

# Australia: Brief Profile

September 2022

## Domestic Economy

- ❖ After contracting by 2.1% in 2020, the economy of Australia bounced back and posted a growth rate of 4.8% in 2021.
- ❖ In absolute terms, GDP amounted to an US\$ 1.6 trillion in 2021, while GDP per capita at PPP stood at US\$ 57,541 in 2021.
- ❖ Average Consumer price inflation stood at 2.9% in 2021, compared to 2.1% in 2020.
- ❖ Services sector generates the bulk of GDP, accounting for 71.1% of the country's total GDP in 2017 (*est.*), followed by industry sector (25.3% of GDP) and agriculture sector (3.6% of GDP). (*As per the latest data available.*)

### BASIC FACTS

**Land area:** 7,682,400 sq km

**Population:** 25.8 mn (2021; est)

**Language:** English

**Currency:** Australian dollar (A\$)

**GDP:** US\$ 1.6 tn (2021)

**Exports:** US\$ 345.3 bn (2021)

**Imports:** US\$ 257.6 bn (2021)

**Sovereign Rating:** AAA (S&P's)

## Trade and Current Account Balance

- ❖ Australia's exports increase by 37.4% in 2021 to US\$ 345.3 billion from US\$ 251.4 billion in 2020.
- ❖ Australia's imports increase by 22.1% in 2021 to US\$ 257.6 billion from US\$ 210.9 billion in the previous year.
- ❖ As a result, Australia's trade surplus increased to US\$ 87.7 billion in 2021, from a surplus of US\$ 40.5 billion in 2020.
- ❖ Australia's export basket mainly comprised of ores, slag and ash (38.1% of the total exports in 2021), mineral fuels and oils (26.6%), pearls, precious stones and metals (6%), meat and edible meat offal (3.4%), and cereals (2.9%).
- ❖ Australia's major imports included machinery and equipment (14.8% of total imports in 2021), vehicles other than railway or tramway (13.4%), electrical machinery and

equipment (11.3%), mineral fuels and oils (10.4%), and pharmaceutical products (4.3%).

- ❖ The major destination of Australia's exports in 2021 was China (33.4% of total exports), followed by Japan (8.6%), South Korea (6.3%), India (3.7%) and USA (3.5%).
- ❖ China is also the largest source of Australia's imports, accounting for 27.3% of Australia's total imports in 2021. The other major sources of imports in the same year were USA (10.2%), Japan (6.1%), Thailand (4.4%), and Germany (4.3%).
- ❖ Current account surplus widened to US\$ 56.3 billion in 2021 (3.4% of GDP) from US\$ 35.6 billion (2.6% of GDP) in 2020, mainly due to an increasing trade surplus.

## Foreign Direct Investment, Foreign Exchange Reserves, and Exchange Rate

- ❖ According to *UNCTAD's World Investment Report 2022*, foreign direct investment (FDI) inflows to Australia increased in 2021 to US\$ 25.1 billion, compared to US\$ 16.7 billion in 2020.
- ❖ According to the same source, FDI outflows from Australia moderated slightly to US\$ 9.2 billion in 2021 from US\$ 9.9 billion in 2020.
- ❖ Australia's total foreign exchange reserves increased in 2021 to US\$ 57.8 billion from US\$ 42.5 billion of the previous year. Reserves reflected an import cover of around 2 months.
- ❖ The local currency is Australian Dollar (A\$). The exchange rate appreciated to A\$ 1.33: US\$ 1 in 2021, from A\$ 1.37: US\$ 1 in the previous year.

## Country Rating

- ❖ *Standard & Poor's Sovereign Ratings* as on date, rates Australia as AAA (less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions) with a 'stable' outlook.

- ❖ *Dun and Bradstreet's (DB) Country Risk Indicator*<sup>1</sup>, August 2022, rates Australia as DB2b (low risk which implies low degree of uncertainty associated with expected returns; however, country-wide factors may result in higher volatility of returns in future) with a 'stable' outlook.
- ❖ *Moody's Investor Services*<sup>2</sup> as on date rates Australia as Aaa (the obligations are judged to be of highest quality, with minimal risk) with a 'stable' outlook.
- ❖ *Organization for Economic Co-operation and Development (OECD)* does not rank Australia in its country risk classification.

## Macroeconomic Outlook

- ❖ The economy is expected to stay volatile in 2022. Rising energy and food prices, interest rate increase (on back of higher inflation) and higher public spending would lead Australia to register an expected growth rate of 3.2% in its GDP in 2022. GDP growth is expected to average at 2.4% in 2023-26, which is the similar pace as in 2015-19.
- ❖ Consumer price inflation is likely to increase in 2022 to average at 6% compared to an average of 2.9% in 2021. Deteriorating geopolitical conditions leading to higher global energy and food prices are fuelling this increase in prices.
- ❖ The Australian dollar is expected to trend weaker in 2022 against a strong US dollar. Softness in the currency reflects a slower pace of monetary tightening in Australia compared with that in the US. However, the scale of depreciation would be less marked than some major global currencies, such as the euro and yen, with Australia's

<sup>1</sup> The DB risk indicator is divided into seven bands (DB1 to DB7, in the increasing order of risk). Each band is further divided into quartiles (a-d, ranging low to high), except the DB7 band.

<sup>2</sup> Moody's Investor services ranks countries in nine categories Aaa, Aa, A, Bbb, Bb, B, Ccc, Cc and C, according to increasing order of risk. Numerical modifiers 1, 2, and 3 are appended to each generic rating classification. The modifiers 1, 2 and 3, respectively indicate that the obligation ranks in the higher end, mid-range, and lower end of its generic rating category.

currency-account surplus acting as an important source of support. The currency is forecasted to average A\$1.40:US\$1 in 2022.

- ❖ The country's external balance remains closely tied to commodity prices, as iron ore, coal and liquefied natural gas (LNG) constitutes more than one-half of Australia's total exports. On the other hand, import bill is also expected to swell on back of high crude oil prices. The current account is expected to continue to post smaller surpluses and by 2026 it is expected to be in a narrow deficit, equivalent to 0.8% of GDP.

**Australia: Economic Structure**

Economic Indicators	2017	2018	2019	2020	2021 <sup>a</sup>	2022 <sup>f</sup>	2023 <sup>f</sup>
GDP (US\$ bn)	1,382.3	1,416.6	1,386.7	1,357.7	1,634.0	1,693.1	1,793.0
Real GDP growth (%)	2.4	2.8	2.0	-2.1	4.8	3.2	1.5
Consumer price inflation (av.,%)	1.9	1.9	2.0	2.1	2.9	6.0	2.9
Population (mn.)	24.6	24.9 <sup>e</sup>	25.2 <sup>e</sup>	25.5 <sup>e</sup>	25.8 <sup>e</sup>	26.1	26.3
Merchandise exports fob (US\$ bn)	231.5	258.0	271.5	251.4	345.3	390.6	390.3
Merchandise imports fob (US\$ bn)	221.1	237.1	223.4	210.9	257.6	297.7	301.6
Current account balance (US\$ bn)	-36.1	-29.9	7.7	35.6	56.3	32.2	34.7
Total international reserves (US\$ bn)	65.6	53.9	58.0	42.5	57.8	56.2	57.7
Total external debt (US\$ bn)	1,657.2	1,596.4	1,700.2	1,988.6	1,773.2	1,313.2	1,339.5
Average exchange rate (A\$ : US\$) Local currency: Australian Dollar	1.30	1.34	1.39	1.37	1.33	1.40	1.38

Note: <sup>e</sup> Estimate; <sup>f</sup> Forecasts

Source: EIU Country Report