



AUSTRALIA

February 2026

2025 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE ALTERNATE EXECUTIVE DIRECTOR FOR AUSTRALIA

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 2025 Article IV consultation with Australia, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its February 9, 2026 consideration of the staff report that concluded the Article IV consultation with Australia.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 9, 2026, following discussions that ended on November 20, 2025, 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 January 21, 2026.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Alternate Executive Director** for Australia.

The documents listed below have been or will be separately released.

Selected Issues

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International Monetary Fund
Washington, D.C.



IMF Executive Board Concludes 2026 Article IV Consultation with Australia

FOR IMMEDIATE RELEASE

Washington, DC – February 15, 2026: On February 9, 2026, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with Australia.

The Australian economy is managing a soft landing. Growth picked up to 2.1 percent year on year in 2025Q3 after a weak 2024, as private demand gradually recovered. With the output gap narrowing, inflation declined steadily through 2025Q2, allowing monetary policy to be eased over the course of the year. However, inflationary pressures have re-emerged in recent months, bringing underlying inflation above 3 percent in 2025Q3. Labor market conditions are easing gradually after a period of tightness, although the unemployment rate, at 4.3 percent, remains low by historical standards. House prices have rebounded as financial conditions eased, and new dwelling investment has begun to pick up.

The economic recovery is expected to continue in the near-term. Real GDP is forecast to have expanded by 1.9 percent in 2025 and to grow by 2.1 percent in 2026 as the lagged impact of monetary easing and improving consumer sentiment support private demand and investment. Elevated global uncertainty will continue to weigh on external demand and the current account is expected to remain in deficit into the medium term. Inflation is projected to converge to the midpoint of the RBA's 2 to 3 percent target range by the latter half of 2027, as pressures on service prices ease and import costs remain stable. Wage growth is anticipated to moderate further, partially attributable to weak productivity growth.

Risks to Australia's economic outlook are skewed toward slower growth and higher inflation. External threats such as global trade tensions, financial instability, and volatile commodity prices can potentially dampen demand and employment, while new trade agreements and greater regional integration could support resilience. Domestically, persistent inflationary pressures may arise from strong labor markets and constrained supply capacity; conversely, a slower-than-expected domestic demand recovery could increase unemployment. Climate events and shifting global energy demand remain significant medium-term challenges.

Executive Board Assessment²

Executive Directors welcomed Australia's progress toward a soft landing and internal balance, notwithstanding uncertainties regarding residual excess demand and supply capacity in the context of weak productivity growth. Directors emphasized that near-term macroeconomic policies should remain agile and responsive to external shocks. In this context, they

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 At the conclusion of the discussion, the Managing Director, as Chair 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>.

commended Australia's robust institutions, flexible markets, agile policy toolkit, and flexible exchange rate, which position the country to manage external risks from trade policy uncertainties and tighter global financial conditions.

Directors welcomed the Reserve Bank of Australia's recent policy rate increase in response to the economic and inflation outlook. They supported the RBA's data-dependent monetary policy adjustment in line with its dual mandate of price stability and full employment and stressed the importance of continued vigilance given elevated uncertainty. They welcomed progress on the RBA Review recommendations, including efforts to improve policy communication and further strengthen central bank independence.

Directors supported the planned medium-term fiscal consolidation, which will help rebuild fiscal buffers, while also enhancing external rebalancing. They encouraged comprehensive tax and expenditure reforms, while protecting and prioritizing infrastructure investments to enhance productivity and support growth. Directors also recommended improved fiscal coordination across the federation and regular monitoring of subnational fiscal positions.

Directors considered that financial stability risks are contained, but stressed the importance of ongoing vigilance, oversight and system-wide stress-testing, and agile macroprudential adjustments. Directors highlighted the need for a holistic strategy to address housing supply constraints, emphasizing implementation of supply-boosting measures and tax reforms.

Directors underscored the importance of bundling and sequencing structural reforms to foster productivity, business dynamism, and labor mobility. Streamlining regulations, leveraging technology adoption, advancing labor market reforms, and continuing economic and trade diversification will be crucial. While noting the opportunities presented by the green transition, Directors cautioned that any related industrial policy should be narrowly focused to address market failures and generate positive externalities.

Real effective exchange rate	90.5	91.1	90.4	82.0	...	...	...	...	...	...	...
Sources: Authorities' data; IMF <i>World Economic Outlook</i> 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.											



AUSTRALIA

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

January 21, 2026

KEY ISSUES

Context. The re-elected government has laid out a bold reform agenda since taking office in May. Following a period of high inflation, the convergence of the economy toward balance is creating the opportunity to focus on ambitious structural reforms to address medium-term challenges. Delivering on the government's three main economic goals of boosting productivity, maintaining fiscal sustainability and ensuring economic resilience will help strengthen Australia's economy amid an uncertain global outlook.

Main Policy Recommendations: Near-term macro policies should aim to contain price pressures and rebuild buffers, while structural reforms should target closing the productivity gap. Specifically:

- **Monetary policy** has been on hold since October, amid renewed price pressures. The current stance is appropriate, but policy should remain ready to adopt a more restrictive or accommodative setting if warranted by incoming economic data. Clear communication remains essential under elevated uncertainty. Implementing the RBA's reform agenda can further bolster its operational independence.
- **Fiscal Policy** should adopt a growth friendly fiscal consolidation beginning in FY2026/27 to help cement fiscal buffers and strengthen the external position, while safeguarding the recovery. New spending mandates related to social protection, the green transition, and aging necessitate careful coordination and enhanced oversight of fiscal strategies across the federation.
- **Financial Sector Policy** should prioritize vigilant monitoring of potential financial sector vulnerabilities, including linkages between NBFIs and the domestic banking sector. Macroprudential settings are broadly appropriate, but the authorities should remain agile in an uncertain global environment where financial stability risks could arise. A holistic strategy is essential to tackle the structural barriers that impede new housing supply and enhance housing affordability.
- **Structural Policy** measures anchored on the authorities' productivity and growth mission are well aligned with staff advice. They include corporate tax reform, advancing digitalization and AI adoption, boosting competition and business dynamism and labor market reforms. Disciplined and narrow use of green industrial policy should be maintained to address market failures and generate positive externalities. Prioritizing and bundling of reforms will be important to maximize synergies and help secure more resilient growth, productivity gains and address external imbalances.

Approved By
Nada Choueiri (APD)
and Koshy Mathai
(SPR)

Discussions took place in Canberra, Melbourne, and Sydney during November 5–November 20, 2025. The staff team comprised Lamin Leigh (head), Mike Li, Monica Petrescu and John Spray (all APD) and Sneha Thube (RES). Nghi Luu and Danika Maxwell (both OED) joined the discussions. Nada Choueiri joined the concluding meetings. Sophia Zhang, Dan Zheng, Samikshya Siwakoti, Madelen Conde Panesso (all APD) assisted from HQ.

CONTENTS

CONTEXT: EMBARKING ON A BOLD REFORM AGENDA	4
RECENT DEVELOPMENTS: A GRADUAL RETURN TO BALANCE	4
OUTLOOK AND RISKS: RECOVERY AMID GLOBAL UNCERTAINTIES	8
MANAGING POLICY NORMALIZATION AND TURNING STRUCTURAL REFORM AMBITION INTO ACTION	10
A. Near-Term Policy Mix and Contingent Policies: Remaining Flexible Amid Uncertainty	11
B. Calibrating Monetary Policy Normalization Under Elevated Uncertainty	12
C. Strengthening Budget Sustainability and Using Fiscal Policy to Boost Productivity	16
D. Navigating Financial Stability and Housing Challenges	20
E. Turning Structural Reform Ambition into Action to Boost Productivity	23
STAFF APPRAISAL	27
FIGURES	
1. Economic Imbalances Narrowing as Recovery Commences	30
2. Monetary Policy Has Started Easing	31
3. The Housing Market Momentum is Rebuilding	32
4. The Banking Sector Remains Resilient	33
5. Financial Conditions Are Overall Favorable	34
6. The Public Sector Fiscal Position Remains Strong	35
7. The External Position is Stabilizing	36
TABLES	
1. Main Economic Indicators, 2021–2031	37
2. Fiscal Accounts, 2020/21–2030/31	38
3. Balance of Payments, 2021–2031	39
4. Monetary and Financial Sector, 2021–2031	40
5. Selected Financial Soundness Indicators of the Banking Sector	41

ANNEXES

I. Impact of Illustrative Adverse Global Scenarios on the Australian Economy _____	42
II. Implementation of Previous Article IV Recommendations _____	45
III. Sovereign Risk and Debt Sustainability Assessment _____	47
IV. External Sector Assessment _____	54
V. Risk Assessment Matrix _____	56
VI. The Role of Superannuation Funds in Australia’s Economic and Financial Ecosystem _____	59
VII. Lessons from Commonwealth and Sub-National Fiscal Strategies _____	62
VIII. Cross-Country Insights into Housing Market Developments _____	68
IX. Climate-Productivity Nexus: The Dual Dividend of Technological Upgrades Leveraging Firm-Level Analysis _____	74
X. 2019 Financial Sector Assessment Program Update _____	79
XI. Data Issues _____	95

CONTEXT: EMBARKING ON A BOLD REFORM AGENDA

1. Following the federal election in May 2025, in the context of lower inflation and narrowing economic imbalances, the Australian authorities have signaled a renewed focus on addressing domestic structural challenges.

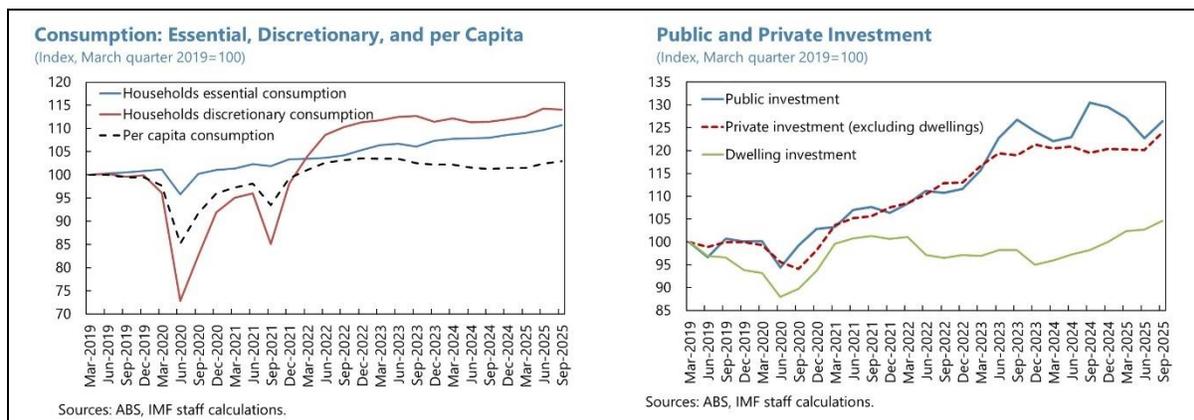
- With underlying (trimmed mean) inflation having declined – albeit unevenly – since 2024Q2, unemployment remaining low, and the output gap narrowing, the macroeconomic policy mix is gradually returning toward neutral. After a period of tight monetary settings to reduce price pressures and economic imbalances, the RBA has gradually eased policy towards neutral. Counter-cyclical fiscal policy fueled growth in public demand during 2024, but fiscal policy normalization, accompanied by monetary easing, is supporting a gradual handover from public to private demand as the key growth driver.
- The economy faces structural challenges, including stagnant productivity growth and rising structural spending pressures. Addressing these priorities, the August 2025 economic reform roundtable laid out the new government’s main economic goals: boosting productivity, maintaining fiscal sustainability and ensuring economic resilience. The forum suggested key reforms to regulation, housing, AI adoption, skilling, and public service sector modernization as well as identifying how fiscal reforms can boost productivity and tackle intergenerational inequity. The ambitious agenda aligns with the reelected Labor government's commitments to reduce labor taxes, support first-time home buyers, increase health care funding, review R&D, reform competition policy, and invest in the net zero transition.

2. Delivering on this broad agenda will require skillful economic management amid a challenging global environment. Given the country’s close links to global financial and commodity markets, elevated risks in the global economy could present significant constraints on the government’s policy choices. The authorities continue to pursue trade and economic diversification to reduce supply chain vulnerabilities through expanded economic partnerships (including leveraging existing free trade agreements) and redoubling efforts to boost domestic productivity.

RECENT DEVELOPMENTS: A GRADUAL RETURN TO BALANCE

3. Economic growth gained momentum in 2025. After a modest increase in 2024, supported primarily by public demand, real GDP growth reached 2.1 percent y/y in 2025Q3 as private domestic demand recovered to become the main growth driver. Private consumption growth reached 2.5 percent y/y in 2025Q3, supported by stronger real disposable income (in part due to real wage growth and Stage 3 tax cuts). The recovery in private investment has been uneven; dwelling investment surged (to 6.5 percent y/y by 2025Q3), benefitting from slight easing in capacity constraints (high material costs and labor shortages) and lower interest rates. Non-dwelling investment growth was softer, especially in the mining sector, but eventually saw a strong pick up in 2025Q3. Following significant expansion in 2024, public demand—especially investment—has been

growing at a slower pace, helping reduce capacity pressures. The economy is close to internal balance, after several years of excess demand – although significant uncertainty remains around the level of excess demand in some parts of the economy. The impact of higher US tariffs and greater trade policy uncertainty on Australia’s economy has been limited thus far, beyond a slight drag on consumer sentiment.¹



4. Labor market conditions are easing gradually, after a lengthy period of tightness.

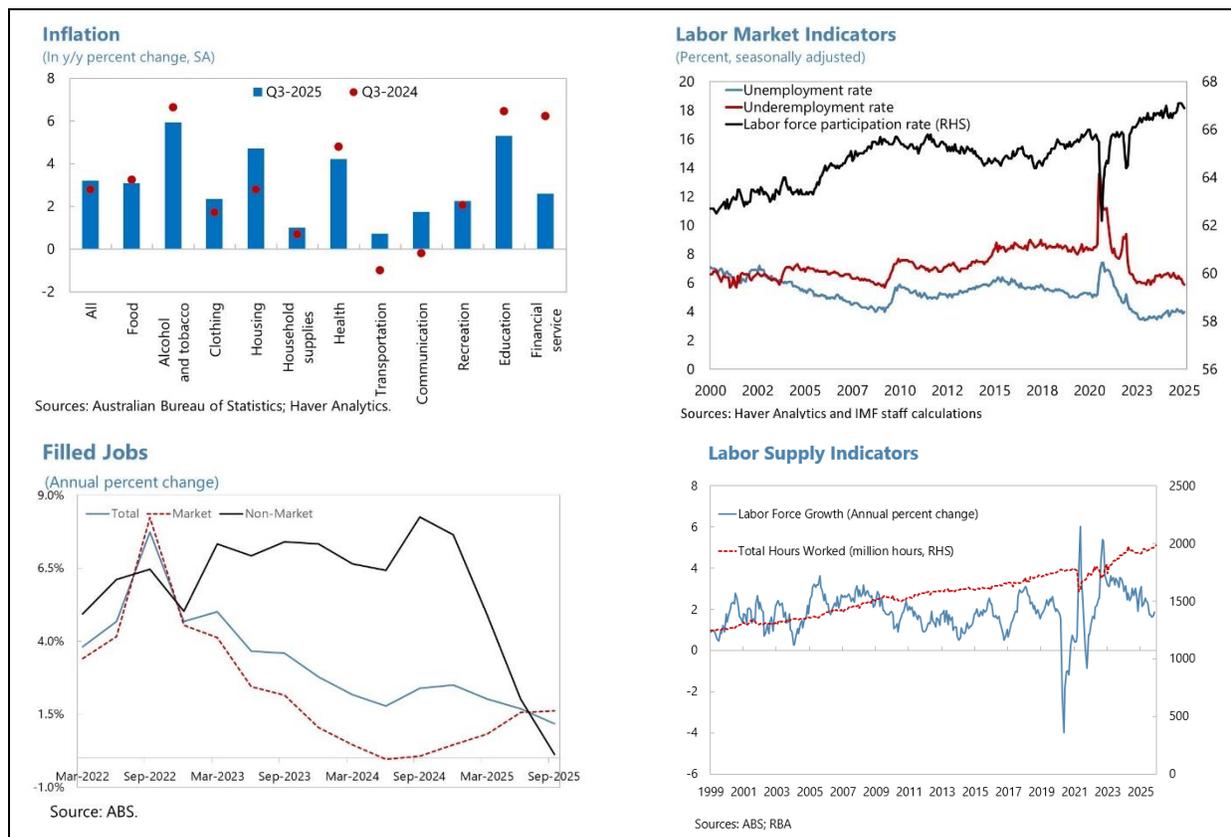
Australia’s labor market has remained remarkably resilient, benefitting from co-movement in supply and demand (see *Selected Issues Paper: Labor Market Resilience*). Since early 2025, employment growth has moderated, as the slowdown in non-market sector labor demand more than offset the pickup in market sector hiring linked to the incipient private sector recovery. At the same time, labor supply growth has eased as net migration softened from post-COVID peaks and participation rates have declined slightly. Consequently, the unemployment rate rose gradually to 4.3 percent by October 2025 - still low by historical norms – and underutilization measures have remained stable. Private sector wage growth slowed to 3.4 percent in 2025Q3, although unit labor costs are rising amid weak productivity growth. Pockets of labor shortages persist, including in the construction sector, with potential ramifications for prices and supply capacity.

5. Disinflation has paved the way for gradual monetary policy easing, but price pressures have re-emerged in some sectors.

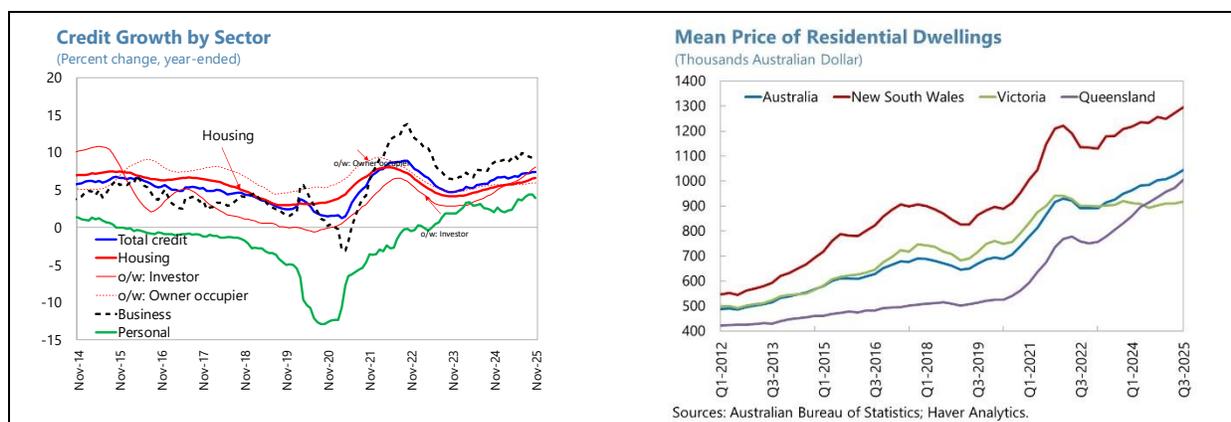
In 2025Q1, underlying inflation fell below 3 percent y/y for the first time since 2021, before slowing further in 2025Q2. The decline was supported by broad-based services disinflation, including in rents and insurance, while contained import prices kept goods inflation low. Easing price pressures and labor market conditions, and the narrowing of the output gap, allowed the RBA to reduce policy rates by a total of 75 basis points through August, to 3.6 percent. However, underlying inflation rose in the second half of the year, reaching 3.2 percent y/y by November, partly reflecting one-off factors (e.g., taxes and charges) but also re-emergent pressures in service sectors and new dwellings, and significant uncertainty remains around the precise estimate of the output gap. Headline inflation remained volatile as Commonwealth and state

¹ While the effective tariff rate for goods exported from Australia to the US increased from close to zero to over 10 percent by November 20, 2025, the direct impact is expected to be contained given only 5 percent of goods exports were destined for the US in 2024.

electricity subsidies introduced mid-2024 were phased out, dropping to 2.1 percent in 2025Q2 before rising to 3.4 percent y/y by November 2025, above the RBA’s target band of 2 to 3 percent.



6. Financial conditions have eased, contributing to a rebound in housing prices. Lower interest rates have been passed on to borrowers (Figure 2) and have supported a continued recovery in credit growth in both business and housing sectors. Recent rate cuts have also contributed to rising housing prices (Figure 3), with national dwelling prices increasing by 1.1 percent in November, reflecting a 7.4 percent y/y rise. On the supply side, dwelling investment grew by 6.5 percent y/y in the September quarter, yet annualized completions of around 180,000 remain well below the peak levels seen in 2016 and the needed pace to achieve the authorities’ target of 1.2 million new homes over five years starting in 2024 under the National Housing Accord. Consequently, housing affordability has deteriorated, now requiring 47 percent of median household income for new mortgages and 24 percent for rent, with the time needed to save for a 20 percent down payment extending to 11 years.



7. The financial sector has proved resilient amid the 2024 economic slowdown and the 2025 global volatility. Australia’s financial system has maintained its overall strength and resilience,

with banks’ capital and liquid assets well above regulatory requirements, profitability robust, and lending standards sound, all together ensuring banks’ ability to absorb losses while continuing to provide credit (Figure 4).

Selected Financial Soundness Indicators of the Banking Sector (Year-end unless otherwise noted, in percent)			
	2023	2024	2025Q1
Regulatory capital to risk-weighted assets	20.0	20.2	20.5
Regulatory Tier 1 capital to risk-weighted assets	14.7	14.1	14.2
Nonperforming loans to total gross loans	0.9	1.0	1.1
Return on assets	1.0	0.9	...
Return on equity	27.1	9.8	...
Liquid assets to short-term liabilities	42.8	43.6	42.9

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

Payment pressure on mortgage holders (mostly

on variable rates) has eased due to recovering real incomes and lower interest rates, helping to keep the 90+ day arrears rate below 1 percent. Business insolvencies rose amid subdued growth and higher input costs, but remain largely concentrated in small construction and hospitality firms. The superannuation funds (largest NBFIs in Australia) have successfully navigated the shocks from April 2025 market volatility induced by global trade tensions (Figure 5), which led to large temporary fluctuations on their overseas investments due to valuation effects.

8. The consolidated government fiscal stance is estimated to be broadly neutral in FY2025/26, following a countercyclical loosening in FY2024/25. The Commonwealth and states utilized discretionary spending during the downturn, supporting households and investing in infrastructure. The cyclically adjusted primary balance is estimated to remain broadly stable between FY2024/25 and FY2025/26 as lapsing cost-of-living support measures are offset by less buoyant revenue growth (Figure 6).

9. The current account stabilized in 2025, after a sharp deterioration in 2024. In 2024, a softening in key trading partner demand and in coal and iron ore prices saw the current account deficit widen to 2.2 percent of GDP. The deficit largely stabilized through 2025Q3, as a slight decline in commodity exports was offset by lower oil import prices, strong overseas equity income, and lower payments on equity liabilities (primarily for mining companies). Australia’s external position in

2025 is preliminary assessed to be moderately weaker relative to medium-term fundamentals and desirable policies (*Annex IV*). Yet despite recurrent current account deficits, the Net International Investment Position (NIIP) has improved by 6 percent of GDP since end-2023 due to asset valuation effects, primarily from US equities (Figure 7). The composition of external liabilities (most AUD-denominated or hedged) and assets (most FX denominated) limits the vulnerability of the external balance to depreciation.

10. Australia’s data provision is adequate for surveillance purposes based on the Fund’s new data adequacy assessment (Annex XI). The Australian Bureau of Statistics (ABS) has taken several initiatives to further improve data quality, including finalizing the compilation and dissemination of monthly CPI data, which was launched in November 2025.

11. Economic policies have been broadly consistent with past Fund advice (Annex II). The authorities have continued their post-pandemic budget repair and the RBA’s data dependent monetary policy helped bring down inflation while preserving labor market gains. Further progress has been made in implementing previous FSAP recommendations, particularly in the areas of AML/CFT, systemic risk analysis, and supervisory and resolution frameworks (Annex X). They have also advanced structural reforms to promote productivity growth and continued pursuing ambitious climate goals. In addressing transactional aspects of corruption (TAC), the authorities have tightened foreign bribery risk assessment in procurement, expanded AML/CFT obligations to designated non-financial businesses and professions (DNFBPs), and committed to implementing a publicly accessible beneficial ownership registry.

OUTLOOK AND RISKS: RECOVERY AMID GLOBAL UNCERTAINTIES

12. The economic recovery is expected to continue, while inflation gradually returns toward the midpoint of the target band.

- **Growth** is expected to rise to 2.1 percent in 2026 (from 1.9 percent annual average in 2025), as pass-through from prior monetary easing and recent improvements in consumer sentiment support private demand. Elevated global trade policy uncertainty may continue to weigh on external demand. Staff estimate potential output growth will stabilize around 2.1-2.2 percent in the near term; structural reforms could augment total factor productivity (TFP) and contribute to raising potential output growth toward the end of the decade (Section E).
- **Inflation.** Inflation is expected to gradually converge toward the midpoint of the RBA’s 2-3 percent target band by 2027H2, as service price pressures abate and import costs remain contained. Headline inflation will remain temporarily above underlying inflation reflecting the

expiration of electricity rebates. Wage growth should ease further given low productivity growth and easing pressures from backward-looking pay setting methods.²

13. The current account is expected to remain in deficit into the medium term. While a slight recovery in commodity prices is forecast in 2026, softening demand in key trading partners will contain export growth. An increase in import volumes as private domestic demand recovers should be partly mitigated by soft global tradables price growth and fiscal consolidation. In the medium term, slowing and greening steel production, especially in China, is expected to weigh on Australia's export performance, as demand for metallurgical coal and seaborne thermal coal trade declines. Nonetheless, emerging trends like increased reshoring, rising global defense spending, and the data center boom are expected to partially offset these headwinds by supporting demand for steel and Australia's rich critical mineral sector.

14. The consolidated government fiscal deficit is projected to gradually narrow over the medium-term. A modest fiscal consolidation will be driven by a reduction in operating expenses, reforms in the care sector, reforms to disability insurance, and a normalization of infrastructure spending across all levels of government. The fiscal impulse from the consolidated government is expected to be -0.2 and -0.9 percent of potential GDP in FY2025/26 and FY2026/27,³ respectively, and continue on a consolidation path steadily thereafter. General government public debt remains low and the risk of sovereign stress continues to be assessed as low (Annex III).

15. Risks to growth are tilted to the downside, while for inflation, upside risks dominate (Annex V):

- **External risks:** Global trade tensions, prolonged trade policy uncertainty, and global financial turmoil could weigh on aggregate demand and employment. Volatility in global commodity prices continues to pose fiscal, external, and inflationary risks. On the other hand, persistent trade diversion could generate disinflationary pressures. On the upside, deepening regional integration and new trade deals could diversify export markets, reduce supply chain risks, and boost resilience, while easing global trade tensions may strengthen external demand. In the medium term, Australia remains exposed to large scale climate events and changes in external demand for coal amid the global energy transition.
- **Domestic risks:** Inflationary pressures may prove more persistent than expected, including if a resilient job market drives stronger labor cost growth. In addition, supply capacity may prove more constrained than expected, raising the risk that price pressures rise further as private

² Collective agreements and award wages, which together account for over 50 percent of workers in Australia, are reset less frequently and capture changes in inflation and labor market conditions with a lag relative to individual agreement (IA) wages. In 2025, while economic imbalances normalized, growth in collective agreement and administered wages was higher than in IA wages, partly reflecting a lagged reaction to prior economic conditions.

³ The negative fiscal impulse in FY2026/27 is driven by a combined consolidation across Commonwealth, States and Territories. Staff do not anticipate a significant impact on the output gap given the timing of consolidation is expected to coincide with a cyclical uptick in private sector activity.

demand accelerates. On the other hand, a slower than expected recovery in private domestic demand could lead to a sharp rise in unemployment.

Authorities' Views

16. The authorities, like staff, expect the ongoing recovery to continue amid global uncertainty, and inflation to eventually converge toward the midpoint of the RBA's target band. Private demand is taking over from public demand as the key growth driver, but remains uneven. Consumption should continue expanding, though volatility may persist with spending concentrated around sales periods. Improved conditions should continue to support new business investment, with recent strength seen in machinery and equipment, particularly in relation to digitization and data centers. Low productivity growth continues to constrain supply capacity. The recent rise in price pressures is partly driven by temporary and one-off factors, and is expected to partly unwind over the coming months. Unemployment is forecast to stabilize close to current levels, while labor supply strength should persist.

17. The authorities see downside risks to growth, stemming from both external and domestic factors, while risks to inflation have tilted to the upside. The authorities consider downside risks stemming from global developments to have diminished since April 2025, but external demand remains susceptible to a slowdown in trading partner growth, while consumption and investment could be affected by global policy uncertainty. Domestically, a softer-than-expected recovery in market sector employment may thwart momentum in private demand and pose an upside risk to the unemployment rate. On inflation, the authorities are alert to recent stronger-than-expected inflation data and the overseas experience where inflation in some countries is proving to be more persistent. At the same time, a slower-than-expected recovery in private demand could reduce price pressures. The authorities expect the current account to remain in deficit and do not see substantial risks stemming from the external financial position, given significant hedging in Australia's foreign assets and liabilities, a fully flexible exchange rate, and the absence of underlying distortions.

MANAGING POLICY NORMALIZATION AND TURNING STRUCTURAL REFORM AMBITION INTO ACTION

Managing macroeconomic policy amid heightened global uncertainty presents a near-term challenge. Monetary policy should support the descent of inflation toward the midpoint of the target band. Fiscal policy should focus on rebuilding buffers. Macprudential policies should focus on managing financial stability risks, especially with a strong housing market, monetary policy adjustments, and heightened global uncertainties. Over the medium term, turning structural reform ambition into action would require focus on closing the productivity gap and building long-term resilience.

A. Near-Term Policy Mix and Contingent Policies: Remaining Flexible Amid Uncertainty

18. All policy levers are appropriately returning to near-neutral settings as the economy is closer to balance. The monetary stance is expected to remain just above or in neutral territory as inflation gradually converges toward the midpoint of the target band and unemployment stabilizes. Starting in FY2026/27, a gradual fiscal consolidation will facilitate a handover from public to private demand, rebuild fiscal buffers, support external stability, and moderate pressure on the current account. Staff support the planned pace of adjustment given the recovery of private sector activity, the need to unwind temporary cost-of-living measures and normalize elevated infrastructure spending, and the importance of rebuilding fiscal buffers over the medium term.

19. Given high uncertainty, scenario analysis can enhance effective and timely countercyclical policy responses to external shocks. Under staff's illustrative adverse global scenarios underpinned by WEO-GIMF simulations (*Annex I*), the impact of a combined shock of higher tariffs, higher policy uncertainty and tighter global financial conditions on Australia's growth and inflation is found to be significant, yet broadly manageable given the country's agile macroeconomic policy toolkit, institutional strength, and flexible factor and product markets. Under such downside scenarios, exchange rates would adjust to absorb external shocks. An accommodative monetary policy stance would help offset any materially negative impact on output and employment from global shocks, with the speed and scale of easing weighing both price stability and employment under the RBA's dual mandate. Fiscal automatic stabilizers can protect vulnerable households and provide counter-cyclical support to demand. Should specific sectors be harmed by trade disruptions, fiscal policy should carefully weigh the efficiency and expenditure costs of sectoral support, which should be timely, targeted and temporary. Displaced workers in these sectors can be assisted through unemployment benefits and support for reskilling. Financial sector policy responses should consider global linkages and vulnerability in the housing and household sectors in the context of monetary policy easing, including considering tightening and broadening the macroprudential policy tools.

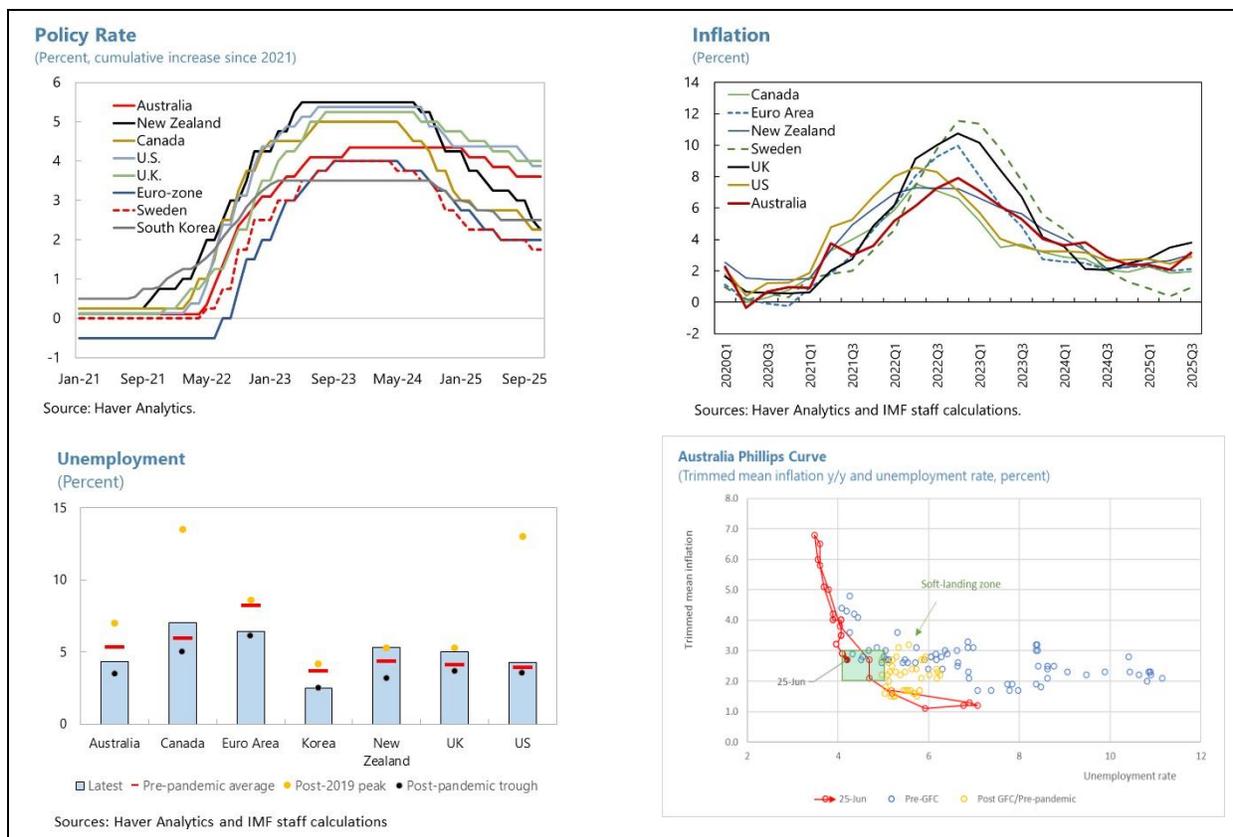
Authorities' Views

20. The authorities generally agreed with staff on contingent policies in the event that downside risks were to materialize. The authorities emphasized that, despite current uncertainties, they are well-equipped to respond due to ample fiscal and monetary space, robust institutions, a strong credit rating, and low unemployment. In certain circumstances, particularly if economic conditions deteriorate beyond the RBA's capacity to respond, there may also be a need for the government to adopt discretionary fiscal measures to further bolster aggregate demand. Like staff, they support timely, targeted and temporary interventions and point to examples during the financial crisis and pandemic. The RBA emphasized their monetary policy response would depend on the nature of the economic shock and the primary channels of economic transmission; for example, the policy response to an escalation in global trade tension would differ depending on whether demand effects or supply side effects dominate. The financial regulators are using stress tests to assess the channels through which a global shock might reverberate throughout domestic

markets to improve the financial system’s preparedness. The RBA would meet higher demand for liquidity through its regular operations, and could deploy a range of other tools to support financial stability in severe stress.

