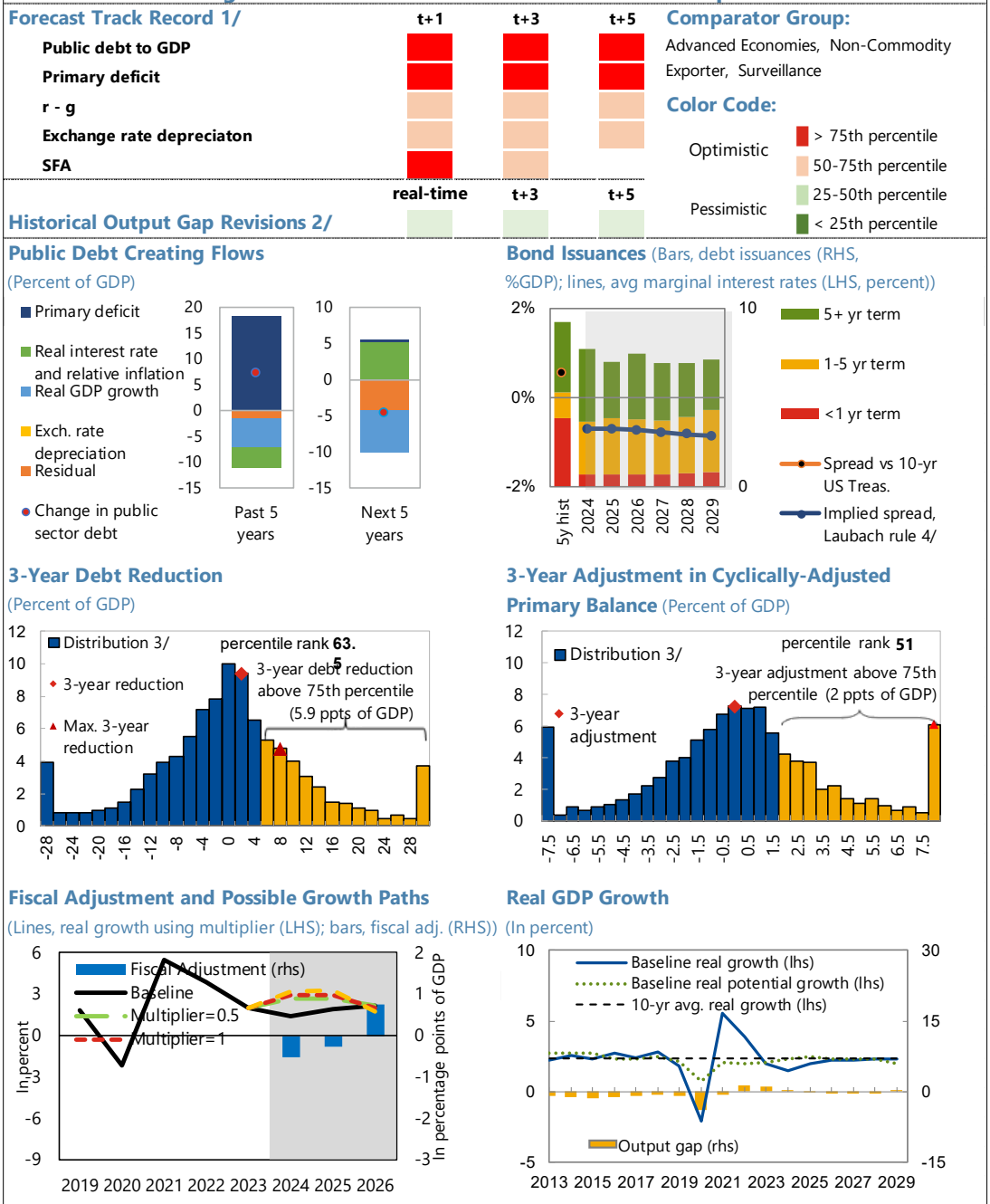
	Actual	Medium-term projection						Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	49.0	48.5	48.6	47.8	46.7	45.6	44.5	43.4	42.5	41.7	41.2
Change in public debt	-1.2	-0.5	0.1	-0.8	-1.1	-1.1	-1.1	-1.0	-0.9	-0.8	-0.6
Contribution of identified flows	-1.8	-0.5	0.1	-0.8	-1.1	-1.1	-1.1	-1.0	-0.9	-0.8	-0.6
Primary deficit	0.0	0.5	0.8	0.0	-0.4	-0.4	-0.3	-0.1	0.1	0.3	0.5
Noninterest revenues	35.6	35.5	35.1	35.2	35.3	35.4	35.4	35.4	35.5	35.5	35.6
Noninterest expenditures	35.6	36.0	35.9	35.2	35.0	35.0	35.1	35.3	35.5	35.8	36.1
Automatic debt dynamics	-1.1	-0.3	0.0	-0.1	-0.1	0.0	-0.1	-0.2	-0.3	-0.3	-0.4
Real interest rate and relative inflation	-0.1	0.4	0.9	1.0	1.0	1.0	0.9	0.8	0.7	0.6	0.6
Real interest rate	-0.1	0.4	0.9	1.0	1.0	1.0	0.9	0.8	0.7	0.6	0.6
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-1.0	-0.7	-0.9	-1.0	-1.1	-1.1	-1.0	-1.0	-1.0	-1.0	-0.9
Real exchange rate	0.0	...	...	...	...	...	...	...	...	...	...
Other identified flows	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Other transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	7.5	7.7	7.0	7.5	6.9	6.9	7.1	7.2	7.5	7.9	8.4
of which: debt service	8.2	7.9	6.9	8.1	8.0	8.0	8.1	8.1	8.1	8.4	8.6
Local currency	8.2	7.8	6.7	7.9	7.7	7.6	7.7	7.6	7.6	7.8	8.0
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:											
Real GDP growth (percent)	2.0	1.4	2.0	2.2	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Inflation (GDP deflator; percent)	3.5	2.9	2.6	2.7	2.5	2.3	2.3	2.3	2.3	2.3	2.3
Nominal GDP growth (percent)	5.5	4.4	4.6	5.0	4.8	4.7	4.7	4.7	4.7	4.7	4.7
Effective interest rate (percent)	3.3	3.7	4.6	4.8	4.7	4.6	4.5	4.2	4.0	3.8	3.7

Contribution to Change in Public Debt



Commentary: Rising debt servicing costs and primary deficits are largely offset by growth in the near term. Over the medium-term stabilized primary deficits and steady-state growth path allow for a gradual tapering of debt towards pre-pandemic levels.

Figure 5. Australia: Realism of Baseline Assumptions



Commentary: Pandemic era spending drove an increase in debt over the past five years, but a strong recovery and fiscal discipline has reduced the overall deficit and contributed towards stable debt-to-GDP levels. Moving forward, a near-term fiscal expansion is expected to reverse over the medium-term as temporary cost-of-living support measures are withdrawn.

Source : IMF Staff.

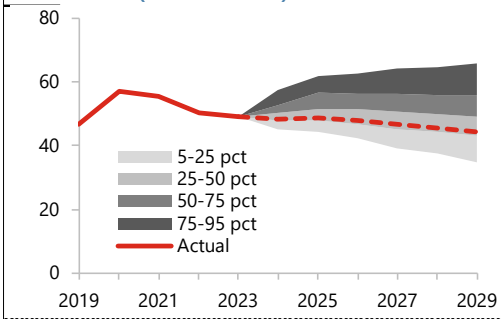
1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates.

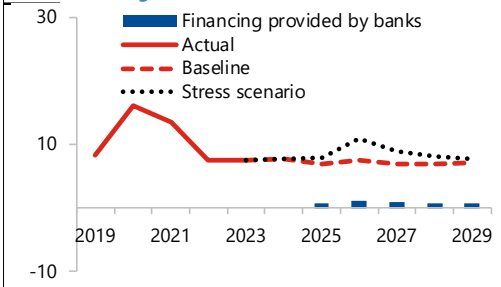
3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.
4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Figure 6. Australia: Medium-Term Risk Assessment

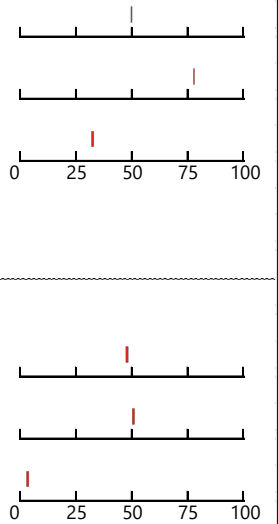
Final Fanchart (Percent of GDP)



Gross Financing Needs (Percent of GDP)



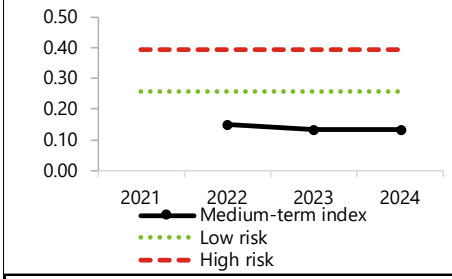
	Value	Contrib 1/	Percentile in peer group 2/
Debt fanchart module			
Fanchart width *(percent of GDP)*	30.8	0.4	
Probability of debt non-stabilizaiton *(percent)*	28.6	0.2	
Terminal debt-to-GDP x institutions index	7.0	0.2	
Debt fanchart index (DFI)		0.8	
Risk signal: 3/		Low	
Gross financing needs (GFN) module			
Average baseline GFN *(percent of GDP)*	7.2	2.5	
Initial Banks' claims on the gen. govt *(pct bank assets)*	5.8	1.9	
Chg. In banks' claims in stress *(pct banks' assets)*	0.0	0.0	
GFN financeability index (GFI)		4.3	
Risk signal: 4/		Low	



Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-Term Index (Index Number)



Medium-term risk analysis

	Value	(normalized)	Weight	Contribution
Debt fanchart index	0.8	0.2	0.5	0.1
GFN finaceability index	4.3	0.1	0.5	0.0
Medium-term index		0.1		
Risk signal: 5/		Low		
Final assessment:		Low		

Prob. of missed crisis, 2024-2029, if stress not predicted: 0.0 pct.
Prob. of false alarms, 2024-2029, if stress predicted: 75.0 pct.

Commentary: Medium-term tools indicate a low level of risk. The fan chart indicates debt is stable while gross financing needs are relatively small as a fraction of GDP. Australia's high quality institutions, strong track record and liquid domestic banking sector provides reassurance that risks are contained.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is advanced economies, non-commodity exporter, surveillance.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

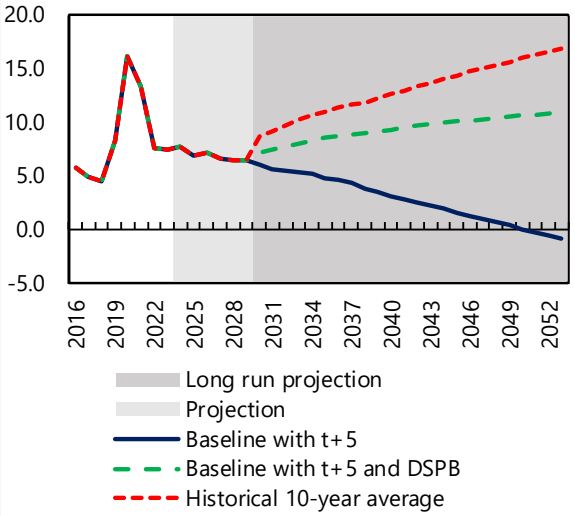
Figure 7. Australia: Triggered Modules

Large amortizations	Pensions	Climate change: Adaptation	Natural Resources
	Health	Climate change: Mitigation	

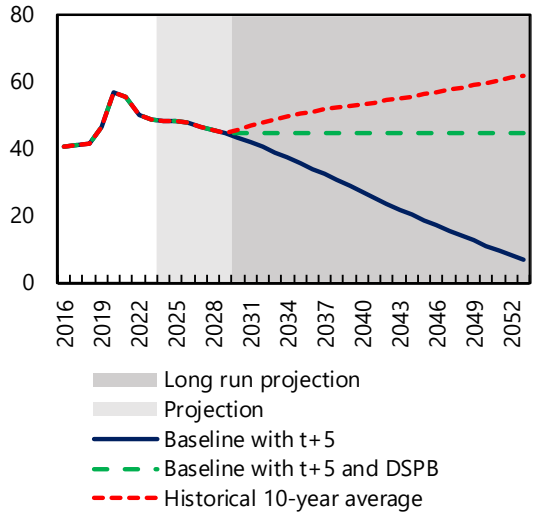
Australia: Long-Term Risk Assessment: Large Amortization

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Overall Risk Indication		

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



Commentary: The large amortization module is triggered given the larger-than-historical amortizations projected in the long term.

Annex III. External Sector Assessment

Overall Assessment: *The external position in 2023 was broadly in line with the level implied by medium-term fundamentals and desirable policies.* The current account (CA) surplus was reduced from 1.1 percent of GDP in 2022 to 0.3 percent of GDP in 2023, as declining commodity export prices were only partly offset by the continued recovery of service exports. The current account returned to deficit in the first quarter of 2024, with the deficit projected to widen in the medium term, as iron prices decline, savings return to historical levels, and investment picks up. Medium-term prospects remain uncertain given the shifting external environment and volatility in commodity prices. **Potential Policy Responses:** Given the positive output gap and still elevated inflation, fiscal and monetary restraint remains warranted for Australia. While the closing of the output gap may push the current account balance up, this is expected to be offset by the execution of planned infrastructure projects and structural policies that boost private investment (rebalancing taxes from direct to indirect taxes, streamlining product market regulation, and promoting R&D and innovation). Australia's commitment to a floating exchange rate should help keep the external position in line with fundamentals going forward. Australia should continue to support an open trade environment, including in regional and multilateral trade agreements.					
Foreign Asset and Liability Position and Trajectory	**Background.** Australia's NIIP improved to -31.9 percent of GDP at end-2023, from -38.0 percent of GDP in 2022, driven by the revaluation effects of foreign equities, rising interest rates that reduced the value of external debt, and the slight CA surplus. While 61 percent of Australia's external gross liabilities are debt obligations, more than half of the debt liabilities are denominated in domestic currency, while assets are largely denominated in foreign currency. Foreign liabilities are composed of about one-quarter FDI, one-half portfolio investment (principally banks' borrowing abroad and foreign holdings of government bonds), and one-quarter other investments and derivatives. **Assessment.** The NIIP level and trajectory are sustainable. The structure of Australia's external balance sheet reduces the vulnerability associated with its negative NIIP. With a positive net foreign currency asset position, a nominal depreciation tends to strengthen the external balance sheet, all else being equal. The banking sector's net foreign currency liability position is mostly hedged, and the maturity of banks' external funding has lengthened since the global financial crisis. The government's balance sheet remains strong and can provide credible support in a tail-risk event in which domestic banks suffer a major loss.				
2023 (% GDP)	NIIP: -32.0	Gross Assets: 148.7	Debt Assets: 37.2	Gross Liab.: 180.8	Debt Liab.: 80.1
Current Account	**Background.** After decades of CA deficits, the CA balance was in surplus from 2019 to 2023, due to an upswing in export commodity prices. In 2023, the CA surplus declined to 0.3 percent of GDP, from 1.1 percent of GDP in 2022, as commodity prices continued their downward trajectory and service imports ticked up, reflecting a rise in Australian spending abroad. The merchandise trade balance moderated from 6.5 percent of GDP in 2022 to 4.8 percent of GDP in 2023, as terms of trade deteriorated. This surplus was partially offset by a 3.5 percent of GDP deficit in the primary income balance (due to dividend payments on Australia's equity liabilities, especially in the mining sector), and a services deficit of 0.9 percent of GDP (as the strong post-pandemic recovery in tourism and education service exports was offset by rising Australian spending abroad). From a savings-investment perspective, the reduced surplus in 2023 reflected a further decline in the savings rate from pandemic-era highs, as well as strong public investment. The CA has returned to deficit in the first half of 2024, and, while there is considerable uncertainty around the evolution of the external environment, the deficit is expected to widen slightly over the medium term as iron ore prices normalize, and private investment picks up supported by structural reforms.				

