

Australia

In spite of its reliance on fossil fuels, its energy transition has started



Facts & Figures:

- > Head of State: King Charles III
- > Head of Government: Prime Minister Anthony Albanese
- > Population: 26 million (2022)
- > GNP per capita: USD 60,430 (2022)
- > Income group: High income
- > Main export products: Fuel (33.2% of total current account receipts), ores and metal (23.5%)

Pros:

- > Social and political stability, predictable policymaking
- > Transparent tax and legal system
- > Sound public finances
- > Renewable sector enjoys a boost in political support

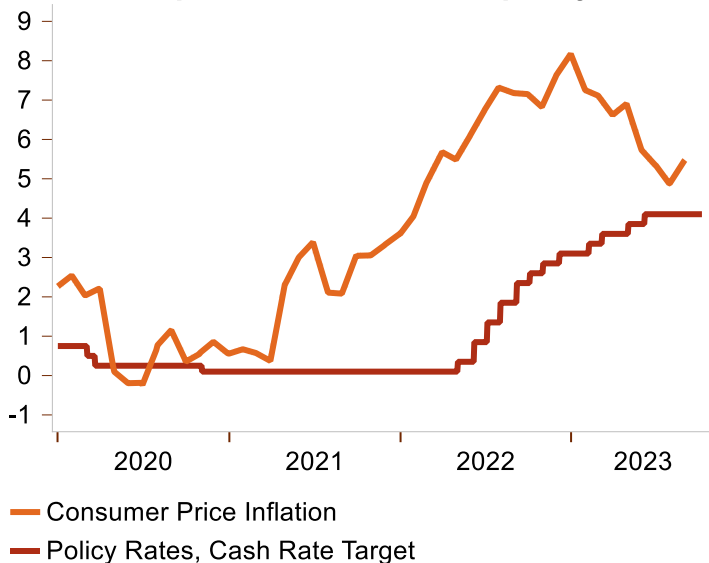
Cons:

- > Dependence on the mining sector
- > Reliance on Chinese imports and (potential) trade restrictions
- > Prone to natural disasters and climate change-induced events
- > Significant exposure of the banking sector to housing markets

Economic activity dampened by high inflation and rising interest rates

After a prompt post-pandemic recovery, similarly to other advanced economies, Australia's economic activity is currently being dampened by high inflation and rising interest rates. Rising inflation, initially driven by elevated commodity prices and strong domestic demand, pushed the Central Bank to start a tightening cycle in May 2022, and it has increased its policy rates 12 times since then. Even though it has (almost) continuously declined after peaking at 7.8% at the end of last year, the consumer price index remains stubbornly high, supported by a tight labour market which pushes up wage growth. Strong inflation and higher interest rates weigh heavily on household consumption and investment and, in combination with global demand remaining subdued, are major drags on economic activity. As a result, real GDP growth should reach 1.8% this year and 1.2% next year, according to the IMF's October 2023 WEO update. In spite of recording a low level of public debt (51% of GDP in 2022) in comparison to other advanced economies, fiscal consolidation measures (somewhat relaxed since June 2022) have been implemented since 2021, which also weigh on growth.

Consumer price index and main policy rate



Source: RBA, ABS

The medium-term outlook will be dictated by demand from other Asian countries, as it is an open and well-diversified economy serving as a commodity reservoir, mostly for its neighbours. Australia is pursuing an active trade policy of participation in bilateral or regional free trade agreements, aimed at boosting its integration in global supply chains.

The availability of critical raw materials should somewhat compensate the more uncertain outlook for fossil fuels

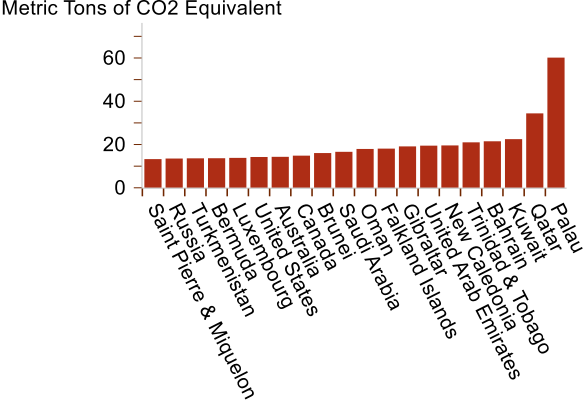
The mining sector is a pillar of the Australian economy, with the country being one of the world's largest exporters of coal, iron ore, bauxite, alumina, copper and many other mineral resources. It is also an important source of critical raw materials, as it supplies about half of the world's lithium and is the fourth-largest exporter of rare earth oxides used to make permanent magnets for technologies such as electric cars and wind turbines. It was also the second-largest world exporter of LNG in 2022 after Qatar. The metallurgical coal and iron ore industries are still expected to increase their export volumes in the coming year, thanks to the opening of several new mines and greenfield projects coming online. Revenues from these are not, however, likely to compensate for the fall in price from falling demand. Their outlook is clouded by uncertain future medium-term demand. On the other hand, the craze for critical raw materials at global level should benefit the country, with rising prices for those products and a strong pipeline of projects, supporting output. The mining sector in general is nonetheless threatened by increasing risks of tightening regulations and public scrutiny, amid rising concerns over sustainability and climate change policies.

Lagging behind its OECD peers, the energy transition is bolstered by the current government

The energy transition is progressively taking place in the country. The government, elected on a climate action agenda in May 2022, passed the Climate Change Act that same year, which doubles the target for emissions reductions by 2030 and sets the objective of reaching net zero emissions by 2050. It also announced last August that it was preparing its own version of a large-scale subsidies programme to stimulate more investment in clean energy projects and to position Australia as a world-leading green hydrogen producer. Australia is indeed still one of the largest CO₂ per capita emitters among major economies, mainly because of its predominant use of coal for electricity generation. In spite of considerable natural resources, the renewable energy sector is indeed lagging behind many

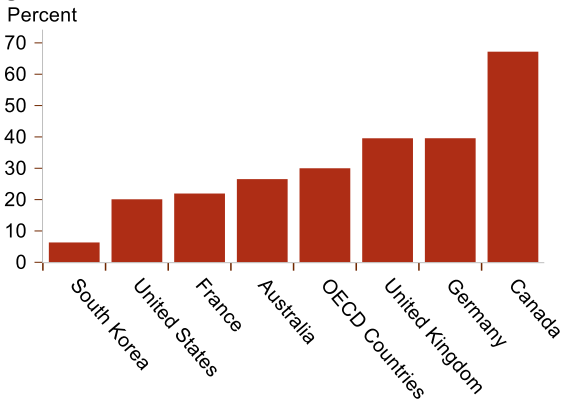
other OECD peers in terms of share of total power generation, as its dependence to fossil fuels has deterred investment in the segment in the last decade.

CO2 emission per capita (2021) top 30 countries



Source: DG EDGAR

Renewable electricity as % of total electricity generation



Source: OECD

The country is increasingly subject to damage from climate change, which is incurring a high cost for its economy. Australia is one of the driest continents, and it has experienced extended droughts and dramatic bushfires in recent years. Additionally, much of the country's infrastructure is located in the vicinity of large coastal cities, putting it at risk from flooding from rising sea levels and tropical cyclones, which also pose a risk for the operations of the mining and energy resources sectors.