B. Calibrating Monetary Policy Normalization Under Elevated Uncertainty

21. Prudent monetary policy calibration has brought Australia closer to a soft landing. The RBA embarked on the current easing cycle later than most peer AE central banks, after raising rates less aggressively. The gradual pace of monetary easing, with three 25 bps reductions in the cash rate target set several months apart from February 2025 to August 2025, was warranted especially given elevated uncertainty around the extent of labor market and economic slack and around global economic developments. Amid renewed inflationary pressures, the RBA appropriately kept policy rates on hold at the last three Monetary Policy Board (MPB) meetings of 2025, at 3.6 percent, slightly above neutral territory, which staff support. A gradual, albeit uneven, decline in underlying inflation, and low unemployment consistent with the non-accelerating inflation rate of unemployment (NAIRU),⁴ have allowed the RBA to balance its explicit dual mandate.

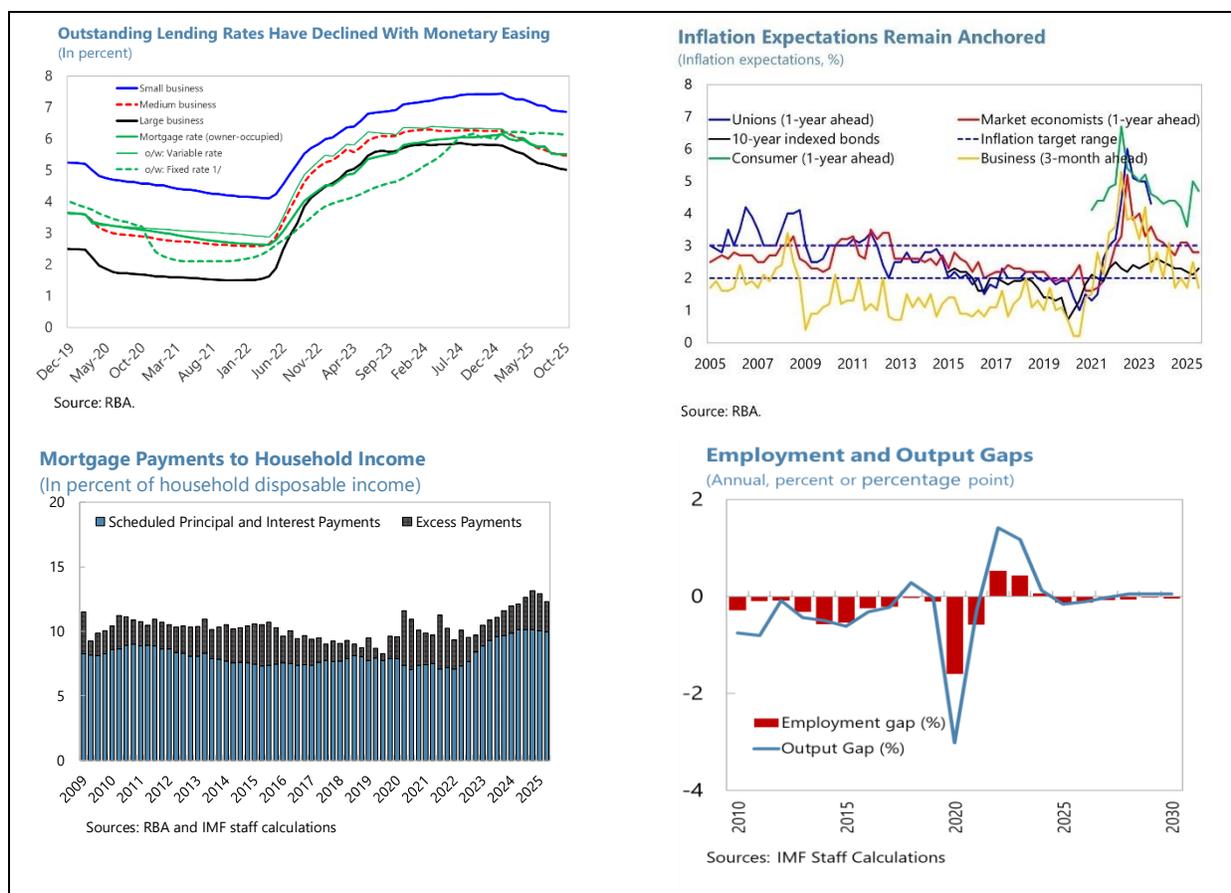


⁴ See Selected Issues Paper: Labor Market Resilience. Staff assesses the NAIRU at around 4.2 percent, but within a range of 3.9 to 4.5 depending on modeling assumptions.

22. The current monetary policy stance is appropriate, and judicious and data-driven calibration remains critical in the near-term. As the economy moved toward internal balance, monetary policy appropriately converged toward a neutral stance, with the cash rate target at 3.6 percent by end-2025. However, significant uncertainty around the global economic environment, the degree of slack in the labor market, the extent of excess demand, and the restrictiveness of financial conditions, create challenges in precisely estimating the neutral interest rate (assessed by staff to be in the range of 2.9-3.4 percent). Moreover, non-linearities in monetary policy transmission—with different reaction lags for consumption, dwelling, and business investment to domestic financial conditions—imply the pass-through of recent easing will continue into next year, with potential implications for wages and prices. Consequently, it is critical that monetary policy remain agile and data-dependent to support the descent of inflation toward the midpoint of the RBA’s target band. If upcoming data flows continue to signal slight residual tightness in the economy, the RBA should maintain current monetary policy settings. A further strengthening of price pressures or a faster-than-expected pick-up in private demand that signals potential risks of inflation beginning to entrench would warrant a more restrictive policy setting. However, if future data indicate a faster-than-expected softening in economic conditions, a slightly more accommodative stance may be warranted.

23. Monetary policy transmission has been working as expected. Borrowing costs for both households and businesses have declined in line with reductions in the cash rate target, and credit growth has picked up. Consumption growth for mortgage-holder households has outpaced that for non-mortgage holders since 2025Q2, reflecting the impact of lower interest costs. However, rising household savings somewhat contained the initial response of consumption to rate cuts, and may reflect the rebuilding of balance sheets or frictions from the absence of automatic resets on scheduled mortgage payments by some lenders. Dwelling investment is benefitting from lower interest rates, while the delayed reaction of non-dwelling investment to policy easing, despite strong credit growth, may reflect elevated uncertainty. Medium-term (market-implied 2-year ahead) inflation expectations have remained well-anchored throughout the easing cycle. Ongoing joint research by IMF and RBA staff suggests that tight monetary policy and rising costs of living may have contributed to an increase in labor supply as credit-constrained households responded to stressed balance sheets; this may unwind as conditions normalize.⁵ Going forward, monetary policy transmission could be affected by the impact of global developments on financial conditions and consumer and investor sentiment.

⁵ Das, M, Hambur, J, Hellwig, K and Spray, J (forthcoming), “Labor Supply Effects of Monetary Policy: Evidence from Australian Mortgage Holders”



24. In the context of heightened domestic and global uncertainty, clear communication of the RBA's decision-making process remains essential for guiding market expectations.

Continued RBA efforts in this area are welcome; these include the publication of detailed alternative scenarios in the Statement on Monetary Policy (SMP) in reaction to elevated global uncertainty, greater clarity around key judgements underlying policy decisions, and communicating the broad direction of monetary policy. Moreover, after the establishment of the MPB in early 2025, the RBA commenced the publication of unattributed vote tallies for monetary policy decision meetings, providing greater insight into decision dynamics and the distribution of views. Misalignment between ex-ante market expectations and RBA decisions has eased relative to previous years. Further efforts to clarify the RBA's monetary policy reaction function under alternative scenarios and to increase the number of public engagements by Monetary Policy Board (MPB) members may better anchor market expectations, especially during gaps between MPB meetings.

25. Continuing reforms to the monetary policy framework can enhance efficiency and transparency.

- The transition toward an 'ample reserves with full allotment' system is ongoing. Related changes to Open Market Operations took effect April 9, calibrated to balance the need for sufficient monetary control, supporting private markets, and minimizing risks to the RBA balance sheet.

- Significant progress has been made in implementing the recommendations from the 2023 RBA Review; completing the remaining components can help further bolster the RBA's operational independence. A new MPB separate from the Governance Board was established in March 2025, facilitated by Parliament's passage of the amended RBA Act at end-2024. The clarification provided in the amended RBA Act (Section 25AK) and in the Statement on the Conduct of Monetary Policy that the Treasury Secretary is to act in an individual capacity as an ex-officio member of the MPB is welcome.⁶ The RBA and Treasury are working towards promoting a better understanding of monetary-fiscal policy interactions, including through information sharing, and by considering recommendations from the 2023 independent RBA review on developing economic models and conducting joint scenario analyses, and collaborating on analytical agendas. The development of a framework for the future use of additional monetary policy tools is underway, and an Expert Advisor Group will be convened in the coming months. While it has never been invoked, repealing the Treasurer's power to override monetary policy decisions—as also recommended by the RBA review—would further strengthen central bank independence, which is critical for anchoring expectations and enabling the RBA to continue to achieve its mandate (see also [October 2025 IMF WEO](#)).

Authorities' Views

26. The RBA reiterated its commitment to judicious, data-driven monetary policy to sustainably bring inflation toward the midpoint of the target band. The RBA considers that some residual excess demand persists, particularly in the labor market, and thus a neutral or slightly tighter policy stance is currently appropriate. However, with the economy near balance following multiple rate cuts, uncertainty around the degree of residual tightness in the labor market and in financial conditions is particularly elevated. Consequently, future monetary policy adjustments will rely on careful assessment of evidence of residual tightness in the economy, which will be updated as new data is released. Specifically, if incoming data signals stronger-than-expected private demand, or tighter supply constraints, tighter policy than assumed in the November *Statement* may be appropriate. On the other hand, if labor market conditions and inflation weaken materially, further easing could be warranted. The newly released complete monthly CPI will help shed further light on rapidly evolving conditions, although it will take time to learn about the properties of the new data – which may differ to those from the quarterly CPI – and to effectively use it to assess underlying inflationary pressures.

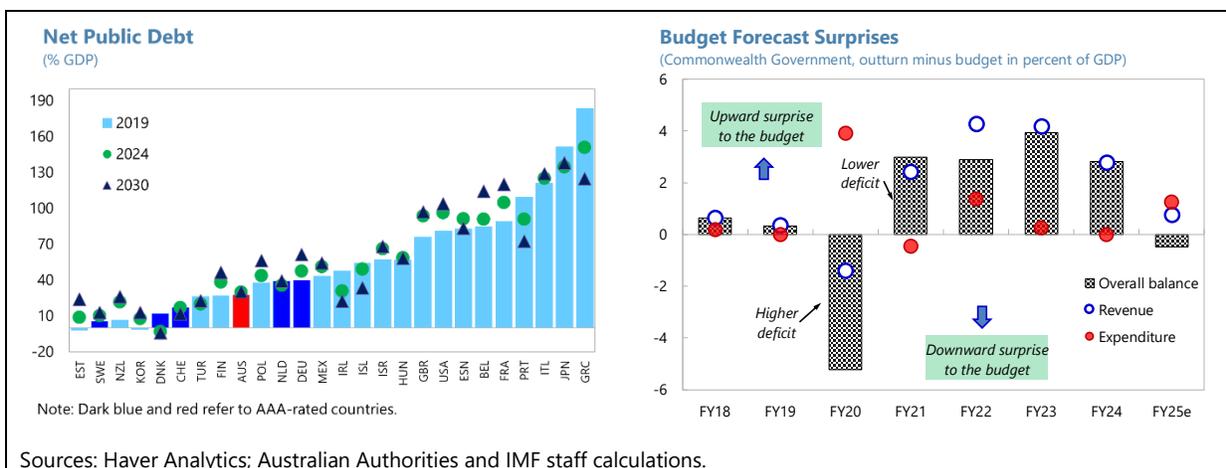
27. The authorities view the efforts to improve communication and transparency, as recommended by the RBA review, as nearly completed. The formation of the MPB and the publication of anonymized vote tallies mark significant achievements. To further enhance communication, the RBA plans to reduce gaps in commentary between press conferences, and for MPB board members to make at least one public engagement annually. The publication of alternative scenarios in the SMP will continue, but including policy reactions would be challenging as these would require MPB endorsement. Most reforms recommended by the RBA review are thus completed, with work on monetary-fiscal engagement, the establishment of an expert advisory

⁶ However, the presence of the Treasury Secretary on the MPB is not aligned with international best practice.

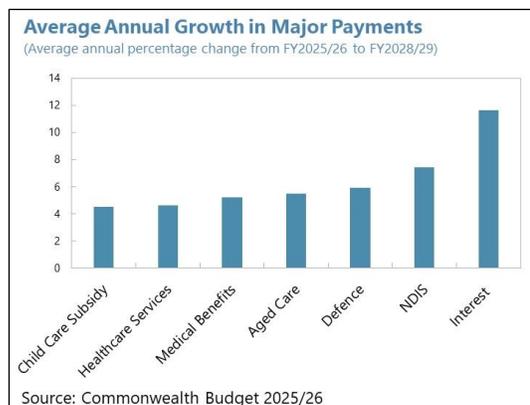
group, and the integration of research in policy processes well underway. While acknowledging the importance of central bank independence in the global policy debate, the authorities do not consider repealing the Treasurer’s power to override MPB decisions a priority for Australia, given this power has not been invoked previously and the deterrence from a potential market reaction.

C. Strengthening Budget Sustainability and Using Fiscal Policy to Boost Productivity

28. The Commonwealth has built a strong fiscal position that can help buffer future fiscal headwinds. The government made a sizeable post-pandemic fiscal consolidation recording two fiscal surpluses, for the first time in two decades, before a countercyclical loosening in FY2024/25. Expenditure has grown by 1.9 percent as a share of GDP in the last two years, driven by growth in the National Disability Insurance Scheme (NDIS), debt interest, defense, health and aged care costs pressures.⁷ Revenue growth, which has consistently exceeded Treasury forecasts, resulted from higher receipts in corporation tax, income tax withholding, and superannuation funds. This reflects a robust labor market and the delayed effects of elevated commodity prices. These revenue surprises were directed to budget repair and contributed to a notable reduction in net debt. Australia remains only one of ten countries to receive a AAA credit rating from all major credit rating agencies.

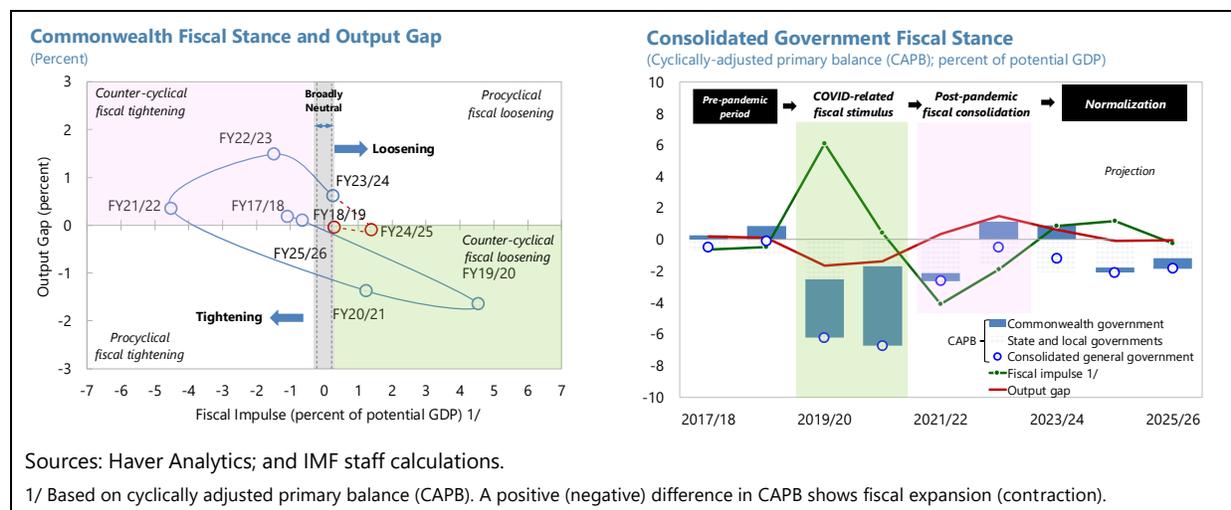


29. The Commonwealth government’s budget 2025/26 appropriately aims to address spending pressures, protect vulnerable households, and enhance productivity. The Commonwealth government is expected to deliver a broadly neutral fiscal stance in FY2025/26, which is appropriate in the context of the economy returning to internal balance. The budget seeks to rebuild fiscal buffers by tackling structural pressures, particularly in the care and disability sectors. The budget also included measures



⁷ These headwinds are expected to continue into the long-term, with spending on these items projected to rise by 5.6 percent of GDP by 2062/63, (Intergenerational report, 2023).

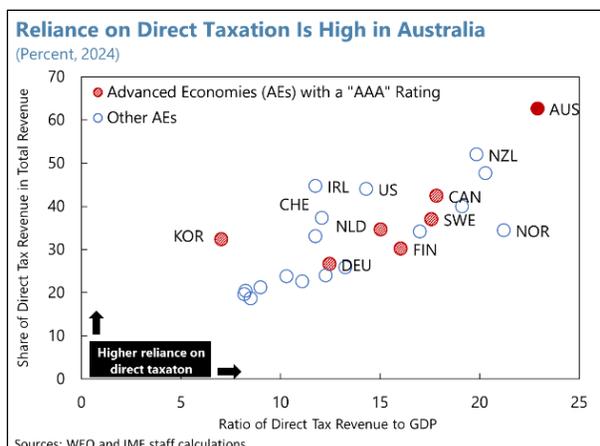
to address high cost-of-living and boost labor force participation. The extension of untargeted universal energy rebates until December 2025 temporarily lowered household costs, while the new tax cut for all taxpayers both alleviates the labor tax burden and encourages labor force participation by lowering the minimum personal income tax rate from 16 percent to 15 percent in FY2026/27, and further to 14 percent in FY2027/28, disproportionately benefiting lower income workers. Finally, fiscal policy is being used to address low productivity growth through infrastructure investment, net-zero transition initiatives, and support for the processing of critical minerals (see ¶41).



30. The Commonwealth government’s planned fiscal consolidation should begin in FY2026/27 aimed at rebuilding fiscal buffers and addressing external imbalances, while also being designed to promote productivity growth. To date, the announced medium-term fiscal consolidation has prioritized improving spending efficiency. However, tax-based consolidations, which have lower estimated fiscal multipliers than direct government spending cuts, can reduce potential negative impacts on growth and income distribution while allowing the government to finance priority spending. Moreover, tax reforms can help support growth by shifting the tax burden away from the current reliance on capital and labor, and increasing reliance on indirect taxes. Specifically:

- **Expenditure prioritization.** Like most advanced economies, Australia faces significant fiscal headwinds from aging, climate change, and health related spending which present upside risks to expenditure forecasts. The government’s planned fiscal consolidation should continue to prioritize expenditure efficiency savings in these growing cost areas. Infrastructure spending should be protected given the potential to boost productive capacity, but careful prioritization and coordination can avoid cost overruns and boost the marginal efficiency of capital. Now that the economy is in recovery, any residual cyclical discretionary fiscal support should be phased out. In future, it would be beneficial if discretionary cost-of-living support measures become fully targeted.

- Revenue reform.** A high reliance on direct taxes and a relatively high effective cost of capital hinders investment and productivity growth and suggest there is scope for tax reform. A comprehensive reform package should aim at improving the efficiency, equity, and sustainability of the tax system. Options include an increase in Goods and Services Tax (GST) rate and removal of GST exemptions, offset by changes to Corporate Income Tax (CIT) settings. For instance, an allowance for corporate equity and/or lowering the CIT rate could be coupled with compensatory measures such as adjustments to resource rent taxes. The productivity commission’s proposal to adopt a cash flow tax accompanied by a cut to CIT rates could achieve similar goals, but the relatively untested approach will come with some implementation risks. Tax breaks, including superannuation concessions and capital gains tax discount,⁸ could be phased out to generate a more equitable and efficient tax system.

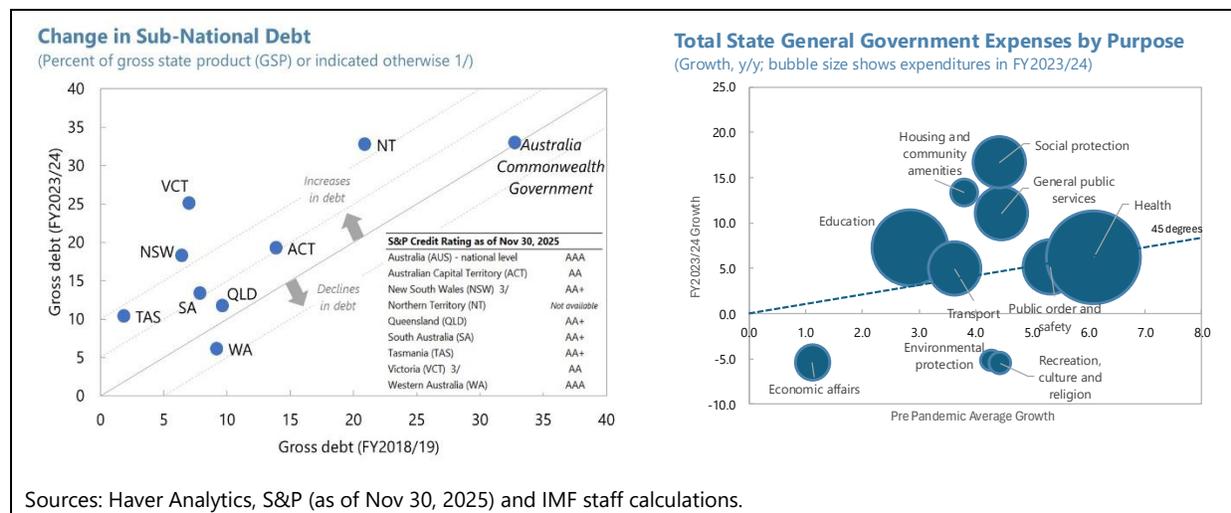


- External imbalances.** The planned gradual medium-term fiscal consolidation could help moderate pressure on the current account (¶19 and Annex IV).
- Fiscal anchor.** The Commonwealth’s fiscal strategy has been effective over the post-pandemic period. If structural spending pressures intensify in the future, clearer fiscal anchors could help to safeguard fiscal sustainability.

31. New spending commitments, including on infrastructure and social protection, have led to rising sub-national debt levels, resulting in missed fiscal targets. Temporary cost-of-living support (such as energy rebates) have mostly ended, but some new social spending remain. Infrastructure investment surged, and is expected to remain elevated, backed by Commonwealth grants. Consequently, the sub-national share of consolidated government net debt has risen to an estimated 30 percent in FY2024/25. Fiscal disparity has grown, with robust commodity prices favoring resource-rich states and elevated expenditures leading to weakened fiscal positions in other regions. In level terms, the largest state fiscal deficits have occurred in large states (NSW, VCT), but smaller administrations, like the Northern Territory, Tasmania and South Australia, have experienced equally rapid debt growth relative to their output. While all states have some form of self-imposed fiscal targets, compliance has been mixed leading to target revisions in recent years (see Annex VII). Despite currently strong credit ratings, agencies are increasingly differentiating the risk levels from sub-national debt, including several downgrades. Although the level of debt remains below many international peers, and does not present a significant sovereign risk, the speed of accumulation is noteworthy. Should state spending continue to accelerate, risks

⁸ The government has announced plans to introduce an additional 15 percent tax on realized superannuation earnings that exceed AU\$3 million, and a further 10 percent on earnings above AU\$10 million.

include inefficiency due to rising construction costs and additional credit rating downgrades leading to higher interest expenses. As the Commonwealth is viewed as a de facto guarantor of state debt by some credit rating agencies, higher sub-national debt could eventually impact Commonwealth borrowing costs.



32. Nationwide coordination of fiscal strategies and refinement and oversight of medium-term fiscal frameworks can improve efficiency and equity across the federation. How the fiscal burden arising from new spending commitments is allocated across the federation is critical to ensure that outcomes do not diverge. Climate governance presents a case in point: the Commonwealth government holds significant fiscal, bureaucratic, and jurisdictional powers, whereas subnational governments largely bear responsibility for climate action such as water management, and the transition in the electricity sector. Likewise, many tax reforms (especially related to GST reform) necessitate agreements across the federation, which is complicated by Australia’s diverse states. The Council on Federal Financial Relations (CFFR) is an appropriate venue for discussion of nationwide fiscal strategies. Similarly, the overarching role of Infrastructure Australia has helped to reduce risks of inefficient spending, yet public project cost overruns and rising state debt levels show ongoing risks. Strengthening existing subnational frameworks could entail:

- **Fiscal coordination.** Best practice involves sub-national governments setting fiscal objectives transparently in partnership with the central government to achieve nationwide fiscal sustainability. Given the varying circumstances of each state, a one-size-fits-all approach may not be appropriate, but the Commonwealth could offer stronger guidance on state finances and borrowing. States can apply lessons from the Commonwealth’s focus on transparency, independent oversight, and robust budget processes. A review of spending and revenue policies across the federation is warranted and could support fiscal coordination, including in areas like fiscal equalization, GST reform, and land tax. For example, increasing GST revenue could be offset by reducing inefficient state taxes such as fees and stamp duty. Improved coordination on infrastructure spending could also address pressures on the construction sector, helping control cost overruns.

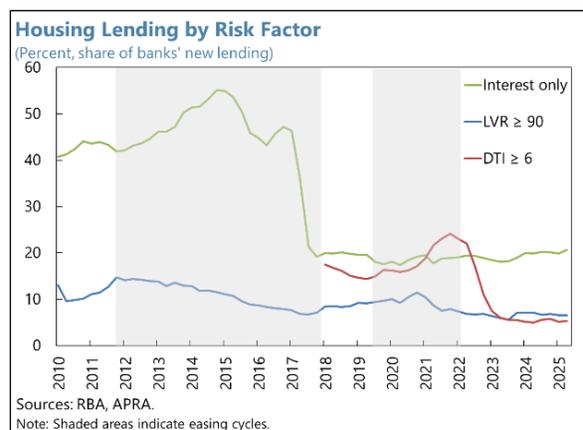
- Fiscal oversight.** Expanding the Parliamentary Budget Office (PBO)'s mandate to assess subnational fiscal positions and monitor key indicators at a high frequency like subnational debt, debt servicing costs, structural deficits, and vertical imbalances would boost oversight. Stronger ties between the PBO and state fiscal councils could enhance this framework. The Commonwealth could also increase transparency by reporting aggregate and individual state fiscal positions in the Budget, possibly within the fiscal risks statement. If states continue to miss targets, a risk-based monitoring framework could be implemented by the Commonwealth.

Authorities' Views

33. The authorities largely concurred with staff fiscal projections and the general direction of fiscal policy advice. The Commonwealth Treasury similarly anticipate a broadly neutral near-term Commonwealth fiscal stance, followed by a period of rebuilding fiscal buffers. They emphasized recent reforms to the tax system including changes to income tax settings, production tax incentives, reformed offshore gas regimes, and superannuation tax changes. Authorities emphasized that any future tax reform will target addressing intergenerational equity, incentivizing investment, and simplification of the system. They highlighted the significant reforms undertaken to aged-care and NDIS which will pay off in the medium-term. The Commonwealth is satisfied that the current principle-based fiscal strategy which constrains spending to ensure a downward trajectory on debt is effective, and highlighted the success in guiding budget repair and rebuilding fiscal buffers. The Commonwealth Treasury continues to closely monitor subnational fiscal outcomes and collaborates with states and territories to, align nationwide fiscal goals, and address funding disparities between states and the federal government through the existing comprehensive fiscal coordination framework.

D. Navigating Financial Stability and Housing Challenges

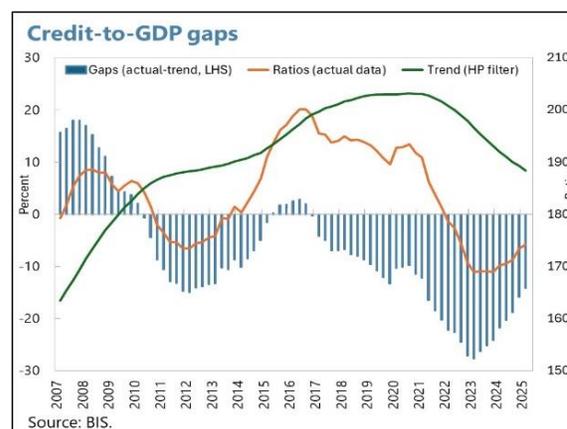
34. The financial system remains sound with contained systemic risks but pockets of vulnerabilities. Specifically, the system remains susceptible to potential shocks stemming from global uncertainties and market volatility (including from further escalation of trade tensions and broader geoeconomic fragmentation risks). The 3-percentage-point mortgage serviceability buffer requirement, last tightened during the 2020-22 easing cycle, has helped uphold lending standards and keep risky loans relatively low (text chart). However, high debt-to-income (DTI) and investor lending (which is driving the current momentum in housing credit growth) have historically reacted strongly to easing financial conditions. Vulnerabilities may further arise as they amplify housing prices and credit cycles, increasing risks for both banks and households should lending standards deteriorate. In this context, the authorities introduced a 20-percent limit on new high DTI (>6x) mortgage lending, aimed at preempting further buildup of



associated vulnerabilities.⁹ Furthermore, the large and growing size of superannuation funds and their strong connections with domestic banks pose potential risks of amplifying financial stresses, especially in extreme scenarios involving liquidity drains. Financial conditions could tighten if their large holdings of bank equity and debt had to be quickly liquidated. The share of non-bank lenders and their interconnectedness with the broader financial system have both been lower than their pre-GFC levels and remain limited, but should be closely monitored in light of their rising importance in the mortgage and commercial real estate sectors.

35. Policy should prioritize vigilant monitoring of financial sector vulnerabilities and agile adjustment of macroprudential measures to safeguard financial stability. Despite above

average credit growth and recent increases in equity and housing prices, the credit-to-GDP gap remains negative, with bank lending standards sound, NPLs low, and household debt as share of disposable income on a declining trend. Staff therefore considers the authorities' current macroprudential policy settings broadly appropriate under current circumstances, noting however that lending in riskier forms has increased recently. The authorities should continue closely assessing evolving vulnerabilities in the financial system, including those stemming from real estate



markets, global policy uncertainty and market volatility, as well as a major slowdown in the growth of trading partners.¹⁰ In this context, Australian Prudential Regulation Authority (APRA) has focused on emerging risks from geoeconomic fragmentation, cyber-attacks, interconnections, an ageing population and climate change, and has worked closely with the banking industry and regulatory peers to enhance the financial system's preparedness. The growing size of superannuation funds and their expanding presence in the Australian economic and financial system increase their systemic importance (Annex VI). In this context, APRA is conducting its inaugural financial system stress test this year, focusing on how the superannuation sector reacts to severe liquidity stress and the implications for the broader financial system. The rebound in housing prices during the monetary policy easing cycle (¶19) is further stretching valuations against income. Regulatory authorities must remain vigilant in monitoring mortgage lending standards, excessive buildup in household debt, and the effectiveness of the new DTI limit. They should maintain an agile macroprudential policy approach to respond to evolving financial stability risks, including the option to expand or tighten borrower-based limits when necessary. The authorities should continue

⁹ The new DTI limit was introduced in November 2025 and will take effect in February 2026. While it is not currently binding at the aggregate level, the limit can be more relevant in the near-term for investors, for whom the share of high DTI lending is higher compared to owner-occupiers.

¹⁰ In this context, the 2026 Financial Sector Assessment Program (FSAP) with Australia offers an opportunity to update the staff's assessment of the authorities' macroprudential policy stance and the adequacy of the macroprudential policy toolkit in light of evolving vulnerabilities.

leveraging the Financial Stability Board’s deliberations on new measures to tighten the regulation and supervision of NBFIs leverage and liquidity imbalances, including by closing remaining data gaps.

36. Despite easing cyclical conditions, the long-standing imbalance between housing demand and supply persists, which the authorities seek to address.

- Growth in underlying housing demand has eased somewhat with slower population growth, and a slight increase in average household size. New housing supply started to pick up as cyclical constraints like high material and financing costs began to alleviate. However, long-standing structural barriers to increasing supply remain, including a shortage of skilled workers, limited and costly land for development, low productivity and innovation in construction, and complex regulations and approval processes. Constrained housing supply, coupled with recent reductions in mortgage rates, is likely to continue exerting upward pressure on dwelling prices, further exacerbating affordability challenges, as evidenced in staff analysis drawing from cross-country experience (Annex VIII).
- In response, the Commonwealth government has committed AU\$10 billion over eight years to provide 100,000 new homes for first-home buyers and expanded the existing 5% Deposit Scheme to support their home purchases. Furthermore, the government is maintaining its funding support (including for state and territory governments) to deliver essential housing infrastructure as well as new social and affordable homes, and is investing in advanced manufacturing for prefabricated and modular construction to enhance productivity and reduce building times, aimed at accelerating the supply of new homes. Following discussions at the Economic Reform Roundtable in August, the authorities have prioritized clearing approvals backlog for homes. The authorities have further restricted foreign purchases of existing dwellings—a tightening of an existing capital flows management (CFM) measure which is assessed to be inconsistent with the IMF’s Institutional View—and are encouraged to replace it with measures that support housing supply and affordability without discriminating by residency.¹¹

37. A holistic strategy is essential to tackle the structural barriers that impede new housing supply and improve housing affordability. The 5% Deposit Scheme to improve affordability for first-home buyers may contribute to price pressures in the near-term by pulling forward home purchases while financial conditions ease. This highlights the critical need to increase housing supply, including by steadfastly implementing the authorities’ commitment to deliver 100,000 homes for first-home buyers, or considering limiting the guarantee program to the purchase of new dwellings. In this regard, the government’s new supply-boosting initiatives aimed at bolstering the construction productivity and workforce (through training and skilled migration), incentivizing build-to-rent investments, and expanding social and affordable housing, align with the recommendations from the 2024 Article IV consultation. Concerted efforts across different levels of

¹¹ Although there has not been a recent surge in foreign capital inflows into Australia’s residential property sector, a new temporary ban on foreign purchases of established dwellings—for at least 2 years from April 1, 2025 to March 31, 2027, unless an exception applies—was introduced by the Commonwealth Government with an aim to ensure foreign investment in housing is consistent with the government’s agenda to boost housing supply.

governments are needed to meet national housing targets and improve affordability, focused on relaxing stringent zoning and building restrictions and expediting approval and land release processes for housing developments, including by drawing inspiration from successful practices in Canada and New Zealand. As part of a comprehensive tax reform, the authorities can consider (i) replacing stamp duties levied by state and territory governments with recurring property taxes to promote more efficient use of land and existing housing stock, and (ii) reviewing tax arrangements that affect housing demand and investment, with potential fiscal savings redirected toward supporting new housing supply.