	Assessment. The EBA model estimates a cyclically adjusted CA balance of -0.7 percent of GDP compared with a CA norm of -0.6 percent of GDP; this suggests a model-based CA gap of -0.1 percent of GDP, with a model-based range of -0.7 to +0.5 percent of GDP (based on a 0.6 percent of GDP standard error).					
2023 (% GDP)	CA: 0.3	Cycl. Adj. CA: -0.7	EBA Norm: -0.6	EBA Gap: -0.1	Staff Adj	Staff Gap: -0.1
Real Exchange Rate	**Background.** In 2023, the Australian dollar depreciated slightly against the US dollar, possibly reflecting a decline in iron ore prices and the interest rate differential. In real effective terms, the exchange rate was broadly stable and slightly higher than the average level of the past 5 years. As of end-July 2024, the REER was 2.5 percent above the 2023 average. **Assessment.** Staff's CA gap implies a REER gap of -0.6 (with a range of 2.9 to –4.1, applying an estimated elasticity of 0.17). The EBA REER level model points to an overvaluation of 20.1 percent, while the index model points to an undervaluation of 10.8 percent. Consistent with the CA gap, staff assesses the REER gap to be in a range of 2.9 to –4.1 percent, with a midpoint of -0.6 percent.					
Capital and Financial Accounts: Flows and Policy Measures	**Background.** The financial account recorded net outflows in 2023, driven by a net outflow in financial derivatives and portfolio investment. Net FDI and other investment inflows turned positive in 2023. **Assessment.** Vulnerabilities related to the financial account remain contained, supported by a credible commitment to a floating exchange rate.					
FX Intervention and Reserves Level	**Background.** The currency has been free-floating since 1983. The central bank has not intervened in the FX market since the global financial crisis. The value of reserve assets recorded a slight increase in 2023 to A$94 billion, from A$85 billion at end-2022. **Assessment.** The authorities are strongly committed to a floating regime, which reduces the need for reserve holdings. Although domestic banks' external liabilities remain sizable, they are either in local currency or hedged. Hence, reserve needs for prudential reasons are also limited.					

Annex IV. Risk Assessment Matrix

Source of Risk	Likelihood	Expected Impact	Policy Recommendations
External Risks			
Deepening geoeconomic fragmentation. Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth.	**High**	**High.** Given strong integration in regional and global trade networks, Australia's economic growth would be negatively impacted by the economic and political uncertainty induced by fragmentation, as well as by supply disruptions and weaker global demand. Rising tradable prices (resulting from supply chain disruptions and/or increased tariffs) and shipping costs could have knock-on effects for inflation.	Strengthen the rules-based multilateral trading system and deepen international and regional economic cooperation.
Intensification of regional conflicts. Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	**High**	**Medium**. Intensification of global conflicts may exacerbate trade and financial disruptions. Higher import prices could adversely impact the descent of inflation along the last mile.	If disruptions to trade impact inflation expectations, further monetary tightening may be appropriate.
Commodity price volatility. Supply and demand fluctuations (e.g., due to conflicts, export restrictions, OPEC+ decisions, and green transition) cause recurrent commodity price volatility, external and fiscal pressures, and food insecurity in EMDEs, cross-border spillovers, and social and economic instability.	**High**	**Medium.** Volatility in commodity prices may pass through to inflation, potentially complicating the disinflation process. Fiscal and external pressures would be partly alleviated due to conservative assumptions about energy prices in the budget, and due to Australia being a producer and exporter of energy commodities.	If volatility in commodity prices impacts inflation expectations, further monetary tightening may be appropriate.
Global growth surprises: **Slowdown.** Growth slowdown in major economies, including	**Medium**	**Medium**. A global slowdown – especially in China, Australia's largest export market – could reduce demand for Australia's	Combined monetary and fiscal policy easing may be needed to respond to a global recession. The strength of

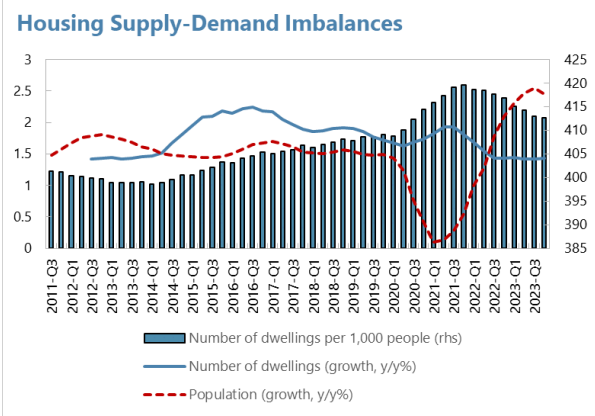
Source of Risk	Likelihood	Expected Impact	Policy Recommendations
due to supply disruptions, tight monetary policy, rising corporate bankruptcies, or a deeper-than-envisaged real estate sector contraction, with adverse spillovers through trade and financial channels, triggering sudden stops in some EMDEs.		key exports, including commodities like iron ore, with potential implications for prices. Weaker exports and lower government revenues would inhibit overall growth.	policy reactions should factor in inflation developments. If inflation remains elevated, fiscal stimulus measures should be time-bound and well-targeted (e.g., low-income tax offsets) to avoid fueling price pressures.
Systemic financial instability. High interest rates and risk premia and asset repricing amid economic slowdowns and elevated policy uncertainty (including from elections) trigger market dislocations, with cross-border spillovers and an adverse macro-financial feedback loop affecting weak banks and NBFIs.	**Medium**	**Medium**. While Australia's financial sector has proved to be resilient, global financial turmoil could potentially spill over to Australia through a general loss of confidence.	Continue to monitor banks and NBFI's balance sheets. Authorities should be ready to step up liquidity support in case funding stress arises. The banking system's strong capital position offers important protection, but macroprudential policy should remain agile and adapt to evolving risks and vulnerabilities.
Climate change. Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability. A disorderly transition to net-zero emissions and regulatory uncertainty lead to stranded assets and low investment.	**Medium**	**Medium.** Australia's exposure to climate events, including the recurrence of severe droughts, bushfires, and floods, puts it at risk from stronger and more frequent economic disruptions. As the world's largest exporter of coal, a global energy transition represents a significant risk to both the external and domestic position.	Explicitly building in buffers for climate risks in the medium-term fiscal framework is warranted. Policies to incentivize a faster drawdown of fossil fuel extraction and targeted support critical mineral hubs as outlined in the Future Made in Australia could mitigate risks from the transition to net zero.
Cyberthreats. Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets), technical failures, or misuse of AI technologies trigger financial and economic instability.	**Medium**	**Medium**. Cyberattacks on critical physical or digital infrastructure could trigger financial instability and disrupt economic activities.	Preventative investment in strengthening defenses and infrastructure to prevent cyberattacks. In case of financial market disruptions, mechanisms that provide timely liquidity support should be in place.
Domestic Risks			
Stalled disinflation. The disinflation process stalls amid tight labor markets and a stronger-than-expected fiscal impulse, with inflation prints	**Medium**	**High.** A slower-than-anticipated descent of inflation to target could see inflation expectations drift higher; this would require a longer period of monetary tightening to reset	Policies should remain nimble and data dependent. Monetary policy should focus on the domestic outlook, while fiscal policy should

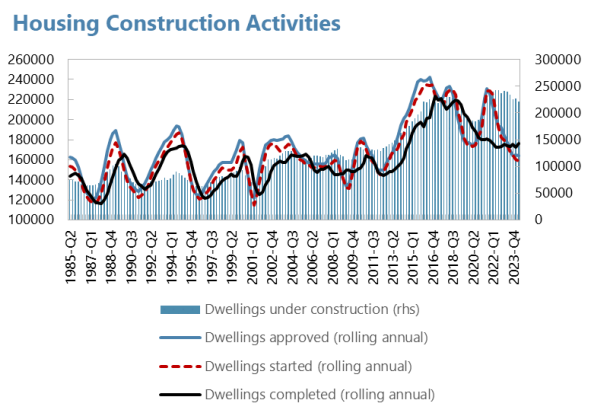
Source of Risk	Likelihood	Expected Impact	Policy Recommendations
consistently above the RBA's forecast.		expectations and return inflation to target, which in turn would be costly for households and firms, generating a drag on growth. A loosening of fiscal policy could also undermine monetary policy efforts in curbing inflation.	complement monetary policy in containing price pressures.
Slower-than-expected domestic recovery amid persistent price pressures. Private demand fails to recover, and unemployment picks up sharply, while price pressures remain elevated due to strong public demand, administered prices, and supply constrains in the housing sector.	**Medium**	**High.** Cost of living pressures could dampen the incipient recovery in private consumption, while high interest rates could trigger pockets of household distress, given the high prevalence of variable rate mortgages. Facing slowing demand, some businesses may scale back investment and reduce labor demand, accelerating the cool-down in labor markets.	Monetary policy should continue to be data dependent, carefully weighing the outlook for inflation and the output gap. Fiscal support measures should be time-bound and well-targeted, to avoid fueling additional price pressures.
Insufficient housing supply. A persistent undersupply of housing stock can place sustained upward pressure on housing prices and further worsen housing affordability.	**Medium**	**Medium.** Housing prices in Australia would further increase in the absence of a significant expansion in supply, especially given robust housing demand driven by high population growth. Higher housing prices would worsen affordability and inter-generational equity.	Policies should continue to prioritize an increase in housing supply and in the share of social housing to meet the growing population's demands, without adding to cost pressures; policies should also work to ease capacity constraints and bottlenecks in the construction sector. Macroprudential policies should remain agile to prevent excessive buildup of household indebtedness related to rising housing prices.
A disorderly housing market adjustment. A significant economic downturn, a swift tightening of lending conditions/standards, and/or a sharp turn in investor sentiment can trigger a disorderly housing market adjustment.	**Low**	**Medium.** A disorderly housing market adjustment could increase NPLs and, given high household debt levels and large exposures in the banking sector, could potentially pose financial stability risks.	The banking system's strong capital position offers important protection, but macroprudential policy should remain agile and adapt to evolving risks and vulnerabilities.

Annex V. Housing Market Developments and Implications for Inflation[1]

The imbalance in the housing market has intensified with new supply—constrained by subdued construction activities—not able to catch up with robust demand driven by population growth and changing household composition. As a result, house prices are increasing, together with high rent growth. This has directly contributed to CPI inflation, primarily through higher rents. The resurgence in house prices has also boosted household wealth accumulation and is potentially mitigating the negative demand impact of monetary policy tightening through higher mortgage payments.

1. There remains an acute imbalance between supply and demand in the housing market. A strong rebound in net immigration following border reopening had driven population growth to a peak of 2.6 percent (y/y) in 2023Q3. Among other factors, demographic shifts and changing preferences for living arrangements had also contributed to increased housing demand.[2] Compounding this, housing supply has lagged due to constraints in construction activities, including labor shortages, high material costs, and rising financing expenses. Consequently, a significant number of partially completed dwellings remain, and approvals for new projects continue to be subdued.





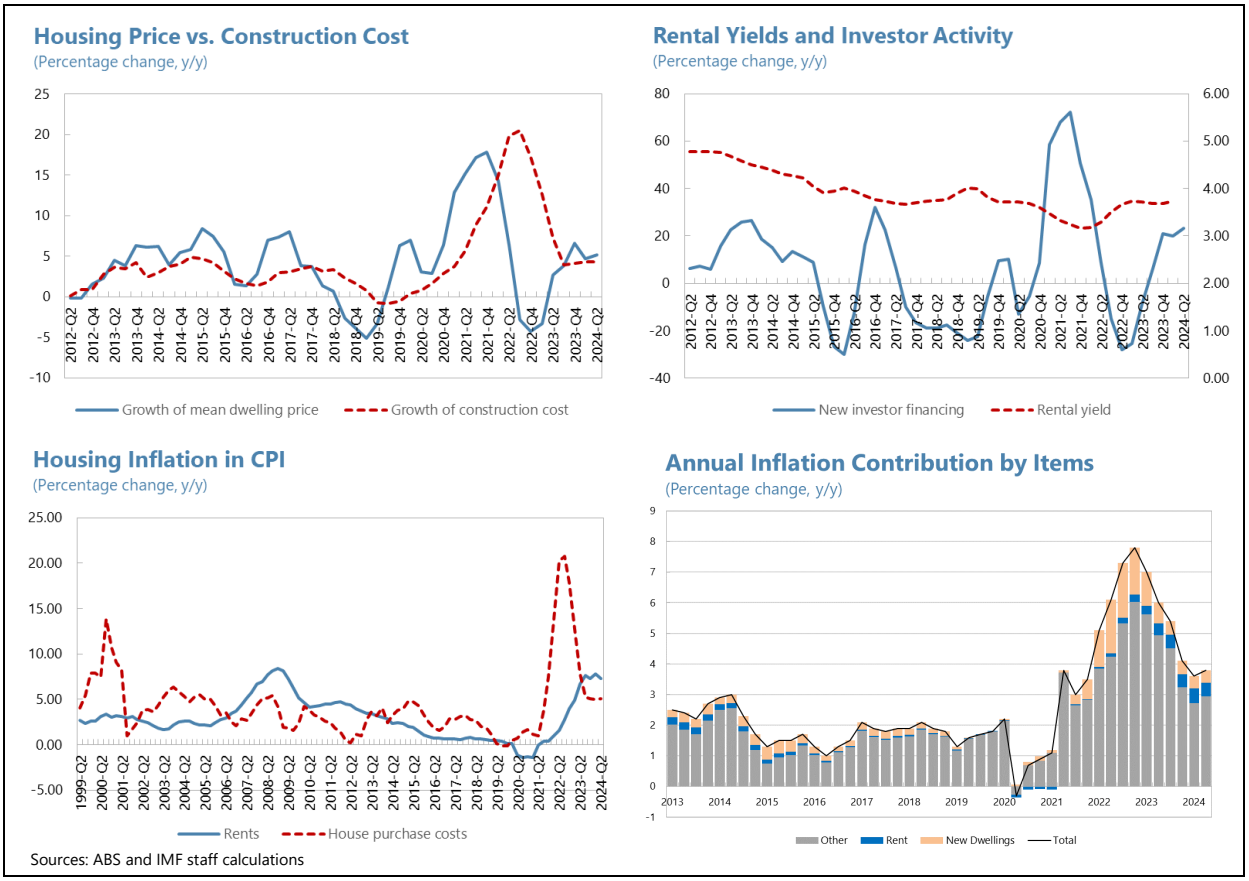
Sources: ABS and IMF staff calculations.

2. These imbalances have driven a sharp rebound in housing prices. Supply is expected to improve as construction backlogs are cleared with profit margins starting to enhance as growth of (at least some) house prices outpace construction costs, and the growth of demand is likely to stabilize as population growth peaks and household sizes rebound due to affordability pressures. However, in the near term, upside pressures on housing prices are expected to remain strong, especially in capital cities experiencing high interstate immigration and lower-than-average listings. New rentals are anticipated to enter the market as capital gains prospects remain attractive. This

[1] Prepared by Mike Li.

[2] Sarah Hunter, 2024, "Housing Market Cycles and Fundamentals", Speech at the REIA Centennial Congress.

influx of new supply should help address historically low rental vacancies, which have been driving high rent inflation. However, these adjustments will take time, and in the meantime, rent inflation continues to exceed historical averages and remains a persistent component of the CPI, significantly contributing to headline inflation.