Authorities' Views

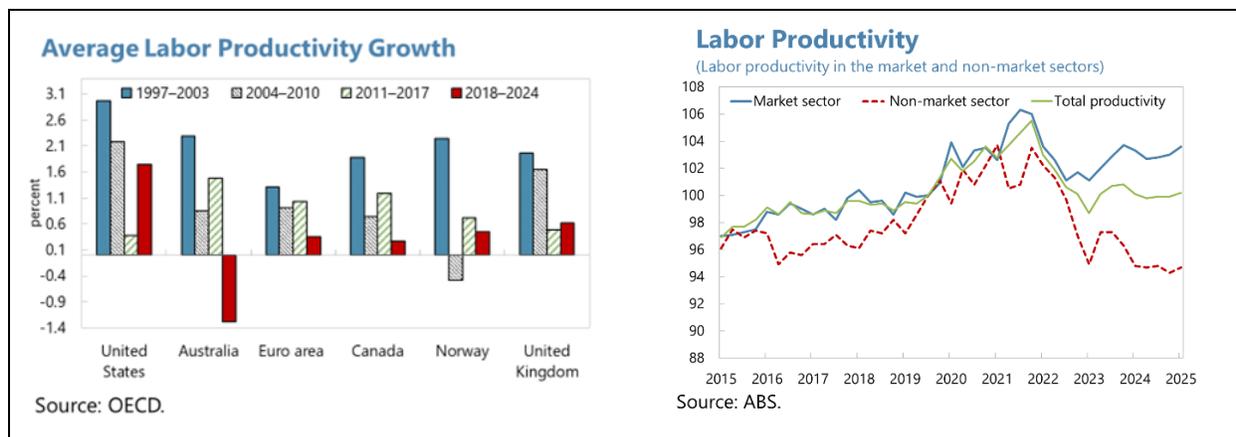
38. Like staff, the authorities consider systemic risks in the financial system to be well contained. They pointed to the healthy balance sheets of financial institutions, corporates, and households, which underpin the system's resilience, with lending standards having remained sound. Regulatory authorities are closely monitoring lending standards to inform their macroprudential policymaking, and they agree with staff on the merits of being proactive in their policy responses based on evolving vulnerabilities. Strengthening resilience to geopolitical and operational risk, including crisis recovery arrangements, is an increasing priority for regulators and industry, particularly given increased complexity and interconnectedness in the digital financial system. The authorities agree with staff on risks from global market volatility but see the Australian dollar as likely to remain an effective natural hedge for global risky assets and Australia's offshore funding access as robust for the time being. The defined contribution structure of Australian superannuation funds, combined with their relatively low leverage, would help mitigate the impact of valuation effects in such a downside scenario. In this regard, the earlier phase of the system-wide stress test has been completed, with final results expected in 2026. They continue to work toward closing the data gaps in lending of NBFIs.

39. The authorities concurred with staff that increasing supply is critical for improving housing affordability. The Commonwealth Government's \$45 billion Homes for Australia plan aims to support the national target of 1.2 million new homes. They highlighted efforts across different levels of government to remove structural barriers to housing supply and reform momentum in this area, including encouraging zoning reforms by state governments to increase density. Accelerating home building is a key priority of the government, focusing on clearing approvals backlog and improving construction productivity through advanced building methods and skills development.

E. Turning Structural Reform Ambition into Action to Boost Productivity

40. Australia's productivity growth has been weak over the past decade and has contributed to slow economic growth. While labor productivity growth has slowed across several advanced economies, Australia has experienced a particularly pronounced decline in long-term labor productivity over the past decade. The stagnation of productivity reflects several structural factors, including the slow pace of adoption of new technologies, fading business dynamism, and inefficiency in capital reallocation. This has left a gap between Australian firms and the global frontier. Since 2020, average working hours in the non-market sector, where measured productivity

is lower, have grown faster than the market sector, weighing on aggregate productivity. Within the market sector, productivity gains have been limited, with more than half of industries recording growth below their 20-year average over the past three years. The non-market sectors have experienced a sharper slowdown, recording negative productivity growth in recent years.



41. The authorities have laid out a multi-pronged strategy to reverse this trend. The Productivity Commission’s Advancing Prosperity report laid out a long-term plan to bolster resilience and productivity in both market and non-market sectors.¹² There is broad agreement that the measures identified in the report - including corporate tax reform, reducing regulatory burdens, advancing digitalization and AI adoption, accelerating the clean energy transition, efficient education, training, and improved care services delivery - remain appropriate, with some measures already implemented (see ¶139 and Annex II). After the August 2025 Economic Reform Roundtable, the authorities identified several near-term reform priorities including implementing a road-user charge, eliminating nuisance tariffs and duplicative rules, modernizing construction codes but pausing non-urgent updates until mid-2029, and designing a national AI strategy. This marks an important initiative, but it is essential to maintain momentum with clear implementation plans.

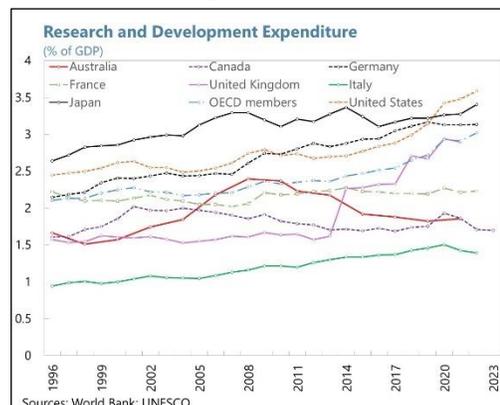
42. Prioritizing and bundling of reforms will be important to maximize synergies and help secure resilient growth and productivity gains.¹³ Australia benefits from strong institutions and macroeconomic stability, which together could create favorable conditions for attracting investment. Within the comprehensive reform agenda, focus should be on easing the overarching binding constraints across sectors and states that hinder productivity growth. Three reform areas, namely regulatory compliance costs, skills mismatch and falling innovation, warrant close attention given their recent momentum and potential to reinforce one another, thereby amplifying their overall impact and strengthening public support. Furthermore, these reforms can support medium-term

¹² See [Advancing Prosperity - 5-year Productivity Inquiry report | Productivity Commission](#) and [Meeting the productivity challenge - Reform priorities from the PC's five productivity inquiries](#)

¹³ See [Structural Reforms to Accelerate Growth, Ease Policy Trade-offs, and Support the Green Transition in Emerging Market and Developing Economies in: Staff Discussion Notes Volume 2023 Issue 007 \(2023\)](#)

external rebalancing by lowering labor and regulatory costs, promoting high-value industries and enhancing export quality.

- Leveraging technology adoption (including AI) and boosting innovation:** R&D supports productivity gains through adoption and development of new technologies. However, Australia's R&D investment as a share of GDP has fallen over the last 15 years, suggesting scope for strengthening the broader innovation ecosystem. Within new technologies, Australia's strong AI preparedness (2024 AIV Staff Report Annex VIII) suggests that faster adoption of AI while strengthening the safety nets for displaced workers, could help unleash productivity gains. The authorities' recently published National AI Plan sets a strategy through 2030 on three pillars: (1) fostering a competitive AI ecosystem by expanding digital infrastructure, boosting local R&D, and drawing international investment; (2) broadening benefits through industry AI adoption, digital skills improvement, and modernized public service delivery; and (3) ensuring safety by establishing an AI Safety Institute, strengthening ethical and regulatory safeguards, and aligning Australia with global AI standards. Australia is advancing its AI innovation ecosystem and SME upskilling through existing initiatives like the National Reconstruction Fund for critical technologies, AI R&D tax incentives, and targeted support via the National AI Centre and AI Adopt Centers that were introduced in 2024. The authorities have launched the Investor Front Door pilot to help transformative projects navigate regulatory processes and access potential public financing. Continued progress on the Productivity Commission recommendations to strengthen the innovation ecosystem through networks for knowledge transfer, access to skills and finance could bolster economywide productivity.



- 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 showing considerable promise. Starting 2026, Australia is moving to a mandatory suspensory merger reporting regime which should help reduce inefficiencies in the regulatory oversight. Significant achievements by the authorities include banning non-compete clauses for low- and middle-income workers, wage fixing arrangements and no-poach agreements starting 2027 to improve labor mobility and wages, incentivize the spread of ideas and business dynamism. To strengthen incentives for subnational reform, the authorities created a National Productivity Fund that will disburse one-off payments to states and territories conditional on their reform delivery. Ongoing consultations on future reform priorities to move towards a single national market, like harmonizing occupational licensing and standards, could further boost labor mobility by easing human capital reallocation towards high-productivity firms and reinforce the gains from the recent competition reforms.¹⁴

¹⁴ See [Study report - National Competition Policy analysis 2025](#)

- **Labor markets:** Several initiatives are underway to support improvements in human capital; these include plans to expand the quality, supply and accessibility of early childhood education and the establishment of Jobs and Skills Australia which will provide independent advice on current and future workforce, skills, and training needs. Maintaining labor force participation and preparing the workforce for future demands will require sustained investment in education and training, international visa frameworks to address skill gaps, and policies that support inclusive labor market access. Modernized public employment services, digital job-matching platforms, and relocation assistance can facilitate mobility from declining to expanding sectors. Flexible work arrangements can also boost productivity by improving labor allocation, retaining vulnerable workers especially women, and enabling welfare-improving wage agreements that suit worker preferences.¹⁵

43. Australia’s green transition, including the recently announced 2035 targets, present opportunities for enhancing investment, productivity, and diversification, while supporting climate goals. Australia’s 2030 climate targets will drive major structural shifts, including raising renewable energy to 82 percent of electricity generation. The new 2035 goal aims for a 62–70 percent emissions cut from 2005 levels and will require strong and consistent policies. Staff analysis shows that upgrading the capital age and share of intangible assets of the bottom 50 percent of firms in select industries to median industry levels could raise total factor productivity by 1–2 percent and reduce emissions by 4–7 percent (*Annex IX*). Different policy tools to promote this technology adoption present distinct tradeoffs. While carbon pricing offers an overall more fiscally efficient transition pathway, investment subsidies support firms’ technology adoption thereby boosting profits and long-run consumption, albeit with additional fiscal costs. From the external side fossil exports face downside risks to demand though Australia’s substantial domestic reserves of critical minerals and potential to expand this sector could support export diversification, thereby reducing the current account deficit and partially offsetting transition costs (*Annex IX*). Reforms should prioritize strengthening economic resilience by supporting domestic diversification, addressing supply chain vulnerabilities and expanding economic and trade partnerships.¹⁶

44. Industrial policy (IP) should maintain a disciplined and narrow focus on addressing market failures and generating positive externalities. In late 2024, the Senate approved the Future Made in Australia (FMiA) Bill, which aims to strengthen Australia’s industrial base and stimulate private investment in strategically important areas such as emerging green sectors and technologies. The legislation established production tax incentives for renewable hydrogen production and processing and refining of critical minerals, effective from 2027 through 2040, with both incentives accessible for up to ten years per project. In line with best practices, authorities should continue to maintain time-bound, narrowly targeted industrial policy interventions, prioritizing cost-effectiveness and transparency to ease fiscal pressures, and ensure institutional

¹⁵ The recently published National AI plan ([National AI Plan | Department of Industry Science and Resources](#)) emphasizes the importance of AI skills adoption through initiatives for boosting digital skills and inclusive training access, and reinforces the need for guardrails to ensure safe and responsible use.

¹⁶ In October 2025, the US and Australia signed an agreement to strengthen bilateral cooperation in the critical minerals space (the "[United States–Australia Framework for Securing of Supply in the Mining and Processing of Critical Minerals and Rare Earths](#)"), which included investment commitments and covered supply security, *inter alia*.

safeguards for implementation risks and WTO compliance.¹⁷ International experience underscores that realizing the benefits of IP while mitigating risks requires careful design, with cost-benefit analysis and performance monitoring.

Authorities' Views

45. The authorities agreed with staff that improving productivity should remain at the core of the government's policy agenda. They highlighted the August 2025 Economic Reform Roundtable as a key milestone, noting its success in fostering a broad-based dialogue, mobilization of all arms of policy and building consensus among diverse stakeholders. They underscored that the list of ten reform directions on which there was consensus at the Roundtable constitutes the prioritized reform agenda and emphasized the importance of policy coordination to progress to a single national market, reduce duplication and inefficiency of regulations build a skilled and adaptable workforce and the role of National Competition Policy in bolstering competition policy reforms. The authorities noted that on 2 December 2025 the government released the National AI Plan (Plan). The Plan sets out Australia's vision for an AI-enabled economy and articulates the Government's approach to using existing regulatory frameworks to address AI harms. The authorities see value in addressing cross-cutting barriers and bundling policies to exploit synergies across reform streams.

46. The authorities reiterated commitment to the energy transition and the Net Zero 2050 goal, while also highlighting their efforts to integrate in global critical mineral supply chains. They indicated that Australia is on track to meet its 2030 target and highlighted the 2035 goal of reducing emissions by 62–70 percent below 2005 levels, which is supported by policy and sectoral plans that enhance investment certainty. They acknowledged that further measures beyond current policies will be needed to achieve this goal. Specifically, they stressed the need for clearly communicated and consistent government policy on their climate targets to help investors to make informed decisions. The authorities indicated that the United States-Australia Framework on Critical Minerals commits Australia to provide at least \$1 billion for projects by April 2026. They noted that an Australian owned firm currently operates the largest rare earth processing facility outside China, a second facility is under development and pointed out ongoing efforts to deepen collaboration on critical minerals with the European Union and Canada.

STAFF APPRAISAL

47. Australia is managing a soft landing amid an uncertain global outlook. The economy is returning to internal balance, although significant uncertainty remains around the extent of residual excess demand and of supply capacity amid weak productivity growth. Resilient labor markets and growth in disposable incomes have supported consumption growth. With sentiment and private investment recently rebounding, the recovery in private demand is expected to accelerate into next

¹⁷ See [Industrial Policy, Trade Policy and World Trade Organization Considerations in IMF Surveillance](#). The Australian Productivity Commission has also published a paper discussing a guardrails framework to complement sectoral investments under the National Interest Framework and can also be broadly used in non-FMIA industry policy ([Guardrails for modern industry policy | Productivity Commission](#)).

year. However, a slower-than-expected winddown of public demand, pockets of tightness in the labor market, and rising labor costs could strengthen price pressures. The external position remains moderately weaker than the level implied by medium-term fundamentals and desirable policies, although the external asset and liabilities balances are well-hedged and minimize related risks.

48. Near-term macroeconomic policies will need to remain agile and responsive to external shocks. Monetary and fiscal policies are appropriately returning toward neutral settings, but the uncertain macroeconomic outlook requires continued vigilance. Careful scenario analysis can enhance preparedness and ensure effective and timely countercyclical policy responses to external shocks. Given an agile macroeconomic policy toolkit, strong institutions, and flexible markets, Australia is well positioned to manage risks related to trade policy uncertainty and tighter global financial conditions. Flexible exchange rates allow monetary policy to focus on addressing domestic implications of external shocks, supported by fiscal automatic stabilizers.

49. Judicious and agile monetary policy calibration will be needed to support the descent of inflation to the midpoint of the RBA's target band. Given elevated uncertainty, an economy operating close to internal balance, and a stance near-neutral, monetary policy should remain data-driven and respond nimbly to evolving economic conditions. If upcoming data flows continue to signal residual tightness in the economy, the RBA should hold off on further monetary easing, while strengthening of price pressures or a faster-than-expected pick-up in private demand that signals risks of inflation beginning to entrench would warrant a more restrictive policy setting. Staff welcomes progress on 2023 RBA Reform recommendations; repealing the Treasurer's power to override monetary policy decisions would further bolster central bank independence, which is essential for anchoring expectations and enabling the RBA to fulfill its mandate.

50. The planned medium-term fiscal consolidation should aim to enhance productivity and support growth. A gradual fiscal consolidation across both the Commonwealth and sub-national governments can begin in FY2026/27. The planned consolidation path is broadly aligned with IMF advice and appropriate, given the recovery of private sector activity, the need to unwind remaining cost-of-living measures and normalize infrastructure spending, and the importance of rebuilding fiscal buffers over the medium term. Higher public savings can also help ensure external stability. The ongoing gradual phase down of pandemic and cost-of-living related countercyclical spending are welcome. Going forward, a comprehensive tax reform package could usefully complement these efforts by helping boost economic efficiency, productivity and intergenerational equity. Specifically, reductions of corporate and labor taxes would improve incentives for investment and work and could be offset by an increase in indirect taxation. Expenditure reforms should continue to target efficiency savings in growing cost areas and protect productive infrastructure investment.

51. Nationwide coordination of fiscal strategies and refinement of fiscal frameworks can improve efficiency and equity across the federation. Rising state and territory debt, missed sub-national fiscal targets and widening sub-national disparities in fiscal outcomes warrant careful attention. Fiscal coordination across the federation is crucial to ensure equitable burden sharing and efficient spending, especially in areas like climate governance and tax reform. Regular assessment of

subnational fiscal positions as well as publishing compliance with sub national fiscal targets could improve transparency and inform policy discussions. The Commonwealth's fiscal strategy has been effective over the post-pandemic period, but if structural spending pressures intensify, clearer fiscal anchors could help to safeguard fiscal sustainability.

52. Regulators must stay vigilant to maintain financial stability. Ongoing banking-sector stress tests and close monitoring of emerging risks are critical for managing potential spillovers from global uncertainty and market volatility. The system-wide stress test will help improve understanding of interconnections and associated risks across the financial system, including those between banks and superannuation funds. As financial conditions ease and housing prices rebound—further stretching valuations against income—regulators must stay vigilant and continue their agile adjustment in macroprudential policies in response to evolving vulnerabilities.

53. A holistic strategy is crucial to overcoming the structural barriers that impede new housing supply. The government should focus on carrying through its supply-boosting initiatives on social housing, supporting infrastructure, and advanced construction methods. Concerted efforts across different levels of governments are needed to meet national housing targets and improve affordability, focusing on easing zoning and building restrictions, expediting land release and approval processes, and enhancing construction productivity. The authorities are also encouraged to consider shifting away from stamp duties to recurring property taxes and reviewing other housing tax arrangements as part of a comprehensive tax reform.

54. Prioritizing and bundling of reforms will be important to deliver resilient growth and productivity gains. Australia's productivity growth has been weak, with a sharper slowdown in labor productivity than peers. The authorities' multi-pronged reform agenda aims to boost business dynamism and labor mobility. To maximize impact, reforms should be well-sequenced and cross-cutting measures combined into coherent policy packages that generate synergies, supported by clear implementation plans. Streamlining regulations, leveraging technology adoption, and advancing labor market reforms can accelerate gains, as these are overarching binding constraints to growth. The green transition and the recently announced 2035 climate commitments offer opportunities for investment and diversification. Industrial policy should remain narrowly focused on addressing market failures and generating positive externalities.

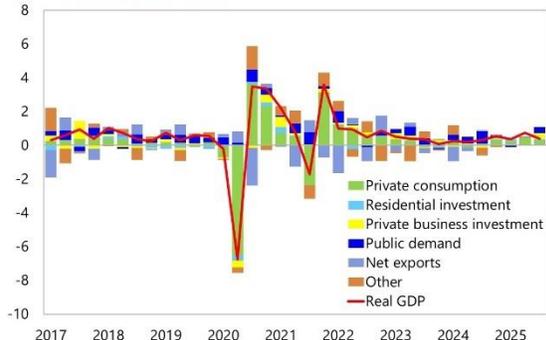
55. It is recommended that the next Article IV consultation be held on the standard 12-month cycle.

Figure 1. Economic Imbalances Narrowing as Recovery Commences

A gradual handover from public to private demand as the central growth driver is underway.

GDP Growth Decomposition

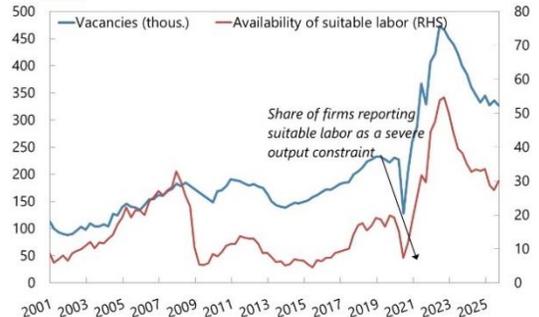
(Contributions to q/q growth, %)



Labor demand and constraints in finding suitable labor continue to ease.

Labor Market Tightness

(Percent)

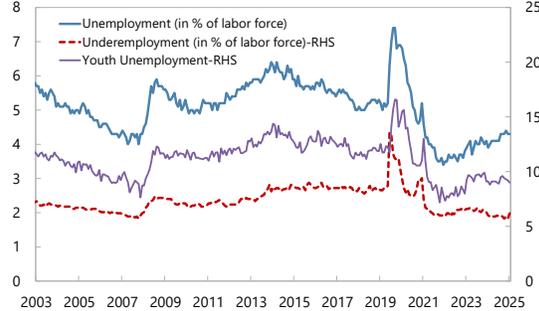


Sources: ABS; NAB; and IMF staff calculations.

Labor market conditions easing gradually, with unemployment picking up but underemployment stable.

Labor Market Indicators

(Percent, seasonally adjusted)

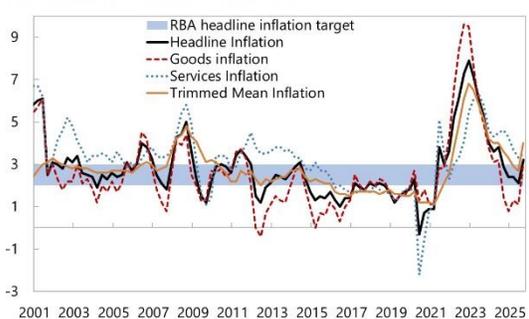


Source: ABS.

Inflation has declined, supported by services disinflation, but a recent uptick signals some persistent pressures.

Inflation

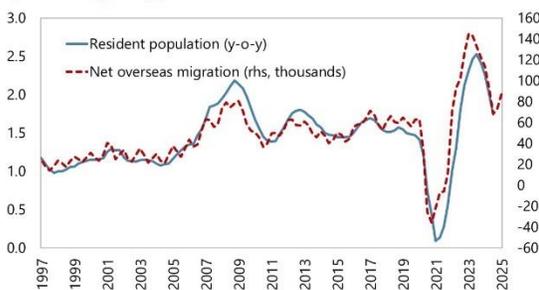
(Year-on-year, percent; seasonally adjusted)



Sources: ABS; and IMF staff calculations.

Net migration has declined and is stabilizing near pre-pandemic levels.

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

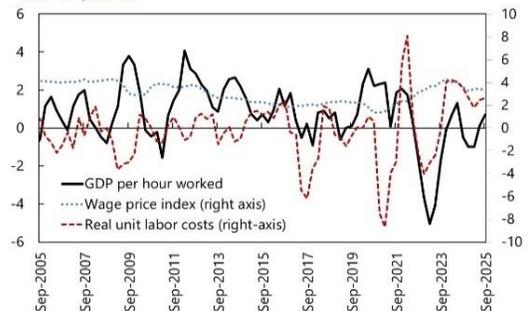


Sources: CEIC, ABS, IMF staff calculations.

Labor productivity decline persists, while wage growth is slowing more gradually, leading to rising unit labor costs.

Productivity and Labor Costs

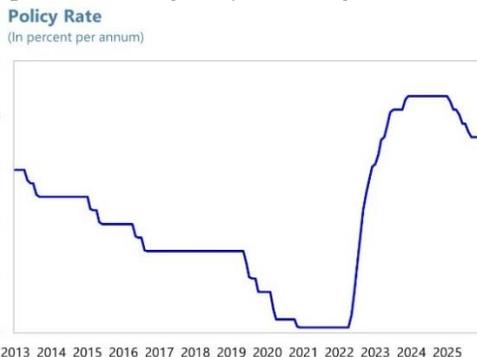
(Year-on-year, SA)



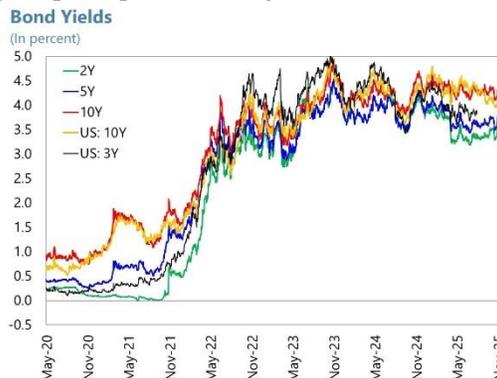
Sources: ABS, IMF staff calculations.

Figure 2. Monetary Policy Has Started Easing

The RBA commenced a gradual easing in February 2025, cutting the cash rate by 75 bps over the year.

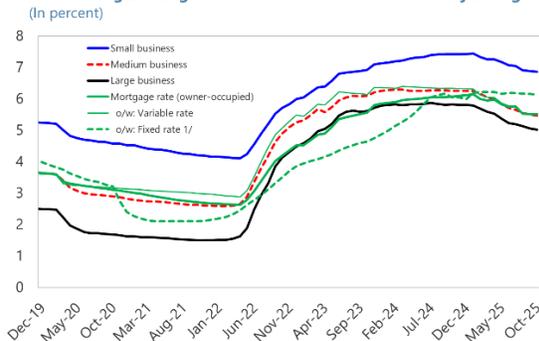


Long-term yields declined on the back of monetary easing, depicting divergence from US yields.



Lending rates have declined in line with monetary easing.

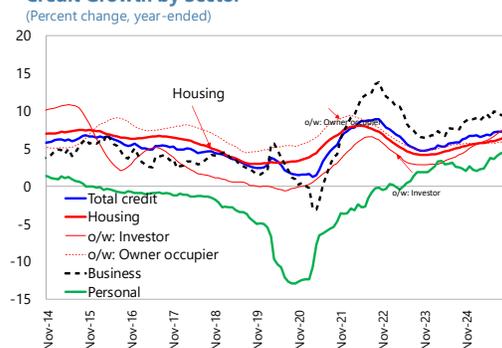
Outstanding Lending Rates Have Declined With Monetary Easing



Source: RBA.

Credit growth is picking up, driven by business and housing credit.

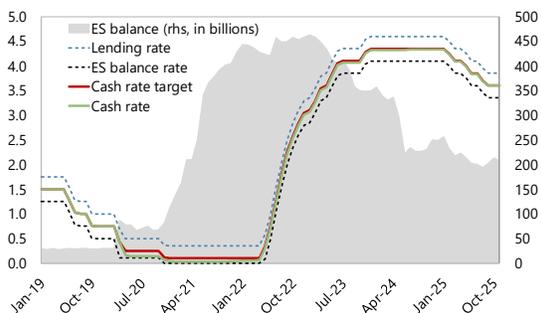
Credit Growth by Sector



Liquidity remains ample.

Overnight Interest Rates and Exchange Settlement Balance

(Interest rates, in percent; exchange balance, in billions)



The Reserve Bank is continuing to reduce asset holdings, although at a slowing pace.

Reserve Bank Assets

(In AUD billion)

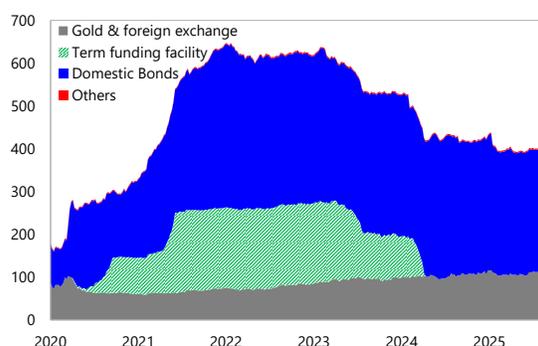


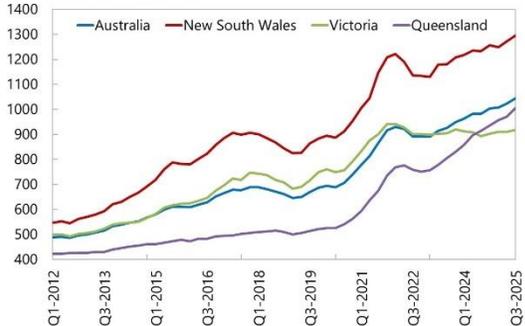
Figure 3. The Housing Market Momentum is Rebuilding

Housing prices have increased further under remaining supply-demand imbalances...

...while new sales picked up on the back of monetary policy easing.

Mean Price of Residential Dwellings

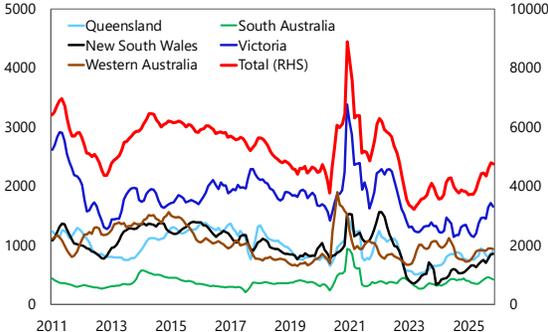
(Thousands Australian Dollar)



Sources: Australian Bureau of Statistics; Haver Analytics.

New Home Sales

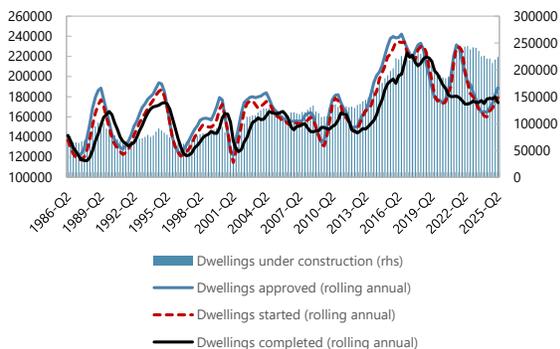
(Detached Houses, SA, 3-month moving average)



Supply of new homes is slowly coming on stream as approvals and completions improve...

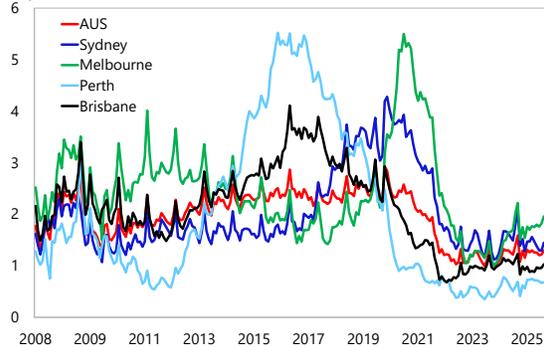
...while rental inflation normalizes toward pre-pandemic levels.

Housing Construction Activities



Residential Rental Vacancies

(In percent)

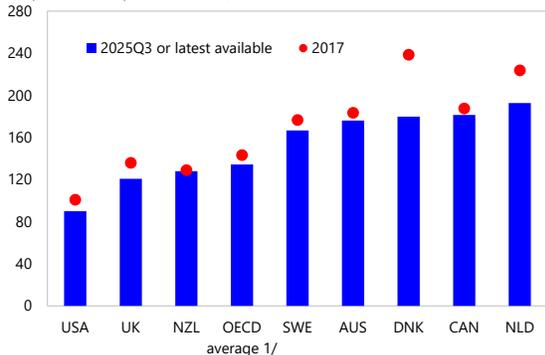


Household debt remains high in Australia...

...but has not increased relative to income or wealth.

Household Debt

(In percent of disposable income)



Household Debt

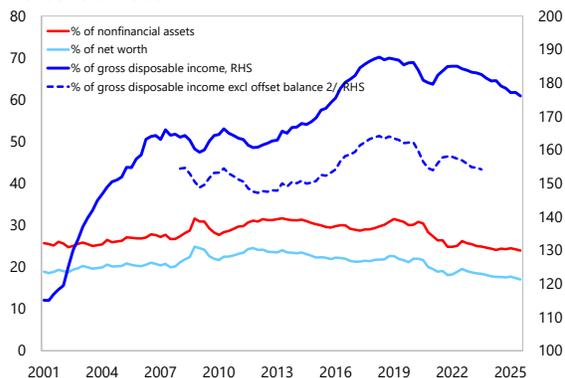
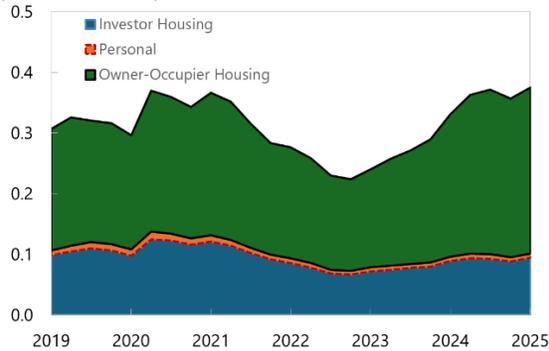


Figure 4. The Banking Sector Remains Resilient

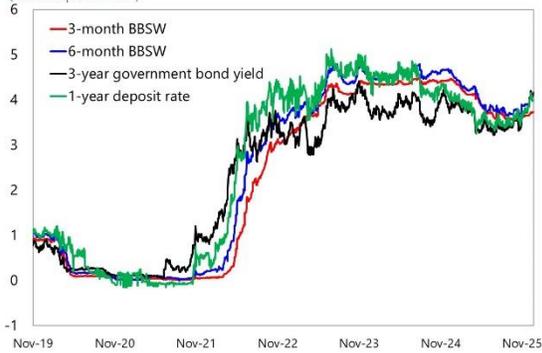
NPLs have inched up but remain low and manageable...

ADIs' Non-performing Household Loans
(Percent of Total Assets)



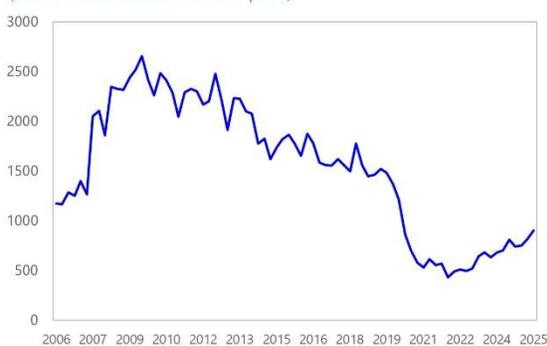
Funding costs have retreated from their post-pandemic peaks...

Banks' Funding Costs
(Percent per annum)



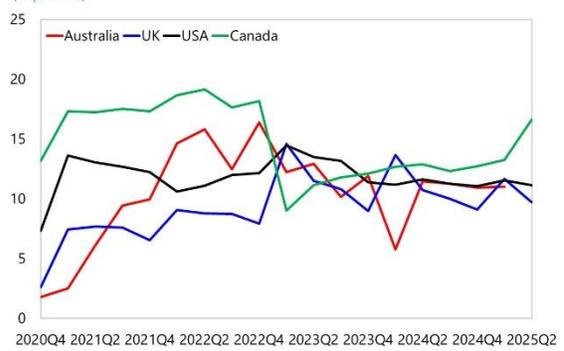
Business Bankruptcy has inched up but remains at relatively low levels...

Business Bankruptcy
(Number of business-related bankruptcies)



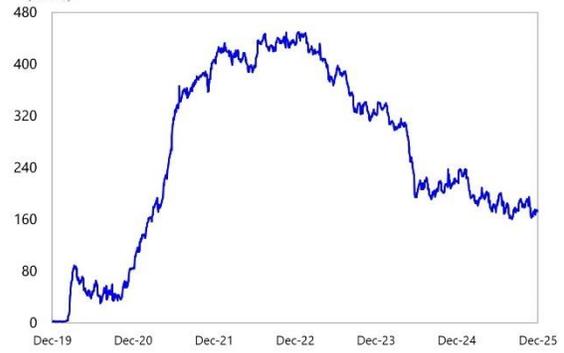
...while profitability remains healthy.

Return on Equity
(In percent)



...while the exchange settlement balance (bank reserves) continued to normalize toward pre-pandemic levels.

Exchange Settlement Balances
(Bil A\$)



...while credit default swap spreads remain tight.

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

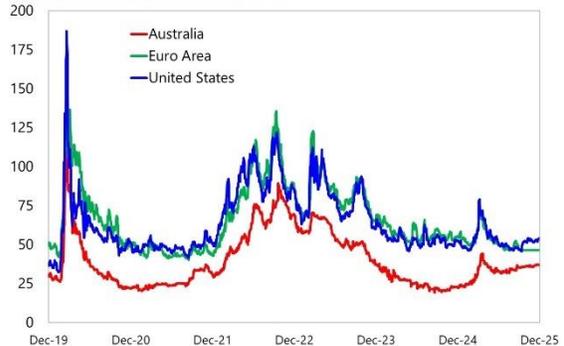


Figure 5. Financial Conditions Are Overall Favorable

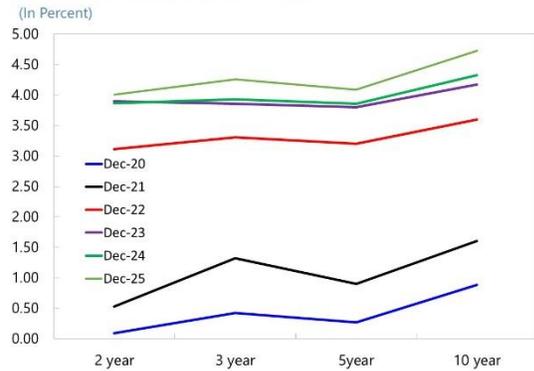
Equities market has rebounded from the sharp decline in the spring of 2025...

Stock Market Indices



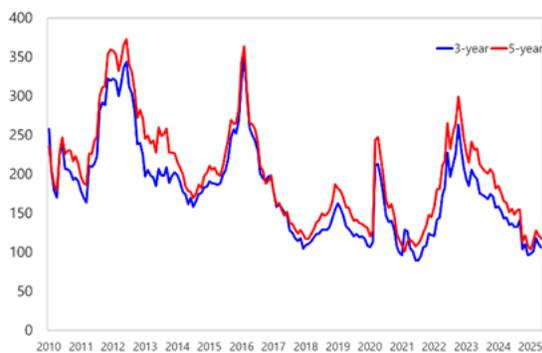
The yield curve has shifted up and steepened over the course of 2025 ...

Government Bond Yield Curves



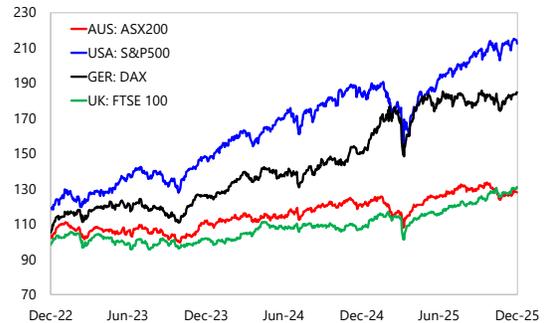
Corporate bond spreads remain near their tightest levels.

Non-Financial Corporate Bond Spreads
(BBB-rated corporate bond spread to government yields, in basis points)



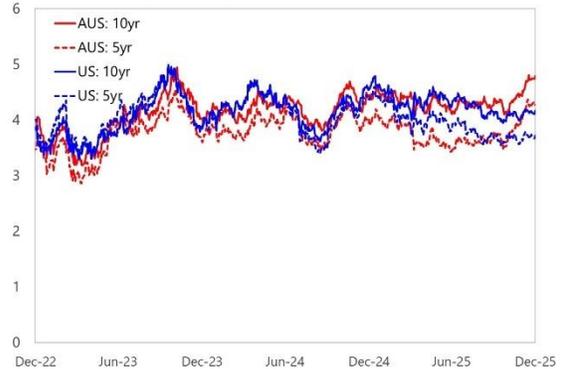
...broadly tracking global developments.

Advanced Economies: Stock Market Indices
(End-2019=100)



...with long-term yields on a rising trajectory of late.

Government Bond Yields



The Australian dollar has appreciated recently.

Exchange Rates

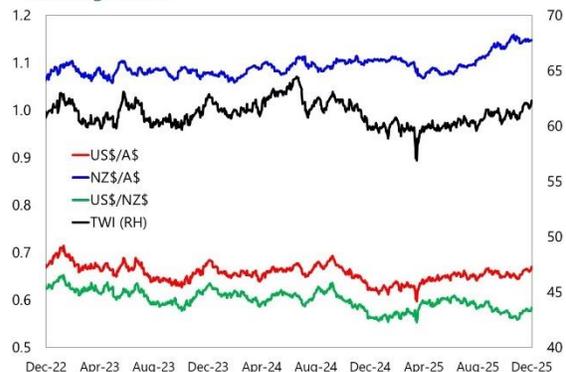
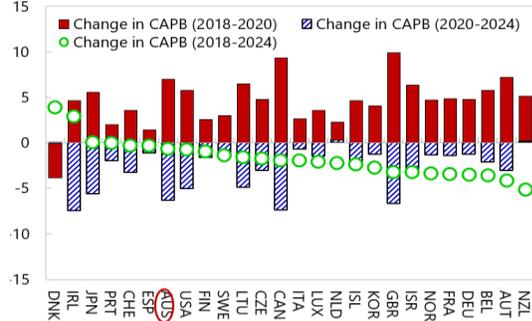


Figure 6. The Public Sector Fiscal Position Remains Strong

Following a significant pandemic fiscal expansion, Australia made a sizeable consolidation.

Change in Post Pandemic Primary Balance

(Change in cyclically-adjusted primary balance, percent of GDP)

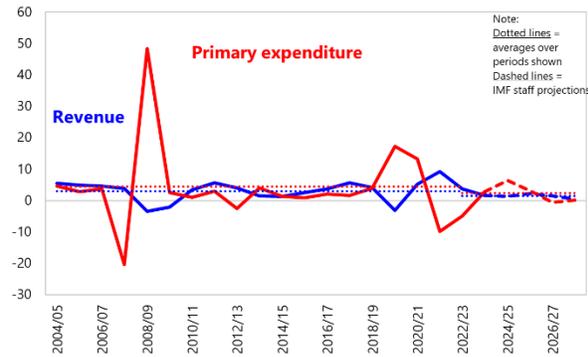


Source: IMF April 2025 World Economic Outlook

FY2024/25 saw an increase in primary expenditure...

Real Revenue and Real Primary Expenditure

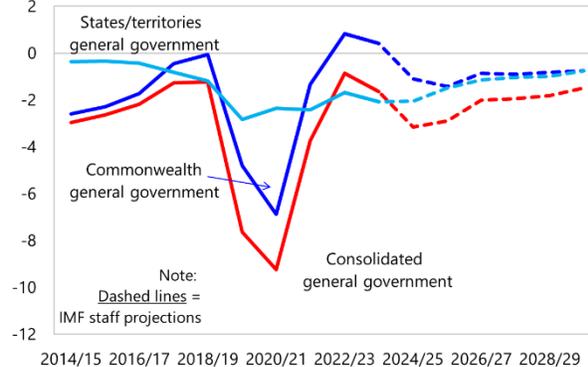
(Annual % change)



A gradual fiscal consolidation is expected across general government into the medium term.

Fiscal Balances

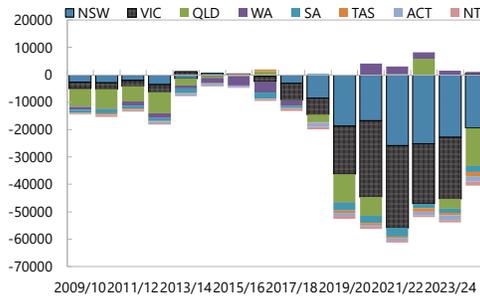
(% GDP)



Sub-national borrowing increased and has been slower to recover.

Sub-National Net Lending/Borrowing

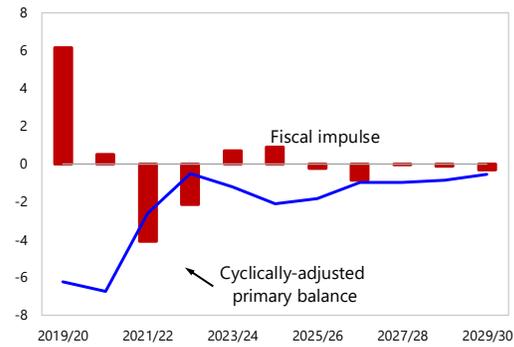
(AUD, thousands)



Sources: Australian Authorities

...which created a modest positive fiscal impulse.

Cyclically-adjusted Primary Balance and Fiscal



Net debt is forecast to gradually decline, but the composition is shifting towards sub-national debt.

Net Public Debt

(% GDP)

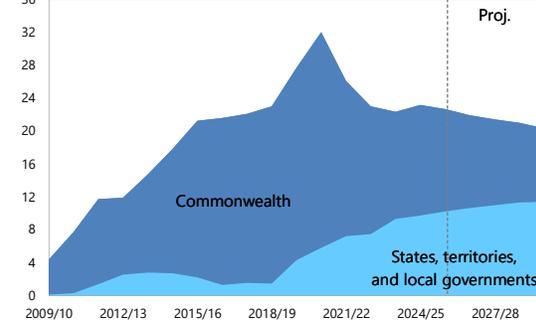
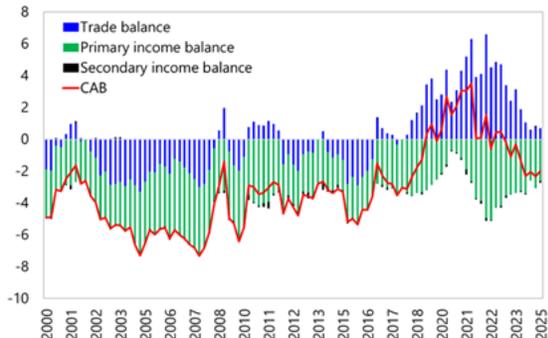


Figure 7. The External Position is Stabilizing

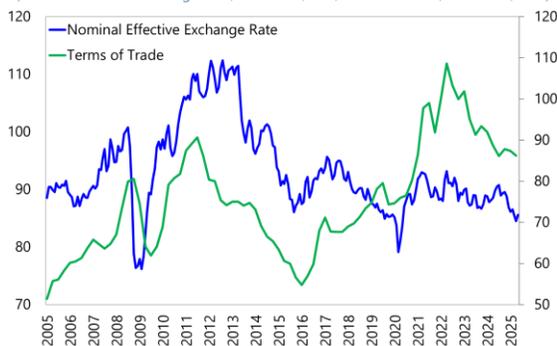
The evolution of the current account deficit reflects a decline in the trade balance in recent years...

Current Account Balance
(Percent of GDP)



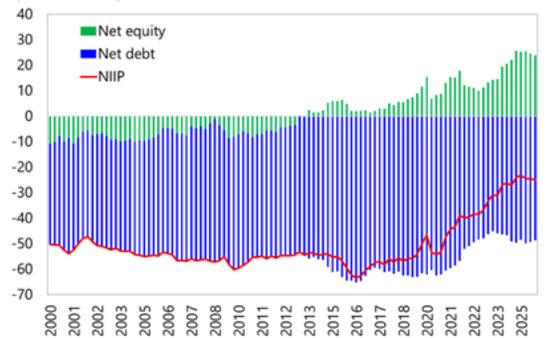
The NEER declined slightly since 2024, consistent with monetary easing, while terms of trade moved sideways.

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



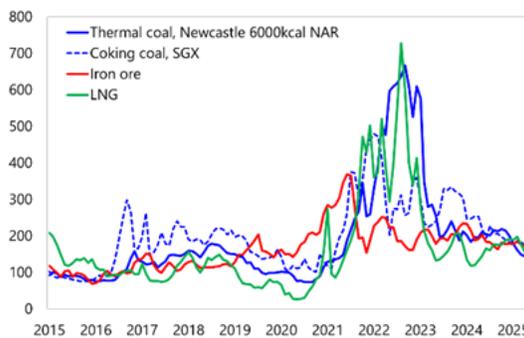
Despite current account deficits, the NIIP is improved from past years, reflecting valuation effects on equity holdings...

International Investment Position, Net
(Percent of GDP)



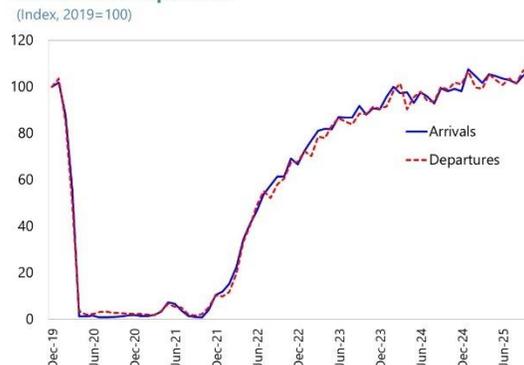
...which in turn reflects a decline in the prices of key export commodities.

Export Prices
(2016=100)



Arrivals and departure are back to pre-pandemic levels.

Arrivals and Departures
(Index, 2019=100)



...which has helped bring the NIIP in line with peers.

External Position in Comparison

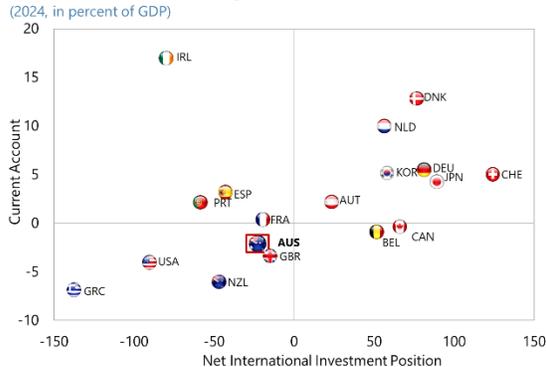


Table 1. Australia: Main Economic Indicators, 2021-2031

(Annual percent change, unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	Projections										
NATIONAL ACCOUNTS											
Real GDP	5.4	4.2	2.1	1.0	1.9	2.1	2.2	2.2	2.3	2.3	2.3
Domestic demand	6.1	5.3	2.9	1.9	2.2	2.1	2.0	2.0	2.1	2.1	2.1
Private consumption	5.0	7.4	2.7	0.6	2.0	2.5	2.5	2.4	2.4	2.4	2.4
Public consumption	5.7	5.1	1.8	5.0	3.0	1.4	1.2	1.2	1.3	1.3	1.3
Investment	10.6	2.2	4.8	1.8	2.1	2.1	2.1	2.3	2.3	2.3	2.3
Public	7.0	4.1	10.7	3.2	-0.5	0.4	0.6	1.0	1.0	1.0	1.0
Private business	9.0	5.4	7.1	1.0	1.3	2.0	2.5	2.7	2.8	2.8	2.8
Dwelling	10.3	-2.6	-0.9	0.8	6.0	3.0	2.5	2.5	2.4	2.4	2.4
Net exports (contribution to growth, percentage points)	-1.6	-2.0	0.2	-1.0	-0.1	0.0	0.2	0.2	0.2	0.2	0.2
Gross domestic income	9.0	5.9	0.5	-0.3	1.5	2.0	1.7	1.9	2.1	2.1	2.2
Investment (percent of GDP) 1/	23.4	23.8	23.9	24.5	24.3	24.1	24.2	24.2	24.2	24.3	24.3
Public	5.0	4.9	5.5	5.7	5.5	5.4	5.3	5.3	5.2	5.2	5.1
Private	18.1	17.8	18.4	18.6	18.7	18.7	18.8	18.9	19.0	19.1	19.2
Savings (gross, percent of GDP)	25.7	24.4	23.3	22.4	22.4	22.0	21.9	21.9	21.9	21.9	21.9
Potential output	2.5	2.5	2.4	2.1	2.0	2.1	2.2	2.2	2.3	2.3	2.3
Output gap (percent of potential)	-0.3	1.4	1.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
LABOR MARKET											
Employment	3.1	4.5	3.4	2.3	1.8	1.7	1.8	1.7	1.7	1.7	1.7
Unemployment (percent of labor force)	5.1	3.7	3.7	4.0	4.3	4.4	4.4	4.4	4.4	4.5	4.5
Wages (nominal percent change)	2.0	3.0	4.0	3.8	3.3	2.9	2.7	2.8	3.0	3.0	3.0
PRICES											
Terms of trade index (goods, avg)	103	113	104	97	95	96	94	93	92	92	91
% change	22.0	9.8	-7.3	-6.9	-2.0	0.6	-2.0	-1.3	-0.7	-0.6	-0.4
Consumer prices (avg)	2.8	6.6	5.6	3.2	2.8	3.4	2.7	2.5	2.5	2.5	2.5
Core consumer prices (avg)	2.8	5.7	5.3	3.7	2.8	3.0	2.7	2.5	2.5	2.5	2.5
GDP deflator (avg)	5.9	8.2	3.4	2.6	2.7	2.9	2.2	2.2	2.3	2.3	2.3
FINANCIAL											
10-year treasury bond yield (percent, avg)	1.6	3.6	3.9	4.2	4.4	4.5	4.4	4.3	4.3	4.3	4.3
Mortgage lending rate (percent, avg)	4.5	7.3	8.7	8.8	8.0	7.9	7.7	7.6	7.4	7.3	7.1
MACRO-FINANCIAL											
Credit to the private sector	7.4	8.3	4.9	4.4	5.6	5.4	4.8	4.8	5.0	4.8	5.0
House prices (% change)	23.7	-4.9	8.3	6.1	7.2	5.6	4.8	4.8	4.9	4.9	4.9
House price-to-income, national median value (ratio)	7.8	7.4	7.6	7.6	7.6	7.6	7.6	7.7	7.7	7.7	7.7
Estimated interest payments (percent of disposable income)	5.2	6.9	7.6	7.4	6.9	6.9	6.9	6.8	6.8	6.7	6.7
Household savings (percent of disposable income)	13.2	7.0	2.1	3.7	5.8	5.6	4.6	4.6	4.8	4.8	4.7
Household debt (percent of disposable income) 2/	187	188	185	181	176	175	175	175	178	175	177
Business credit (percent of GDP)	48.4	48.5	48.9	48.4	47.7	48.0	48.2	48.5	48.8	49.0	49.4
GENERAL GOVERNMENT (percent of GDP) 3/											
Revenue	34.8	35.5	35.9	36.5	36.6	36.8	36.7	36.2	36.2	36.3	36.3
Expenditure	44.1	39.3	36.7	38.2	39.8	39.6	38.7	38.1	38.0	37.8	37.7
Net lending/borrowing	-9.2	-3.7	-0.9	-1.6	-3.2	-2.9	-2.0	-1.9	-1.8	-1.5	-1.4
Commonwealth only	-6.9	-1.3	0.8	0.4	-1.1	-1.4	-0.9	-0.9	-0.8	-0.7	-0.7
Operating balance	-7.0	-1.5	1.5	0.7	-0.9	-1.5	0.0	0.1	0.2	0.5	0.6
Cyclically adjusted primary balance	-6.7	-2.6	-0.5	-1.2	-2.1	-1.8	-1.0	-1.0	-0.9	-0.5	-0.5
Gross debt	57.9	52.8	48.9	50.0	51.4	51.5	51.2	51.0	50.6	50.1	49.4
Net debt	37.8	33.3	30.4	31.6	32.9	32.8	32.5	32.4	32.2	31.7	31.1
BALANCE OF PAYMENTS											
Current account (percent of GDP)	2.3	0.3	-0.4	-2.2	-1.9	-2.1	-2.2	-2.3	-2.3	-2.4	-2.4
Export volume	-2.3	2.6	6.8	1.1	2.5	3.4	3.3	3.3	3.1	3.2	3.2
Import volume	5.3	13.6	6.7	5.8	3.0	3.6	2.8	2.7	2.6	2.6	2.6
Net international investment position (percent of GDP)	-37.7	-37.2	-30.0	-23.0	-23.5	-24.4	-25.6	-26.8	-27.9	-29.1	-30.2
Gross official reserves (bn A\$)	81	85	94	107	...	...	...	...	...	...	...
MEMORANDUM ITEMS											
Nominal GDP (bn A\$)	2,208	2,491	2,630	2,726	2,853	3,000	3,134	3,274	3,425	3,582	3,746
Percent change	11.6	12.8	5.6	3.67	4.7	5.1	4.5	4.5	4.6	4.6	4.6
Real GDP per capita (% change)	5.1	2.6	-0.3	-0.9	0.6	0.9	1.0	1.0	1.0	1.1	1.1
Population (million)	25.8	26.3	27.0	27.4	27.7	28.1	28.4	28.8	29.1	29.5	29.8
Nominal effective exchange rate	90.8	90.3	88.1	89.0	...	...	...	...	...	...	...
Real effective exchange rate	90.5	91.1	90.4	82.0	...	...	...	...	...	...	...

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, 2020/21-2030/31 1/

(In percent of GDP, unless otherwise indicated)

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
					Est	Projections					
CONSOLIDATED GENERAL GOVERNMENT OPERATIONS 2/											
Revenue	34.8	35.5	35.9	36.5	36.6	36.8	36.7	36.2	36.2	36.3	36.3
Tax revenue	28.4	29.2	29.3	29.9	30.0	30.3	30.2	29.7	29.8	29.8	29.8
Direct taxes	20.9	22.4	22.4	23.0	23.0	23.4	23.3	22.9	22.9	23.0	23.0
Individual and withholding	14.2	14.5	14.5	15.5	15.5	15.7	15.7	15.7	15.7	15.7	15.7
Corporate	6.7	7.9	7.7	7.3	7.5	7.7	7.6	7.2	7.2	7.3	7.3
Indirect taxes	7.5	6.8	6.9	6.9	7.0	6.9	6.9	6.9	6.9	6.9	6.9
Of which: GST	3.5	3.2	3.3	3.3	3.4	3.5	3.5	3.5	3.5	3.5	3.5
Non-tax revenue	6.5	6.3	6.5	6.6	6.6	6.5	6.5	6.5	6.4	6.4	6.5
Expenditure	44.1	39.3	36.7	38.2	39.8	39.6	38.7	38.1	38.0	37.8	37.7
Expense	41.8	37.0	34.4	35.8	37.6	38.2	36.6	36.1	36.0	35.7	35.7
Employee expenses	8.8	8.3	8.0	8.5	8.0	8.1	7.9	7.8	7.7	7.7	7.7
Other operating expenses (excl. depreciation)	12.8	12.8	12.4	13.1	12.7	12.9	12.5	12.3	12.3	12.3	12.3
Transfers	15.4	11.3	9.2	9.2	11.0	11.1	10.4	10.3	10.3	10.3	10.2
Current	14.7	10.7	8.7	8.8	10.7	10.5	10.0	10.0	10.0	10.0	10.0
Capital	0.7	0.6	0.5	0.4	0.3	0.6	0.5	0.4	0.3	0.3	0.2
Interest (excl. superannuation)	1.2	1.2	1.4	1.6	1.9	1.9	1.8	1.8	1.8	1.8	1.8
Other	3.5	3.4	3.3	3.4	4.0	4.3	4.0	3.9	3.9	3.7	3.7
Net acquisition of nonfinancial assets	2.3	2.3	2.3	2.4	2.2	1.4	2.1	2.0	2.0	2.0	2.0
Of which: Gross fixed capital formation	3.7	3.6	3.6	3.8	4.2	4.3	4.1	4.1	4.1	4.1	4.1
Operating balance	-7.0	-1.5	1.5	0.7	-0.9	-1.5	0.0	0.1	0.2	0.5	0.6
Primary balance	-8.3	-2.9	-0.1	-0.9	-2.1	-1.9	-1.0	-1.0	-0.9	-0.6	-0.5
Net lending (+)/borrowing (-)	-9.2	-3.7	-0.9	-1.6	-3.2	-2.9	-2.0	-1.9	-1.8	-1.5	-1.4
CONSOLIDATED GENERAL GOVERNMENT BALANCE SHEET											
Liabilities	97.3	83.3	77.3	78.9	80.6	82.3	80.9	80.5	79.8	79.0	78.1
Gross debt	57.9	52.8	48.9	50.0	51.4	51.5	51.2	51.0	50.6	50.1	49.4
Commonwealth	43.6	37.8	33.5	32.9	32.9	32.6	32.0	31.6	31.0	30.4	29.7
States, territories and local governments	14.3	14.9	15.4	17.1	18.6	18.9	19.2	19.5	19.6	19.7	19.7
Other liabilities	39.3	30.5	28.5	28.9	29.2	30.8	29.7	29.4	29.2	28.9	28.6
Assets	129.8	126.5	124.2	130.5	130.3	127.6	126.2	123.2	123.0	121.4	119.8
Financial assets	54.4	52.2	50.8	54.6	54.8	54.6	54.4	52.4	53.4	52.8	52.2
Debt relevant	20.2	19.5	18.4	18.4	18.6	18.6	18.7	18.4	18.4	18.4	18.4
Other	34.2	32.7	32.3	36.2	36.2	36.0	35.8	33.7	35.0	34.4	33.8
Other assets	75.4	74.4	73.5	75.9	75.5	73.0	71.8	70.8	69.7	68.6	67.6
Net financial worth	-42.9	-31.1	-26.6	-24.2	-25.8	-27.6	-26.5	-28.1	-26.4	-26.2	-25.9
Net debt	37.8	33.3	30.4	31.6	32.9	32.8	32.5	32.4	32.2	31.7	31.1
Commonwealth 3/	32.0	26.1	23.0	22.3	23.2	22.7	21.9	21.4	21.0	20.3	19.6
States, territories and local governments	5.8	7.2	7.4	9.3	9.7	10.2	10.6	10.9	11.3	11.4	11.5
Net worth	32.5	43.2	46.9	51.7	49.6	45.4	42.7	42.7	43.3	42.5	41.7
Commonwealth	-35.1	-25.3	-21.3	-20.2	-20.8	-21.8	-20.1	-20.9	-18.8	-18.4	-18.0
States, territories and local governments	67.6	68.5	68.2	71.9	70.4	67.1	65.4	63.6	62.1	60.9	59.7
MEMORANDUM ITEMS											
Cyclically adjusted primary balance (in percent of potential GDP)	-6.7	-2.6	-0.5	-1.2	-2.1	-1.8	-1.0	-1.0	-0.9	-0.5	-0.5
Fiscal impulse (change in CAPB; in percent of potential GDP)	0.5	-4.1	-2.1	0.7	0.9	-0.2	-0.9	0.0	-0.1	-0.3	-0.1
Change in real revenue (percent)	5.2	9.3	3.7	1.7	1.4	2.3	1.5	0.5	2.1	2.2	2.1
Change in real primary expenditure (percent)	13.3	-9.9	-4.8	2.8	6.4	3.1	-0.6	0.2	2.0	2.0	2.0
Commonwealth general government 4/											
Revenue	21.5	22.2	22.5	22.9	22.8	22.7	22.5	22.1	22.1	22.2	22.2
Expenditure	28.4	23.5	21.7	22.5	23.9	24.1	23.4	23.0	22.9	22.9	22.9
Net lending (+)/borrowing (-)	-6.9	-1.3	0.8	0.4	-1.1	-1.4	-0.9	-0.9	-0.8	-0.7	-0.7
States, territories and local governments 5/											
Revenue	12.3	12.3	12.5	12.6	13.1	13.4	13.4	13.4	13.4	13.4	13.5
Expenditure	14.6	14.7	14.1	14.6	15.1	14.7	14.6	14.4	14.4	14.4	14.3
Net lending (+)/borrowing (-)	-2.4	-2.4	-1.6	-2.0	-1.9	-1.4	-1.1	-1.0	-0.9	-0.9	-0.9
Commonwealth transfers to subnational governments											
Of which: General revenue assistance	3.6	3.5	3.5	3.5	3.5	3.6	3.7	3.6	3.6	3.6	3.6
Nonfinancial public sector capital stock	99.8	97.8	96.3	100.5	102.2	100.1	99.1	98.1	96.6	94.3	91.6
GDP (in billion A\$)	2,090	2,340	2,576	2,681	2,777	2,928	3,066	3,201	3,349	3,503	3,665

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

1/ The fiscal year runs from July 1 to June 30.

2/ Accrual basis; GFS. Comprises the Commonwealth, and state, territory, and local governments.

3/ Includes Future Fund assets.

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

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

Table 3. Australia: Balance of Payments, 2021-2031

(In percent of GDP, unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	Projections										
Current account	2.3	0.3	-0.4	-2.2	-1.9	-2.1	-2.2	-2.3	-2.3	-2.4	-2.4
Balance on goods and services	4.9	5.0	3.4	1.1	0.7	0.7	0.4	0.2	0.2	0.1	0.1
Exports of goods and services	23.5	27.0	25.7	23.7	23.4	23.3	23.2	23.0	22.9	22.8	22.7
Exports of goods	20.7	23.9	21.3	19.0	18.4	18.4	18.2	18.0	17.8	17.7	17.7
Of which: Resources	14.7	17.4	15.0	12.8	11.5	11.6	11.6	11.4	11.3	11.3	11.3
Exports of services	2.8	3.1	4.4	4.7	5.0	5.0	5.0	5.0	5.1	5.1	5.1
Imports of goods and service	18.6	22.0	22.3	22.6	22.7	22.6	22.8	22.8	22.7	22.7	22.6
Imports of goods	15.6	17.4	16.5	16.5	16.5	16.4	16.5	16.4	16.3	16.2	16.1
Imports of services	3.0	4.6	5.8	6.1	6.2	6.2	6.3	6.3	6.4	6.4	6.5
Primary income, net	-2.5	-4.6	-3.8	-3.3	-2.6	-2.7	-2.6	-2.5	-2.5	-2.5	-2.5
Interest payments	-0.5	-1.0	-1.3	-1.4	-1.4	-1.1	-1.0	-1.0	-0.9	-1.0	-1.0
Equity income	-1.5	-3.1	-1.7	-1.0	-0.3	-0.6	-0.6	-0.6	-0.6	-0.6	-0.7
Secondary income, net	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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	-2.6	-0.6	0.1	2.6	2.4	2.1	2.2	2.3	2.3	2.4	2.4
Direct investment	1.3	-3.3	1.3	2.2	2.2	1.8	2.0	2.1	2.2	2.2	2.3
Equity	1.3	-2.8	1.9	2.9	2.3	2.3	2.5	2.5	2.5	2.5	2.5
Debt	0.0	-0.5	-0.6	-0.7	-0.5	-0.5	-0.4	-0.4	-0.3	-0.3	-0.2
Portfolio investment	-5.1	4.5	-0.3	1.8	1.5	-0.9	-1.0	-1.1	-1.2	-1.3	-1.0
Equity	-5.4	2.2	-1.4	-3.6	-1.2	-2.4	-2.6	-2.6	-2.8	-2.9	-2.7
Debt	0.3	2.3	1.1	5.5	2.8	1.5	1.6	1.5	1.5	1.6	1.6
Financial derivatives	-0.7	0.0	-0.2	-2.4	-1.2	-1.3	-1.0	-0.8	-0.7	-0.6	-0.5
Other investment	2.8	-1.8	-0.3	0.9	-0.1	2.4	2.2	2.2	2.1	2.0	1.6
Reserve assets	-0.9	-0.1	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	0.3	0.4	0.3	-0.4	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET											
Net international investment position 1/	-37.7	-37.2	-30.0	-23.0	-23.5	-24.4	-25.6	-26.8	-27.9	-29.1	-30.2
Equity, net	18.6	11.0	15.8	28.6	26.9	25.7	24.7	23.8	23.0	22.4	21.6
Assets	93.6	82.3	85.6	100.5	106.5	105.7	105.5	105.6	105.6	105.6	105.6
Liabilities	75.0	71.3	69.8	71.9	79.6	80.0	80.8	81.9	82.6	83.2	84.0
Debt, net	-56.3	-48.3	-45.8	-51.6	-50.4	-50.1	-50.3	-50.6	-50.9	-51.5	-51.8
Assets	60.5	67.7	63.2	61.3	58.4	57.9	57.8	57.9	57.9	57.9	57.9
Liabilities	116.7	116.0	109.1	112.9	108.8	108.1	108.1	108.5	108.8	109.4	109.7
External assets (gross)	154.1	150.0	148.9	161.8	164.9	163.6	163.3	163.5	163.5	163.5	163.5
Equity	93.6	82.3	85.6	100.5	106.5	105.7	105.5	105.6	105.6	105.6	105.6
Debt	60.5	67.7	63.2	61.3	58.4	57.9	57.8	57.9	57.9	57.9	57.9
External liabilities (gross)	191.8	187.3	178.8	184.8	188.4	188.0	188.9	190.3	191.4	192.6	193.6
Equity	75.0	71.3	69.8	71.9	79.6	80.0	80.8	81.9	82.6	83.2	84.0
Debt	116.7	116.0	109.1	112.9	108.8	108.1	108.1	108.5	108.8	109.4	109.7
Of which: A\$-denominated	61.6	60.9	58.0	47.1	50.0	49.6	49.7	49.8	50.0	50.2	50.4
Short-term	43.7	44.6	34.6	55.5	48.5	48.2	48.2	48.4	48.5	48.7	48.9
MEMORANDUM ITEMS											
Gross official reserves (bn A\$)	81	85	94	102	...	...	...	...	...	...	...
In months of prospective imports	1.8	1.8	1.8	1.9	...	...	...	...	...	...	...
In percent of short-term external debt	8.4	7.7	10.3	6.8	...	...	...	...	...	...	...
Net official reserves (bn A\$)	84	85	89	102	...	...	...	...	...	...	...