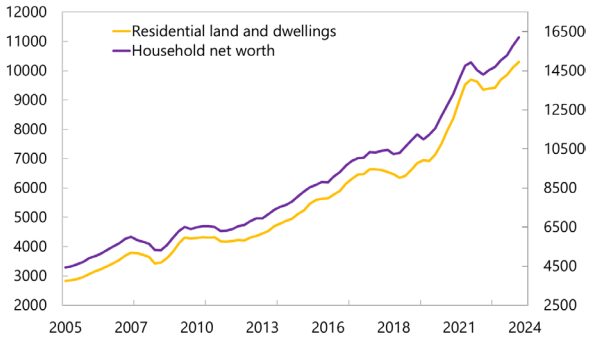


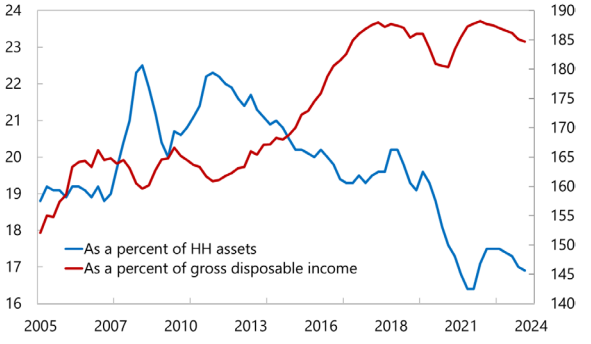
Sources: ABS and IMF staff calculations

3. Housing market developments can also indirectly influence inflation through the wealth effect. Housing assets, including land and dwellings, represent around two-thirds of household net worth, which has been rising for several consecutive quarters. The surge in house prices has significantly boosted wealth accumulation, alongside increases in net financial assets due to increased savings and equity investments, while higher interest rates have encouraged deleveraging. All else being equal, increased wealth typically leads to higher consumption.[3] This can happen through a greater propensity for households to spend their income, especially in a tight labor market, or by limiting the proportion of mortgage borrowers falling into negative equity. Although not a dominant channel, this wealth effect may, *ceteris paribus*, partially offset the negative demand impact of monetary policy tightening through higher mortgage payments. Additionally, the

[3] Diego May, Gabriela Nodari and Daniel Rees, 2019, "Wealth and Consumption", Reserve Bank of Australia Bulletin.

recent modest rebound in household credit growth suggests that households' financial conditions might not be as restrictive as anticipated.[4]





[4] Reserve Bank of Australia, August 2024, "Statement on Monetary Policy".

Annex VI. GDP and Inflation Impacts of Announced Fiscal Policies[1]

The 2024/25 budget is projected to deliver a positive fiscal impulse based on staff estimates. The implications of some budget measure for growth and inflation are conceptually uncertain due to the potential duality of the impact on prices. On the one hand, some of the cost-of-living support measures will notionally lower the price level on a temporary basis. On the other hand, these measures will inject additional demand into the broader economy, together with higher disposable income from permanent PIT cuts. Utilizing ANZIMF (a variant of the IMF's Global Integrated Monetary and Fiscal model, GIMF), this annex seeks to isolate and quantify the demand effect and its implications for underlying price pressures. Overall, the analysis shows that the demand from two large fiscal measures is projected to boost growth and could potentially have a modest impact on underlying price pressures if one takes into account the substantial unmodelled uncertainty in the context of a still positive output gap, tight labor markets, and lingering capacity constraints.

1. While the 2024/25 Commonwealth budget intends to "put downward pressure on inflation"[2] via cost-of-living support, understanding the impact on underlying price pressures requires assessing the demand implications and inherent fiscal impulse. The FY2024/25 Commonwealth budget's response to inflation involves cost-of-living relief including an AU$3.5 billion package for electricity bill rebates and AU$1.9 billion of rent assistance, further augmented by states' contributions.[3] Consequently, the Commonwealth and state governments will contribute between AU$300 to AU$1300 to each household's annual electricity bill, depending on which state or territory.[4] The Treasury estimates this will reduce headline inflation by ½ of a percentage point in 2024/25 given the subsidies are included in calculations of the CPI.[5] Importantly, the cost-of-living relief measures

Table 1. Australia: Magnitude of Fiscal Policies

	Contribution to Energy Subsidy per household (AU$)	Cost (% GDP)
Total Energy Price Relief		0.266
Commonwealth	300	0.131
Queensland	1000	0.111
Western Australia	400	0.018
Victoria	0	0.000
South Australia	0	0.000
Northern Territory	1200 (eligible households)*	0.001
New South Wales	180-350 (eligible households)	0.004
Australian Capital Territo	750 (eligible households)*	0.001
Tasmania	tbd	0.000
PIT Tax Cut		0.879

Source: Commonwealth and State budget papers, PBO (2024), IMF Staff Calculations

* Includes utilities beyond electricity

[1] Prepared by John Spray and Dirk Muir.

[2] Treasurer Chalmer's interview with Melissa Clarke, Australian Broadcasting Corporation, May 2024.

[3] There are other cost-of-living support measures, including public transport subsidies, childcare subsidies not included in this annex.

[4] Average annual household electricity bills range from approximately 1500 to 2300 AUD / year, depending on state, according to the Australian Energy Regulator.

[5] The Australia Bureau of Statistics measures the price of goods and services paid by the consumer including the adjusting for government subsidies. Therefore, electricity price relief and rent assistance directly lowers measured CPI prices. The June Quarter 2024 CPI release stated electricity prices increased "6.0 per cent in the past 12 months…[e]xcluding the Energy Bill Relief Fund rebates, prices would have increased by 14.6 per cent in the 12 months to the June 2024 quarter."

do not directly address the cause of underlying inflation which has proved persistent. As stated in the RBA's August 2024 *Statement on Monetary Policy* (SMP) "while these policy changes will affect the rate of headline inflation (and at the margin might affect inflation expectations), it is assessed that they will not materially affect underlying inflationary pressures." Moreover, given the measures are temporary, the effect on the price level is expected to be reversed when they are removed – scheduled for June 2025. For these reasons, the Reserve Bank is likely to look through this transitory effect in its monetary policy considerations. By contrast, these measures, alongside other fiscal initiatives like the permanent personal income tax (PIT) cuts, may increase aggregate demand and contribute to underlying inflationary pressures, though it remains too early to assess the extent and timing of any demand impact with certainty. Staff estimates a positive fiscal impulse of 0.9 percent of potential GDP from the FY24/25 budget.[6] The extent to which this fiscal impulse will drive growth and potentially elevate underlying price pressures—counteracting the immediate decrease in the consumer price level—depends on the fiscal multipliers from these policies.

2. In order to provide a range of estimates for the size of the effect of the economic stimulus, this annex uses fiscal multipliers drawn from the IMF's Australia and New Zealand Integrated Monetary and Fiscal model, ANZIMF.[7] ANZIMF is an annual, multi-region, micro-founded non-Ricardian general equilibrium model of the global economy focused on Australia and New Zealand. For the purposes of this box there are two relevant fiscal instruments as well as the monetary policy response.

- ***Fiscal Instrument 1 - Temporary transfers* to households are used to simulate the wealth effect stemming from energy rebates.** There are two types of households: (1) *liquidity constrained* who consume all their income each period (have a low marginal propensity to save), (2) *savers*, who have a high marginal propensity to save, and smooth out their lifetime consumption path relative to their wealth. Note that by modeling the energy subsidy with transfers, the analysis ignores the mechanical reduction in CPI resulting from lower consumer prices and high weight of energy prices in the CPI basket, seeking to quantify only the inflationary effect via demand.

- ***Fiscal Instrument 2 - Permanent PIT cut* is modelled directly.** The tax cut is analyzed through two approaches for financing the increased interest costs resulting from the policy's induced higher debt level. The first approach involves the gradual reduction of the initially implemented PIT cuts towards zero (adjusting instrument), while the second assumes a gradual reduction in general transfers to households (adjusting transfers).

- ***Monetary policy* is assumed to respond by changing interest rates through an inflation targeting rule.** As an alternative, we consider a scenario in which interest rates are held constant for two years instead, to isolate the pure impact of the fiscal stimulus.

[6] For a calculation of the fiscal impulse (change in CAPB as percent of GDP) see table 2.

[7] See SIP: "Evaluating and Reinforcing the Commonwealth of Australia's Fiscal Strategy" 2019. ANZIMF is a specialized version for Australia and New Zealand based on the IMF's Global Integrated Monetary and Fiscal model (Kumhof and others 2010, Anderson and others 2013).

3. The model's fiscal multipliers for transfers suggest that the additional wealth from energy rebates will provide a small boost to GDP and have a small impact on inflation. When households have a lower marginal propensity for saving, the GDP and inflation multipliers are three times larger. Additionally, if interest rates do not respond to the fiscal impulse, the multipliers are approximately twice as large again. Nevertheless, due to the policy's relatively small size, the impact on real GDP and inflation is expected to be modest, ranging from 0.3-0.16 percent and 0.01-0.03 percentage points, respectively. As noted above, these estimates do not include the direct impact on measured inflation from the energy rebates. Work by the Commonwealth Treasury predicts the Commonwealth policy alone will lower headline inflation by at least ½ a percentage points in FY2024/25. This suggests the wealth effect estimated here will be smaller than the direct effect, resulting in a temporary net disinflationary impulse in the next 12 months.

Table 2. Australia: Average 2 Year Multipliers from Fiscal Stimulus

	Multiplier 1/		Predicted impact from announced policy 2/	
	GDP	Inflation	GDP	Inflation
Temporary Energy Rebate Transfer 3/				
Households have high savings propensity	0.11	0.02	0.03	0.01
Households have high savings propensity, fixed interest rate	0.18	0.04	0.05	0.01
Households have low savings propensity	0.39	0.06	0.10	0.01
Households have low savings propensity, fixed interest rate	0.60	0.11	0.16	0.03
Permanent PIT tax cut 4/				
Adjusting instruments	0.42	0.01	0.37	0.00
Adjusting instruments, fixed interest rates	0.48	0.03	0.42	0.01
Adjusting transfers	0.40	0.02	0.35	0.01
Adjusting transfers, fixed interest rates	0.47	0.04	0.41	0.01

1/ Multipliers are the average response in the first two years of real GDP and CPI inflation to a change in the fiscal instrument financed by an increase in the deficit.

2/ Third and fourth columns use the multipliers from the first two columns, scaled by the size of the fiscal policy being undertaken

3/ A temporary, 2-year 1 percent of GDP increase in transfers to households financed by an equivalent increase in the government deficit (about 2 percent on government debt).

4/ An initial 1 percent of GDP PIT cut financed by a permanent 1 percent of GDP increase in the government deficit (about 20 percent of GDP on debt in the long term). As interest payments increases, there is either a decline in the PIT cut (adjusting

4. The model's multipliers from PIT cuts suggest that the policy will boost growth. The anticipated two-year average effects on real GDP and inflation, contingent upon the financing mechanisms, are projected to range between 0.37-0.42 percent and 0.00-0.01 percentage points, respectively. Higher disposable income for households from the tax cuts have a demand impact. However, the decrease in PIT encourages households to supply more labor, which allows firms to reduce wages somewhat. The model finds that the inflationary demand impact and the disinflationary labor supply impact broadly offset each other.

5. While cost-of-living measures will notionally lower the price level in 2024/25, there will also be direct and indirect impacts on underlying inflation from aggregate demand through other macro channels. Some of these channels are difficult to assess with certainty with ANZIMF. The cost-of-living subsidies do not target temporary price surges, and as such their direct impact on electricity prices is expected to be reversed when these measures are removed. At the same time, cost-of-living support, together with tax cuts, may add to demand in the context of persistent inflation. Staff baseline analysis based on ANZIMF estimates does not find large impacts on underlying price pressures. However, substantial unmodelled uncertainty remains given economic conditions as well as economic agents' response to the cost-of-living measures, could increase or decrease the size of fiscal multipliers. For instance, inflation could be higher if households choose to spend more of the funds than anticipated, if more of the funds are spent domestically than the model assumes, and/or if the additional fiscal impulse increases the level or persistence of inflation expectations more than the model assumes. Additionally, inflation could also be higher than expected if the fiscal impulse interacts with tighter-than-assumed labor markets to

generate a wage-price spiral, especially in the context of projected increases in public infrastructure spending that will further bolster labor demand from the public sector.[8]

6. Given that the model could potentially underestimate the total impact of budget measures on underlying price pressures, should disinflation stall, a tighter fiscal stance would be warranted to help bring inflation to target. While it is possible that these FY 2024 budget measures could add to stronger-than-expected upside risks to inflation and influence rational agents forward-looking inflation expectations, the likelihood and magnitude of the overall effect remains unclear and justifies a prudent approach to fiscal policy.

[8] With public sector vacancies already further above pre-pandemic levels than private sector vacancies – see Annex VII.

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Annex VII. The Australian Labor Market in the Post-Pandemic Era[1]

Labor market tightness in Australia rose to record levels in the post-pandemic period, with constrained supply meeting booming demand. As monetary policy was tightened, labor market pressures started to ease gradually, but the unemployment rate has remained low by historical norms. Broadly similar trends were observed in other advanced economies, although in many the unemployment rate increased more sharply than in Australia. A higher prevalence of remote and flexible work arrangements may have altered labor market dynamics in Australia in recent years, but the extent to which these changes will be preserved remains unclear, despite worker preferences. Going forward, accommodating flexible or remote work arrangements could have positive implications for labor market efficiency, productivity, and equity.

A. Remarkable Labor Market Resilience as Economic Growth Slows

1. During the post-pandemic recovery, the Australian labor market reached record tightness, as excess demand met constrained supply. Vacancies spiked to over twice their pre-pandemic maximum (reaching over 473,000 in June 2022 vs. 230,500 at end-2019) as the recovery took hold. At the same time, the labor force, traditionally reliant on a steady inflow of immigration, was constrained after several quarters of migrant outflows. Given these demand-supply imbalances, over half of firms in the NAB survey reported labor as a severe constraint by June 2022, up from an average of 17 percent in the years before the pandemic. The unemployment rate declined to 3.5 percent by 2022Q4 – 0.6 percentage points below the lowest level recorded since 1972. Youth unemployment also reached record lows (7.1 percent); underemployment declined to 5.9 percent in early 2023, over two percentage points below 2019 levels.

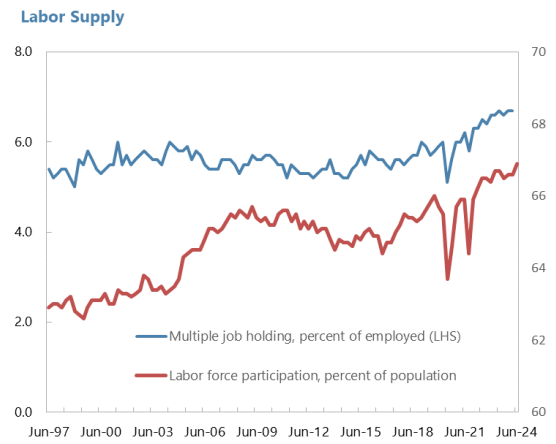
2. Demand supply imbalances are starting to ease, with labor demand softening as growth slows, and labor supply robust due in large part to immigration.

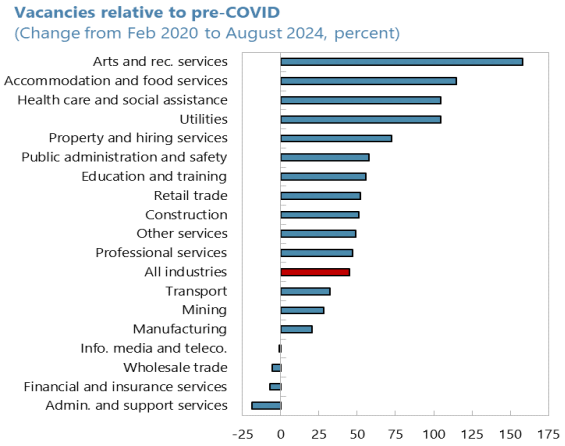
- *Labor demand is slowing*. Vacancies continue declining sharply from historic highs, although at just under 330,000 in August 2024, they remain around 45 percent higher than pre-pandemic. The evolution of labor demand shows significant heterogeneity across sectors. Vacancies remain especially high relative to 2020 in some service sectors, including arts and recreation and accommodation and food services, reflecting the return of tourism and the shift of demand back from goods. Vacancies are also elevated relative to the pre-pandemic period in the utilities sector, and in nonmarket sectors like healthcare and education, potentially reflecting structural trends and strong public spending.

- *Labor supply has been robust*. Migration inflows have resumed, boosting labor supply (see Staff Report Figure 3), with population growth surpassing expectations. Labor force participation, which is at historic highs, has continued to inch up in recent quarters. At the same time, cost-of-living pressures are leading to an increase in the share of workers with multiple jobs, a further expansion of labor supply.