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 ABS.

Table 4. Australia: Monetary and Financial Sector, 2021-2031

(Year-end, unless otherwise noted)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	Projections										
BALANCE SHEET											
	In billions of A\$										
Total assets 1/	6,834	7,326	7,310	7,208	7,539	7,903	8,256	8,622	9,007	9,408	9,826
<i>Total assets (w/o residual)</i>	5,989	6,629	6,528	6,198	6,523	6,876	7,192	7,523	7,878	8,244	8,631
Currency and deposits	463	491	388	288	302	318	332	347	362	378	394
Securities other than shares	1031	1099	1104	1094	1146	1207	1260	1315	1373	1433	1496
Loans	3,839	4,251	4,356	4,250	4,482	4,725	4,947	5,181	5,433	5,691	5,968
Claims on government	24	28	22	12	13	13	14	14	15	16	16
Claims on MFI	881	1004	962	804	843	888	927	967	1010	1054	1100
Claims on non-MFIs	2,855	3,086	3,235	3,377	3,568	3,762	3,941	4,132	4,337	4,548	4,774
Claims on non-residents	79	132	137	57	59	62	65	68	71	74	77
Shares and other equity	10	8	10	17	17	18	19	20	21	22	23
Other	1491	1477	1451	1559	1592	1634	1697	1759	1818	1884	1946
Total liabilities 1/	6,834	7,326	7,310	7,208	7,539	7,903	8,256	8,622	9,007	9,408	9,826
Capital and reserves	311	318	329	336	352	371	387	404	421	440	459
Borrowing from RBA	204	211	121	30	31	33	34	35	37	39	40
Liabilities to other MFIs	672	703	734	767	802	838	876	915	956	999	1044
Deposits of non-banks	3,278	3,425	3,579	3,740	3,909	4,085	4,268	4,460	4,661	4,871	5,090
Debt securities	885	967	1061	1195	1252	1319	1377	1436	1500	1566	1634
Other liabilities	1483	1702	1486	1140	1194	1259	1314	1371	1431	1494	1559
	In percent of GDP										
Total assets (w/o residual) 1/	309	294	278	264	264	263	263	263	263	263	264
Loans	174	171	166	156	157	157	157	158	159	159	160
Claims on MFI	40	40	37	30	30	30	30	30	30	30	30
Claims on non-MFIs	129	124	123	124	125	125	125	126	127	127	128
	Percent change										
Credit non-bank private sector 2/	7.2	8.3	4.9	4.4	5.6	5.4	4.8	4.8	5.0	4.8	5.0
o/w Household credit	6.9	6.1	4.1	5.4	6.9	5.2	4.7	4.8	4.9	4.9	4.9
o/w Housing credit	7.4	6.4	4.3	5.5	7.0	5.1	4.7	4.8	4.9	4.9	4.9
Personal credit	-3.7	-0.5	1.2	2.6	3.9	6.4	4.7	4.7	4.7	4.7	4.7
Business credit	8.4	12.9	6.4	2.6	3.3	6.0	4.9	4.9	5.2	4.7	5.2

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)

	2018	2019	2020	2021	2022	2023	2024	2025Q1
Capital Adequacy								
Regulatory capital to risk-weighted assets	14.8	15.7	17.6	17.9	17.8	20.0	20.2	20.5
Regulatory Tier I capital to risk-weighted assets	12.7	13.1	14.0	13.9	13.4	14.7	14.1	14.2
T1 capital to assets	5.9	6.2	6.4	6.2	5.9	6.1	5.7	5.8
Large exposures to capital	84.8	99.7	82.7	82.9	89.4	88.6	98.7	90.3
Nonperforming loans net of loan-loss provisions to capital	7.5	7.6	7.7	6.5	4.5	5.9	7.2	7.6
Asset Quality								
Nonperforming loans to total gross loans	0.9	1.0	1.1	0.9	0.7	0.9	1.0	1.1
Earnings and Profitability								
Return on assets	1.4	1.0	0.3	1.0	1.3	1.0	0.9	...
Return on equity	16.8	10.9	1.8	9.9	16.4	27.1	9.8	...
Interest margin to gross income	64.9	74.3	91.1	76.7	67.4	83.6	80.0	...
Noninterest expenses as a percentage of gross income	44.7	52.6	66.7	55.2	45.7	35.4	54.5	20.5
Liquidity								
Liquid assets to total assets	18.7	16.5	20.2	23.2	23.7	23.8	23.3	23.5
Liquid assets to short-term liabilities	41.9	34.2	37.0	37.7	41.2	42.8	43.6	42.9

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

Annex I. Impact of Illustrative Adverse Global Scenarios on the Australian Economy¹

Simulations based on the IMF's Global Integrated Monetary and Fiscal (GIMF) are used to analyze shocks that can materialize over the WEO forecast horizon and illustrate Australia's exposure to hypothetical adverse global shocks based on three layers (higher tariffs, higher policy uncertainty and tighter global financial conditions). The impact of these adverse scenarios on Australia's growth and inflation is found to be significant, yet broadly manageable given Australia's agile macroeconomic policy toolkit, institutional strength, the floating exchange rate, and flexible factor and product markets, with the impact of the shocks expected to dissipate over the WEO forecast horizon.²

1. Layers considered in the illustrative scenarios:

- *Higher Tariffs and Supply Chain Disruptions.* This first layer assumes tit-for-tat retaliation by countries other than China in the amount of the reciprocal tariffs announced on April 2 by the US, while China retaliates with a 50 percentage point increase in tariffs. The US further counter-retaliates with the same rates against all countries including China. The July 2025 WEO scenario assumes permanently higher US tariffs than in the baseline, starting end-2025, being the highest of either the reciprocal tariff increases announced in April or the tariff rates announced in the letters sent in June/July. The effective tariff rate on US imports increases by 10 percentage points overall, with tariff revenue used to pay down public debt over the WEO horizon. The July 2025 WEO scenario assumes that countries do not retaliate.
- *Higher global trade policy uncertainty.* The layer assumes a one-standard-deviation increase in the global economic policy uncertainty measure in Baker, Bloom and Davis (2016) in full force for two years before declining. The July 2025 WEO GIMF scenario does not consider this channel.
- *Tighter global financial conditions.* The final layer in the April 2025 scenario assumes a marked decline in asset prices globally, and a strong increase in sovereign and corporate spreads for three years before declining. The combined effect of shocks and policies is amplified by additional tightening in global financial conditions. The July 2025 scenario does not consider this channel.

¹ Prepared by Sophia Zhang (APDRS) and Dirk Muir (RES), with inputs from the Australia desk.

² This version of GIMF with global value chains has 10 regions focused on Asia and the Pacific highlighting China, the US and the euro area, along with Australia. It includes endogenous monetary policy and automatic fiscal stabilizers. The scenario derived from the global tariff dispute layers of the April 2025 WEO Scenario A assumes permanent retaliation of the world against the US with commensurate US counter-retaliation leading to heightened global policy uncertainty and worsening global financial conditions. The partial scenario based on the July 2025 WEO update, assumes that only the US imposes further tariffs, resetting them to April 2 levels or those published in the June/July tariff letters and introducing additional sectoral tariffs, but without considering the global policy uncertainty and global financial conditions channels.

2. Main Transmission Channels: Australia is expected to be mostly impacted by weaker demand for exports primarily stemming from slowing growth in key trading partners in Asia, most notably China (a major player on the global commodity markets)³, as well as Japan, India and Korea, and the ASEAN region, which together account for over 60 percent of its exports. Tighter global financial conditions and rising policy uncertainty could also dampen private investment and consumption in Australia relative to the baseline (as well as globally). A sharp global equity selloff, similar to April 2025, could lead to significant losses in Australia’s domestic and offshore investments (including that of superannuation funds), potentially further dampening consumption via the wealth effect channel. An additional channel not highlighted fully in GIMF are sectoral tariffs, such as those on pharmaceuticals, which could potentially cause significant disruptions across the pharmaceutical-related industries. However, this is not expected to give rise to a material aggregate-wide macroeconomic impact on Australia.⁴

3. Impact on growth and inflation: Overall, while the impact of global adverse scenarios on real GDP could be significant, given Australia’s agile macroeconomic policy toolkit, institutional strength and flexible factor and product markets, which together explains its long-term resilience, the impact of the global shocks is expected to be manageable.⁵ The tariff layer alone could affect Australia real GDP level by -0.1 to 0.2 percent relative to the baseline by the end of year 2 with any positive impact likely to be driven by potential trade diversion and yet dissipating as the global recession worsens over the medium term. This relatively muted impact also reflects limited direct exports to the US and a lower-exports to GDP ratio than some other



significant economies in the Asia Pacific. Higher global policy uncertainty, in combination with the April 2025 WEO Scenario A tariff layer would reduce real GDP in Australia by 0.4 percent relative to the baseline. If, in addition to these layers, global financial conditions were to tighten strongly, the combined effect on Australia real GDP could be more significant. On impact, the combined shock could lower real GDP by -0.6 percent in the next two years, or even more if the July 2025 WEO update tariff scenario were to be more accurate.⁶ The shock to growth is also expected to lead to a

³ GIMF does not have an explicit commodity channel; thus the simulations do not include an explicit macro impact of weaker global demand for commodities; however, this should be implicitly captured through the impact of the shocks on global demand (including due to lower growth in major trading partners such as China).

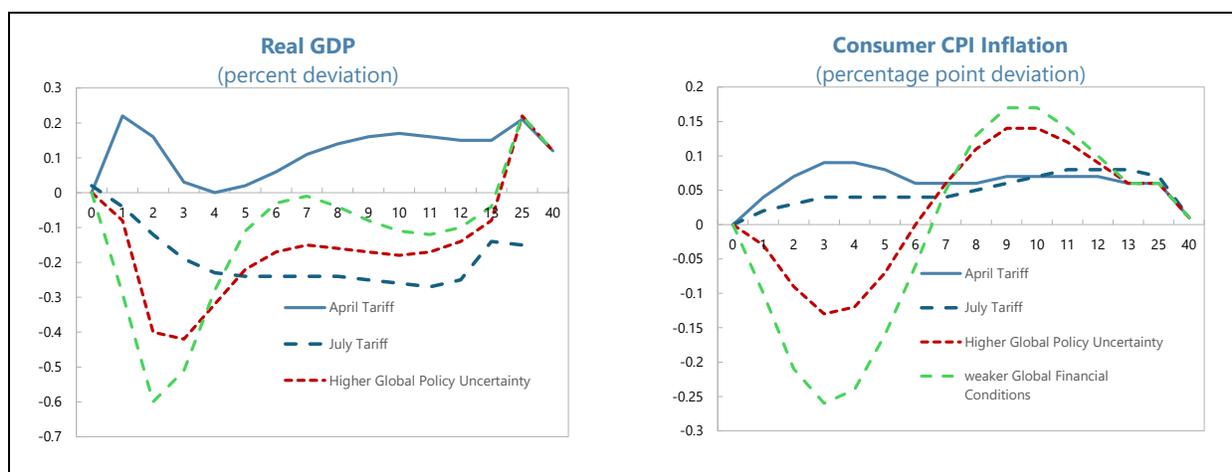
⁴ Pharmaceutical exports to the US account for under one percent of all Australian goods exports. The pharmaceutical industry accounts for under 0.5 percent of total industry GVA, although pharmaceutical tariffs could also affect part of the agriculture sector that feeds into the chemical industry.

⁵ 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.

⁶ That said, Australia’s financial sector has proven resilient and is expected to remain stable under this adverse scenario. In fact, APRA’s 2024 banking system stress test considered a more economic downturn with much larger impact on Australia, and found Australian banks had sufficient capital to withstand the shock and were able to meet

(continued)

0.9 percent decline in total labor hours, which would translate into a 0.9 percentage-point increase in the unemployment rate, if only the number of jobs is the margin of adjustment.⁷ The negative impact of the tariff shocks on the labor market is mitigated due to the Reserve Bank of Australia’s (RBA) dual mandate on price stability and employment. The shocks would gradually fade thereafter over the forecast horizon. The impact on inflation during 2025-26 is relatively benign and inflation will stay well within the inflation target range. This is a consequence of the interaction of monetary policy with downward pressure on inflation from lower demand and the partial offset from upward pressure from higher prices for some tradable goods which reflect global supply chain and exchange rate adjustments.⁸



their liquidity obligations. See [APRA Chair John Lonsdale - Speech to Australian Banking Association Conference 2025 | APRA](#).

⁷ The authorities have expressed interest of the impact of the tariff shocks on the labor market in part due to the Reserve Bank of Australia’s (RBA) dual mandate on price stability and employment.

⁸ The October 2025 WEO Scenario A has a tariff layer much like that of the July 2025 WEO Update, updating the tariff calculations to September 1. However, Australia is worse off in the new Scenario A as it accounts for increased global policy uncertainty and worsening global financial conditions channels with negative impacts much like that of the April 2025 WEO Scenario A, with additional declines in activity from higher interest rates worldwide needed to offset higher short-term global inflationary expectations and from a further short-term withdrawal in US assets leading to a US dollar depreciation. Australia’s agile macroeconomic policy toolkit should still dampen the macro impact even in the Oct. 2025 WEO GIMF vintage

Annex II. Implementation of Previous Article IV Recommendations

Sound macroeconomic policies have supported a soft landing and broadly aligned with staff recommendations. The economy's gradual return to internal balance is enabling the authorities to start normalizing their cyclical policies and shifting focus toward structural priorities that will enhance economic resilience and boost productivity.

2024 Article IV Policy Recommendations	Action Taken
<p>Fiscal policy: adopt countercyclical fiscal policy to support disinflation and support vulnerable households through targeted policies in the near-term and pursue fiscal consolidation to rebuild buffers over the medium-term.</p>	<p>With inflation moving to target, the 2024/25 countercyclical fiscal stance was broadly in line with staff advice. The authorities utilizing discretionary spending to support households and increase infrastructure investment during the downturn. Although Commonwealth energy subsidies were extended and remained untargeted, they were phased out in 2025. The Care Act and NDIS reforms demonstrate a focus on tackling structural spending areas, with some progress being demonstrated by recent slower growth in these expenditure items and a medium-term fiscal consolidation forecast.</p>
<p>Monetary policy: maintain a restrictive policy stance to guide inflation back to target, improve policy communication, and further strengthen the monetary policy framework.</p>	<p>RBA's policy has remained data dependent with inflation expected to gradually move back within the target band and employment gains largely preserved, allowing the policy rate to be cautiously reduced starting in 2025. The RBA has further enhanced its communication and data-driven decision-making processes, including the establishment of the Monetary Policy Board.</p>
<p>Financial sector policy: adapt macro-prudential policies to preempt excessive buildup in household indebtedness and to safeguard financial stability; adopt a holistic strategy to unlock new housing supply.</p>	<p>APRA has kept its minimum serviceability buffer at 3 percent and the countercyclical capital buffer at 1 percent, while closely monitoring lending standards and conducting its inaugural financial system stress test this year. A new 20-percent limit on new high DTI lending was introduced in November 2025 to take effect in February 2026. Regarding housing policies, the authorities have focused on supporting first-time homebuyers and essential housing infrastructure to unlock new supply.</p>

2024 Article IV Policy Recommendations	Action Taken
<p>Structural policies: leverage structural policies to reverse the downtrend in productivity growth, proactively address long-term spending pressures related to aging and health, and support a smooth transition to a low-carbon economy.</p>	<p>The authorities are advancing key reforms outlined in the 2023 Advancing Prosperity report. Starting 2026, Australia will implement mandatory suspensory merger reporting to strengthen regulatory oversight. Authorities will also ban non-compete clauses for low- and middle-income workers, wage-fixing arrangements, and no-poach agreements from 2027. Initiatives to improve human capital include expanding early childhood education and establishing Jobs and Skills Australia to advise on workforce and training needs. Authorities are boosting the AI ecosystem and SME upskilling through initiatives such as the AU\$1 billion National Reconstruction Fund, nearly AU\$500 million in AI R&D tax incentives, and support via the National AI Centre and AI Adopt Centers as announced in 2024. Ambitious climate targets remain and authorities have announced their 2035 target, supported by the Future Made in Australia Act. The recently announced National AI Plan lays out a three-pillar approach to grow AI infrastructure capabilities, expand skill upgrading and inclusive use, and develop safety standards through 2030.</p>
<p>Transnational aspects of corruption:¹ Mitigate foreign bribery risks and prevent concealment of foreign proceeds of corruption.</p>	<p>The Department of Finance issued new guidance to assist procuring officials in considering foreign bribery risks and conducting due diligence inquiries. The newly enacted Anti-Money Laundering and Counter-Terrorism Financing Amendment Act 2024 requires high-risk sectors to address their ML/TF risks. The Government has committed to a public beneficial ownership (BO) register to improve multinational tax integrity. In September 2025, it introduced legislation to enhance disclosure for listed entities, and in December 2024, released updates and policy specs for unlisted companies.</p>

¹ 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 OECD Working Group on Bribery (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.

Annex III. Sovereign Risk and Debt Sustainability Assessment

Figure 1. Australia: Sovereign Risk and Debt Sustainability Assessment

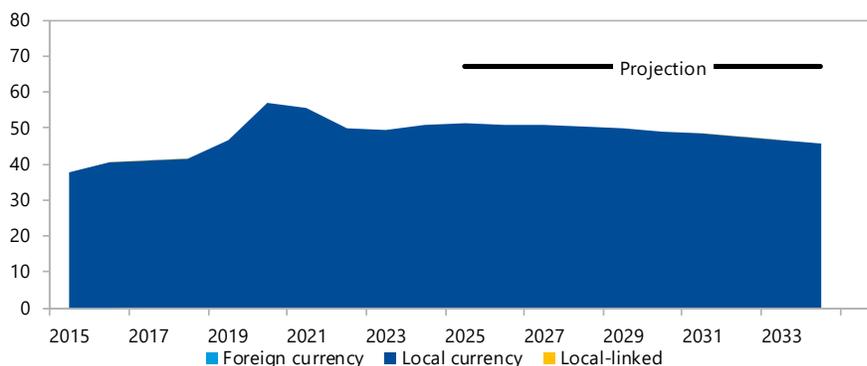
Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Low	The overall risk of sovereign stress is low, reflecting low vulnerability in the short-, medium-, and long-term horizons.
Near term 1/			
Medium term	Low	Low	Medium-term risks are assessed as low due to mechanical low signals on the 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 are 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			No
DSA Summary Assessment			
<p>Commentary: Australia is at a low overall risk of sovereign stress and debt is sustainable. The country has a AAA sovereign credit rating, and a strong post-pandemic recovery has left Australia in a strong fiscal position relative to many other AEs. Looking forward, the deficit is expected to gradually narrow to pre-pandemic levels although growing structural spending needs associated with health, aging, the energy transition, and defense spending present upside risks to expenditures across the federation. 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.</p>			
<p>Source: Fund staff.</p> <p>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.</p> <p>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.</p> <p>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.</p>			

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					
	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/	IPSGs 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
<p>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.</p> <p>Commentary: In Australia the general government is made up of the Commonwealth government, State and Territory governments, and local government.</p>											

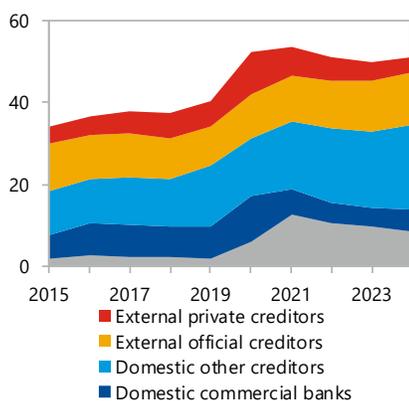
Figure 3. Australia: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



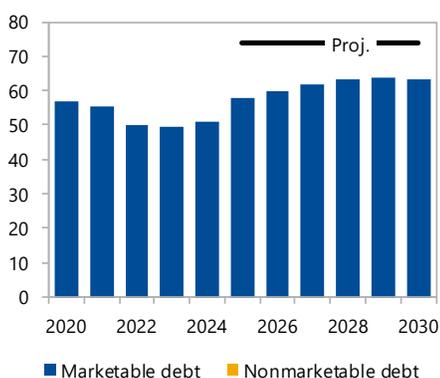
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2024 (percent)



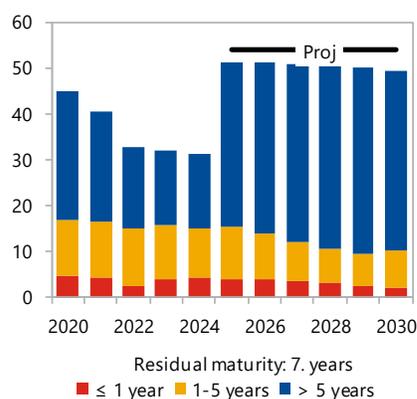
Note: The perimeter shown is general government.

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.

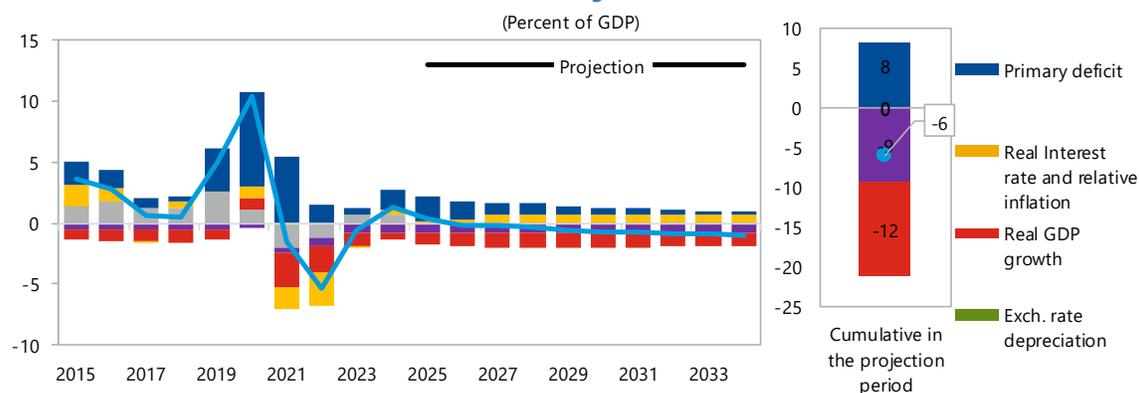
Commentary: Public debt in Australia increased over the pandemic, but has since stabilized and is expected to gradually decline to pre-pandemic levels. Public debt is held by a diversified set of creditors.

Figure 4. Australia: Baseline Scenario

(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public debt	50.8	51.2	51.0	50.8	50.5	49.9	49.2	48.4	47.6	46.7	45.7
Change in public debt	1.4	0.4	-0.2	-0.2	-0.3	-0.6	-0.7	-0.7	-0.8	-0.9	-1.0
Contribution of identified flows	0.7	0.4	-0.2	-0.2	-0.3	-0.6	-0.8	-0.8	-0.8	-0.9	-1.0
Primary deficit	1.5	2.0	1.4	1.0	0.9	0.7	0.5	0.5	0.4	0.3	0.2
Noninterest revenues	35.8	35.8	35.8	35.6	35.4	35.4	35.5	35.5	35.5	35.4	35.4
Noninterest expenditures	37.3	37.8	37.3	36.6	36.3	36.1	36.0	35.9	35.8	35.7	35.7
Automatic debt dynamics	0.0	-0.7	-0.7	-0.4	-0.4	-0.5	-0.4	-0.4	-0.4	-0.4	-0.4
Real interest rate and relative inflation	0.5	0.2	0.3	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Real interest rate	0.5	0.2	0.3	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
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	-0.5	-0.9	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1
Real exchange rate	0.0	...	...	...	...	...	...	...	...	...	...
Other identified flows	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
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	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
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	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	9.1	9.3	7.4	7.9	8.1	8.0	7.7	7.5	7.4	7.3	7.3
of which: debt service	8.4	8.1	6.9	7.8	8.0	8.1	8.0	7.9	7.8	7.9	7.9
Local currency	8.4	7.9	6.6	7.4	7.6	7.6	7.5	7.4	7.3	7.3	7.3
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)	1.0	1.9	2.1	2.2	2.2	2.3	2.3	2.3	2.3	2.3	2.3
Inflation (GDP deflator; percent)	2.6	2.7	2.9	2.2	2.2	2.3	2.3	2.3	2.3	2.3	2.3
Nominal GDP growth (percent)	3.7	4.7	5.1	4.5	4.5	4.6	4.6	4.6	4.6	4.6	4.6
Effective interest rate (percent)	3.6	3.1	3.6	3.7	3.7	3.7	3.7	3.8	3.8	3.8	3.7

Contribution to Change in Public Debt



Commentary: 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: Medium-Term Risk Analysis

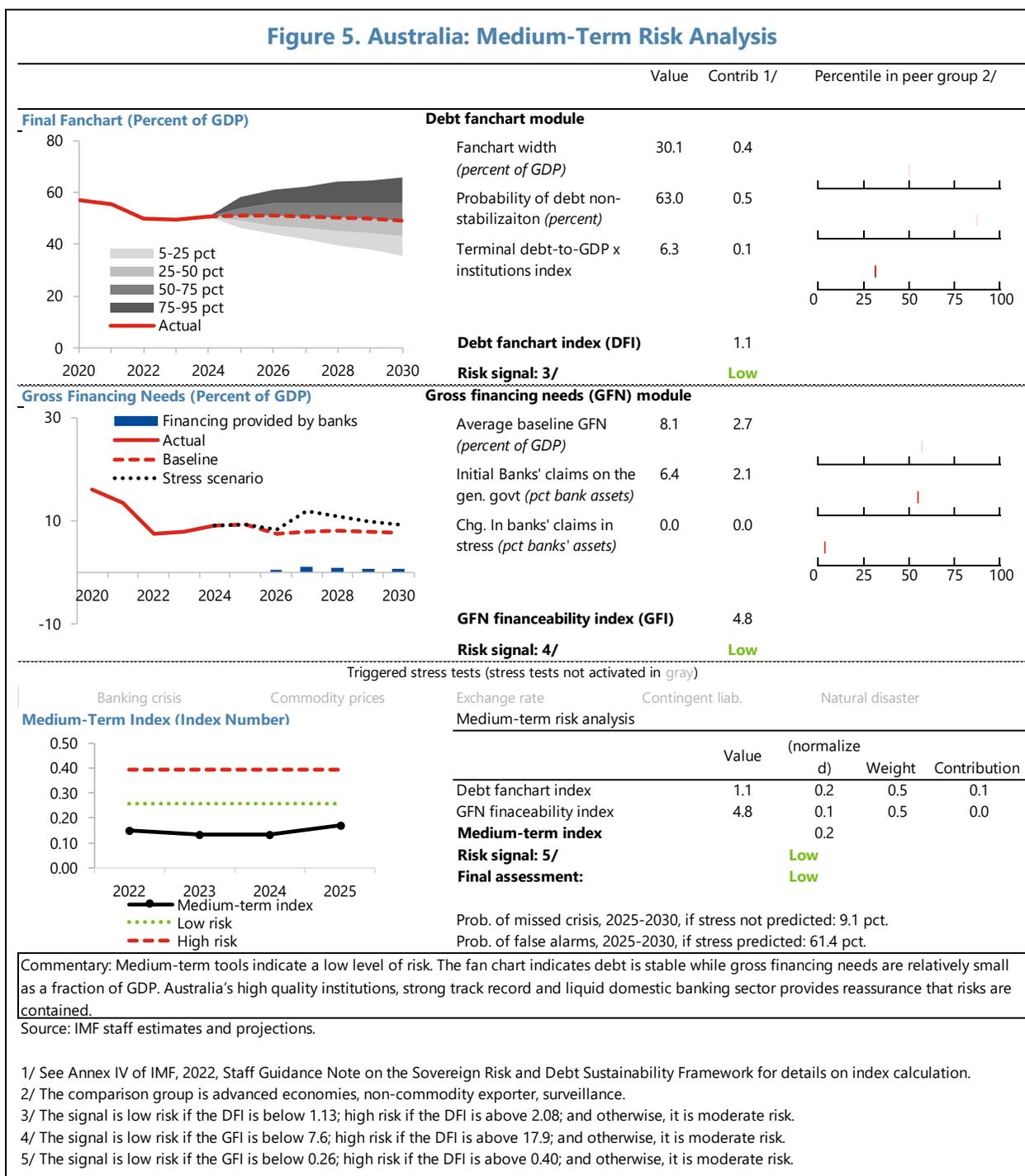
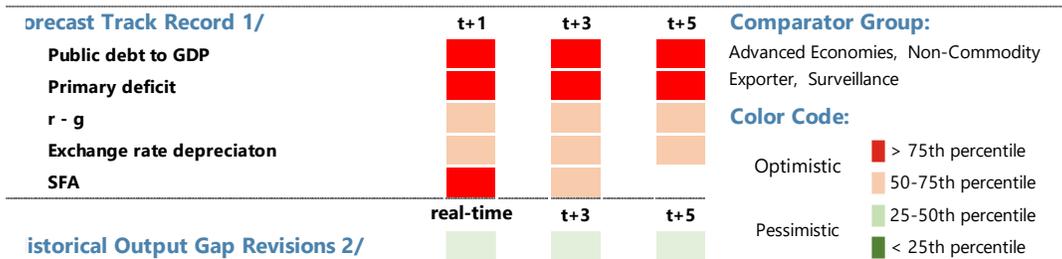
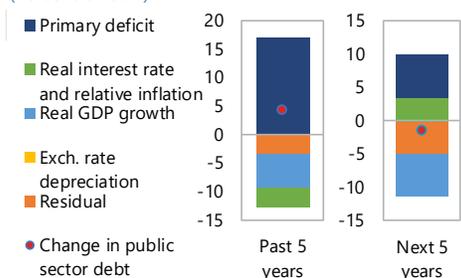


Figure 6. Australia: Realism of Baseline Assumptions

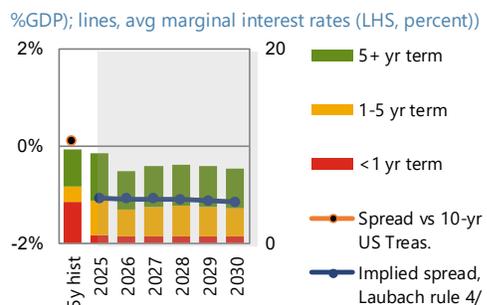


Historical Output Gap Revisions 2/

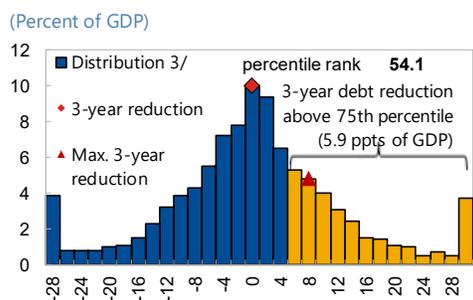
Public Debt Creating Flows



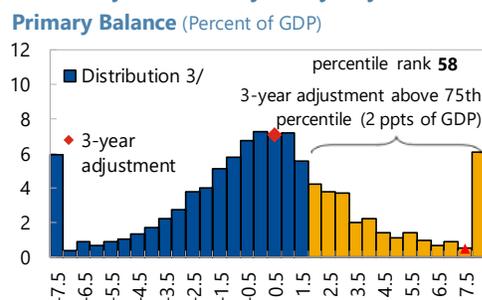
Bond Issuances (Bars, debt issuances (RHS), %GDP); lines, avg marginal interest rates (LHS, percent)



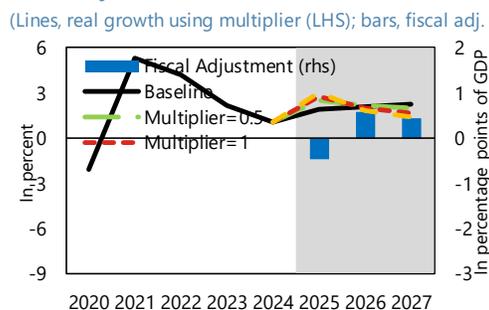
3-Year Debt Reduction



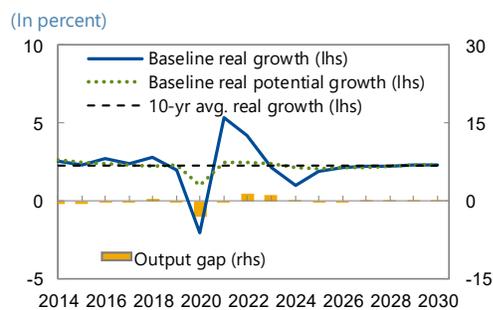
3-Year Adjustment in Cyclically-Adjusted



Fiscal Adjustment and Possible Growth Paths



Real GDP Growth



Commentary: Pandemic era spending drove an increase in debt over the past five years, but a strong revenue conditions helped reduce the overall deficit and contributed towards stable debt-to-GDP levels. Moving forward, the fiscal expansion in FY2024/25 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 observations 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.

Annex IV. External Sector Assessment

Overall Assessment: The external position in 2025 is preliminarily assessed to be moderately weaker than the level implied by medium-term fundamentals and desirable policies; the assessment is unchanged from the previous year. The CA deficit stabilized in 2025, and is forecast at 1.9 percent of GDP for the year. The decline in commodity exports in 2025 was offset by lower oil import prices, strong overseas equity income, and lower payments on equity liabilities (primarily in the mining sector). The NIIP was broadly stable in 2025, benefiting from valuation effects on overseas equity holdings. The CA deficit is expected to widen slightly as new structural policies encourage investment (see Section E), while in the long-term, the decline in commodity prices and global energy transition will weigh on commodity exports.

Potential Policy Responses: The planned gradual medium-term fiscal consolidation could contribute to containing the current account deficit. While new policies promoting investment may temporarily widen the deficit, the recently launched structural policy agenda has the potential to boost competitiveness, by incentivizing innovation, reducing barriers to labor mobility, and boosting competition; this could ultimately contribute to medium-term external rebalancing by improving export quality, reducing labor and regulatory costs, and fostering high-value industries. Industrial policies should be pursued cautiously and remain narrowly targeted to specific objectives where externalities or market failures prevent effective market solutions, and aim to minimize trade and investment distortions. The exchange rate should continue to move flexibly as the key shock absorber.

Foreign Asset and Liability Position and Trajectory	<p>Background. Australia’s NIIP is forecast at -23.5 percent of GDP at end-2025, from -23.0 percent of GDP in 2024. The NIIP remains significantly stronger than in the pre-COVID decade, when it averaged below -50 percent of GDP – the improvement in the last five years has been driven by strong revaluation effects on foreign equities, and strong commodity prices supporting CA surpluses in 2021-22. Roughly 46 percent of Australia’s gross liabilities are debt obligations, and about 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.</p> <p>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 would strengthen the external balance sheet (as occurred at the end of 2024) all else 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. Growing exposure to foreign equity markets in recent years (most notable for pension funds) may raise vulnerability to extreme global financial market volatility. 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.</p>				
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2025 (% GDP)	NIIP: -23.5	Gross Assets: 164.9	Debt Assets: 38.2	Gross Liabilities: 188.4	Debt Liabilities: 86.7
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Current Account	<p>Background. Australia’s CA balance deteriorated significantly in 2024 (to -2.2 percent of GDP, from -0.4 percent of GDP in 2023), reflecting softening demand in key trading partners and a normalization in coal and iron ore prices from elevated levels seen in the aftermath of the COVID-19 pandemic. The CA balance largely stabilized through 2025Q3, as a further decline in commodity exports and an uptick in imports reflecting stronger domestic conditions were offset by lower oil import prices, strong overseas equity income, lower payments on equity liabilities (primarily for mining companies), and stronger service exports. The merchandise trade surplus is expected to decline from 2.5 percent of GDP in 2024 to 1.9 percent of GDP in 2025, while the services deficit should narrow to 1.2 percent of GDP (from 1.4 percent of GDP in 2024). The goods trade surplus is further offset by the primary income deficit – which primarily reflects</p>				
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	<p>dividend payments on Australia's equity liabilities, especially in the mining sector – estimated at 2.6 percent of GDP for the year. While a slight recovery in commodity prices is forecast in 2026, softening in demand in key trading partners will contain export growth. An increase in import volumes as the economy recovers should be partly mitigated by soft global tradables goods price growth. New policies encouraging investment (see Section E) may temporarily shift the savings-investment balance, consistent with a slight widening of the current account deficit in the coming years. In the medium term, slowing and greening steel production, especially in China, is expected to weigh on Australia's export performance, as demand for metallurgical coal and seaborne thermal coal trade declines. Emerging trends like increased reshoring, rising global defense spending, and the data center boom should partially offset these headwinds by supporting demand for steel and Australia's rich critical mineral sector.</p> <p>Assessment. The EBA model estimates a CA norm of –0.5 percent of GDP, relative to the cyclically adjusted CA deficit of –2.5 percent of GDP; this suggests a model-based CA gap of –2.0 percent of GDP with a range of –2.5 to –1.5 percent of GDP. The fiscal position, slightly looser than optimal medium-term settings, contributes to this gap, but the gap is primarily driven by country-specific factors not included in the EBA model (the residual).</p>					
2025 (% GDP)	CA: -1.9	Cycl. Adj. CA: -2.5	EBA Norm: -0.5	EBA Gap: -2.0	Staff Adj: 0.0	Staff Gap: -2.0
Real Exchange Rate	<p>Background. The REER weakened slightly in 2025, averaging 3 percent lower through 2025Q3 than in 2024Q4. In nominal terms, Australian dollar depreciated slightly in 2025 against a basket of peer currencies, also averaging around 3 percent below 2024Q4 levels. However, the AUD has appreciated against the USD over the course of the year, reflecting weakness in the latter. The movements in the Australian dollar likely reflect changing interest rate differentials as the RBA reduced interest rates, as well as commodity price movements.</p> <p>Assessment. The IMF staff-assessed CA gap implies a REER gap of 11.1 percent (applying an elasticity of 0.18). The EBA REER level model points to an overvaluation of 13.9 percent, while the index model points to an undervaluation of 3.2 percent. Consistent with the CA gap, staff assess the REER gap to be in a range of 8.3 to 13.9 percent, with a midpoint of 11.1 percent.</p>					
Capital and Financial Accounts: Flows and Policy Measures	<p>Background. The financial account recorded net inflows in 2025, driven by net inflows in portfolio investment and direct investment, which more than offset the outflows in financial derivatives. Net inflows in portfolio investment were driven by debt inflows, while equity flows remained negative in net terms.</p> <p>Assessment. Vulnerabilities related to the financial account remain contained, supported by a credible commitment to a floating exchange rate.</p>					
FX Intervention and Reserves Level	<p>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 increased to \$107 billion by 2025Q3, from \$102 billion at the end of 2024.</p> <p>Assessment. The authorities are strongly committed to a floating exchange rate 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.</p>					

Annex V. Risk Assessment Matrix¹

Source of Risk	Likelihood	Expected Impact	Policy Recommendations
Global Conjunctural Risks			
Escalating Trade Measures and Prolonged Uncertainty. Rising trade barriers and prolonged policy uncertainty could reduce trade, investment, and growth. Inflationary pressures may re-emerge—especially in countries imposing tariffs. These effects can be amplified by strategic complementarities or bottlenecks in global value chains or inventory overhang.	High	Moderate. While unlikely to be directly exposed to trade barriers, given strong integration in regional and global trade networks, Australia’s economic growth would be negatively impacted by weaker global demand. Prolonged uncertainty could weigh on domestic sentiment, and in turn investment and consumption.	Continue to support a rules-based multilateral trading system and deepen international and regional economic cooperation.
Commodity Price Volatility. Shifts in supply and demand—driven by geopolitical tensions and conflicts, OPEC+ actions, or the green transition—may fuel commodity price swings, intensifying external and fiscal pressures, social unrest, and macroeconomic instability.	High	Moderate. A significant decline in commodity prices would generate fiscal and external pressures for Australia. The former would be partly alleviated due to conservative assumptions about energy prices in the budget, while the latter would be alleviated by to the structure of Australia’s external balance sheet, which limits risks as the exchange rate adjusts to terms of trade shocks. Commodity price volatility may affect incentives for investment and ultimately hinder growth.	The exchange rate would appropriately serve as key adjustor in response to external/terms of trade shocks. Continued efforts to build fiscal buffers and to monitor the external balance sheet closely, especially as current account deficits widen, would be beneficial. Continuing to broaden the tax base can help mitigate revenue risks, while the reintroduction of a comprehensive resource revenue tax would ensure the resource sector contributes it’s share to building fiscal buffers.
Financial Market Volatility and Correction. Stretched asset valuations, easy financial conditions, and subdued volatility in key markets could be significantly affected by a sudden and disruptive shift in investor sentiment or policy stance,	High	Moderate. While Australia’s financial sector has proved to be resilient, global financial turmoil could potentially spill over to Australia, through tighter financial conditions, a general loss of confidence, and/or direct valuation effects on overseas investments of	Continue to monitor banks and NBFIs’ 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

¹ G-RAM as of August 2025. The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff’s subjective assessment of the risks surrounding the baseline (“low” is meant to indicate a probability below 10 percent, “medium” a probability between 10 and 30 percent, and “high” a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 and 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Source of Risk	Likelihood	Expected Impact	Policy Recommendations
triggering market corrections, exchange rate turbulence, spikes in sovereign bond yields, and capital flow volatility. Elevated leverage among Non-Bank Financial Intermediaries further amplifies these risks, as forced deleveraging during periods of stress could exacerbate asset price swings and propagate shocks. Rapid growth of unregulated crypto markets could add to these vulnerabilities by increasing the risk of redemption runs and market dislocations.		Australian investors (including superannuation funds).	remain agile and adapt to evolving risks and vulnerabilities
Geopolitical Tensions. Intensification of conflicts, coupled with the weakening of multilateralism, may trigger commodity price volatility, increase migration pressures, reignite inflation, and weigh on growth by undermining confidence, investment, tourism, trade, and supply chains.	High	Low: Conflict-related growth slowdown in key trading partners and weaker multilateralism could affect Australia’s exports, damage business confidence, and increase financial market volatility.	Provide targeted fiscal support to vulnerable households. Monetary policy should continue to carefully weigh the outlook for inflation and unemployment — reducing rates below natural temporarily may be appropriate if the economy weakens significantly and price pressures are contained.
New Trade Agreements. A breakthrough in trade talks could reduce uncertainty and protectionism, boost investment and productivity, and support broader reforms to lift medium-term growth.	Low	Moderate. Strengthening trade integration and opening new markets to Australia’s exports could bring growth benefits to Australia.	Continue to pursue bilateral and multilateral agreements to open new markets to Australia’s exports, and deepen international and regional economic cooperation.
Global Structural Risks			
Climate Change. Extreme climate events and rising temperatures could cause loss of life, damage to infrastructure, food insecurity, supply disruptions, and heighten economic and financial instability.	Medium	High/Moderate. 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. A comprehensive resource revenue tax could help build fiscal buffers. 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, technical failures, or misuse of AI	High	Moderate. Cyberattacks on critical physical or digital infrastructure	Preventative investment in strengthening defenses and infrastructure to prevent cyberattacks. In case of financial

Source of Risk	Likelihood	Expected Impact	Policy Recommendations
technologies could trigger financial and economic instability.		could trigger financial instability and disrupt economic activities.	market disruptions, mechanisms that provide timely liquidity support should be in place.
Domestic Risks			
A slower than expected recovery in private demand. Private demand fails to recover, as uncertainty and elevated interest costs on existing debt leads households to keep savings rates elevated and businesses to delay investment.	Medium	Moderate. Economic growth slows, with a negative output gap opening. Facing slowing demand, some businesses scale back investment and reduce labor demand, accelerating the cool-down in labor markets.	Monetary policy should continue to carefully weigh the outlook for inflation and unemployment — reducing rates below neutral temporarily may be appropriate, if price pressures are contained. Automatic stabilizers inherent in the social safety net are well placed to ensure fiscal policy remains counter-cyclical and supportive of demand.
Persistent labor market tightness generating inflationary pressures as private demand recovers. Labor market conditions prove to be tighter than currently assessed. On the back of monetary easing, labor demand picks up further as private demand recovers, while labor supply (participation) softens towards pre-pandemic levels as household disposable income continues to rise.	Medium	Moderate. Increasing labor market tightness puts upward pressure on wages, derailing efforts to bring inflation toward the midpoint of the target band.	Monetary policy should continue to carefully weigh the outlook for inflation and unemployment — potentially slowing or reversing the pace of easing, and keeping rate above neutral if price pressures persist.
Faster-than-expected growth in house prices. Monetary easing and supply constraints may lead to a rapid pick-up in the growth of house prices and further deterioration in affordability. Fast price increases may decouple from fundamentals and generate a housing market bubble, and risk leading to a sharp correction.	Medium	Moderate. An accelerated housing affordability crisis, increasing inequality and social tensions. Build-up of financial stability risks on bank balance sheets. A significant correction in prices would adversely affect household wealth and consumption and cause significant financial sector stress.	Closely monitor the buildup of risks in the housing sector and household balance sheets. Continue to rely on adjusting macroprudential settings to address financial stability risks.

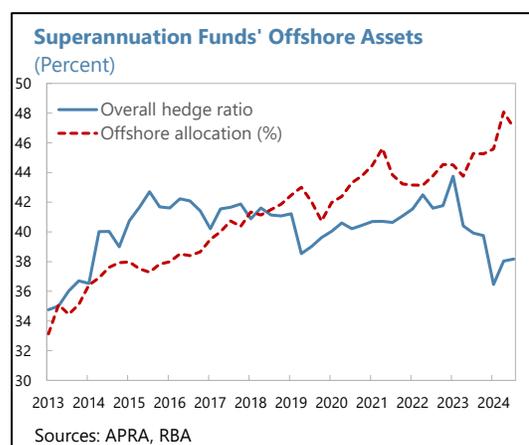
Annex VI. The Role of Superannuation Funds in Australia's Economic and Financial Ecosystem¹

This annex explores the vital role of Australia's superannuation funds, which manage approximately AU\$4.3 trillion in assets—about 160 percent of GDP—in June 2025. These funds help alleviate fiscal pressures from publicly funded old-age pension spending as the population ages while maintaining a diversified investment portfolio, including significant overseas allocations. The effectiveness of foreign exchange (FX) hedging strategies allows superannuation funds to mitigate risks associated with currency fluctuations; however, their interconnectedness with domestic banks raises concerns about systemic risks during extreme market conditions. Additionally, the annex highlights the potential of superannuation funds to bolster economic growth through channeling savings toward investments in productivity-enhancing sectors, emphasizing the need to balance fiduciary duties with profitable investment strategies.

1. Australia's superannuation funds are substantial and systemic. As of June 2025, the superannuation sector manages approximately AU\$4.3 trillion in assets, accounting for roughly 160 percent of GDP and representing a quarter of the total financial system assets. In comparison, the banking sector has total assets of AU\$6 trillion, which is about 240 percent of GDP. Since the early 1990s, assets have experienced significant growth, driven by favorable membership demographics, a gradual increase in the superannuation guarantee rate (i.e., minimum compulsory contribution by employers; from 3 in 1992 to 12 percent in 2025), and robust investment performance.

2. Superannuation funds maintain a diversified investment portfolio, which includes a significant allocation to overseas assets. This substantial pool of domestic capital represents

Australian households' second largest asset class, following housing. Their domestic investments encompass bank equities and debts, as well as a notable share of illiquid assets such as real estate and infrastructure, reflecting the long-term nature of their liabilities (primarily accrued benefit payments to members). Given the sector's considerable size relative to the economy, a significant and growing portion of superannuation funds' assets is allocated internationally, with approximately two-thirds invested in equities. This expansion of offshore assets has strengthened their influence on capital flows and the balance of payments.² Returns on these international investments contribute positively to the current account in the form of primary income and serve as a crucial hedge against BoP risks arising



¹ Prepared by Mike Li.

² More details in RBA Assistant Governor Christopher Kent's 2025 speech on "Australia's External Position and the Evolution of the FX Markets".

from declining commodity prices. The substantial investment in overseas equities also exposes superannuation funds to potential fluctuations in valuation. It is estimated that Australia's institutionally managed retirement savings accounts lost approximately \$170 billion in local and global equities investments during the sharp decline in risky asset prices between February and April 2025.

3. A certain portion of superannuation funds' offshore assets is hedged using foreign exchange (FX) swaps to mitigate associated FX risks. However, this arrangement carries inherent risks; during a sharp depreciation in the Australian dollar, superannuation funds may struggle to meet margin payments on FX swaps.³ This scenario can expose domestic banks to counterparty risks, and if superannuation funds are forced to sell their holdings of domestic financial assets to raise liquidity, it could risk disrupting market functioning. That said, super funds' FX margin calls resulted from the sharp depreciation of the Australian dollar during the COVID-19 pandemic were met through a combination of ongoing net contribution inflows and the sale of overseas assets without disruption to the domestic financial system. An additional layer of protection against the risks related to these potential margin calls is the offset provided by valuation gains on their overseas investments resulting from currency depreciation. Super funds are also managing liquidity risks associated with FX hedging by spreading their maturities over time.

4. Indeed, Australian superannuation funds' ability to manage liquidity pressures is a key focus of financial regulators. These funds are primarily structured as defined contribution plans, where investment gains and losses are passed directly through to fund members. In addition, these super funds maintain substantial liquidity buffers, including through cash holdings, and are restricted from taking on leverage, which contributes to their overall soundness. The tightening of investment governance standards by APRA in early 2023 has further enhanced the rigor of stress testing, asset valuations, and liquidity risk management. However, the sheer size of the sector (as noted in the April 2025 Financial Stability Review) and the strong connections between superannuation funds and domestic banks—through their holdings of bank equity and debt—could potentially amplify stresses in the financial system under extreme circumstances. This is especially true if the sector faces sudden and significant liquidity drains.⁴ This concern is a key focus for financial regulators, including the ongoing system-wide stress test by APRA. The experience during the COVID-19 pandemic offers some reassurance, where super funds weathered well the liquidity pressures prompted by temporary measures that allowed for early withdrawals and switching from higher-risk investments to cash by members.⁵

³ Per the RBA's October 2025 Financial Stability Review, most hedges contracted by super funds do not require margin payments.

⁴ Super funds are not eligible to access RBA's liquidity facilities unless they were already counterparties prior to September 23, 2019.

⁵ The resilience of the sector was also supported by interventions in the government bond and repo markets by the RBA, including through its asset purchases and liquidity injections that helped restore orderly market functioning and thereby facilitate super funds' ability to meet member demands without triggering fire-sale dynamics.

5. Superannuation funds help alleviate pressures on the federal budget. They mitigate fiscal pressures associated with age pension spending and other forms of social security, which are expected to increase as the population ages. Consequently, Australia stands out as one of the few countries in the OECD projected not to experience higher pension expenditures in the coming decades due to an aging population. However, revenue forgone from superannuation tax concessions (measure against a comprehensive income tax settings benchmark) is large and is anticipated to rise in the future. In this regard, the government has proposed modifying the concessional tax treatment of large superannuation balances.

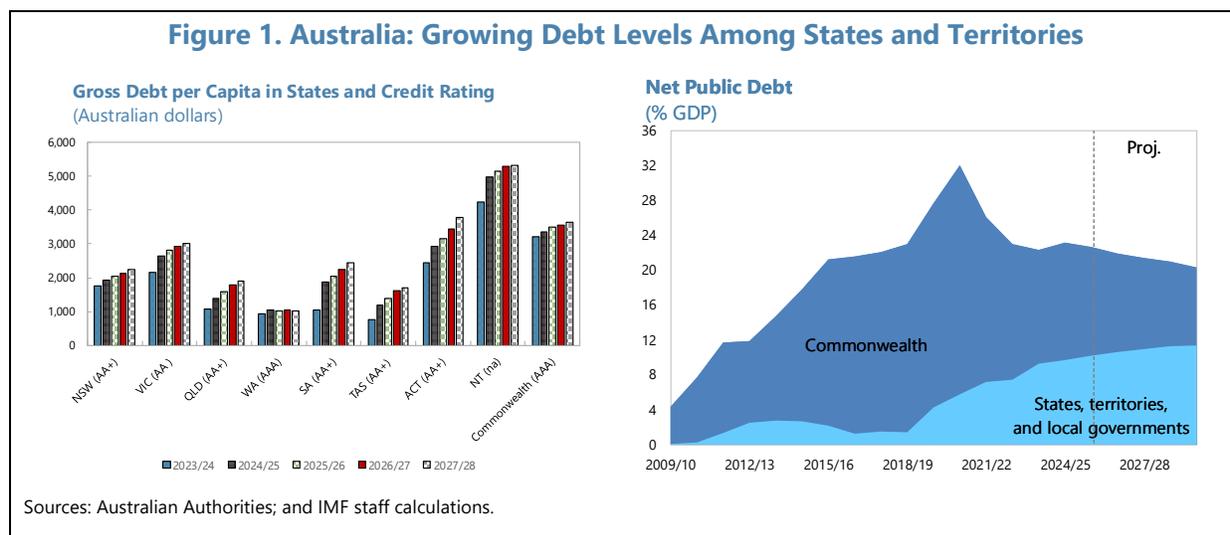
6. Superannuation funds have the potential to significantly bolster the Australian economy through their substantial financial resources. The increase in the compulsory contribution rate has resulted in higher savings, which in turn leads to greater investment and a reduced current account deficit, thereby lessening reliance on foreign capital. There is potential to leverage superannuation funds' substantial financial resources to support investments that enhance productivity and mitigate the impacts of an aging population, particularly in areas such as infrastructure, housing, and energy transition. However, these investments must meet the superannuation trustee's fiduciary duty to act in the best financial interests of their members (*Superannuation Industry (Supervision) Act 1993*).

Annex VII. Lessons from Commonwealth and Sub-National Fiscal Strategies¹

This annex analyzes the fiscal strategies implemented at both the Commonwealth and sub-national levels in Australia, emphasizing the differing approaches and outcomes that have arisen following recent economic shocks and structural challenges. It argues for the necessity of across-federation fiscal coordination in light of new spending commitments. Additionally, the annex explores options for enhancing oversight of sub-national fiscal targets as well as opportunities for peer learning across the federation.

Divergent Fiscal Outcomes Across States and Commonwealth

1. The Commonwealth government has rebuilt fiscal buffers, while consolidation at the sub-national level has been postponed, shifting the composition of general government debt. The Commonwealth recorded two successive budget surpluses in FY2022/23 and FY2023/24 and repeatedly outperformed their budget estimates. By contrast, states and territories (hereafter “states”) budget repair has lagged resulting in growing debt levels. Since 2016/17, state governments’ net debt-to-GDP ratio has increased 7.5 times from a low base of 1.3 percent. All states except Western Australia are forecast to see rising debt per capita levels with both the ACT and the Northern Territory expected to overtake the Commonwealth on this metric by 2029.

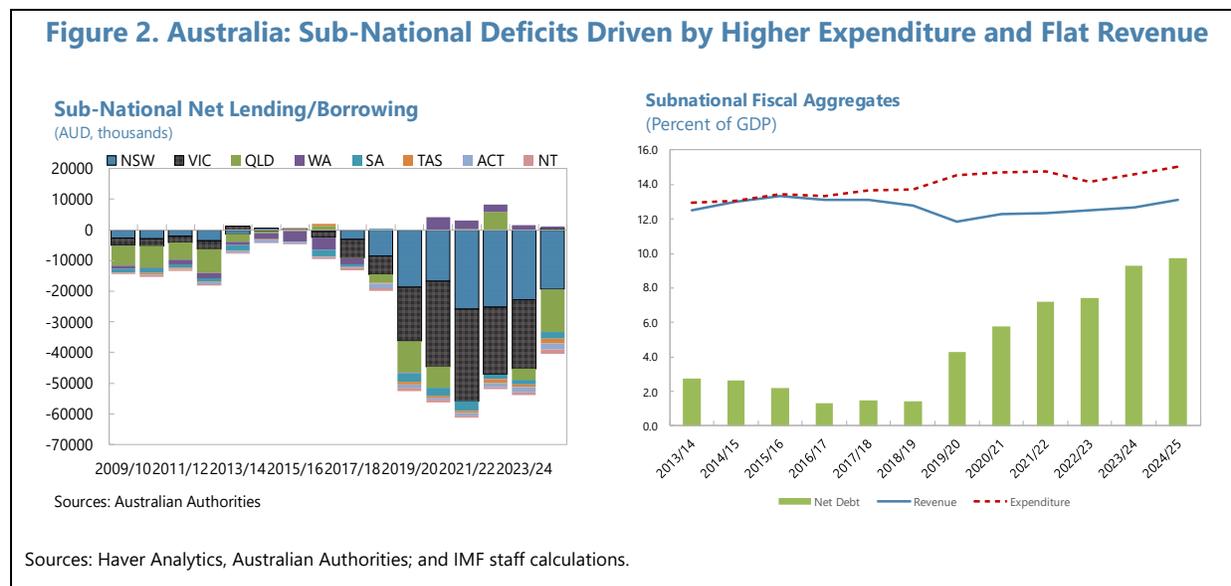


2. Divergence in fiscal outcomes was partly due to cyclical economic conditions. Commonwealth revenue outcomes surprised on the upside relative to Treasury forecasts between 2018 and 2025. In particular, the Commonwealth benefited from strong revenue growth in corporate taxation due to high commodity prices and due to strong labor tax receipts driven by the resilience of the labor market and bracket creep. Similarly, resource rich states registered growing

¹ Prepared by John Spray.

royalty revenues. On the other hand, states with a heavy reliance on payroll taxes, stamp duty, and land taxes saw slower revenue growth over recent years. Similarly, the pandemic hit NSW and Victoria fiscal positions particularly hard (due to stricter lockdowns) causing higher expenditures, lower revenues and slower growth.

Figure 2. Australia: Sub-National Deficits Driven by Higher Expenditure and Flat Revenue



3. New spending mandates have raised expenditures without matching revenue increases. Infrastructure spending has surged, funded by both states and the Commonwealth, to support productivity, connectivity, and the energy transition, but at a significant fiscal cost. This has been exacerbated by high construction demand across Australia causing cost overruns. Health expenditure also grew during the pandemic and remains high, while cost-of-living support was expanded at both the state and Commonwealth level during the economic slowdown, including subsidies for transport, energy, and housing. Some of this spending has been reversed, but significant amounts remain persistent. Despite favorable conditions, overall revenue growth lags behind spending. Nevertheless, major sub-national tax reform has been absent in recent years, even as spending pressures mount.

Compliance with Fiscal Strategies

4. The Commonwealth’s principle-based fiscal strategy is ideally suited to rebuild fiscal buffers during favorable revenue conditions, though it has trade-offs. The Commonwealth’s budget processes include a focus on economic principles rather than strict quantitative targets, conservative commodity revenue forecasts, and long-term planning through the Intergenerational Report. The Charter of Budget Honesty Act 1998 established a legislative framework for managing and reporting fiscal policy by mandating that the fiscal strategy adhere to sound fiscal management principles and promoting transparency through public scrutiny of fiscal policy and outcomes. Since 1998, each budget update has outlined key components of the government’s fiscal strategy, guiding how fiscal policy should be developed. Over recent years, this approach provided the government

sufficient structure to bank the vast majority of revenue gains that occurred due to the favorable revenue conditions. At the same time, the strategy was flexible enough to avoid pro-cyclical tightening and to allow the government to support vulnerable households. On the other hand, the lack of rigidity in the current approach could allow for structural deficits to become embedded into the medium to long-term.

5. States have adopted a much wider range of fiscal strategies but compliance with fiscal targets and rules has recently proven challenging. Australia's federal fiscal architecture is rooted in the Commonwealth of Australia Constitution Act 1900, which delineates the division of powers between the Commonwealth and the states including in relation to taxation, expenditure, and conditional grants. States possess a large degree of fiscal autonomy, including the powers to borrow, levy taxes, manage their budgets, and determine fiscal strategies. There are limits on which taxes can be levied by states including Constitutional limits for some taxes such as customs, and excise. By contrast, other taxes are imposed solely by the Commonwealth as a result of historical precedent. Partly stemming from constitutional limitations, the states entered into an agreement with the Commonwealth Government under which the Commonwealth would impose and collect GST on their behalf and distribute all revenue back to them. Under the current agreement, changes to the GST rate or base require the unanimous agreement of Commonwealth and state and territory governments. Fiscal strategies are largely outlined as part of each state's budget cycle, and receive sign off from state legislatures, but specific procedures vary from state to state. All states have a budget balance target and most have debt and expenditure targets (see table 1). Three examples show these rules are under strain, and in some cases quickly reversed, raising credibility concerns:

- **Northern Territory (NT).** In 2025, the NT government scrapped the AU\$15 billion debt ceiling which had been legislated in 2021 following a recommendation made in the 2018 Budget Repair Report. The ceiling was removed following NT treasury projections indicating the ceiling would be breached in the 2028-29 financial year. The NT has the highest net debt per capita.
- **Tasmania (Tas).** In 2023/24, the Tas government committed to 11 strategic actions and targets to be met by 2032/33 including debt targets, fiscal balance target, revenue target, expenditure target and a target for credit ratio. Although these targets are comprehensive, meeting them will prove very challenging. For instance, on the government's own forecasts, gross debt per capita is on clear upward trajectory and is forecast to exceed the 2032/33 target every year over the forecast horizon.
- **Queensland (QLD).** The QLD government revised up forecast debt from AU\$176 billion to AU\$218 billion in 2027/28 blaming unbudgeted expenditure under the previous government. In a statement, the new QLD Treasurer stated that "debt per capita is tracking to be the worst in the country" and that a rating downgrade was "highly likely".

6. Oversight of fiscal strategies is conducted by a variety of entities. Australia's Parliamentary Budget Office (PBO) provides some oversight on the budget process by conducting regular analysis of long-term fiscal sustainability and through releasing the National Fiscal Outlook which aggregates state and Commonwealth budgets each year. In addition to the PBO, the

Commonwealth Treasury publishes regular forecast errors as part of the budget process generating clear and transparent accountability on their assumptions and accuracy. Oversight of state rules is undertaken by state treasuries and some state fiscal councils (NSW, VCT). The Uniform Presentation Framework (UPF) ensures that Commonwealth, state and territory governments provide a common core of financial information in their budget papers by mandating a common set of reporting requirements. This greatly helps oversight and transparency, although some data (notably reporting on net debt) varies across institutions.

7. Incentives to comply with fiscal rules come from the market. The Commonwealth has maintained AAA credit ratings from Standard & Poor's (S&P), Moody's, and Fitch since 2003, 2002, and 2011, respectively. While the overall outlook remains stable, recent reports have raised concerns regarding rising spending, structural deficits, and increasing state debt. Although the Commonwealth does not formally guarantee state debt, S&P has indicated that they expect the federal government would support states in a severe stress scenario, which markets

	Moody's	S&P	Fitch
Australia (AUS) - national level	Aaa (Stable)	AAA (Stable)	AAA (Stable)
Australian Capital Territory (ACT)	na	AA (Stable)	na
New South Wales (NSW)	Aaa (Stable)	AA+ (Negative)	AAA(Stable)
Northern Territory (NT)	Aa3 (Stable)	na	na
Queensland (QLD)	AA1 (Stable)	AA+ (Negative)	AA+ (Stable)
South Australia (SA)	AA1 (Stable)	AA+ (Stable)	AA+ (Stable)
Tasmania (TAS)	AA2 (Negative)	AA+ (Negative)	na
Victoria (VCT)	Aa2 (Stable)	AA (Stable)	AA+ (Stable)
Western Australia (WA)	Aaa (Stable)	AAA (Stable)	na

Sources: S&P, Fitch, and Moody's as of October 15, 2025

may interpret as an implicit guarantee.² Growing spending commitments without equivalent revenue reforms has led credit rating agencies to distinguish risk profiles across states with only two receiving a AAA rating³ and five ratings downgrades in the last 5 years. Furthermore, S&P has assigned negative outlooks to three of the six states they review, noting that, although overall credit quality is stabilizing, the fiscal divergence between mineral-rich and populous southeastern states is widening.⁴ Concerns over potential credit rating downgrades have prompted some states to enhance their fiscal discipline. For example, TAS and NT have incorporated credit rating agency targets into their fiscal strategies over the past 6 years.⁵

Conclusions

8. In the context of new spending commitments, there is a renewed need for a nationwide conversation on fiscal coordination.

² The Commonwealth introduced a time-limited and opt-in guarantee of state debt in the period of market volatility in 2009.

³ NSW has two AAA and one AA+, while WA has AAA from all three agencies.

⁴ [Subnational Debt 2024 | Focus on debt sustainability](#)

⁵ The NT lowered their credit rating target from aa2 to aa3 in its 2025-26 budget.

- Best practice would see sub-nationals set fiscal objectives transparently in coordination with central government to reach the nationwide objectives of fiscal sustainability.⁶ The Council on Federal Financial Relations (CFFR) is an appropriate venue for these discussions. While the individual characteristics of each state means that one size does not fit all, and each type of fiscal rule comes with trade-offs,⁷ the Commonwealth could introduce stronger guidance on state finances and borrowing. States can learn key lessons from the success of the Commonwealth approach including a focus on transparency of fiscal positions, independent oversight, strong budget process and execution.
- There is scope for a review of spending and revenue policies across the federation. On the revenue side, areas of discussion could include fiscal equalization, GST reform, and land tax. For instance, a GST increase could be partnered with reduction in inefficient state taxes such as fees and stamp duty. On the expenditure side, continued focus on overcoming coordination issues on infrastructure could help address cost overruns.

9. There is scope for greater oversight to enhance accountability.

- The mandate of the Parliamentary Budget Office could be expanded to include analysis of subnational fiscal positions and monitoring of a broader range of indicators at a higher frequency, such as debt levels, cost of servicing debt, estimates of structural deficits, interest burdens, and vertical imbalances.⁸ Likewise, a stronger network could be forged between the PBO and state fiscal councils.
- Enhanced transparency and monitoring could be done by the Commonwealth of the state's fiscal positions, both in aggregate and for individual states. This could be presented in the Budget documentation (potentially within the fiscal risks statement).

10. Should states continue to miss targets, the Commonwealth could adopt a risk-based monitoring framework. States with rising debt and deficits could be subject to enhanced scrutiny and oversight, under an integrated framework for evenhandedness, and supported by corrective mechanisms if no improvement is observed.

⁶ Spain and Germany are both good examples of countries with significant sub-national fiscal autonomy and a clear nationwide coordinated approach.

⁷ For discussion of trade-offs in fiscal rules see Hodge, A., Ralyea, J., and J. Reynaud. 2020. "How to design subnational fiscal rules: a primer," IMF How To Note 2020/001.

⁸ The PBO currently publishes the National Fiscal Outlook on an annual basis, which provides summary information on key fiscal metrics across the states.

Table 1. Australia: State Fiscal Targets – 2025/26 State Budgets

State			
	Budget balance	Debt	Expenditure/Other
NSW	Return to a 'sustainable' operating position.	Stabilize and maintain a 'sustainable' debt position. Maintain triple-A credit rating (FRA).	Average expenses growth < long term average revenue growth of 5.6 percent (FRA). Eliminate state unfunded superannuation liabilities by 2030 (FRA).
VCT	Return to an operating surplus (both cash and accrual).	Stabilize and reduce net debt as % of GSP.	-
QLD	Fund capital expenditure primarily from net cash inflows in medium term.	Stabilize net debt to revenue ratio at a 'sustainable level' medium-term and reduce long-term.	Average annual expenses growth < average annual revenue growth in medium term.
WA	Maintain a GGS operating surplus in each year.	-	Keep public sector wages and agency expenditure within agreed limits.
SA	Achieve a GGS operating surplus in each year	Maintain a 'sustainable' level of net debt over the forwards.	Average expenditure growth < trend household income growth (4 per cent pa).
TAS*	Maintain a balanced fiscal position over a rolling 4-year average.	Maintain credit ratings of AA+ and Aa2. Net debt (% GSP) < 10% Gross Debt (per capita) <\$20 000 Debt cost (% of cash receipts) < 6%	GGS own-source revenue (% of expenditure) > 37% (10-year average). Annual infrastructure investment > depreciation.
ACT	Return to an operating cash and headline net operating surplus over the forward estimates.	Ensure a 'sustainable' level of net debt over time	-
NT	Maintain a GGS net operating surplus (excluding capital grants) in each year.	Maintain a credit rating of Aa3 (stable) or better. NFPS net debt to revenue ratio to be equal or lower than state average in each year.	NFPS interest expenses as a share of revenue to be equal or lower than state average in each year.