[1] Prepared by Monica Petrescu.

Figure 1. Labor Supply and Demand in Australia





Source: ABS and IMF staff calculations.

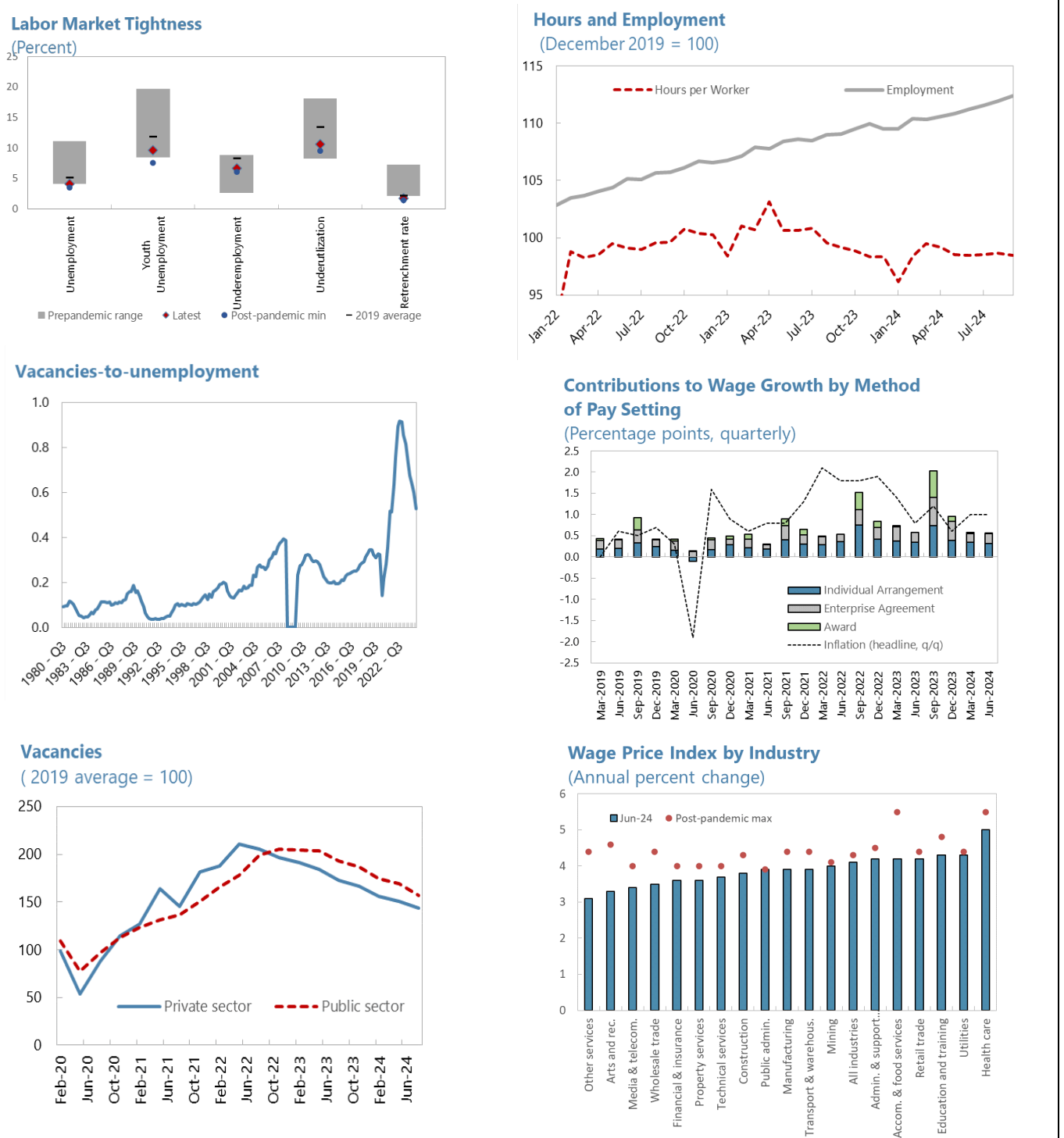
3. As imbalances recede, the unemployment rate has been inching up gradually, but job creation has remained surprisingly strong. As policies tightened, unemployment and underemployment rates started to pick up. However, in recent months the pace of adjustment has slowed, signaling that part of the gains in the labor market in the post-pandemic era may still be preserved.

- *Labor market softening initially occurred in hours*. The underemployment rate picked up from 5.9 percent in February 2023 to 6.7 percent by January 2024, and hours per worker declined five percent between July 2023 and January 2024. However, hours per worker picked back up slightly in Q1 2024, and appear to have since stabilized, and the underemployment rate dropped back to around 6.3 percent over the same period.

- *The unemployment rate has risen, but remains low by historical norms*. The adjustment eventually shifted to unemployment, with the unemployment rate picking up 0.6 percentage points from a record-low 3.5 percent in June 2023 to 4.1 percent in April 2024. However, the unemployment rate has since stabilized around 4.1 percent, equivalent to the lowest level recorded from 1978 to 2019, and around one percentage point below pre-pandemic levels. The vacancy to unemployment rate has been declining steeply but remains well above historical levels, suggesting there is scope for further adjustment in vacancies before a sharper up-tick in unemployment.

- *Employment growth remains resilient.* Job creation has been especially robust, continuing to surpass expectations in recent months. Growth in employment is back up to around 3 percent y/y as of September, after slowing slightly earlier this year. The employment to population ratio, at 64.4 percent, remains two percentage points above 2019 levels.

Figure 2. Labor Market Developments in Australia



Sources: ABS and IMF staff calculations.

- *No evidence (yet) of an uptick in separations.* Despite rising unemployment, flows into unemployment from outside the labor force are twice the size of flows from employment. As of February 2024, the annual retrenchment rate was still well below pre-pandemic levels, at 1.7

percent, signaling business sector resilience. So far, concerns about the unwinding of labor hoarding dating from the post-pandemic period have not yet materialized.

The persistent tightness in labor markets relative to historical norms even as the economy slows suggests that other factors such as structural changes may be playing a role.

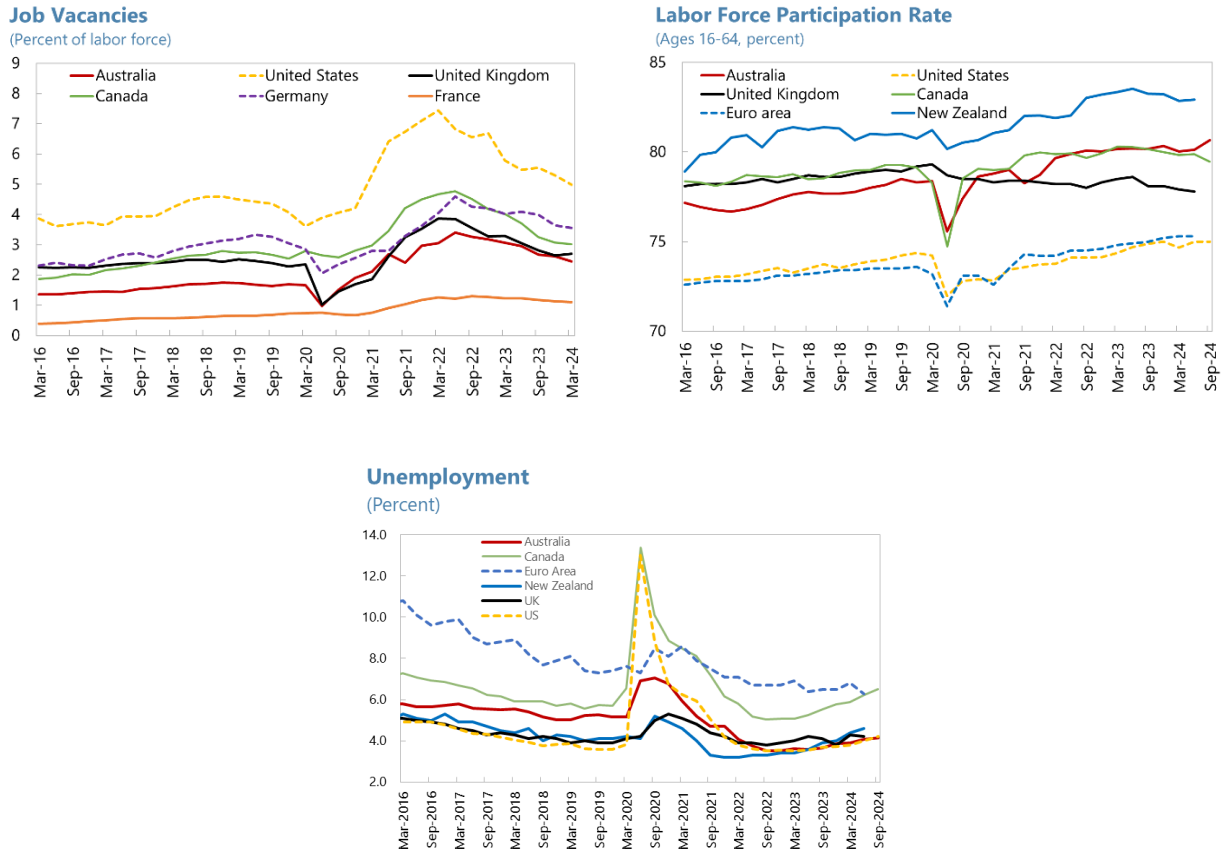
4. While wage growth has picked up, it continues to lag inflation. After several quarters of steep decline, real wage growth was back in positive territory in 2024 Q1, after the resetting of award and collective agreement wages in the second half of 2023 delivered notable gains. This slow readjustment of wages may have helped avert wage price spirals at the height of inflationary pressures, but it may also drag out price pressures in some sectors longer than expected, as higher wages are gradually passed through to consumers. Nominal wage growth is expected to have peaked, and recent award and enterprise wage adjustments have been softer than expected. Wage growth, while broadly slowing, is heterogenous across sectors. It is highest in select service sectors, notably health, education, accommodation and food, retail, and administrative services. Most of these sectors have a high proportion of employees receiving award (or award-linked) wages,[2] and the elevated wage growth could indicate the flow through of recent administered decisions. On the other hand, given vacancy rates in these sectors are among the highest, labor shortages may lead to further pressures on wages and potentially consumer prices.

5. Strong public demand may be contributing to labor market tightness. The decline of vacancies in the public sector has lagged the decline in the private sector. As of August 2024, vacancies in the public sector –accounting for one tenth of total vacancies – were 56 percent higher than 2019 levels, while vacancies in the private sector were only 43 percent above 2019 levels. Moreover, wage growth remains elevated in nonmarket sectors linked to public demand or related to public services, such as healthcare and education.

6. The gradual softening in Australia's labor market is similar to experiences in peer advanced economies (AEs), but Australia appears to have preserved more of the post-pandemic gains. Across many AEs, the unemployment rate has ticked up only slowly as policies tightened. However, in Australia and in the euro area, unemployment rates are still substantially below pre-pandemic levels. At the same time, labor supply in Australia has been uniquely robust, with the largest gains in labor force participation over the past five years among peers. The decline in vacancies toward their pre-pandemic levels is more advanced in peers than in Australia.

[2] Award rates are minimum pay rates, allowances, and conditions that apply to most employees in a particular industry or occupation. Some of the sectors covered by modern awards include hospitality and tourism, retail and wholesale, health care and social assistance, education and training, and construction.

Figure 3. Evolution of Labor Market in Advanced Economies



Source: Haver Analytics and IMF staff calculations.

B. Post-Pandemic Shifts Towards Greater Work Flexibility

7. While the COVID-19 pandemic saw a rapid global shift to remote work, the extent to which hybrid or flexible work arrangements will become entrenched remains uncertain, despite worker preferences. Cross-country studies of job vacancies show that the number of postings that offer one or more days of work from home increased sharply between 2019 and early 2023 (Hansen, et al., 2023). However, the Global Survey of Working Arrangements (GSWA) finds that work from home had declined to an average of 0.9 days per week in 2023, from 1.5 days per week mid-2021, against a desired level of around 2 days per week (Aksoy, et al., 2023). Over the past year, a growing number of employers have required employees to return to the office, with average days worked from home likely declining further below levels desired by workers. In this section we assess which factors drive remote work preferences in Australia, and consider how remote work may have affected labor markets in recent years. Understanding the productivity implications of flexible work arrangements in order to accommodate new preferences in an efficiency-enhancing manner is critical for a country like Australia, which contends with long term productivity challenges and persistent skill shortages.

8. In Australia, the share of workers in remote work and flexible arrangements has declined from pandemic-era peaks, in spite of worker preferences, but remains higher than pre-pandemic. At 37 percent in 2023, the share of employees working from home on a regular basis in Australia was five percentage points higher than in 2019 (having peaked at 40 percent in 2021). Among those working from home, an increasing share (39 percent in 2023, up from 19 percent in 2019) cited flexible working arrangements as the primary motive. The GSWA shows that, as of 2023, Australian workers worked from home at levels slightly below those in other English-speaking countries, but above than those in other AEs. The GSWA also finds that the desired number of days to work from home in Australia (2.3, also higher than AE average) was one full day above the actual number of days worked from home (1.3) (Aksoy et al., 2023). This disconnect has likely risen in recent months.

9. Working from home presents a variety of benefits and costs for workers, with remote work desirability varying across industry and individuals in Australia. Among various benefits associated with working remotely, in cross-country surveys workers have consistently ranked lower commute times, lower costs for gas and food, and higher flexibility on timing of work toward the top (Aksoy et al., 2022). Moreover, Australian workers were positively surprised by their own productivity working from home during the pandemic – with nearly two thirds finding it better than expected, among which 70 percent found it hugely or substantially better—which likely contributed to shifting preferences (Aksoy et al., 2022). The GSWA suggests that in Australia, the amenity value of working from home (the willingness to pay for the option to work from home for 2-3 days) is highest in more digitized sectors, like IT, finance, real estate, professional and business services and government, where work from home productivity is likely to be higher; it is lowest in sectors where work from home is likely to be less productive, like arts and recreation, education, agriculture, and hospitality and food services (Aksoy et al., 2023). Workers living with children also have a higher amenity value of working from home (potentially placing more weight on extra flexibility and time), while among those without children, women have a higher amenity value than men. At first glance, commute times appear strongly correlated with the amenity value of working from home across sectors, but not across family living situations.