Source: States and Territories Budget Documents

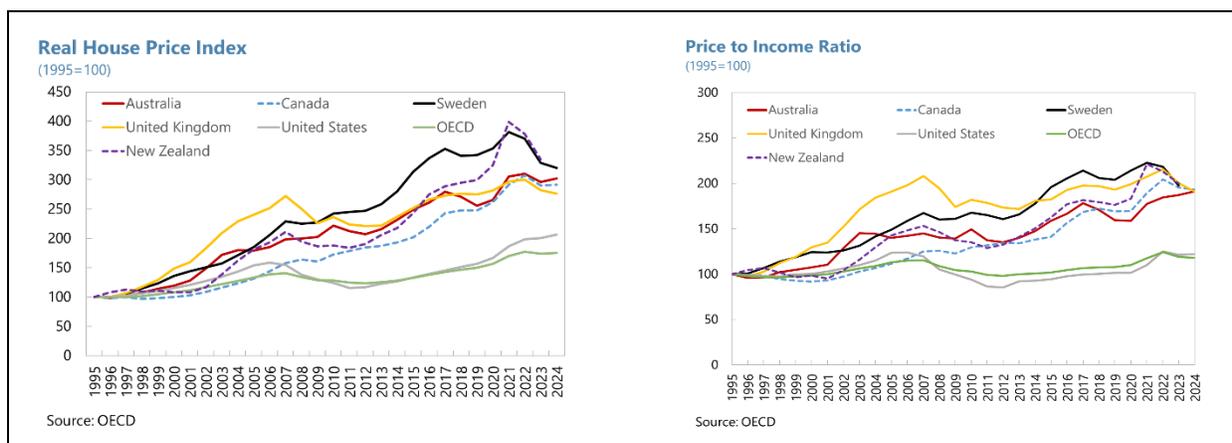
* At the time of compilation, the 2025-26 Tasmanian budget had not been released, targets are from the 2024-25 Tasmanian Revised Estimates Report.

FRA refers to the NSW *Fiscal Responsibility Act 2012*.

Annex VIII. Cross-Country Insights into Housing Market Developments¹

Australia’s real house prices have risen sharply since the 2000s, outpacing income growth and driving affordability challenges. Key drivers include mortgage rates, supply constraints, and demographic changes, with variable-rate mortgages amplifying price sensitivity to monetary policy. Based on staff’s cross-country analysis, addressing the chronic demand-supply imbalance in the housing sector would require a comprehensive strategy encompassing expanding supply, improving market flexibility, and monitoring financial risks.

1. Real house prices in Australia have steadily increased since the 2000s. Although several other OECD countries have experienced similar or even greater absolute growth during this period, the pace of price increases in Australia has far exceeded the growth of real incomes. This disparity has driven the house price-to-income ratio to a historic peak in 2024, contributing to making Australia’s housing market one of the least affordable in the OECD.



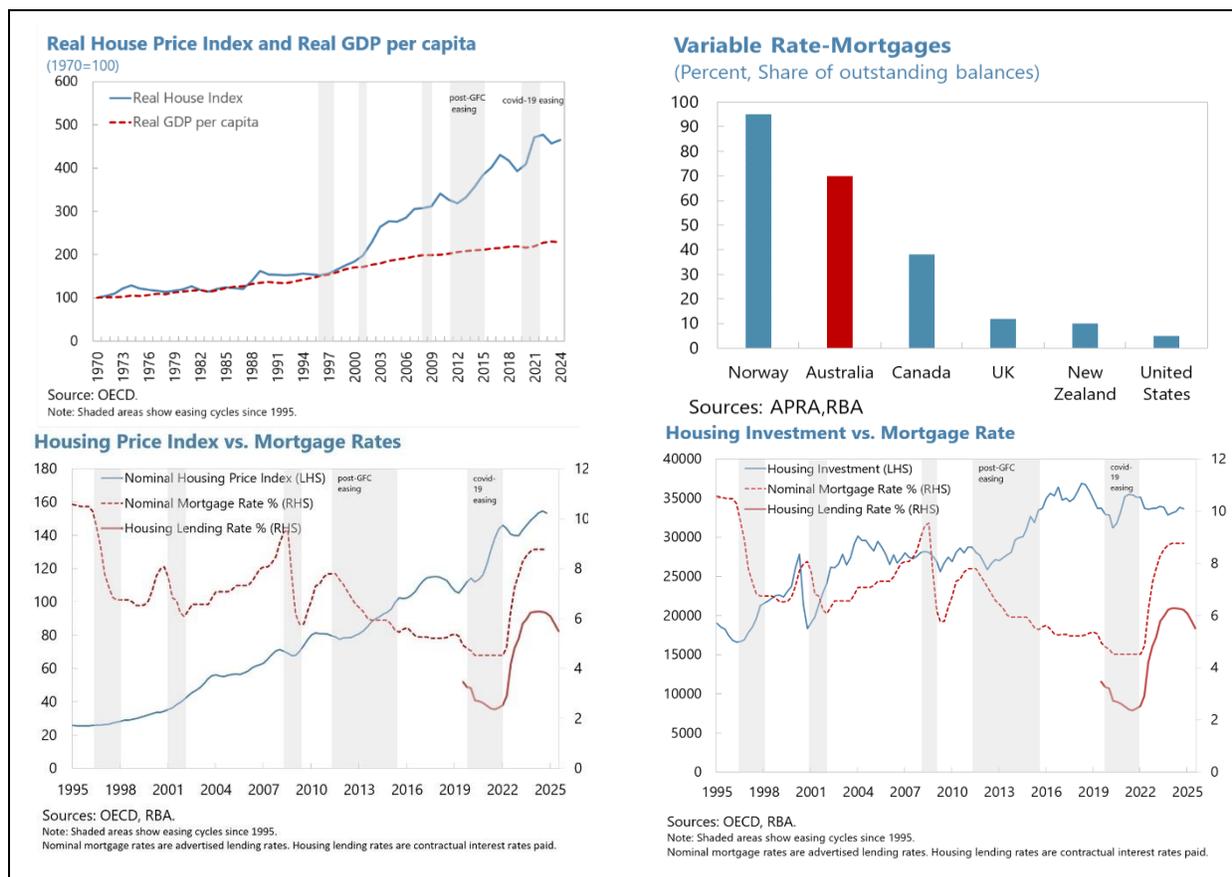
2. Drivers behind housing price trends and dynamics have been extensively studied from both Australian and international perspectives. Research highlights the influence of aggregate demand, household formation, immigration, and subsidies. International comparisons further illuminate how local conditions, regulatory frameworks, and institutional settings shape housing markets. A staff update of the model in Geng (2018)², which analyzes long-run house price trends across OECD countries through a cross-country panel study, to include more recent periods, confirms disposable income, interest rates, demographics, new supply, and government policies as key drivers of housing prices (Table 1).

3. The finding that mortgage rates are a key driver for housing prices aligns with Australia’s experience. Housing prices in Australia have shown a strong response to past monetary

¹ Prepared by Sophia Zhang, Mike Li, Samikshya Siwakoti, and Dan Zheng.

² Geng N. 2018. Fundamental Drivers of House Prices in Advanced Economies, IMF Working Papers 2018/164, International Monetary Fund.

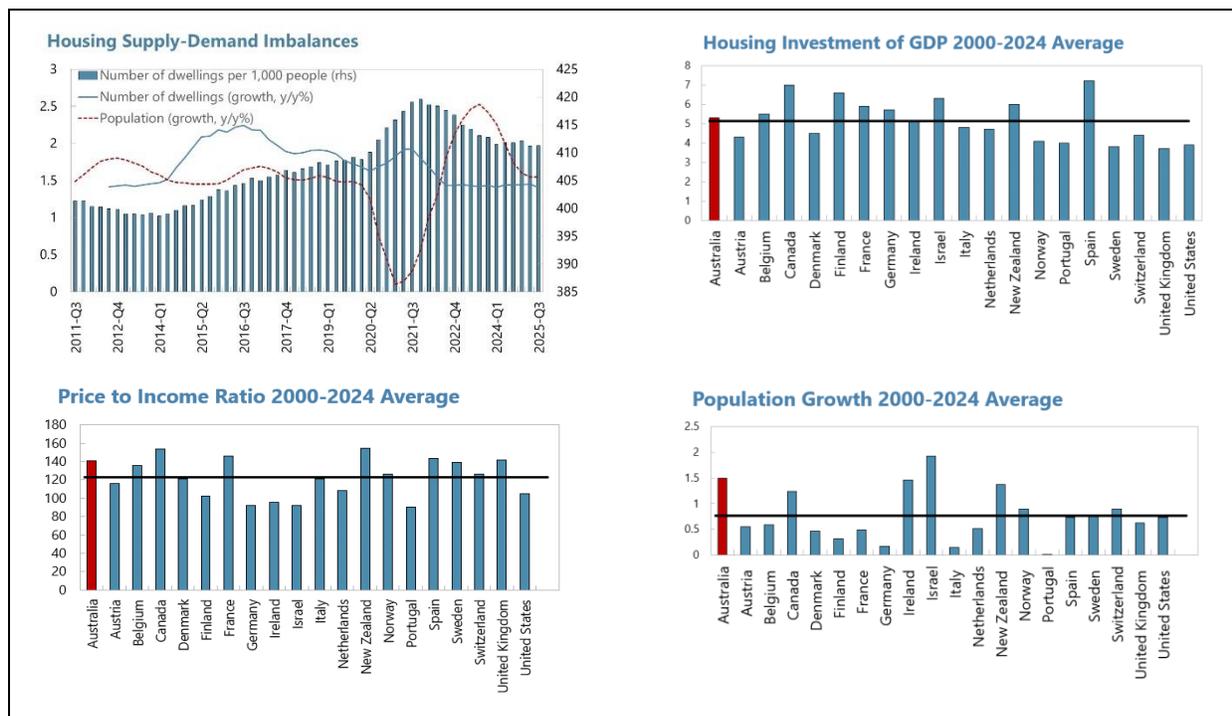
policy easing cycles during the post-GFC period and the COVID-19 pandemic. This sensitivity is amplified by the high proportion of variable-rate mortgages, which allows changes in the official cash rate (OCR) to be transmitted to mortgage rates more quickly than in most other OECD countries. Staff’s cross-country analysis also highlights that government policy interventions aimed at improving housing affordability (for example, by reducing the costs of buying, owning, or renting a home) can have potential price effects by shifting the balance between housing demand and supply.³ In Australia’s context during the current monetary policy easing cycle, such price effects are expected to be at least partially offset by an increase in housing supply in response to lower interest rates, similar to the trend observed during the post-GFC period. In other words, without the supply response (affected by construction capacity constraints), the price effects would likely have been larger.



4. The confirmation of supply as a key driver also has important implications for Australia. Australia’s population growth has been among the fastest in the OECD and well above the average. Combined with the downtrend in average household size, this has generated robust growth in fundamental housing demand. However, housing investment has not always kept pace

³ The cross-country regression captures both demand and supply side policy measures covered under OCED Affordable Housing Database’s “Public Spending on Housing Allowances” definition.

with this rising demand, particularly during periods of abrupt change. Delays in scaling up residential investment, especially during the pandemic period due to shortages of labor and material, along with structural challenges in housing planning, approvals, and construction, have constrained supply. These imbalances between housing supply and demand are found to have significantly influenced housing prices both in the short term and over the long run.



5. These findings are crucial for shaping effective policy responses. Housing prices resumed strong growth in 2025 as financial conditions eased. This rise requires careful monitoring due to potential financial stability risks, as household balance sheets and incomes become increasingly strained by worsening housing affordability. Expanding new housing supply and enhancing its responsiveness to demand fluctuations—by removing structural barriers and increasing market flexibility—are essential to addressing long-term affordability challenges and managing sudden short-term surges in housing demand, whether driven by policy or other factors.

Table 1. Australia: A Cross-Country Panel Model: Long-Run Determinants of Real House Prices

$$p_{it} = (\beta_1 + \beta_2 sr_i + \beta_3 tr_i) * y_{it} + (\beta_6 + \beta_7 sr_i) * w_{it} + (\beta_4 + \beta_5 sr_i) * morr_{it} + \beta_{10} * morr^2 + (\beta_8 + \beta_9 rc_i) * pmt_{it} + \alpha_i + \varepsilon_{it}^p$$

	Demand		Policy		Supply
	(1)	(2)	(3)	(4)	(5)
	log_real_HPI	log_real_HPI	log_real_HPI	log_real_HPI	log_real_HPI
	b/t	b/t	b/t	b/t	b/t
y, log	0.892820*** (23.68)	0.891234*** (23.35)	0.787395*** (18.36)	0.769046*** (18.56)	0.425953*** (5.61)
morr	-0.018155*** (-11.23)	-0.018149*** (-11.23)	-0.019182*** (-11.87)	-0.017024*** (-10.82)	-0.023829*** (-7.44)
w, log	0.130060*** (8.13)	0.129526*** (8.04)	0.130749*** (8.18)	0.086142*** (5.38)	0.028106 (0.73)
hp	-0.000364*** (-3.64)	-0.000366*** (-3.65)	-0.000421*** (-4.20)	-0.002778*** (-11.37)	-0.002035*** (-5.56)
Pop, log	2.793576*** (35.96)	2.789939*** (35.38)	2.814217*** (35.93)	2.797242*** (36.98)	2.815411*** (37.41)
morr^2		-0.000075 (-0.27)	0.000068 (0.25)	0.000213 (0.79)	0.000205 (0.74)
tr*y (log)			0.335418*** (5.15)	0.423237*** (6.68)	0.371463*** (5.88)
rc*hp				0.003200*** (10.50)	0.002695*** (6.98)
sr*y (log)					0.463920*** (5.83)
sr*morr					0.007685** (2.91)
sr*w (log)					0.055375 (1.94)
_cons	-15.170869*** (-31.20)	-15.135828*** (-30.07)	-15.882536*** (-30.56)	-15.627605*** (-31.11)	-17.183275*** (-27.89)
N	1520	1520	1520	1520	1520
Adj. R ²	0.740	0.740	0.744	0.762	0.769

Number of countries: 16

Panel (Kao Engle-Granger based) Cointegration test for Model (5): t-statistic (2.65) Prob.(0.004)

Note: Dependent is the log of real house prices. Significance at 1, 5, and 10 percent levels indicated by ***, **, *, respectively.

Table 2. Australia: Cointegration Test Results**Kao test for cointegration**

H0: No cointegration	Number of panels	=	16
Ha: All panels are cointegrated	Avg. number of periods	=	93
Cointegrating vector: Same			
Panel means:	Included	Kernel:	Bartlett
Time trend:	Not included	Lags:	2.75 (Newey-West)
AR parameter:	Same	Augmented lags:	1

	Statistic	p-value
Modified Dickey-Fuller t	1.0179	0.1544
Dickey-Fuller t	1.2484	0.1059
Augmented Dickey-Fuller t	-1.8951	0.0290
Unadjusted modified Dickey-Fuller t	2.9593	0.0015
Unadjusted Dickey-Fuller t	3.7494	0.0001

Pedroni test for cointegration

H0: No cointegration	Number of panels	=	16
Ha: All panels are cointegrated	Avg. number of periods	=	94
Cointegrating vector: Panel specific			
Panel means:	Included	Kernel:	Bartlett
Time trend:	Not included	Lags:	2.00 (Newey-West)
AR parameter:	Panel specific	Augmented lags:	1

	Statistic	p-value
Modified Phillips-Perron t	4.3574	0.0000
Phillips-Perron t	5.8676	0.0000
Augmented Dickey-Fuller t	7.3386	0.0000

Table 3. Australia: Variable Definitions and Data Sources

Variable	Definition	Source
log_real_HPI	Real house price index, in log terms	OECD.
y	Real per capita household personal disposable income, in log terms, seasonally adjusted	Haver Analytics., OECD, and national statistics websites.
morr	Real mortgage rate, in percent	Haver Analytics.
w	Real per capita net financial wealth, in log terms.	Haver Analytics., OECD, and national statistics websites.
hp	Cumulative building permits issued (in 100,000s)	OECD.
pop	Population, in log terms	CEIC.
tr	Government spending on housing assistance, as % of GDP	OECD.
rc	Rent control index	OECD.
sr	Supply elasticity	IMF staff calculations using methodology based on Geng (2018).

Annex IX. Climate-Productivity Nexus: The Dual Dividend of Technological Upgrades Leveraging Firm-Level Analysis¹

Climate action and productivity growth in Australia are closely linked, with significant gains to be made by improving the performance of firms with high emissions and low productivity. The analysis presented in this annex finds that firms with newer capital and more intangible assets tend to be both greener and more productive, and a counterfactual result with upgrading lagging firms to the median firm level could reduce emissions by 4–7 percent and raise total factor productivity by 1–2 percent. To facilitate this capital modernization and R&D investments, while carbon pricing offers an overall more fiscally efficient transition pathway, investment subsidies support firms' technology adoption thereby boosting profits and long-run consumption, albeit with additional fiscal costs. Moreover, the global net zero transition offers new opportunities that can support structural transformation, contribute to productivity growth and thereby enhance economic resilience.

1. Climate policies and the net-zero transformation is one of the key drivers that will affect future productivity growth in Australia. The authorities have placed renewed emphasis on jumpstarting productivity growth, with climate policy and the net-zero transition forming a key pillar of this strategy.² The global green energy transition presents opportunities to support structural transformation and enhance productivity. Leveraging these emerging sectors could help Australia to advance both climate and economic objectives.

2. Australian firms with newer capital stock and higher share of intangible assets are more productive and less emission-intensive. There are large differences in both productivity and emission intensities, measured as emissions per unit of revenue, among firms producing similar products (within industries) in Australia. For instance, Australian firms in the top ten percent of emission intensity emit 18 times more per unit of revenue than firms in the bottom ten percent. In line with peers in advanced economies, firms in Australia with more new capital embedded technology and greater intangible asset intensity tend to be more productive and less emission-intensive, with the latter effect especially strong (Figure 1).³ The global green energy transition is creating new sectoral opportunities that could support structural transformation and enhance productivity. Staff analysis shows that progress on climate initiatives at the firm-level and boosting productivity can go hand in hand (Capelle, Kirti, Pierri, and Villegas Bauer 2023) and leveraging these emerging sectors could help Australia achieve both goals.

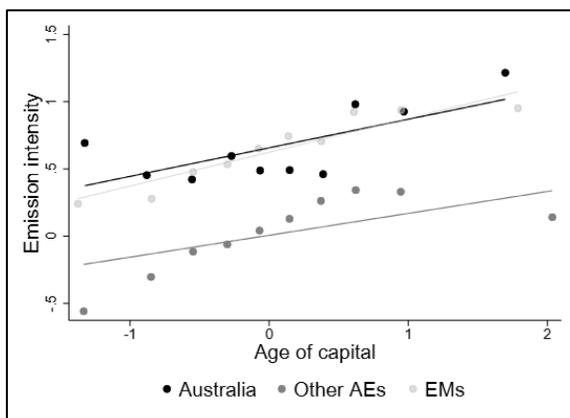
¹ Prepared by Sneha Thube and Germán Villegas-Bauer based on Baquie, McDonald, Spray, Thube, Zhang (2026) and Capelle, Kirti, Pierri, and Villegas Bauer (2023), "Mitigating Climate Change at the Firm Level: Mind the Laggards", IMF Working Paper No. 2023/242.

² See [Advancing Prosperity - 5-year Productivity Inquiry report - Productivity Commission](#)

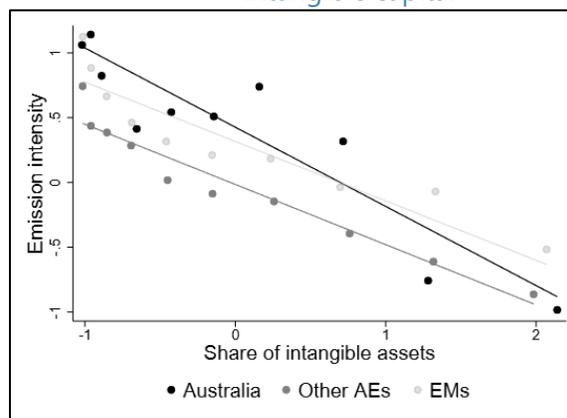
³ See [World Economic Outlook, April 2025: A Critical Juncture amid Policy Shifts](#) for a discussion on the global emission impacts of increased energy demand by datacentres which would be needed to boost intangible capital shares in the absence of capital embodied technology upgrades.

Figure 1. Australia: Firms with New Capital and Higher Intangible Assets Are More Productive and Energy Efficient

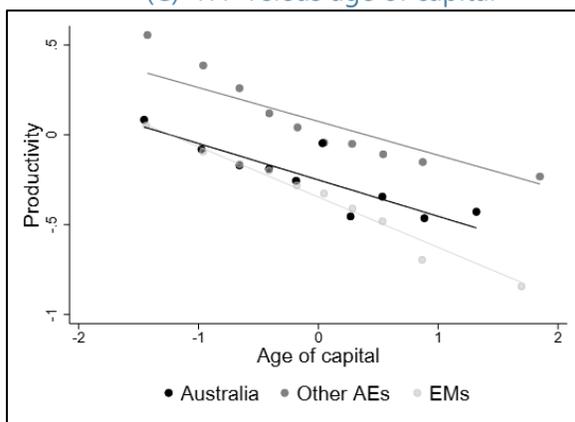
(A) Emission intensity versus age of capital



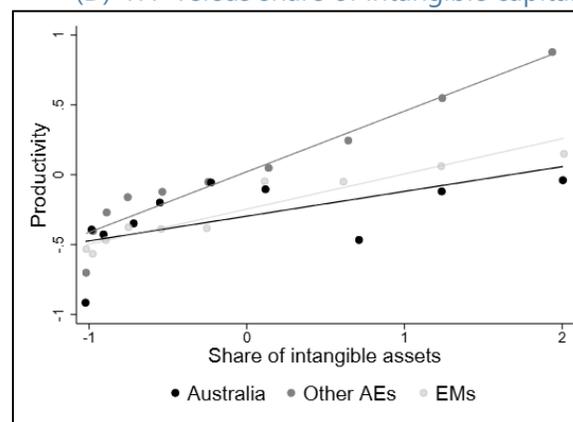
(B) Emission intensity versus share of intangible capital



(C) TFP versus age of capital



(D) TFP versus share of intangible capital



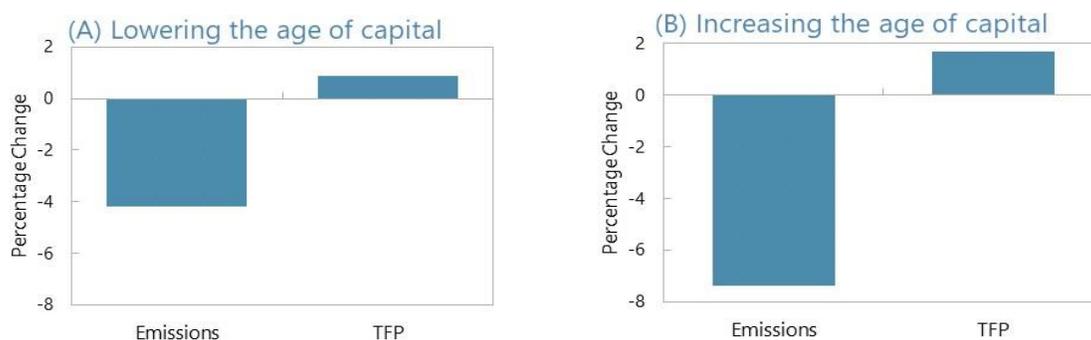
Notes: The figure displays binned scatter plots of emission intensity (the logarithm of emissions over revenue) against the age of capital (panel a), and the intangible share of assets (panel b), and of the logarithm of revenue productivity against the age of capital (panel c) and the intangible share of assets (panel d). All variables are standardized. AEs denotes advanced economies, and EMs denotes emerging market and developing economies.

3. The link between emissions and productivity at the firm level suggests that climate policy can reinforce productivity growth. Firm-level data on emissions, balance sheets and income statements is combined for 93 Australia firms between 2010–2023. Sectors included are agriculture, forestry and fishing, manufacturing, mining, retail and wholesale trade and services.⁴ Firm-level annual self-reported CO₂ equivalent scope 1 (direct) and scope 2 (indirect, purchased energy) emissions are taken from ICE Data Services. Balance sheet and income statement data are from S&P Compustat Global. Cross-sectional empirical counterfactuals suggest that if firms with the oldest capital stock or with the lowest share of intangible assets were to converge to the median

⁴ To focus on market incentives for climate mitigation policies, Capelle and others (2023) exclude sectors where public intervention or ownership primarily drive firm investments. The excluded sectors are finance, insurance, real estate, public administration, utilities, railroad transportation, local and interurban passenger transit sectors.

firm within an industry in these dimensions, then aggregate emissions could decline by around 4-7 percent while aggregate TFP could increase by about 1-2 percent (Figure 2). These findings indicate that, even with currently available technologies, substantial gains in aggregate productivity and reductions in emissions can be achieved by enabling firms with the least efficient capital and asset structures to move closer to the current performance frontier.

Figure 2. Australia: Boosting Underperforming Firms to the Median Improves Emissions and Productivity



Notes: The figure illustrates the percentage changes in aggregate emissions and TFP that we would observe if every firm had at most the same age of capital as the firm in the 50th percentile within Australia (panel a) and if every firm had at least the same share of intangible capital as the firm in the 50th percentile within Australia (panel b). Only industry × year groups with at least 2 firms are included. 4-digit SIC industry classification.

4. To assess the macroeconomic implications of alternative policy tools a general equilibrium multi-sector model featuring heterogeneous firms is calibrated to Australian firm-level data. The model incorporates firm-level decisions on input use and investment that directly affect carbon emissions. In the short term, firms can adjust variable inputs to reduce energy consumption, while over the medium term, they may optimize energy use by investing in research and development (R&D) to enhance energy efficiency and increasing capital intensity. Importantly, in the model firms can upgrade to newer capital equipment, thereby lowering energy use and emissions. Different policy tools used to enhance productivity and reduce emissions have distinct characteristics and present tradeoffs over time. By aligning the model with sectoral firm-level data and conducting scenario analysis, the framework provides a comprehensive evaluation of the potential impact of climate policies on productivity, firm performance, and aggregate economic outcomes of policy choices. Full details on the model are provided in Capelle and others (2023).

5. Carbon pricing minimizes the fiscal and consumption costs of the overall transition, while investment subsidies deliver long-run gains in consumption albeit with additional fiscal costs. Model simulations are used to quantify the intertemporal tradeoffs and impacts on firm-level outputs under two policy choices- carbon tax and an investment subsidy for new capital upgrading, such that the reduction in emissions is identical across policies to make them comparable. Both carbon taxation and investment subsidies can support climate mitigation and productivity gains. While carbon pricing incentivizes emission reductions along with upgrades to greener capital vintages, subsidies primarily encourage a shift to greener capital vintages, which are inherently more productive. Carbon pricing leads to lower adverse impacts when considering both the

transition-related consumption (-1.3 percent) and fiscal (-1.2 percent) costs (Table 1). Differently, subsidies to investments in new capital have larger consumption costs (-8.7 percent) and require more fiscal resources for investments in the overall transition. However, unlike carbon pricing, investment subsidies for capital upgrading yield long-term consumption gains (4.3 percent), as productivity and environmental performance improve once below-median firms fully upgrade their capital stock to the greener vintage.

Table 1. Australia: Comparative Model Simulations: Transition vs. Long-Term Costs of Investment Subsidies and Carbon Pricing

	Long-term consumption	Transition consumption	Transition fiscal cost	Reduction in emissions	Upgrades to new capital	Policy instrument
All values in % change of actual economy						
Carbon tax	-1.4	-1.3	-1.2	-14.9%	2.5%	\$34.0
Subsidy to investments in new capital	4.3	-8.7	8.3	-14.4%	100.0%	26.4%

Notes: Transition include costs in all future time periods in net present value, discounted with a time discount factor of 4 percent. Long-term consumption refers to the value in the steady-state. Values are weighted averages across sectors, where the weights are the country-specific sector shares. Fiscal cost is annualized and is in percent of GDP in the steady-state in the counterfactual economy. Carbon tax is expressed in US dollars. Upgrades to capital refers to the share of capital that is upgraded to the greener vintage under policy.

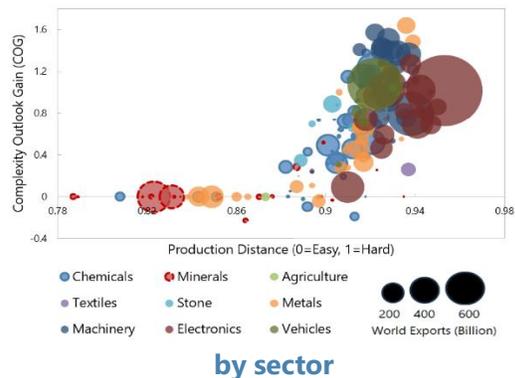
6. Model results are subject to caveats. The above analysis is subject to the following limitations. First, production in the model is only done using physical capital vintages, intangible capital, energy and labor. Intermediate inputs and input-output linkages are not considered, and these can have substantial impacts on emissions, firm competitiveness and policy costs. Second, the energy mix is assumed to be unchanged from the current mix and therefore does not account for the impact of policies on the power sector composition.

7. The energy transition poses risks for fossil exporters like Australia but also presents opportunities for diversification. While Australia remains exposed to the risks from a fast global coal phasedown, it also has several mitigating factors that could provide new opportunities for diversification. Australia holds large reserves of critical minerals whose demand would increase in the energy transition. Moreover, while average extraction cost varies across Australian mines, the costs for copper and lithium are below the global average while those of nickel and cobalt remain above the global average.⁵ Using the Harvard Growth Lab database, Baquie, McDonald, Spray, Thube, Zhang (forthcoming) assess diversification opportunities based on market size, ease of production and export, and learning potential, and show new sectors that hold promise for export diversification across countries. While the top five promising products fall in the electronics and machinery sectors for export diversification in the AEs

⁵ See Chapter 2 of the 2024 [Australia: Selected Issues](#).

within the Asia Pacific region, there is variation in opportunities across countries. Compared to the other AEs in the region, Australia stands to benefit disproportionately from expanding its critical minerals sector (Figure 3). Specifically, scaling up production of iron ore could support value chains linked to heat pumps and the electric grid. Increased copper output, especially given its low extraction costs, would enhance Australia's positioning across electric grid infrastructure, solar and nuclear energy, and broader critical minerals supply chains. Additionally, rising global demand for manganese, which is used in green hydrogen, nuclear energy, and battery technologies, presents further opportunities for strategic development of the sector.

Figure 3. Australia: Export diversification opportunities in green products for Australia,



Notes: Complexity Outlook Gain (COG) is defined as the change in the average complexity of products in the vicinity of the production frontier (at a small know-how distance) if the country were to export the considered product (Hausman and others, 2014). If it is positive (negative), exporting this product would expand the country's production frontier towards more complex (simpler) products. The production distance, also called the know-how distance, is defined on a scale of 0 to 1 (see Hausman and others, 2014). It is close to 0 if the country exports products similar to the considered one, and it is close to 1 if it exports very few products similar to the considered one.

Annex X. 2019 Financial Sector Assessment Program Update¹

Recommendation	Time Frame	Developments and Implementation
Banking and Insurance Supervision		
<p>1. Strengthen the independence of Australian Prudential Regulation Authority (APRA) and Australian Securities and Investments Commission (ASIC), by removing constraints on policy making powers and providing greater budgetary and funding autonomy; strengthen ASIC's enforcement powers and expand their use to mitigate misconduct (Treasury, APRA, ASIC).</p>	ST	<p>Complete.</p> <p>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. The Government is currently reviewing the ASIC IFM.</p> <p>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.</p> <p>The Australian Government has also made a number of changes to ASIC's enforcement powers:</p> <ul style="list-style-type: none"> (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: <ul style="list-style-type: none"> - 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.

¹ This update is based on inputs from the authorities, and will be further assessed under the 2026 FSAP.