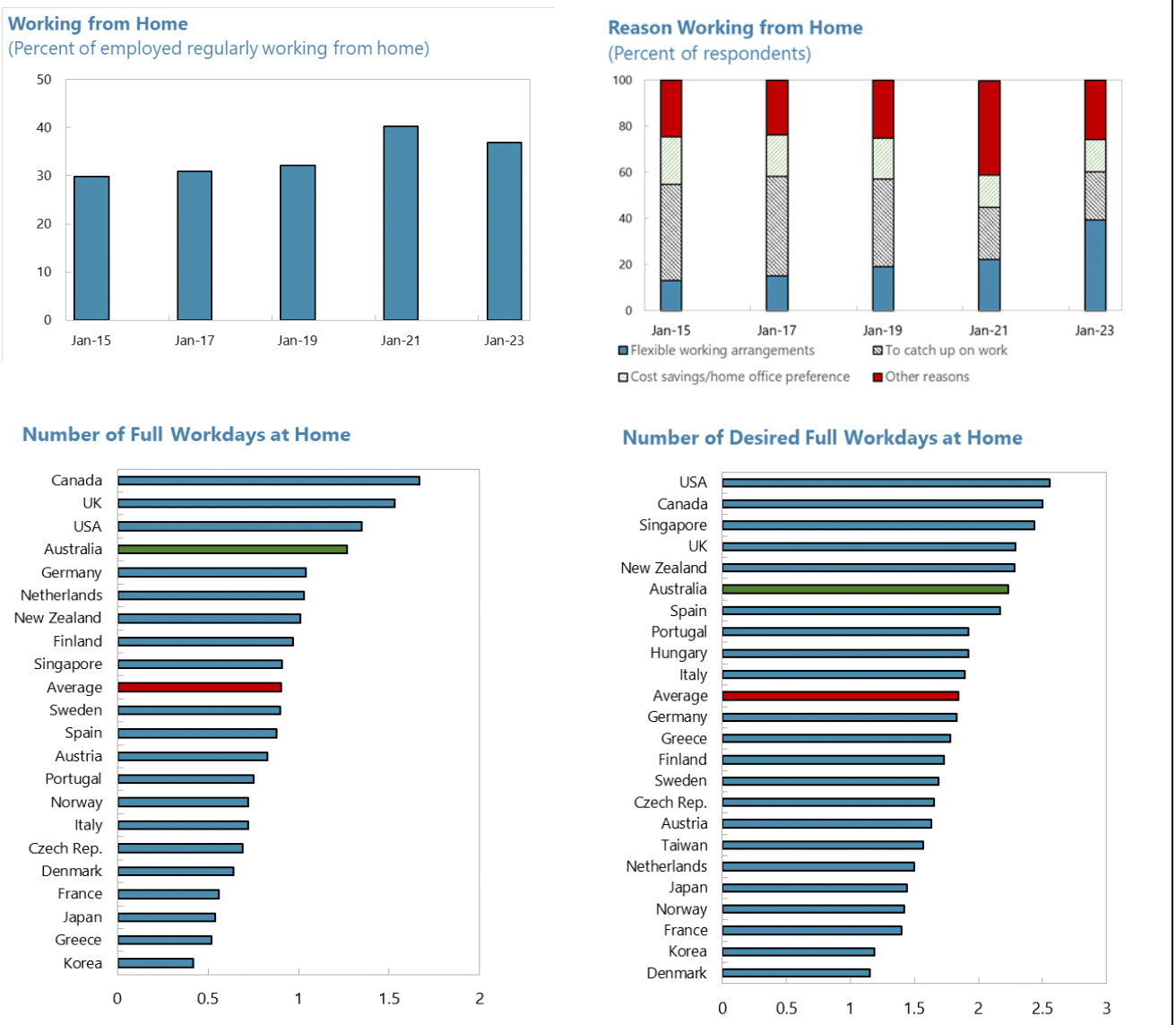
10. We use an empirical analysis of the drivers of worker preferences in Australia to shed light on the relative importance of individual characteristics. We follow the approach of Aksoy et al. (2022) to estimate the drivers of the value employees place on working from home. We use survey data from the first and second rounds of the GSWA; in this survey, if an individual responds positively (negatively) to a question regarding their desire to work from home 2-3 days per week, they are asked how much of an increase (decrease) in pay they would value as much as the option to work from home 2-3 days per week.[3] We regress this willingness to pay for the option to work from home on individual characteristics :

$$Y_{ij} = \alpha_j + \beta X_{ij} + e_{ij}$$

[3] Respondents are given eleven choices for a response from "less than 5 percent" to "more than 25 percent" and the equivalent negative values.

Where $\boldsymbol{Xij}$ is a vector of individual level explanatory variables for individual i who works in industry j, including whether the individual has tertiary education, a graduate degree, gender, age, commute time, number of days they are currently working from home, and how they assessed their productivity working from home during COVID relative to their expectations. Yij is the amenity value individual i who works in industry j places on working from home.

Figure 4. Flexible and Remote Work Arrangements in Australia



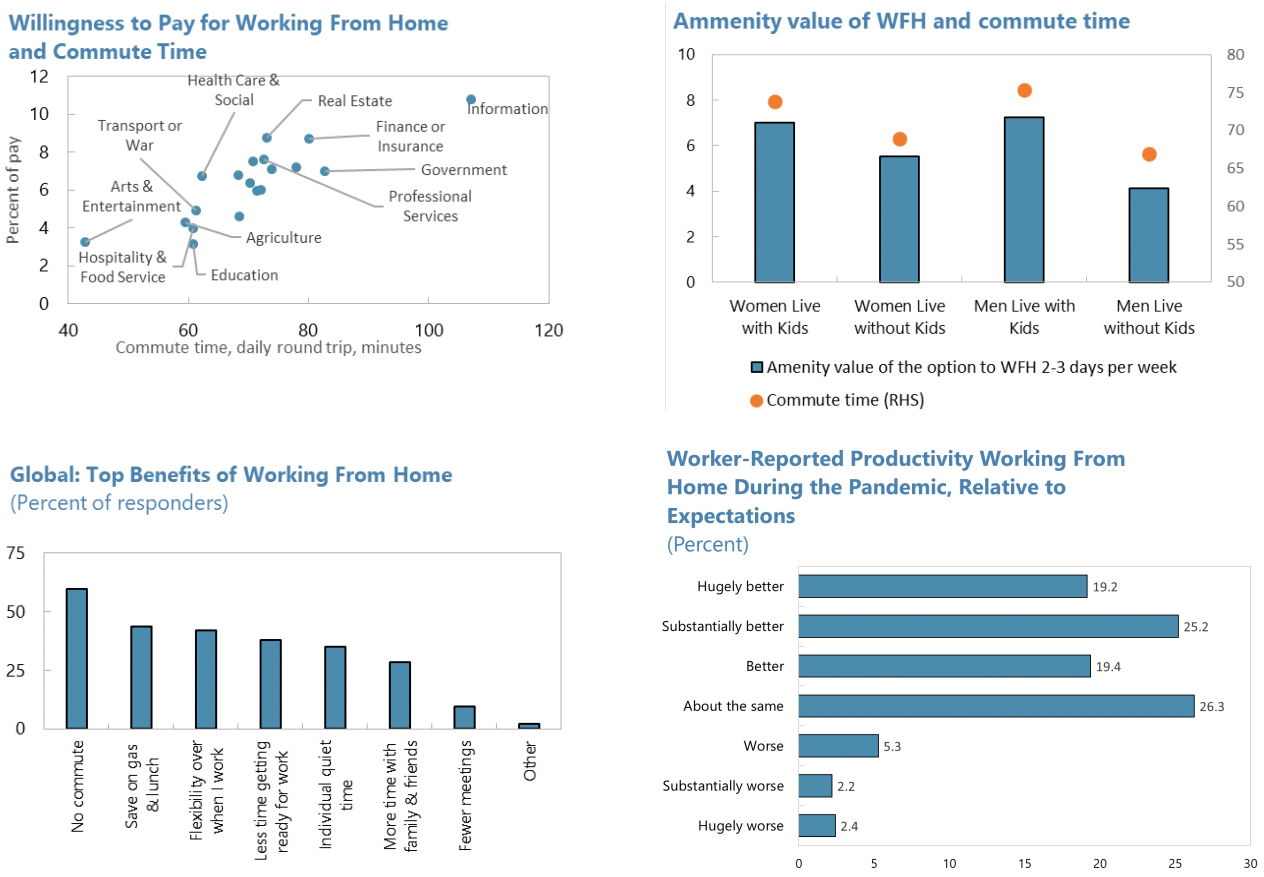
Source: ABS and Aksoy et al (2023)

Note: Actual and desired workdays at home per week.

11. Results suggest that much like in peer AEs, education level, gender, and family status are key determinants of the value placed by employees on working from home. In Australia and in peer AEs, individuals with a graduate degree place higher value on working from home, while men place lower value on remote work than women. However, in Australia (and a few, but not most

other AEs), living with children significantly increases the desirability to work from home for men. The desirability to work from home is also higher for women living with children than for those living without, but this result is not significant (potentially due to women adjusting on the extensive margin). Surprisingly, once industry and personal characteristics are factored in, commute time no longer drives preferences to work from home; this suggests that the correlation between commute time and preference to work from home across industry may reflect other factors like the agglomeration of highly digitalized industry jobs in large urban areas. We next narrow the sample to men only, and control for productivity surprises during COVID (which are positively associated with the desire to work from home). We find living with young children is the only individual characteristic of Australian men that can explain differences in preferences for remote work within sector—unlike in most other AEs. While it is unsurprising that options for hybrid or remote work are more valuable for workers with families, we expected this to be true primarily for women, who usually perform a larger share of unpaid care duties.

Figure 5. Flexible and Remote Work Preferences in Australia



Source: Global Survey of Working Arrangemetns, Aksoy et al (2023).
Note: Benefits of working from home as reported among workers with work-from home experience during the COVID-19 pandemic.

12. The judicious use of flexible and remote work arrangements amid shifting worker preferences could alter and potentially improve labor market dynamics and aggregate productivity going forward. In Australia, there are several channels through which the use of flexible or remote work arrangements could affect labor market outcomes and productivity:

- *Increased flexible work arrangements could improve the reallocation of labor, thus supporting productivity*. Remote work may allow workers and firms to broaden searches geographically and access a larger pool of opportunities, thus reducing search and matching frictions in a geographically dispersed economy such as Australia (with long distances between cities and long commute distances within some metropolitan areas). A more efficient reallocation of productive labor to the most productive firms could help boost aggregate productivity.

- *Shifting preferences may provide opportunities for Pareto improvements in wage setting*. Surveys suggest that the average Australian worker is willing to forego 4–8 percent of annual wages for remote work flexibility, with significant heterogeneity in preferences: one fifth of workers appear willing to forgo as much as 16-33 percent wages for remote work flexibility (Vij et al, 2023). Differing worker preferences for remote work could allow employers and employees in sectors where remote or hybrid models are feasible to negotiate Pareto-improving contracts (starting from a one-size fits all baseline).

- *Increased flexibility in work arrangements could help retain vulnerable groups in the labor force, thus helping improve average labor productivity*. Female labor force participation in Australia, while on an upward trend for many years, saw a level shift up during the pandemic; within this, labor force participation for mothers of young children improved steeply from 2019 to 2023 – which may in part reflect the growing prevalence of flexible work arrangements, in addition to reforms to childcare. The participation of workers with long-term health conditions also increased slightly after the pandemic. The retention of these workers in the workforce could help avoid loss human capital acquired on the job and with work experience, and thus help improve average worker productivity.

- *Increased flexibility and the ability to work remotely may improve productivity for some workers*. Evidence on productivity gains or losses from remote work is scarce; employees report higher productivity, but employers do not necessarily share these impressions (Barrero, Bloom, & Davis, 2021). Assessing the productivity implications of the wide variety of flexible arrangements is critical as more data becomes available. Given evidence that digitalization and innovation are associated with higher labor productivity growth (Kinda, 2021), continued digitalization could help boost productivity in the long run while also appealing to workers' desires for greater flexibility in working location.

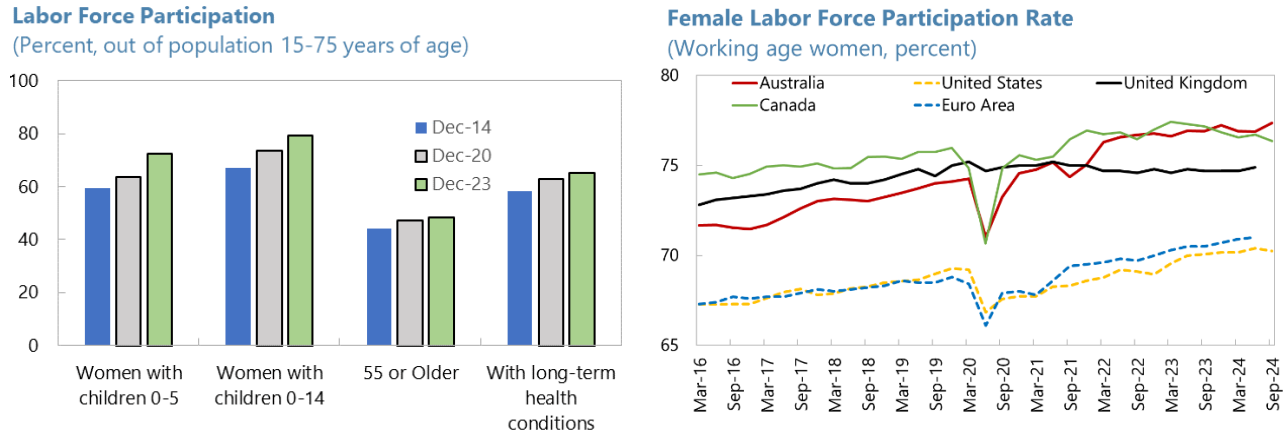
- *Implications for equity*. The stronger preference for remote work for men with young children in Australia suggests flexible or hybrid arrangements can have broader implications for equity considerations. Women take on a disproportionate amount of unpaid work in Australia relative

to men – most notably domestic duties and childcare.[4] Work arrangements which reduce commute time and allow more flexibility around the timing of work for men could allow a more even distribution of unpaid tasks between men and women in households with children. This could in turn allow women to increase participation or hours in paid work.

- *Potential costs for communication and transfers of knowledge*. Remote work arrangements could slow the transfer of knowledge to new employees and introduce frictions in communication, both with potentially negative implications for productivity, especially in collaborative settings. The extent to which these could be mitigated in a hybrid arrangement or by the use of digital communication technologies remains uncertain.

In depth analyses of the productivity impact of flexible work models are only in their incipient stages. It remains critical that any policies regulating remote work are appropriately updated as more data becomes available, and working arrangements continue to be adjusted as needed.

Figure 6. Labor Force Participation



Source: Haver Analytics, ABS and IMF staff calculations.
Note: Female labor force participation Captures women aged 15-64 in Australia, Canada, and the euro area; 16-64 in the UK and US.

C. Conclusion

13. While the likelihood of post-pandemic gains to employment being preserved amid a soft landing is rising, vigilance is warranted. On the one hand, localized demand and wage pressures in select service and nonmarket sectors could translate to persistent inflation, requiring the RBA to keep policy rates high for longer, with potentially negative implications for other segments of the labor market via lower aggregate demand. On the other hand, the adjustment in

[4] How Australians Use Their Time, 2020-21 financial year | Australian Bureau of Statistics (abs.gov.au).

the labor market may accelerate as the impact of monetary tightening continues to pass through the economy, with unemployment picking up more quickly.

14. Flexible and remote work arrangements present opportunities for Australia's economy. Trade-offs are complex and vary across companies and workers, but the judicious and tailored use of hybrid or flexible arrangements where they do not compromise productivity could help facilitate more efficient search and matching, pareto-improved contracts, improved human capital retention, and reduced gender inequities. These benefits, the scale and scope of which is yet to be quantified, may be lost under blanket 'return to office' policies.

15. Beyond the impact of flexible work, structural shifts in Australia's labor force going forward are also likely to alter the composition of labor supply. Given an aging population and later retirement, the share of older workers in the workforce is expected to continue expanding. Labor force participation for women has also risen in recent decades, in part reflecting improvements in childcare provision. Higher labor supply could help address persistent labor shortages, but ensuring training and education programs are adequately geared to help match labor supply with demand will remain critical in this process. The skill-based labor migration system should also remain sufficiently dynamic to pivot towards addressing the remaining imbalances.