Recommendation	Time Frame	Developments and Implementation
		<p>(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 have joint responsibilities under this legislation.</p> <p>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 AU\$67.3 million in additional funding in the 2021-22 MYEFO (Mid-Year Economic and Fiscal Outlook) report, to maintain its capacity to respond to risks within the financial system. In the 2024-25 Budget APRA was provided AU\$0.5 million in additional funding to promote sustainable finance markets, and AU\$73.2 million over four years to enhance its own cyber security and improve registers.</p>
<p>2. Enhance APRA’s supervisory approach by carrying out periodic in-depth reviews of governance and risk management (APRA).</p>	<p>ST</p>	<p>Complete.</p> <p>APRA has enhanced its supervisory approach for governance and risk management by building internal capability, enhancing its supervisory risk assessment model and strengthening its prudential framework.</p> <p>Capability - APRA has built supervisor and risk specialist capability to undertake in-depth reviews of governance and risk management and regularly conducts entity-specific and thematic reviews in these areas. To this end, APRA has expanded its Non-Financial Risk division by setting up dedicated teams for new risk areas - governance and behavioural risk, operational risk, technology resilience, cyber risk and climate risk.</p> <p>APRA’s Supervision Risk and Intensity (SRI) model – the introduction of APRA’s new risk assessment model enhanced its focus on governance and risk management. APRA’s SRI model has categories for the key non-financial risk topics and detailed guidance supporting the assessment of governance, and risk management. This ensures that supervisory action is taken when weaknesses in individual entities are identified.</p> <p>The focus of APRA’s 2025-2026 corporate plan places a greater emphasis on governance and risk management including on cyber risk, to ensure the financial system remains resilient against the increase in cyber-attacks, financial resilience, to better prepare for system-wide risks (e.g. stress testing and preparing entities for geopolitical risks),</p>

Recommendation	Time Frame	Developments and Implementation
		<p>operational resilience (e.g. supervising prudential standard CPS 230 Operational Risk Management), and</p> <p>uplifting governance (e.g. refreshing prudential standards CPS 510 Governance and CPS 520 Fit and Proper, and focus on boards).</p> <p>Strengthening prudential framework and supervision – Several governance and risk management standards have been updated to strengthen prudential requirements in relation to non-financial risks. These include CPS 230 Operational Risk Management, CPS 234 Information Security, CPS 511 Remuneration. A review of CPS 510 Governance is currently underway, and is expected to be finalised in 2025/26. In addition, the introduction of the Financial Accountability Regime (FAR) extends accountability requirements to all APRA regulated entities, and applies to accountable persons with effect from July 2025.</p> <p>Prudential Standard CPS 234 Information Security, released in 2019, is designed to ensure APRA-regulated entities maintain resilience against information security incidents (including cyber-attacks) by implementing robust controls, governance, and capabilities to protect the confidentiality, integrity, and availability of information assets.</p> <p>Since 2021, APRA has continued to strengthen its expectations around climate risk management by issuing cross-industry guidance (CPG 229 Climate Change Financial Risks), embedding expectations into supervision, conducting Climate Vulnerability Assessments, running industry self-assessments, integrating climate risk into prudential reviews, and promoting transparency through information papers.</p> <p>In response to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, since 2021 APRA has conducted comprehensive industrywide risk culture surveys. From 1 July 2025, annual “pulse” risk culture surveys will provide supervisors with robust, comparable evidence to focus risk culture discussions and provide entities with peer benchmarks to meet prudential standard CPS 220 Risk Management obligations including assessing and lifting risk culture.</p> <p>Prudential Standard CPS 511 Remuneration was released in 2023 requiring regulated entities to maintain remuneration arrangements that incentivise individuals to prudently manage risks and impose appropriate consequences for poor risk outcomes, thereby strengthening governance and promoting effective management of financial and non-financial risks.</p> <p>The 2018 BEAR (Banking Executive Accountability Regime) was subsequently replaced by the Financial Accountability Regime</p>

Recommendation	Time Frame	Developments and Implementation
		<p>(FAR) in 2024. The FAR is modelled on the BEAR but extends the responsibility and accountability framework for directors and senior executives (collectively, accountable persons) to all APRA-regulated institutions and to also cover conduct-related matters.</p> <p>Prudential Standard CPS 230 Operational Risk Management was released in July 2025 to strengthen the management of operational risk, enhance business continuity planning, and improve oversight of third-party service providers to ensure APRA-regulated entities can maintain critical operations and minimise disruptions to customers and the financial system. A number of scheduled onsite reviews of CPS 230 implementation and compliance will occur during 2025 and 2026 with a selection of entities classed as SFIs (significant financial institutions), including major banks.</p> <p>In March 2025, APRA released a discussion paper proposing a number of changes to modernise and uplift its governance requirements including in relation to conflicts management, independence, skills, board reviews and fitness and propriety. The changes will apply to all APRA-regulated institutions from 1 July 2028.</p>
<p>3. Strengthen the integration of systemic risk analysis and stress testing into supervisory processes (APRA, RBA).</p>	<p>I</p>	<p>Complete.</p> <p>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 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.</p> <p>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.</p> <p>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 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</p>

Recommendation	Time Frame	Developments and Implementation
		<p>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. The annual program will provide ongoing insight and assurance through a combination of industry activities, review of entities' own stress testing and internal models.</p> <p>APRA has extended its stress testing to incorporate exploration of emerging and system wide risks. These stress tests will provide additional insights into entity and industry vulnerabilities to inform supervisory response.</p>
Financial Stability Analysis		
<p>4. 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 Council of Financial Regulators (CFR) agencies to support financial supervision, systemic risk oversight and policy formulation (CFR agencies).</p>	<p>MT</p>	<p>In progress.</p> <p>A Multi-Agency Data Committee has been established which includes APRA, ASIC, RBA, Treasury, the Australian Taxation Office, and the Australian Bureau of Statistics.</p> <p>Specific inter-agency data projects are discussed on a needs basis at the Multi-Agency Data Committee (MADC) with the aim of creating a unified strategic approach to data across these agencies.</p> <p>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 Australian Taxation Office (ATO) and the Australian Bureau of Statistics (ABS).</p> <p>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 Interest Rate Risk in the Banking Book, and data collections to capture data on investments, company structure and financial data for pension funds.</p> <p>APRA continues its focus on simplifying data collection processes. For example, since 2024, APRA has ceased nine ad-hoc data collections for the banking sector, which were no longer considered necessary for effective prudential oversight. In addition, upon the introduction of the new capital framework for banks in September 2023, the number of associated reporting forms were significantly reduced to further ease burden on industry.</p> <p>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.</p>

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		<p>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.</p> <p>ASIC has built an advanced data collection portal to improve how data is collected recurrently, consistently, safely, and securely. For instance, under the new internal dispute resolution (IDR) reporting framework, ASIC was able to receive, in early 2024, IDR data on an expanded basis, with the coverage increasing from an initial 344 entities to approximately 8,600 entities now reporting biannually. ASIC continues to develop ways to combine and leverage recurrent data sets. This includes external dispute resolution data from the Australian Financial Complaints Authority, IDR data that ASIC collects from financial entities, and data on reportable situations.</p> <p>The ASIC and APRA MoU includes a specific provision under paragraph 20 dealing with data sharing, see APRA-ASIC Memorandum of Understanding - 28 November 2019.</p> <p>ASIC and APRA are currently engaging with industry about measures that may assist with data collection, particularly around duplication and harmonisation. This may also involve other financial sector regulators such as AUSTRAC. The scope of that work will be informed by input from industry in December 2025.</p>
<p>5. 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).</p>	<p>ST</p>	<p>Complete.</p> <p>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 bank industry stress tests include both a solvency and a liquidity risk component.</p> <p>APRA-led stress tests are complemented by reviews of entities’ own stress testing. This includes engaging with banks and superannuation funds on liquidity stress testing methods.</p> <p>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.</p> <p>APRA has transitioned to an annual program of stress testing for the banking industry. The annual program will provide ongoing insight and assurance through a combination of industry stress</p>

Recommendation	Time Frame	Developments and Implementation
		<p>tests for large banks, review of entities' own stress testing and internal models.</p> <p>APRA has extended stress testing to incorporate exploration of emerging and system-wide risks. These stress tests will provide additional insights into entity and industry vulnerabilities to inform supervisory response. APRA commenced its first system risk stress test in 2025 which will provide a deeper understanding of the spillover of risks between industries and across the financial system.</p> <p>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 led the Banking Climate Vulnerability Assessment (CVA) of Australia's five largest banks in 2021-22 as a joint Council of Financial Regulators (CFR) initiative, with results published in November 2022. Following completion of the Banking CVA, APRA ran a pilot exercise exploring potential small bank exposures to climate concentration risks: this pilot is now complete.</p> <p>Building on the Banking CVA approach to understanding climate risk, APRA is continuing its work on an insurance-focused CVA initiative. The Insurance CVA commenced in July 2023, and focuses on the potential for physical and transition climate risks to impact changes in general insurance affordability, specifically home building insurance affordability. APRA expects to complete this initiative in FY2025/26.</p>
6. Encourage further maturity extension and lower use of overseas wholesale funding (APRA).	I	<p>Complete.</p> <p>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.</p> <p>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.</p> <p>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 percent of total funding have slightly picked up, albeit still at lower level than pre-COVID.</p>

Recommendation	Time Frame	Developments and Implementation
		<p>Going forward, banks will continue to be encouraged to take opportunities to strengthen their funding profile, including lengthening the maturity of their offshore borrowing.</p>
<p>Systemic Risk Oversight and Macprudential Policy</p>		
<p>7. 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).</p>	<p>I</p>	<p>Complete.</p> <p>The CFR has taken a number of steps to increase transparency, including: (i) publishing a statement following regular CFR meetings since December 2018; (ii) updating the CFR website to be more informative about the role and work of CFR; and (iii) referencing and acknowledging work undertaken by the CFR in the RBA’s semi-annual <i>Financial Stability Review</i>.</p> <p>The Government has established the Financial Regulator Assessment Authority (FRAA). The FRAA is an independent statutory body tasked with assessing and reporting on the effectiveness and capability of ASIC and APRA. The FRAA 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. There is currently a Bill in Parliament to change the frequency of reviews by the FRAA (from every 2 years, to every 5 years): Treasury Laws Amendment (Strengthening Financial Systems and Other Measures) Bill 2025 – Parliament of Australia.</p> <p>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. Consistent with the RBA Review recommendations, in July 2025, the CFR published an updated Charter and an updated MoU on Crisis Management.</p> <p>In September 2025, the RBA provided financial stability advice to the CFR in line with the approach set out in the recently updated CFR Charter and Memorandum of Understanding between APRA and the RBA. This is also consistent with relevant RBA Review recommendations.</p> <p>APRA consults other CFR agencies on macroprudential settings and considers the feedback from them when determining macroprudential policy.</p>
<p>8. Undertake a CFR review of the readiness to apply an expanded set of policies to address systemic risks, including data and legal/regulatory requirements; and address</p>	<p>I</p>	<p>In progress.</p> <p>Working Groups, under the CFR, actively consider systemic vulnerabilities in the financial system, as well as appropriate policies to address them.</p> <p>The CFR Macroprudential Policy Forum actively considers risks to the financial system as well as appropriate macroprudential policies to address potential risks. The group discusses current</p>

Recommendation	Time Frame	Developments and Implementation
impediments to their deployment (CFR agencies).		<p>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).</p> <p>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.</p> <p>APRA has progressed to regular public updates on macroprudential policy settings (including announcements in December 2023, July 2024, November 2024 and July 2025). 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 at agency head level at least annually and prior to changing macroprudential settings.</p> <p>In July 2025, APRA issued a media release containing its assessment that macroprudential policy settings remained appropriate. APRA also indicated it would be engaging with regulated entities on the implementation of lending limits to ensure they can be activated in a timely manner if needed. In November 2025, APRA introduced limits for high debt-to-income (DTI) home lending to pre-emptively contain a build-up of housing-related vulnerabilities in the financial system.</p> <p>The RBA Review released in April 2023 recommended that measures be adopted to enhance coordination 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 Forum which discusses macroprudential policy settings. In July 2025, the RBA and APRA published an updated MoU, outlining roles, responsibilities and coordination arrangements regarding macroprudential policy. This includes the RBA providing advice on the outlook for financial system risks and vulnerabilities and, as relevant, the impact of macroprudential policy measures.</p> <p>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 amplify instability in the Australian financial system, and the actions that</p>

Recommendation	Time Frame	Developments and Implementation
		CFR agencies were taking to mitigate these. This replaced the previous approach of focusing the assessment on potential shocks or risk scenarios. The CFR agencies in November 2025 reviewed the vulnerabilities for 2026.
<p>9. 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).</p>	<p>MT</p>	<p>In progress.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>The RBA participated in a CGFS working group on Interest rate risk exposures of non-financial corporates and households. The group considered issues of both monetary policy transmission and financial stability implications linked to households’ and businesses’ interest rate risk exposures. The group released its report in November 2024.</p>
<p>Financial Crisis Management and Safety Nets</p>		
<p>10. 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).</p>	<p>ST</p>	<p>In progress.</p> <p>Progress has been made on several fronts – in particular, the introduction of resolution planning standards and progressing resolution planning for large and mid-sized banks.</p> <p>Resolution planning standards - 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 commenced on 1 January 2024.</p> <p>Resolution planning - APRA is currently resolution planning with Australia’s largest banks. The preferred resolution strategy applicable to each of these banks has been advised to the entities, which are at varying levels of progress in identifying and implementing pre-positioning actions. Several are intending to complete the first iteration of their Resolution Plan and transition to the monitoring and review phase of resolution planning by mid-2026.</p> <p>The 5 largest banks have successfully met the additional Loss-Absorbing Capacity (LAC) requirement of 4.5 percent of Risk Weighted Assets.</p>

Recommendation	Time Frame	Developments and Implementation
		<p>Supervisory review – Several large banks are planning the first holistic test of their resolution plan, as part of their internal assurance which will inform APRA’s approval process. CPS 900 specifies three yearly (rather than annual) reviews of resolution plans and APRA does not expect that frequency of review will change.</p> <p>In September 2024, a crisis exercise involving Executive-level participants was conducted, focusing on the resolution of a trans-Tasman banking group. It was conducted in conjunction with New Zealand regulators through the Trans-Tasman Council on Banking Supervision. The CFR also conducts more focused working-level simulations, normally annually – a crisis communications focused simulation will be occurring in November 2025.</p>
<p>11. Extend resolution funding options by expanding loss-absorption capacity for large and mid-sized banks and introduce statutory powers (APRA, Treasury).</p>	ST	<p>Complete.</p> <p>In November 2018, APRA released a discussion paper outlining its proposed changes to the application of the capital adequacy framework for banks, increasing loss-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.</p> <p>In July 2019, APRA finalised 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. The requirement will come into effect from 1 January 2026. Requirements for the other entities, including mid-sized banks will be determined as part of resolution planning. One further large bank has been required to maintain additional LAC for resolution purposes. The five banks currently subject to a LAC requirement are successfully meeting that requirement.</p> <p>On 9 December 2024, APRA announced that it would remove regulatory Additional Tier 1 (AT1) capital from the bank prudential framework from 1 January 2027, to simplify and improve the effectiveness of bank capital in a crisis.</p>
<p>12. Advance mutual understanding between the Australia and New Zealand</p>	ST	<p>Complete.</p>

Recommendation	Time Frame	Developments and Implementation
<p>resolution authorities on cross-border bank resolution modalities, through the Trans-Tasman Banking Council (TTBC) (CFR agencies).</p>		<p>APRA has advanced understanding between Australian and New Zealand resolution authorities on cross-border bank resolution modalities.</p> <p>The first entity-specific Crisis Management Group (CMG) for a trans-Tasman bank was established at the end of 2019. 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.</p> <p>Engagement with the New Zealand authorities has become part of APRA’s regular resolution planning activities. With CPS 900 Resolution Planning in force, APRA is now undertaking resolution planning with other trans-Tasman banks.</p> <p>In September 2024, the Trans-Tasman Council on Banking Supervision (TTBC) conducted a crisis simulation exercise aimed at testing the readiness of trans-Tasman regulators in responding to a major bank failure. This exercise brought together APRA, RBA, ASIC, Australian Treasury, RBNZ, FMA and NZ Treasury. The exercise was successful in facilitating many connections across the agencies, and testing liquidity, capital, and entity control responses to achieve stabilisation.</p> <p>The TTBC reviewed and updated its terms of reference and memorandum of cooperation in 2024.</p>
Financial Market Infrastructure		
<p>13. Strengthen independence of RBA and ASIC for supervisory oversight, enhance enforcement powers and promote compliance with regulatory requirements.</p>	<p>I</p>	<p>Complete.</p> <p>The <i>Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Act</i> (the Act) came into effect in September 2024.</p> <p>The Act includes enhancements to Australia’s FMI regulatory regime that:</p> <ul style="list-style-type: none"> ○ extend powers for ASIC and the RBA to support their supervision of FMIs, their ability to take action to address any identified deficiencies, and ○ transfer a range of licensing and supervisory powers from the Minister to ASIC and the RBA.
<p>14. Finalize the resolution regime for FMIs in line with the FSB Key Attributes (RBA, ASIC, Treasury).</p>	<p>ST</p>	<p>Complete.</p> <p>The <i>Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Act</i> (the Act) came into effect in September 2024.</p> <p>The Act establishes a resolution and crisis management regime (based on the FSB Key Attributes) for clearing and settlement</p>

Recommendation	Time Frame	Developments and Implementation
		facilities operating in Australia. Work has now commenced to operationalise RBA and ASIC powers under the new regime.
Anti-Money Laundering / Countering the Financing of Terrorism (AML/CFT)		
<p>15. 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).</p>	<p>I</p>	<p>In progress. <i>Expand the AML/CFT regime to cover all designated non-financial businesses and professions (DNFBPs)</i></p> <p>The Australian Parliament passed the <i>Anti-Money Laundering and Counter-Terrorism Financing Amendment Act 2024</i> on 29 November 2024. This Act introduced major reforms to Australia’s anti-money laundering and counter-terrorism financing (AML/CTF) regime, including to:</p> <ul style="list-style-type: none"> • expand the AML/CTF regime to additional high-risk services provided by lawyers, accountants, trust and company service providers, real estate professionals, and dealers in precious metals and stones; • modernise the regulation of digital currency and of virtual assets and payments technology; and • simplify and clarify the AML/CTF regime to increase flexibility, reduce regulatory impacts, and support businesses to better prevent and detect financial crime. <p>Importantly, the Act ensures that our AML/CTF regime meets international standards set by the Financial Action Task Force, the global financial crime watchdog.</p> <p>For reporting entities which are already regulated, these new obligations will come into effect from 31 March 2026. For new reporting entities, these obligations will commence from 1 July 2026.</p> <p>On 29 August 2025, AUSTRAC, Australia’s AML/CTF regulator and financial intelligence unit, tabled the <i>Anti-Money Laundering and Counter-Terrorism Financing Rules 2025</i> in Parliament. This follows a two-stage consultation process.</p> <p>The Rules provide supplementary detail to obligations set out in the AML/CTF Act, and build on the requirements to:</p> <ul style="list-style-type: none"> • set up businesses to mitigate and manage their money laundering and terrorism financing (ML/TF) risks, and • modernise the laws to meet global best practice. <p>In October 2025 AUSTRAC published guidance to help current reporting entities and tranche 2 entities understand the changes and learn how to meet their obligations under the reformed Act and new Rules. This includes core guidance and education for</p>

Recommendation	Time Frame	Developments and Implementation
		<p>businesses, as well as sector-specific guidance. AUSTRAC is committed to supporting businesses prepare for regulation, and is now working on AML/CTF starter programs for small businesses.</p> <p><i>Improving data collection and risk analysis</i></p> <p>AUSTRAC continues to receive, and collect, information from reporting entities consistent with the objectives and requirements of the AML/CTF Act and AML/CTF Rules in order to achieve regulatory and intelligence priorities. Recent reforms to the AML/CTF Act have enhanced AUSTRAC’s powers to collect information from reporting entities, including new powers introduced in December 2024 to obtain information or documents from reporting entities and in a variety of circumstances, to improve enforcement and intelligence outcomes.</p> <p>From 2018, AUSTRAC has produced a range of risk assessment products, including National Risk Assessments, (NRAs) to assist reporting entities develop an awareness of their ML/TF risks.</p> <p>The NRAs and issue specific risk assessments bring together insights from across Australia’s law enforcement, intelligence and regulatory agencies, private sector stakeholders and international financial intelligence units, to assess risks relevant to Australia’s domestic environment. The money laundering NRA includes an analysis of the money laundering risks facing designated non-financial businesses and professions. All NRAs are publicly available on AUSTRAC’s website.</p> <p>AUSTRAC considers a range of internal and external inputs including an entity’s transaction and suspicious matter reporting, their compliance history, information from partner agencies and law enforcement, their customers and the broader threat environment within which the financial sector operates. Since 2021, these data inputs are transformed to provide risk insights through the implementation of a risk scoring model. AUSTRAC’s approach is dynamic so that as a reporting entity’s ML/TF risk exposure and risk management changes, so it will vary the mix of regulatory activities.</p> <p><i>Increasing oversight of controls and compliance</i></p> <p>AUSTRAC oversees the compliance of more than 18,000 Australian regulated businesses, referred to as reporting entities. These include businesses such as banks and credit unions, non-bank lenders and financiers, gambling and bullion service providers, remittance providers and digital currency exchanges.</p> <p>The <i>Anti-Money Laundering and Counter-Terrorism Financing Act 2006</i> (AML/CTF Act) recognises that reporting entities are the first line of defence in protecting the financial system. The</p>

Recommendation	Time Frame	Developments and Implementation
		<p>legislative framework creates a risk-based approach placing the onus on reporting entities to identify, mitigate and manage their ML/TF risks.</p> <p>Recent reforms to the AML/CTF Act and AML/CTF Rules will strengthen the risk-based approach by ensuring reporting entities tailor their AML/CTF programs and adopt measures to mitigate the ML/TF risks that the business actually faces.</p> <p>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 matters to enforcement.</p> <p>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 its supervisory teams.</p> <p><i>Supervisory action</i></p> <p>AUSTRAC plays a key role as repository for information about suspicious financial activities and in encouraging soundly based and comprehensive reporting of suspected transactions. AUSTRAC proactively works with industry to raise awareness of the ways in which businesses could potentially be used for criminal purposes.</p> <p>Since the last FSAP review, AUSTRAC has conducted a range of supervisory campaigns focusing on compliance by financial institutions in the following areas:</p> <ul style="list-style-type: none"> • implementation of the customer due diligence (applicable customer due diligence), beneficial ownership and PEP (politically exposed person) requirements • implementation of the ongoing customer due diligence (including transaction monitoring and enhanced customer due diligence) obligations • implementation of the AML/CTF program obligations, including employee due diligence, staff awareness training, independent reviews • implementation of appropriate ML/TF risk assessments • implementation of the correspondent banking obligations • implementation of the board and senior management approval requirements

Recommendation	Time Frame	Developments and Implementation
		<ul style="list-style-type: none"> assessing the processes and procedures in place to identify and submit suspicious matters to AUSTRAC. <p><i>Undertaking more formal enforcement action</i></p> <p>AUSTRAC has continued to take formal enforcement actions against reporting entities for breaches of the <i>Anti-Money Laundering and Counter-Terrorism Financing Act 2006</i> (AML/CTF Act) and AML/CTF Rules.</p> <p>AUSTRAC has been proactive in its enforcement activities since 2017. It has concluded five enforceable undertakings with reporting entities, including financial institutions, since 2017 (including ING Bank (Australia), and National Australia Bank), with a further two ongoing (including Bank of Queensland).</p> <p>Since 2017, AUSTRAC has also successfully concluded court proceedings against two major banks: Westpac Banking Corporation and the Commonwealth Bank of Australia for breaches of the AML/CTF Act where the banks were ordered to pay penalties of \$1.3 billion and \$700 million, respectively. These two penalties are the highest and second highest civil penalties ever ordered in Australia. AUSTRAC has also successfully concluded civil penalty proceedings against two other reporting entity/groups where the reporting entities/group were ordered to pay a \$450 million and \$67 million penalty respectively. A further three court proceedings against reporting entities are also ongoing alleging serious breaches of the AML/CTF Act.</p> <p>AUSTRAC has also issued 23 infringement notices during that period to reporting entities that AUSTRAC believes has breached certain AML/CTF laws. AUSTRAC also issued a remedial direction to a reporting entity, the Australian Military Bank, in 2021.</p> <p>The 2024 reforms to the AML/CTF Act enhanced AUSTRAC's enforcement capability through the introduction of new information gathering powers. These powers improve AUSTRAC's capacity to detect breaches of the AML/CTF regime.</p>

Annex XI. 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	A	A	A	A	A	A

Detailed Questionnaire Results

Data Quality Characteristics						
Coverage	A	A	A	A	A	
Granularity 3/	A		A	A	A	
Consistency			A	A		A
Frequency and Timeliness	A	A	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 are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Data provision is adequate for surveillance. While Australia does not submit Financial Soundness Indicators for nonbank financial institutions (NBFIs) to the Fund, financial performance data of systemic NBFIs sectors are published regularly on Australian financial regulators' websites and are adequate for surveillance purposes.

Changes since the last Article IV consultation. Australia Bureau of Statistics has started publish a monthly CPI starting in November 2025, replacing the previous monthly CPI indicator in line with long standing IMF advice.

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. 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 Dec 18, 2025

	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	Nov-25	Nov-25	D	D	D	D	...	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Nov-25	Nov-25	M	M	M	M	1W	1M
Reserve/Base Money	Nov-25	Nov-25	M	M	M	W	2W	NLT 1W
Broad Money	Nov-25	Nov-25	M	M	M	M	1M	1M
Central Bank Balance Sheet	Nov-25	Nov-25	W	W	M	W	2W	NLT 1W
Consolidated Balance Sheet of the Banking System	Nov-25	Nov-25	M	M	M	M	1M	1M
Interest Rates ²	Nov-25	Nov-25	D	D	D	✓	...	✓
Consumer Price Index	Nov-25	Nov-25	M	M	M	Q	1M	
Revenue, Expenditure, Balance and Composition of Financing ³ —General Government ⁴	Q3/2025	Nov-25	Q	Q	A	Q	2Q	2M
Revenue, Expenditure, Balance and Composition of Financing ³ —Central Government	Nov-25	Nov-25	M	M	M	M	1M	4W
Stocks of Central Government and Central Government—Guaranteed Debt ⁵	Nov-25	Nov-25	M	M	Q	M	1Q	3W
External Current Account Balance	Q3/2025	Nov-25	Q	Q	Q	Q	1Q	2M
Exports and Imports of Goods and Services	Nov-25	Nov-25	M	M	M	✓	8W	1M
GDP/GNP	Q3/2025	Nov-25	Q	Q	Q	✓	1Q	NLT 1Q
Gross External Debt	Q3/2025	Nov-25	Q	Q	Q	Q	1Q	2M
International Investment Position	Q3/2025	Nov-25	Q	Q	Q	Q	1Q	2M

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 "...".



AUSTRALIA

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION— INFORMATIONAL ANNEX

January 21, 2026

Prepared By

Asia and Pacific Department

CONTENTS

FUND RELATIONS	2
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FUND RELATIONS

(As of November 30, 2025)

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

General Resources Account:

	<u>SDR Million</u>	<u>Percent Quota</u>
Quota	6,572.40	100.00
Fund holdings of currency (holdings rate)	4,863.22	73.99
Reserve tranche position	1,709.43	26.01
Lending to the Fund		

SDR Department:

	<u>SDR Million</u>	<u>Percent Allocation</u>
Net cumulative allocation	9,382.52	100.00
Holdings	9,847.43	104.95

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 Fund¹

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

	<u>Forthcoming</u>				
	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
Principal					
Charges/interest		0.04	0.04	0.04	0.04
Total		0.04	0.04	0.04	0.04

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, 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, including a temporary ban on foreign purchases of established dwellings.

Article IV Consultation. Australia is on the 12-month consultation cycle. The Executive Board concluded the 2024 Article IV consultation on December 2, 2024 (IMF Country Report No. 24/360).

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).

Statement by the IMF Staff Representative
February 9, 2026

This staff statement provides updates on developments since the staff report was issued on January 23, 2026. The thrust of the staff appraisal remains valid.

1. **CPI inflation rose to 3.8 percent year-on-year in December 2025, up from 3.4 percent in November.** The increased price pressures in the second half of 2025 appear to be broad-based across services, goods and new dwelling inflation. Quarterly underlying inflation (trimmed mean, excluding volatile CPI components) in the December quarter also increased slightly more than previously expected by the Reserve Bank of Australia (RBA), reaching 3.4 percent year-on-year (up from 3.0 percent in the September quarter). Other recent macroeconomic data pointed to a strengthening economy, including a decline in the unemployment rate to 4.1 percent in December, from 4.3 percent in November, alongside robust consumer spending growth through November 2025.

2. **In line with market expectations, the RBA raised the cash rate target by 25 basis points to 3.85 percent on February 3, ending a six-month pause.** Previously, the RBA had gradually lowered the cash rate from 4.35 to 3.6 percent between February and August 2025. In its policy statement, the RBA highlighted capacity pressures, residual tightness in the economy (including in the labor market), and uncertainties about the economic and inflation outlook, as primary justifications for a slightly more restrictive monetary policy stance. The Reserve Bank is expected to continue its data-dependent approach—which staff support—to balance its dual mandate of price stability and full employment.

**Statement by Ms. Nghi Phuong Luu, Alternate Executive Director for Australia
Ms. Danika Maxwell, Senior Advisor, and
Ms. Megan Garner, Advisor
February 9, 2026**

On behalf of the Australian authorities, we thank Mr. Leigh and his team for the constructive policy discussions during the mission, and the well-considered Article IV consultation report.

Australia is strongly committed to free trade and upholding the rules-based order.

Despite significant economic uncertainty and geo-political instability, the Australian economy continues to perform well. In 2025, growth gained momentum, the labor market remained solid with historically low unemployment and near record-high participation, business investment strengthened¹ and household incomes rose. Inflation was substantially below its peak, though recently increased to be above the Reserve Bank of Australia's target range. This is not dissimilar to other advanced economies and is partly owing to temporary factors. Risks to the international outlook are tilted to the downside, largely owing to geopolitical uncertainty, global conflict, more persistent inflation in many major advanced economies and growing concerns about fiscal sustainability in some advanced economies. Australia has experienced limited impact from US tariffs, with most goods subject to a baseline tariff of 10 percent.

The Government is focused on continuing its responsible approach to economic and fiscal management, with the recent Mid-Year Economic and Fiscal Outlook (MYEFO) identifying a further AU\$20 billion (approximately US\$14 billion) of budget savings and reprioritizations. This follows a record nominal budget improvement in a single parliamentary term, including two surplus budget outcomes. The Government is also implementing measures to foster productivity and build resilience, particularly in the face of global uncertainty.

Outlook and risks

The Australian economy is strengthening. Treasury forecasts growth to lift over the next few years, with growth expected to continue to shift from public to private demand. Public consumption is expected to slow with moderating demand-driven programs and public investment soften as major transport projects finish and fewer new projects begin. Ongoing growth in household incomes is expected to underpin a strengthening in consumption growth, and non-mining business investment is expected to grow strongly, driven by energy transformation, data centers and computer software.

¹ Data as of September quarter 2025.

Inflation has substantially moderated since its peak in 2022. Inflation increased over the second half of 2025, partly owing to temporary factors, like the cessation of energy rebates, and partly driven by more persistent factors, particularly housing and market services inflation. Treasury expects these pressures will moderate, and inflation to be back within the Reserve Bank of Australia's target band within the next two years.

The Australian labor market is broadly stable. While the unemployment rate has gradually increased in recent years, Treasury forecasts it to stay low by historical standards, particularly compared with pre-pandemic averages. The labor force participation rate is expected to remain near historical highs, including record female participation. We thank staff for the considered and detailed work included in the Selected Issues Paper on the drivers of Australian labor market resilience.

Macroeconomic policy settings

Fiscal policy

The federal Government is building on the budget repair achieved in the previous Parliamentary term and remains firmly committed to the *Economic and Fiscal Strategy*. As outlined in the MYEFO, forecast deficits and debt are expected to be lower every year over the next 5 years compared with the Pre-Election and Fiscal Outlook released in April 2025. Budget repair has been delivered through restraining spending, identifying savings and returning all tax receipts upgrades to the budget. At the same time, the Government has provided important additional funding for disaster relief, health, aged care services and infrastructure.

The cash balance for 2025-26 is expected to be a deficit of 1.3 percent of GDP and fall to a deficit of 1.1 percent of GDP by 2028-29. Gross debt also remains low by international standards, at less than half of the advanced economy average. This strong fiscal position will help support Australia's economic resilience.

The Government also continues to make progress in addressing large structural spending pressures over time, including the National Disability Insurance Scheme (NDIS), support for veterans and their families and aged care. Over the medium term, the cash balance is expected to improve and the budget to return to balance.

While state and territory governments (states) have primary responsibility for service delivery, there is formal inter-governmental agreement that coordinated action between the Commonwealth, states and territories is necessary to effectively address economic and social challenges. The Council on Federal Financial Relations fosters Commonwealth-state coordination on nationally significant economic and fiscal reform. This allows both levels of government to engage on shared fiscal and economic pressures and cooperate on national policy

priorities, such as productivity. The Commonwealth Treasury also monitors closely subnational fiscal outcomes and collaborates with states through existing fiscal coordination frameworks.

Monetary policy

The Reserve Bank of Australia’s Monetary Policy Board decided to raise the cash rate to 3.85 percent at its February meeting. Economic growth and inflation have been stronger than expected in the middle of 2025. The pickup in inflation in the second half of 2025 was broad based and while much of the increase is judged to be temporary, capacity pressures in the economy are greater than previously assessed. Demand and potential supply in the economy are further from balance than was considered the case last year, while labor market conditions remain a little tight. The Monetary Policy Board made the judgement that inflation is likely to remain above target for some time and therefore appropriate to increase the cash rate target.

The Board will be attentive to the data and the evolving assessment of the outlook and risks to guide its decisions. In doing so, it will pay close attention to developments in the global economy and financial markets, trends in domestic demand, and the outlook for inflation and the labor market. The Board is focused on its mandate to deliver price stability and full employment and will do what it considers necessary to achieve that outcome.

Financial sector

The Australian financial system continues to display a high level of financial resilience. Overall, banks have maintained prudent lending standards and provisioning, are well capitalized and have large holdings of liquid assets. In November 2025, the Australian Prudential Regulation Authority (APRA) announced a debt-to-income lending limit on residential mortgage lending as a macroprudential tool to pre-emptively contain a build-up of housing-related vulnerabilities, in recognition of the recent pick up in some riskier forms of lending. More broadly, risks to the Australian financial system from lending to households, businesses and commercial real estate remain contained.

Around half of Australian non-bank financial institution (NBFI) sector assets are held by prudentially regulated superannuation funds. The superannuation sector has historically been a key source of support for the Australian financial system and, as the industry grows, ensuring the sector and financial system remain resilient is a priority for the authorities. APRA’s 2026 system risk stress test will provide further insights on the readiness of all participants in the Australian financial system, including superannuation funds, to respond to systemic liquidity stress events. The authorities welcome the recent commencement of the IMF’s Financial System Stability Assessment for Australia and look forward to receiving the staff team again for the first full mission in March.

Structural reforms

Productivity and resilience

In August 2025, the Government hosted an Economic Reform Roundtable to build consensus on ways to improve productivity, enhance economic resilience and strengthen budget sustainability. It brought together a mix of leaders from business, unions, civil society, government and other experts. Informed by nearly 900 submissions and over 40 forums held around the country, the Roundtable highlighted the substantial areas of common ground and shared ambition for making Australians the beneficiaries of the change underway in the global economy.

Ten clear reform directions were outlined, including immediately actionable changes and areas for further work. In the months following the Roundtable, the Government has announced significant measures to support productivity, including the abolition of another 500 nuisance tariffs, the opening of the new Investor Front Door, and a review into how to reduce unnecessary compliance burden in the corporate tax system.

Climate change and Future Made in Australia

The global transition towards net zero presents significant economic opportunities for Australia. The Government is focused on the delivery of cleaner, cheaper energy, providing businesses with the certainty they need to invest, and seizing new industrial opportunities on offer.

Consistent with its commitment to the Paris Agreement, in September 2025, the Government released its 2035 emissions reduction target of 62 to 70 percent below 2005 levels. It was released alongside the Net Zero Plan and the six supporting sectoral decarbonization plans, which outline an orderly pathway to net zero for Australia. This builds on its commitment to net zero by 2050 and its existing 2030 target.

An orderly transition underpinned by clear and credible climate action will support continued economic growth, higher living standards and employment. A disorderly transition would cost investment, jobs and the economy.

The Government is implementing a range of measures to ensure reliability and support households, businesses and communities as the energy market transitions. This includes subsidizing batteries, rooftop solar and energy efficiency upgrades for households and small businesses to ensure the benefits of the energy transition are shared. Work is also underway to modernize Australia's electricity grids, reform the National Energy Market and improve regulatory frameworks. At an industrial level, the Government is seeking to expand capabilities

in green metals, cleaner fuels and critical minerals and support better access to capital for net zero investments and innovations.

Housing

The Government has an ambitious target of building 1.2 million new homes over 5 years as part of the 2022 National Housing Accord established with states and territories, local government, institutional investors and the construction sector, and supported by financial incentives to jurisdictions who meet their targets. Further Government initiatives to support this include funding for enabling infrastructure to unlock more development, building 55,000 new social and affordable homes through a range of programs, investing in the skills pipeline and implementing new tax incentives to encourage private investment in Build to Rent developments. The Government is also working to help more Australians into home ownership by expanding its 5 percent Deposit Scheme, under which the Government guarantees a portion of the first home buyer's home loan, so they can purchase a home with a lower deposit. The Government has also launched the Help to Buy Scheme which will support 40,000 low- to middle-income households to purchase a home with a lower deposit and smaller mortgage through shared equity.