Table 1. Australia: Drivers of Amenity Value to Work from Home in Select AEs

	Australia	USA	Germany	UK	Netherlands
Tertiary Education	1.246	1.647*	0.808	1.368*	1.939***
	(0.888)	(0.853)	(0.802)	(0.777)	(0.603)
Graduate Degree	2.583***	2.398***	1.710***	2.728***	4.530***
	(0.884)	(0.745)	(0.458)	(0.695)	(0.988)
Married	1.104	-0.639	0.561	0.304	1.291***
	(0.811)	(0.530)	(0.354)	(0.494)	(0.355)
1(Men)	-1.462*	-1.654**	-1.961***	-1.504**	-0.758
	(0.740)	(0.676)	(0.429)	(0.523)	(0.645)
1(Lives with children under 14)	0.973	0.606	-1.394*	0.174	1.402**
	(0.592)	(0.558)	(0.664)	(0.518)	(0.610)
1(Men) x 1(Lives with children under 14)	1.755*	1.642	2.098**	3.977***	-0.691
	(0.965)	(1.403)	(0.852)	(0.888)	(0.603)
Observations	1450	2070	2525	1498	2231
R^2	0.084	0.040	0.076	0.110	0.114

Standard errors in parentheses
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 2. Australia: Drivers of Amenity Value to Work from Home in Select AEs, Men

	Australia	USA	Germany	UK	Netherlands
Tertiary Education	1.016	1.287	-0.596	1.269	0.721
	(1.065)	(1.495)	(1.296)	(0.944)	(0.798)
Graduate Degree	2.306	1.570	0.352	2.552*	2.038
	(1.362)	(1.083)	(0.803)	(1.321)	(1.374)
Married	1.607	-2.019*	-0.811	0.222	0.561
	(1.153)	(1.066)	(0.660)	(0.837)	(0.600)
1(Lives with children under 14)	2.631**	0.621	1.441**	3.592***	1.136
	(1.114)	(0.763)	(0.562)	(1.138)	(0.876)
Age	-0.192	-0.358**	0.097	-0.228	-0.080
	(0.164)	(0.167)	(0.124)	(0.184)	(0.113)
Round trip commute time in hours	-0.320	0.751	0.227	0.777*	0.263
	(0.391)	(0.560)	(0.197)	(0.414)	(0.345)
WFH productivity during COVID, relative to expectations	0.295***	0.369***	0.271***	0.185***	0.295***
	(0.036)	(0.065)	(0.033)	(0.036)	(0.037)
Observations	467	405	508	446	637
R^2	0.235	0.241	0.218	0.183	0.187

Standard errors in parentheses
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

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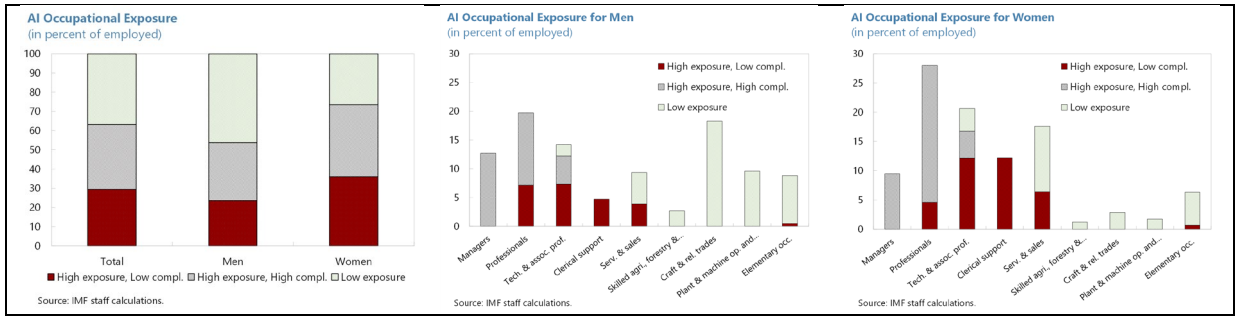
Annex VIII. Potential Impact of AI on Australia's Labor Market[1]

Advancements in AI technologies are poised to transform labor markets across the world. Using estimates of occupational exposure to AI, and applying the work done in the Fund's SDN, this study finds that a sizeable share of Australia's labor market is exposed to AI, which is in line with the broad findings of the SDN for an average advanced economy. At the policy level, training, upskilling and public AI awareness programs have the potential of mitigating the risks of AI, while reaping its potential benefits through productivity enhancement.

1. Artificial intelligence (AI) has been rapidly advancing in its capabilities, significantly transforming various jobs and industries. These technologies, capable of performing tasks from basic data entry to intricate problem-solving, increasingly emulate human intelligence and behaviors. While the widespread adoption of AI promises heightened productivity and efficiency, it also raises concerns about potential job displacement.

2. To study the potential impact of AI on Australia's labor market, this annex utilizes a methodology that examines the potential for integration of AI into various jobs, considering both the ability of AI to augment worker capabilities and its potential to diminish labor demand for certain jobs. We use estimates of *AI exposure* produced by Felten et al. (2021), which links common AI applications to 52 workplace abilities for each occupation. Occupational AI exposure is calculated by combining the ability-level AI exposure with the prevalence and importance of these abilities in each occupation. Additionally, *AI complementarity*, based on Pizzinelli et al. (2023), measures the extent to which AI can augment human labor, considering work contexts and skills. High AI exposure and complementarity occupations are expected to witness productivity gains with AI integration, while high exposure and low complementarity occupations may witness displacement by AI. High-skilled occupations generally exhibit higher AI exposure, while low-skilled roles show lower exposure.



3. Estimates suggest that Australia's labor market is highly exposed to AI. About 63 percent of Australia's workforce is employed in occupations with a high potential for AI integration. Of those workers who are highly exposed to AI, roughly half (30 percent of employed) are in occupation with high AI complementarity and the other half (34 percent of employed) have jobs with low AI complementarity. The former primarily comprise managers, professionals and associate professionals working in science, engineering, health, teaching, and legal occupations, who

[1] Prepared by Shujaat Khan.

stand to gain in productivity if they have the appropriate training to interact with AI technologies. In contrast, business and administration, and information and communications technology professionals and associated professionals, clerical support workers, and a fraction of services and sales workers are at a higher risk of substitution due to AI's abilities to mimic or automate the tasks required in those jobs.

4. A disproportionately larger share of female workers in Australia are employed in occupations with high AI exposure. Roughly 74 percent of female workers are employed in occupations with a high exposure to AI, relative to an exposure rate of about 54 percent for male workers. The higher exposure for female workers is driven by higher shares of female workers in both low and high complementarity occupations. The former is due to a higher concentration of female workers employed in clerical support roles (12 percent, relative to men's 5 percent employment share) and a larger share of women employed as business and administration associate professionals (12 percent, relative to men's 7 percent employment share) and sales workers (6 percent, relative to men's 4 percent employment share), all of which have a high exposure to and low complementarity with AI.[2] Nonetheless, larger shares of female workers are also employed as health and teaching professionals (17 percent, relative to men's 5 percent employment share) and legal professionals (4 percent, relative to men's 3 percent employment share), who stand to gain from AI-enhanced productivity gains.

5. Australia is well-prepared for AI adoption and can gain from further improvements in digital infrastructure. The IMF's AI Preparedness Index evaluates AI readiness in 174 countries using a comprehensive set of macro-structural indicators, including digital infrastructure, innovation and economic integration, human capital and labor market policies, and regulation and ethics. Australia ranks highly across all these indicators, underscoring its strong readiness for AI integration; however, there is some scope for further improvement in digital infrastructure and innovation and economic integration, relative to the frontier countries.

6. Policies focused on education and workforce training can provide individuals with the skills needed to thrive in an AI-enhanced economy. Re-skilling and upskilling programs are crucial even for those in occupations with high AI complementarity, as high complementarity on its own does not necessarily guarantee increased productivity or immunity from AI-induced displacement. To truly benefit from AI, workers must undergo relevant training and skills development, ensuring they are well-prepared to adapt to the evolving demands of an AI-driven job market. A sizeable portion of Australia's workforce also holds jobs with low AI complementarity, heightening their risk of being replaced by AI. This risk is especially pronounced for those in clerical support, business administration, and sales roles. Therefore, upskilling and reskilling programs are also crucial to help these workers transition to new employment opportunities and adapt to the changing job market.

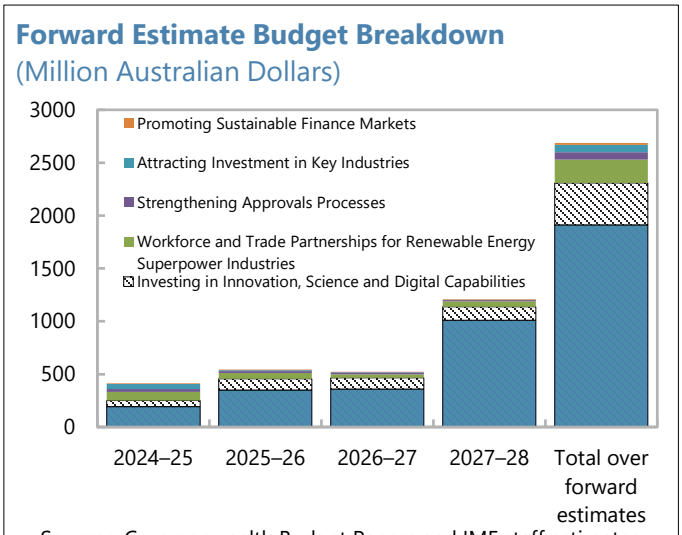
[2] Derived from AI exposure estimates provided by the IMF SDN, cross-referenced with Australia's official labor force data, using the ISCO08 classification.

Annex IX. "Future Made in Australia"—Shaping the Design of the Authorities' Industrial Policy (IP) Strategy and Incorporating Guardrails[1]

This annex outlines the "Future Made in Australia" (FMiA) package that could potentially become the cornerstone of Australia's industrial policy over the next decade. Majority of the FMiA funding will be allocated towards offering production tax incentives for green hydrogen, critical minerals processing and battery manufacturing. As the specifics of the FMiA are yet to be decided, the annex also discusses good practices for crafting industrial policies that achieve their goals while mitigating potential risks.

1. Industrial policy measures have been on the rise in Australia since early 2023. IMF's NIPO database (Evenett and others (2024)) identified 465 industrial policy measures, amounting to subsidies worth 19 billion USD, which have been introduced in Australia since 2023. Compared to G20 Advanced Economies and G20 emerging economies, the number of implemented measures is lower in Australia and the number of liberalizing measures exceed the distortionary ones[2]. In line with patterns seen in other G20 Advanced Economies (AEs), Australia mainly employs trade policies for its liberalizing measures, whereas distortionary measures are executed through trade, subsidies, and various other policies. Addressing climate change, enhancing competitiveness, and navigating geopolitical risks have been the key motivations for implementing industrial policies. As a result, sectors such as those involving technologies for both military and civilian use, low-carbon and advanced technologies, and critical minerals have been significantly influenced by these policies.

2. The AU$22.7 billion "Future Made in Australia" (FMiA) package could shape the future of industrial policy in Australia. In April 2024, the government unveiled the AU$22.7 billion "Future Made in Australia" package, set to roll out over the next decade, with key goals of addressing climate change, bolstering supply chain security and resilience, and enhancing knowledge transfer and investment in emerging green sectors. The government has identified key industries under a net-zero transformation stream and economic resilience and security stream that would benefit from support in industrial investments. Notable measures include the provision of production tax incentives for green hydrogen (AU$6.7 billion over 10 years), processed



[1] Prepared by Sneha Thube.

[2] Counts of measures can be heterogeneous in their economic significance. Potential cross-country differences in transparency, data availability and policy preferences should be considered when interpreting this data.

critical minerals (AU$7 billion over 11 years) and battery manufacturing (AU $549 million over 8 years).

3. Good design of green industrial policy measures is crucial. The FMiA's targeted governmental interventions or policies, which seek to reshape the production landscape in Australia to develop specific domestic industries, might mark a significant shift away from Australia's enduring commitment to market-based principles. If not well designed, such policies could risk the adverse effects of "picking winners," granting a competitive edge to local producers, and may pose administrative hurdles. Therefore, adherence to some key principles, including complementing main decarbonization policies and aligning with WTO legal obligations to minimize negative spillovers and prevent the creation of technology transfer barriers, particularly to developing countries is important. Additionally, limited duration of support, cost-effectiveness, and transparency to reduce fiscal pressures, suitable institutional framework to lower implementation risks, and international coordination remain crucial for enhancing the effectiveness and efficiency of green industrial policies (McDonald and others (2024)). Furthermore, the authorities have highlighted that National Interest Framework (NIF) will provide suitable guardrails for time-bound and narrowly targeted interventions while minimizing the fiscal costs and ensuring alignment with the country's WTO obligations. The NIF also lays out guidelines for determining the necessity of government interventions to attract private investments along two streams: net-zero transformation, and economic resilience and security. Government intervention is tested against criteria like developing long-term competitiveness, assessing the contribution of an industry in establishing key capacities and supporting the net-zero transition and boosting of economic resilience, and security and whether barriers to private investments could be lowered while delivering value. The identification of initial priority sectors under the FMiA as guided by the NIF has been published by the authorities which will also be used to assess and identify additional sectors that may qualify for support under the FMiA. Considering the fast-evolving nature of technologies and global markets, the list of priority sectors will be subject to regular review.

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Annex X. Financial Sector Assessment Program Update

Recommendation	Time Frame	Developments and Implementation
Banking and Insurance Supervision		
Strengthen the independence of APRA and ASIC, by removing constraints on policy making powers and providing greater budgetary and funding autonomy; strengthen ASICs enforcement powers and expand their use to mitigate misconduct (Treasury, APRA, ASIC).	ST	**Complete.** • The Government sets ASIC's total budget to fund its regulatory activities, of which ASIC recovers the majority through its industry funding model (IFM) which was established in 2017. Within this total budget, ASIC determines how it allocates its resources to regulate different industry sectors and achieve its statutory objectives. In June 2023, the Government released a report on the review of the ASIC IFM and agreed to the recommendations of the review. • ASIC has been provided with significant additional funding since 2019-20 to support the implementation of the Financial Services Royal Commission, as well other measures. • The Australian Government has also made a number of changes to ASIC's enforcement powers: (i) on April 6, 2019, ASIC was granted a product intervention power. It allows ASIC to temporarily intervene in a range of ways, including to ban financial products and credit products when there is a risk of significant consumer detriment. ASIC has used this power in the area of short-term credit, continuing credit contract, binary options, and CFDs; and (ii) on February 18, 2019, Parliament passed legislation to significantly increase penalties for corporate and financial sector misconduct. (iii) On February 6, 2020, Parliament passed legislation to strengthen ASIC's licensing and banning powers and enhance ASIC's investigatory capability. (iv) On December 10, 2020, Parliament passed legislation to: - enable ASIC to designate enforceable code provisions in approved codes of conduct which, if breached, may attract civil penalties; and establish a mandatory code of conduct framework for the financial services and consumer credit industry through regulations, with the ability to designate certain provisions as civil penalty provisions. The regime became effective from January 1, 2021. - enhance ASIC's regulatory and supervisory tools by strengthening breach reporting requirements for financial service and credit licensees. The regime commenced on October 1, 2021.

Recommendation	Time Frame	Developments and Implementation
		(v) On 5 September, 2023, Parliament passed legislation that imposes a strengthened responsibility and accountability framework for entities in the banking, insurance and superannuation industries and their directors and senior executives (Financial Accountability Regime). ASIC and APRA will have joint responsibilities under this legislation. • The Government sets APRA's total budget to fund its regulatory activities, of which APRA recovers the majority through its Financial Institutions Supervisory Levies (FISLs) levied on APRA-regulated institutions. Within this total budget, APRA determines how it allocates its resources to regulate different industry sectors and achieve its statutory objectives. APRA was provided A$67.3 million in additional funding in the 2021-22 MYEFO to maintain its capacity to respond to risks within the financial system.
Enhance APRA's supervisory approach by carrying out periodic in-depth reviews of governance and risk management (APRA).	ST	**In process.** • APRA has built supervisor and risk specialist capability to undertake in-depth reviews of governance and risk management and conducts entity-specific and thematic reviews in this area regularly. • Since its November 2019 information paper *Transforming Governance, Culture, Remuneration and Accountability: APRA's Approach*, APRA has concentrated its supervisory efforts on ensuring risk governance deficiencies in a number of financial institutions identified from a program of self-assessments in 2018 are addressed to APRA's satisfaction through remediation plans. The first of these are now complete, leading to removal of capital overlays put in place to address these weaknesses. • This enhanced supervisory approach to addressing risk governance weaknesses is being applied to other institutions which show similar deficiencies. APRA has developed a risk transformation framework to support supervisors in the oversight of entity risk transformation programs. • APRA is reviewing governance standards (including *510 Governance, 520 Fit and Proper, 521 Conflicts of Interest*) to ensure requirements match contemporary practice. A discussion paper will be released in late 2024. Draft changes to standards will follow in 2025. • *Prudential Standard CPS 230 Operational Risk Management* was updated in July 2023 to expand expectations of Enterprise Risk Management including to conduct risk.

Recommendation	Time Frame	Developments and Implementation
		• APRA supervisors are working with regulated entities to comply with the standard when it comes into effect on 1 July 2025. • The enhanced focus on governance and risk management under APRA's Supervision Risk and Intensity (SRI) model has detailed guidance supporting assessment of governance, risk culture, remuneration and accountability (GCRA). This ensures weaknesses in these areas in individual entities drives escalation and requires supervisory action to address them. • APRA's focus on organizational resilience has addressed recommendations related to governance, culture, remuneration and accountability made by the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission). • APRA has strengthened requirements and increased supervision of remuneration, developed and implemented tools to sharpen the supervision of risk culture, and embedded in our approach to supervision and enforcement of the Financial Accountability Regime. Reflecting this, while GCRA will continue to be a major supervisory focus, the initiative of transforming GCRA practices is no longer a headline item in APRA's Corporate Plan.
Strengthen the integration of systemic risk analysis and stress testing into supervisory processes (APRA, RBA).	I	**Complete.** • APRA's SRI model incorporates an External Factors category covering macro and systemic risk for each industry. In addition, macro and industry risks are identified by dedicated Strategic Insights teams, with these risks being captured in Industry Risk registers, overseen by Industry Groups. These risks are considered in the development of Industry Plans, which can result in the conduct of thematic reviews across industries and / or specific entity reviews. • The capital section of the SRI model requires supervisors to consider the results of recent stress tests in determining the appropriate rating of capital. Stress testing is also an input into various supervisory processes including annual Internal Capital Adequacy Assessment Process (ICAAP) reviews, capital reductions, dividend considerations and broader capital settings. A stress testing handbook has been developed to provide supervisors with guidance in assessing stress testing approaches. Supervisors are directly involved in stress testing discussions with their respective entities. • APRA increased its stress testing activities across all regulated industries and analysed results under a range of scenarios to identify potential vulnerabilities, including regulated institutions that may be at a heightened risk of

Recommendation	Time Frame	Developments and Implementation
		failure. Collaboration with the Reserve Bank of Australia in modeling scenarios and comparing results also increased. Ongoing development of scenarios to reflect contemporary macro risk, such as high inflation is also incorporated into regular practice. APRA has transitioned to an annual stress testing program for the banking industry. APRA has continued to develop internal stress testing models across banking, insurance and superannuation to provide insight and inform supervisory and policy priorities. • APRA is developing a cross industry stress testing framework and systemic risk framework as the next phase of enhancements.
Financial Stability Analysis		
Commission and implement results of a comprehensive forward-looking review of potential data needs. Improve the quantity, quality, granularity and consistency of data available to the CFR agencies to support financial supervision, systemic risk oversight and policy formulation (CFR agencies).	MT	**In process.** • A Multi-Agency Data Collection (MADC) Committee has been established which includes APRA, ASIC, RBA, Treasury, the Australian Taxation Office, and the Australian Bureau of Statistics. • Specific inter agency data projects are discussed on a needs basis at the Multi-Agency Data Collection Committee with the aim of creating a unified strategic approach to data across these agencies. • Through the MADC, APRA has collected data of improved quantity, quality, granularity and consistency across superannuation, banking and insurance which have been designed with partner agencies for topics of mutual interest. For example, superannuation data is shared broadly with ASIC, the ATO and the ABS. • APRA continues to implement a pipeline of new and amended data collections to meet APRA's data needs including updated collections capturing relevant data for Liquidity Risk and Interest Rate Risk in the Banking Book, and data collections to capture data on investments, company structure and financial data for pension funds. • APRA is focusing on transitioning data collections from its legacy data collection system to APRA's new collection platform. This transition will reduce complexity in reporting for both APRA and the submitters of data. • APRA has planned the pace, sequencing, and priorities of the new collections, in the context of this migration work and an uplift of APRA's data and technology capabilities including a new data platform and improved enterprise data governance over the next 4 years. • ASIC has built an advanced data collection portal to improve how data is collected recurrently, consistently, safely, and securely. A pilot was conducted in November 2021 with

Recommendation	Time Frame	Developments and Implementation
		limited entities. Tranche 1 of the Internal Dispute Resolution (IDR) submission was successfully conducted in January 2023 and Tranche 2 successfully completed in August 2023, involving approx. 260 licensees. The most recent IDR submission was successfully conducted in January 2024.
Enhance the authorities' monitoring, modeling, and stress testing framework for assessing solvency, liquidity and contagion risk. Draw on the results to inform policy formulation and evaluation (CFR agencies).	ST	**Complete.** • APRA undertakes a number of stress tests based on a range of scenarios designed to assess the resilience of the banking system and insurance industries to a continually evolving economic outlook, with an emphasis on severe downside risks. The industry stress tests include both a solvency and a liquidity risk component. APRA is engaging with superannuation funds on liquidity stress testing methods. • APRA has further continued to build the functionality of its internal stress testing modeling to enable it to challenge industry stress test submissions and to more nimbly stress test output to internally generated stress testing scenarios. APRA and RBA stress testing teams engage directly to share and build stress testing model capabilities. • APRA has transitioned to an annual stress testing program of large banks. • APRA is developing a cross industry stress testing framework and systemic risk framework as the next phase of enhancements, which will include exploration of contagion risk between industries. • APRA also undertakes stress testing of resilience to broader scenarios and a broader range of risks, including the impacts from operational and climate change financial risks. APRA undertook a Climate Vulnerability Assessment of Australia's five largest banks in 2021-22, with results published in November 2022. This was a joint Council of Financial Regulator (CFR) initiative which APRA led. • Building on this approach to understanding climate risk, APRA is leading (on behalf of the CFR) a new insurance-focused CVA initiative. The insurance CVA commenced in July 2023, and focuses on the potential for physical and transition climate risks to drive changes in general insurance affordability, specifically home building insurance affordability. The initiative is expected to be completed in FY24-25. concentration risks and has commenced engaging with those entities. • ASIC six monthly review of ASX 200 Distressed Entities.
Encourage further maturity extension and lower use of overseas wholesale funding (APRA).	I	**Complete.** Offshore funding is an important part of Australian banks, however CFR agreed that a further lengthening of maturity of Australian banks' offshore borrowing would reduce rollover risks associated with this funding.

Recommendation	Time Frame	Developments and Implementation
		• Banks' offshore funding is kept under close scrutiny by the CFR agencies, and while such funding can create vulnerabilities, they are mitigated in Australia because a sizeable portion of foreign funding is swapped into Australian dollars and used to acquire Australian dollar assets. • More recently, the focus has been on ensuring that banks prudently fund repayment of the RBA's Term Funding Facility using more stable sources of funding, including long-term wholesale funding. The TFF has now been fully repaid and Australian banks are more deposit funded with lower reliance in wholesale funding. Offshore funding as % of total funding have slightly picked up, albeit still at lower level than pre-COVID. • Going forward, banks will continue to be encouraged to take opportunities to strengthen their funding profile, including lengthening the maturity of their offshore borrowing.
Systemic Risk Oversight and Macroprudential Policy		
Raise formalization and transparency of the CFR and accountability of its member agencies through publishing meeting records as well as publication and presentation of an Annual Report to Parliament by CFR agency Heads (CFR agencies).	I	**Complete.** • The CFR has taken a number of steps to increase transparency, including: (i) publishing a statement following regular CFR meetings since December 2018; and (iii) updating the CFR website to be more informative about the role and work of CFR. • The Government has established the Financial Regulator Assessment Authority (FRAA). The purpose of the FRAA is an oversight body which will report on the effectiveness and capability of ASIC and APRA. The FRAA conducts reviews of each regulator and completed its inaugural reviews of ASIC and APRA in August 2022 and June 2023, respectively. The FRAA does not have the power to direct the regulators, assess single cases or decisions, or deal with complaints about the regulators. • In 2023, a Government-appointed Review of the Reserve Bank considered macroprudential governance arrangements. The RBA Review included a number of recommendations in relation to transparency, including a recommendation that the CFR agency MoU be updated to clarify the responsibility of the CFR and each of its agencies. • APRA consults other CFR agencies on macroprudential settings and considers the feedback from them when determining macroprudential policy.
Undertake a CFR review of the readiness to apply an expanded set of policies to address systemic risks, including data	I	**In process.** • Working Groups, under the CFR, actively considers systemic risks associated with the housing sector of the financial system and implications for supervisory and policy response.

Recommendation	Time Frame	Developments and Implementation
and legal/regulatory requirements; and address impediments to their deployment (CFR agencies).		• The Macroprudential Policy Advisory Group actively considers risks to the financial system as well as appropriate macroprudential policies to address potential risks. The group discusses current macroprudential policy settings, as well as furthering thinking on what tools might be available were they needed at some point in the future, the circumstances when they might be suitable, and any restrictions on their use (e.g., data availability). • In November 2021, APRA published an information paper setting out its framework for macroprudential policy. APRA's paper outlines its policy objectives, macroprudential toolkit and approach to implementing macroprudential policy, including the role of the CFR. APRA has also made changes to its prudential framework to require banks to be operationally positioned to implement specified macroprudential policy measures (e.g., limit higher risk lending) if needed. These changes came into effect from September 2022, and are aimed at improving the transparency, timeliness and effectiveness of future responses to systemic risks. • APRA has progressed to more regular public updates on macroprudential policy settings. The updates set out the policy settings and explain the key factors that inform APRA's decision-making, enhancing transparency on macroprudential policy. APRA consults with the CFR agencies ahead of the annual update and prior to changing macroprudential settings. • In December 2023, APRA published an information paper providing an update on APRA's macroprudential policy settings across APRA regulated industries. • In December 2023, APRA published its annual update on macroprudential policy, including an outline on the reasons why the settings remained appropriate. • In July 2024, APRA published a brief media release containing its assessment that macroprudential policy settings remained appropriate. • The RBA Review released in April 2023 recommended that measures be adopted to enhance cooperation between monetary and macroprudential policies and the CFR agencies are developing new arrangements as part of implementing this recommendation. CFR agencies have established a staff-level macroprudential policy advisory forum which discusses macroprudential policy settings. • In December 2023, the CFR adopted a revised framework for the identification of systemic vulnerabilities, focusing on identifying and assessing vulnerabilities that could cause or

Recommendation	Time Frame	Developments and Implementation
		amplify instability in the Australian financial system, and the actions that CFR agencies were taking to mitigate these. This replaced the previous approach of focusing the assessment on potential shocks or risk scenarios.
Commission analysis by the CFR member agencies on relevant financial stability policy issues, including: policies affecting household leverage; as well as factors affecting international investment flows and their implications for real estate markets (CFR agencies).	MT	**In process.** • The CFR actively considers the impact of policy changes on financial stability. CFR agencies and Working Groups frequently reports to the CFR on any risks in the housing market. • The RBA participated in a Committee on the Global Financial System (CGFS) working group which studied property price dynamics and, in particular the influence of international investors. Its report was released in February 2020. • The RBA participated in a CGFS study group on policies to mitigate housing-related risks. The group took stock of recent experience with macroprudential measures targeting housing markets. The group released its report in December 2023.
Financial Crisis Management and Safety Nets		
Complete the resolution policy framework and expedite development of resolution plans for large and mid-sized banks and financial conglomerates, and subject them to annual supervisory review (APRA, Treasury).	ST	**In process.** • In May 2023, APRA finalised prudential requirements and guidance for resolution planning with the release of prudential standard *CPS 900 Resolution Planning* (CPS 900) & prudential practice guide *CPG 900 Resolution Planning*. The prudential standard commences on 1 January 2024. The CPS 900 specifies three yearly (rather than annual) reviews of resolution plans and APRA do not expect that frequency of review will change. • Further work is planned in terms of resolution testing for groups as part of a Trans-Tasman Banking Council crisis simulation in September 2024. • In June 2023, the FRAA completed its first review of APRA. The FRAA assessed APRA's effectiveness and capability of its supervision and resolution functions, focusing on superannuation. The FRAA recommended an uplift to APRA's capabilities and industry awareness of resolution planning. APRA's response comprised: industry communication of better recovery and exit planning practices; continued pilot resolution planning and commenced the wider roll out of resolution planning to the industry; and engaged with Treasury on enhancements to APRA's statutory resolution toolkit in superannuation.
Extend resolution funding options by expanding loss-absorption capacity for large and mid-sized banks and introduce	ST	**Complete.** • In November 2018, APRA released a discussion paper outlining its proposed changes to the application of the capital adequacy framework for banks, increasing loss-

Recommendation	Time Frame	Developments and Implementation
statutory powers (APRA, Treasury).		absorbing capacity (LAC) to support orderly resolution in the unlikely event of failure. These changes follow the Australian Government's 2014 Financial System Inquiry recommendation to APRA to implement a framework for minimum loss-absorbing and recapitalization capacity in line with emerging international practice, sufficient to facilitate the orderly resolution of banks and minimize taxpayer support. • In July 2019, APRA finalized its approach to LAC for banks, including requiring the D-SIBs to lift Total Capital by three percentage points of RWA by January 1, 2024. In 2021, APRA finalized the requirement for the D-SIBs increasing Total Capital by 4.5 percentage points in aggregate. Requirements for the other entities, including mid-sized banks will be determined as part of resolution planning.
Advance mutual understanding between the Australia and New Zealand resolution authorities on cross-border bank resolution modalities, through the Trans-Tasman Banking Council (TTBC) (CFR agencies).	ST	**Complete.** • APRA has made meaningful progress on the cross-border components of bank-specific resolution Planning with the New Zealand authorities. • APRA, in conjunction with the RBNZ, established at end-2019 the first entity-specific Crisis Management Group (CMG) for a trans-Tasman bank. The CMG comprises authorities that are essential to planning or facilitating orderly resolution, including APRA, RBNZ, ASIC, FMA and RBA. The CMG has proven to be an effective forum for the development and evaluation of detailed resolution strategies. The ANZ CMG met in October 2023. • Engagement with the New Zealand authorities via CMGs has become part of APRA's regular resolution planning activities. Once CPS 900 is in force, APRA will look to undertake resolution planning with a broader cohort of the regulated population overtime, which would include detailed resolution planning for other trans-Tasman banks.
Financial Market Infrastructure		

Strengthen independence of RBA and ASIC for supervisory oversight, enhance enforcement powers and promote compliance with regulatory requirements.	I	**In process.**
		• The CFR provided advice to government in July 2020 recommending enhancements to Australia's FMI regulatory regime. This included proposals for:
		  ○ enhanced powers for ASIC and the RBA to support their supervision of FMIs, their ability to take action to address any identified deficiencies, and
		  ○ the transfer of a range of licensing and supervisory powers from the Minister to ASIC and the RBA.
		• The government announced its support for these reforms in December 2022.

Recommendation	Time Frame	Developments and Implementation
		• In 2023/early 2024, Treasury drafted a set of FMI regulatory reforms aimed at enhancing and streamlining ASIC and the RBA's supervisory powers, and introducing powers for the RBA to manage and resolve a domestic clearing and settlement facility crisis. RBA and ASIC consulted on these reforms, and they are currently before Parliament.
Finalize the resolution regime for FMIs in line with the FSB Key Attributes (RBA, ASIC, Treasury).	ST	**In process.** • The CFR provided advice to government in July 2020 recommending enhancements to Australia's FMI regulatory regime. This included a proposal to establish a resolution regime for clearing and settlement facilities operating in Australia. • The government announced its support for these reforms in December 2022. • The regulators consulted on draft legislation for FMI regulatory reforms in late 2023/early 2024. The reforms include enhancements to supervisory and crisis management powers.
Anti-Money Laundering / Countering the Financing of Terrorism (AML/CFT)		

Expand the AML/CFT regime to cover all designated non-financial businesses and professions (DNFBPs) and strengthen AML/CFT supervision by: improving data collection and risk analysis; increasing oversight of controls and compliance; and undertaking more formal enforcement action in the event of breaches (Attorney-General's Department, Treasury, AUSTRAC).	I	**In process.**
		• *Expand the AML/CFT regime to cover all designated non-financial businesses and professions (DNFBPs)*
		  • On 20 April 2023, the Australian Government announced public consultation on major reforms to Australia's anti-money laundering and counter-terrorism financing (AML/CTF) regime. These proposed reforms would extend the AML/CTF regime to certain high-risk services provided by DNFBPs, including lawyers, accountants, trust and company service providers, real estate professionals and dealers in precious metals and stones. The proposed reforms would also simplify and clarify some obligations under the AML/CTF regime, and modernise digital currency and payments technology-related regulation.
		  • On 13 June 2024, the Government concluded a second round of public consultation. Stakeholder feedback is being considered to inform the design of the legislation framework, and further engagement with industry is being undertaken where needed.
		  • The legislation was introduced on 11 September 2024. The Government's intention is to allow industry as much time as possible to prepare for their new obligations ahead of Australia's next Mutual Evaluation by the Financial Action Task Force in 2026-27.
		• *Improving data collection and risk analysis*

Recommendation	Time Frame	Developments and Implementation

		• During the 2022-24 period, AUSTRAC published the following risk assessment documents:
		  • Bullion dealers risk assessment (Sep 2022)
		  • Superannuation sector threat update (Sep 2022)
		  • Remittance network providers & their affiliates risk assessment (Sep 2022)
		  • Independent remittance dealers risk assessment (Sep 2022)
		  • Proliferation financing national risk assessment (Dec 2022)
		  • In the same period, AUSTRAC also commenced Australia's latest national risk assessments (NRAs), which were published in 2024:
		  • Money laundering in Australia NRA (July 2024)
		  • Terrorism financing in Australia NRA (July 2024)
		• The NRAs bring together insights from across Australia's law enforcement, intelligence and regulatory agencies, private sector stakeholders and international financial intelligence units, to assess risk relevant to our domestic environment. The money laundering NRA includes an analysis of DNFBPs. All NRAs are publicly available on AUSTRAC's website.
		• *Increasing oversight of controls and compliance*
		  • AUSTRAC oversees the compliance of more than 17,000 Australian regulated businesses, referred to as reporting entities. These include businesses such as banks and credit unions, non-bank lenders and stockbrokers, gambling and bullion service providers, remittance providers and digital currency exchanges.
		  • The *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (AML/CTF Act) recognises that reporting entities are the first line of defence in protecting the financial system. The legislative framework creates a risk-based approach placing the onus on reporting entities to identify, mitigate and manage their money laundering/terrorism financing risk.
		  • AUSTRAC adopts a risk-based approach to supervision. Frontline supervision teams conduct targeted assessments and campaigns on the entities of most concern, and make findings relating to concerns of non-compliance, monitor remediation, and refer matter to enforcement.
		  • In addition, AUSTRAC has a centralised capability responsible for the identification, triage and assessment of instances of non-compliance with the AML/CTF Act, AML/CTF Rules and other regulatory risks, and refers matters of concern to the supervisory teams.

Recommendation	Time Frame	Developments and Implementation

		• *Supervisory action*
		  • AUSTRAC supervisory teams initiated 19 supervisory activities which include compliance assessments and supervisory campaigns involving more than 500 reporting entities. Supervisory activity conducted in 2022-23 focused on a range of businesses including the banking sector, foreign exchange services, virtual assets, remittance services and casino and gaming businesses. These supervisory activities involve engaging with regulated entities to improve AUSTRAC's understanding of the compliance risk and conducting a detailed review of a reporting entities compliance with certain AML/CTF obligations.
		  • AUSTRAC's supervisory teams also manage an increasing number of reporting entities undertaking remediation to strengthen their AML/CTF controls following AUSTRAC regulatory activities. During 2022-23, AUSTRAC monitored 25 remediation activities which were either open from a previous period or were initiated and will continue into future years.
		  • Over 300 reporting entities are impacted through those remediation engagements. In addition, AUSTRAC's supervisory teams have longstanding engagements with multiple reporting entities that have been undertaking remediation.
		  • Education and guidance AUSTRAC supports reporting entities through a comprehensive education and guidance program, tailored to suit their needs and capabilities. Throughout 2022-23, AUSTRAC responded to over 11,000 enquiries via the Contact Centre, published 20 downloadable guidance products, undertook 22 induction workshops to over 850 participants, and completed numerous education visits, including 26 education sessions to the corporate bookmaker sector and 99 visits to the remitter sector. 17 presentations were delivered to industry.
		• *Undertaking more formal enforcement action*
		  • AUSTRAC has continued to take formal enforcement actions against reporting entities for breaches of the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (AML/CTF Act).
		  • Though a list of enforcement actions undertaken by AUSTRAC is available on its website, the following matters are notable:
		  (1) Crown Casino

Recommendation	Time Frame	Developments and Implementation
		• On 1 March 2022, AUSTRAC commenced civil penalty proceedings in the Federal Court of Australia (FCA) against Crown Melbourne Limited and Burswood Nominees Limited trading as Crown Perth (together known as (Crown) for alleged serious and systemic non-compliance with Australia's AML/CTF laws. AUSTRAC sought orders from the FCA, primarily the imposition of a civil penalty payable to the Commonwealth of Australia. • On 30 May 2023, AUSTRAC and Crown filed joint submissions with the FCA, submitting that a $450 million penalty is an appropriate penalty to achieve specific and general deterrence, having regard to the nature and seriousness of the contravening conduct engaged in by Crown. • On 11 July 2023 the FCA ordered Crown to pay requested the $450 million penalty, plus costs in the amount of $3.4 million. (2) Star Entities • On 30 November 2022, AUSTRAC commenced civil penalty proceedings in the FCA against The Star Pty Limited and The Star Entertainment QLD Limited (the Star Entities) for alleged serious and systemic non-compliance with Australia's AML/CTF laws. AUSTRAC sought orders from the FCA, primarily the imposition of a civil penalty payable to the Commonwealth of Australia. • This matter remains ongoing in the FCA. (3) SkyCity • On 7 December 2022, AUSTRAC commenced civil penalty proceedings against SkyCity Adelaide Pty Ltd (Skycity) for alleged serious and systemic non-compliance with Australia's AML/CTF laws. AUSTRAC sought orders from the FCA, primarily the imposition of a civil penalty payable to the Commonwealth of Australia. • This matter remains ongoing in the FCA. (4) Enforceable undertakings • AUSTRAC also accepted enforceable undertakings requiring a range of remedial actions: • Bank of Queensland Ltd (30 March 2023) • PayPal Australia Pty Ltd (16 March 2023) • Cash Converters (17 February 2023) • ING Bank (Australia) Pty Ltd (23 November 2022)

Recommendation	Time Frame	Developments and Implementation

		• Enforceable undertakings remain ongoing for the following entities:
		  • Sportsbet Pty Ltd (commenced 2024)
		  • Gold Corporation (commenced 2023)
		  • Bank of Queensland Ltd (commenced 2023)
		  • PayPal Australia Pty Ltd (commenced 2023)
		  • National Australia Bank Limited (commenced 2022)

Annex XI. Transnational Aspects of Corruption: Updates[1]

This annex summarizes the latest state of play on Australia's efforts to address transnational aspects of corruption and notes that further efforts are needed to mitigate risk. Specifically, on the supply side, amendments to the criminal law strengthen the foreign bribery offence; however, foreign bribery enforcement remains low and should be prioritized. Staff encourages Treasury to accelerate the establishment of a publicly accessible beneficial ownership register to improve transparency of legal persons.

Previous Recommendations	Significant Updates
Supply Side of Corruption – Criminalization and Prosecution of Foreign Bribery	
Strengthening the Framework for Foreign Bribery Offence	The *Crimes Legislation Amendment (Combatting Foreign Bribery) Act 2024* (the Act) received Royal Assent in March 2024. The Act introduces a new "failure to prevent" foreign bribery offence for companies, which commences on 8 September 2024.
Clarifying Procurement Agencies' Discretion in Debarment Cases	Staff encourages the authorities to continue efforts to address this recommendation.
Providing Mutual Legal Assistance in Foreign Bribery Cases	Staff encourages the authorities to continue to consider this recommendation in the future.
Enhancing Foreign Bribery Enforcement	The *Crimes Legislation Amendment (Combatting Foreign Bribery) Act 2024* includes reforms to remove undue impediments to the investigation and prosecution of foreign bribery (such as enhancing the definition of foreign public official and scope of the foreign bribery offence). The Attorney-General's Department also published its Guidance on adequate procedures to prevent the commission of foreign bribery, to assist corporations to implement an effective anti-bribery compliance program.
Facilitation of Corruption – Preventing the Concealment of Foreign Corruption Proceeds	
Expanding AML/CTF Regime to DNFBPs	The Government is consulting on introduced reforms to Australia's Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) Reforms would extend regulation to certain high-risk services provided by tranche two entities (including accountants, lawyers, real estate professionals and dealers in precious metals and precious stones), which will harden Australia's financial system against criminal exploitation.

[1] Under the 2018 Enhanced Framework on Governance, Australia volunteered to have its legal and institutional frameworks assessed in the context of bilateral surveillance on supply and facilitation of corruption. Information relating to supply-side corruption in this annex draws on the WGB's Phase 4 Report of Australia. The IMF staff and Australia have provided additional views and information whose accuracy have not been verified by the WGB or the OECD Secretariat, and which do not prejudice the WGB's monitoring of the implementation of the OECD Anti-Bribery Convention.

Previous Recommendations	Significant Updates
Establishment of a Publicly Accessible Beneficial Ownership Register	The Government is committed to implement a public beneficial ownership register to improve multinational tax integrity. Key milestones in its action plan for this include i) a second round of public consultation in 2024 on extending the BO disclosure requirements to all Corporations Act legal persons, and ii) consideration and stakeholder consultations in 2025 on establishing a centralized registry.
Assessment of National Risks of Laundering of Foreign Proceeds of Crime	On 9 July 2024, AUSTRAC released the latest national risk assessment on money laundering. It provides a collective understanding of the scale, sophistication and threat of money laundering in Australia, including the risks of laundering proceeds of foreign corruption.

Annex XII. Data Issues

Table 1. Australia: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/
A

Questionnaire Results 2/

Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	A	B	A	A	A	A	A

Detailed Questionnaire Results

Data Quality Characteristics						
Coverage	A	A	A	A	A	
Granularity 3/	A		A	A	A	
			A		A	
Consistency			A	A		A
Frequency and Timeliness	A	B	A	A	A	

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance* , January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund is adequate for surveillance.
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Data provision is adequate for surveillance. Australia implemented most recommendations of the first phase of the G-20 Data Gaps Initiative (DGI) and has participated in the second phase of the DGI. Adding monthly inflation data to the suite of statistics, especially in the context of managing the last mile of disinflation, would further strengthen data adequacy for surveillance purposes.

Changes since the last Article IV consultation. The supply-use tables have been revised to incorporate 2021 Census data into HFCE rent estimates and to introduce various improvements to the Finance industry estimates. Large administrative datasets are being utilized more effectively to increase the coverage of National Accounts and to reduce reliance on survey data. The ABS has also produced new labor statistics and implemented a range of methodological improvements across the Labour Force Survey, employer surveys, administrative data collections, and the Labour Account.

Corrective actions and capacity development priorities. Not applicable.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Not applicable.

Other data gaps. The ABS started to publish a monthly CPI indicator derived using available data from the quarterly CPI in 2022. However, since prices are collected in a range of frequencies including monthly, quarterly, and annual, the composition of the monthly CPI basket varies across the three months of the quarter. In April 2024, the ABS commenced collecting prices monthly for a majority of the CPI basket of goods and services. Work to build the new CPI cloud processing system to support the production of a complete monthly CPI is progressing well, and the ABS is on track to publish the complete monthly CPI in late 2025. Additionally, while Australia's monetary and financial statistics are comprehensive and of high quality for surveillance purposes, there remain gaps in data regarding the Nonbank Financial Institution sector, which may hinder the timely identification of potential vulnerabilities, including those related to exposure to Commercial Real Estate (CRE). Regulatory agencies are actively addressing these gaps to enhance the visibility into the activities of less-regulated NBFIs. In this regard, APRA has recently reviewed its data roadmaps and rebalanced collection activities alongside an uplift in data technology capabilities, internal skills and capacity.

Table 2. Australia: Data Standards Initiatives

Australia subscribes to the Special Data Dissemination Standard (SDDS) since April 1996 and publishes the data on its National Summary Data Page. The latest SDDS Annual Observance Report is available on the Dissemination Standards Bulletin Board (https://dsbb.imf.org/).

Table 3. Australia: Table of Common Indicators Required for Surveillance

As of October 28, 2024

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Australia[8]	Expected Timeliness[6,7]	Australia[8]
Exchange Rates	4-Nov-24	4-Nov-24	D	D	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Sep-24	Oct-24	M	M	M	30	1W	30
Reserve/Base Money	Aug-24	Oct-24	M	M	M	7	2W	7
Broad Money	Aug-24	Oct-24	M	M	M	30	1M	30
Central Bank Balance Sheet	Oct-24	Oct-24	W	W	M	7	2W	7
Consolidated Balance Sheet of the Banking System	Aug-24	Sep-24	M	M	M	30	1M	30
Interest Rates[2]	4-Nov-24	4-Nov-24	D	D	D	...	...	...
Consumer Price Index	Q3/2024	Oct-24	Q	Q	M	90	1M	30
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	Q2/2024	Sep-24	Q	Q	A	90	2Q	60
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Aug-24	Oct-24	M	M	M	30	1M	28
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Aug-24	Oct-24	M	M	Q	30	1Q	21
External Current Account Balance	Q2/2024	Sep-24	Q	Q	Q	90	1Q	60
Exports and Imports of Goods and Services	Aug-24	Oct-24	M	M	M	30	8W	30
GDP/GNP	Q2/2024	Sep-24	Q	Q	Q	90	1Q	90
Gross External Debt	Q2/2024	Sep-24	Q	Q	Q	90	1Q	60
International Investment Position	Q2/2024	Sep-24	Q	Q	Q	90	1Q	60

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".

INTERNATIONAL MONETARY FUND

AUSTRALIA

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

November 12, 2024

Prepared By

Asia and Pacific Department

CONTENTS

FUND RELATIONS

(As of October 31, 2024)

Membership Status: Joined: August 5, 1947; Article VIII

General Resources Account:

	SDR Million	Percent Quota
Quota	6,572.40	100.00
Fund holdings of currency (holdings rate)	4,922.72	74.90
Reserve tranche position	1,649.93	25.10
Lending to the Fund		

SDR Department:

	SDR Million	Percent Allocation
Net cumulative allocation	9,382.52	100.00
Holdings	9,816.87	104.63

Outstanding Purchases and Loans: None

Financial Arrangements: None

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	May 1, 1961	September 5, 1961	100.00	0.00

Projected Obligations to Fund[1]

(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2024	2025	2026	2027	2028
Principal					
Charges/interest		0.07	0.07	0.07	0.07
Total		0.07	0.07	0.07	0.07

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Exchange Rate Arrangement. The de jure and the de facto exchange rate arrangements are classified as free floating. Australia has accepted the obligations of Article VIII, Sections 2(a), 3, and 4, and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions and multiple currency practices, except for exchange

restrictions that are maintained solely for the preservation of national or international security and which have been notified to the Fund pursuant to Executive Board Decision No. 144-(52/51). There are no taxes or subsidies on purchases or sales of foreign exchange.

Restrictions on Capital Transactions. Australia maintains a capital transactions regime that is virtually free of restrictions. Two main restrictions on foreigners require: authorization for significant ownership of Australian corporations; and approval for acquisition of real estate.

Article IV Consultation. Australia is on the 12-month consultation cycle. The Executive Board concluded the 2023 Article IV consultation on January 18, 2024 (IMF Country Report No. 24/11).

FSAP. The 2018 FSAP missions were held during June 6-26 and August 29-September 14, 2018. The findings were discussed with the authorities during the Article IV consultation discussions in November 2018 and were presented to the Executive Board for discussion alongside the Article IV staff report on February 4, 2019 (IMF Country Report No. 19/54). The previous FSAP Update was discussed by the Executive Board on November 12, 2012 (IMF Country Report No. 12/308).