



# AUSTRALIA

FEBRUARY 2024

COUNTRY REPORT

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# AUSTRALIA

## TABLE OF CONTENTS

### COUNTRY REPORTS & ECONOMIC FORECASTS (CREF)

- 2 Map
- 3 Key Takeaways
- 5 Regime, Business & Investment Forecasts
- 7 Econometric Data
- 9 Intra-Regional Comparisons
- 11 Geopolitical & Economic Analysis
- 17 International Country Risk Guide (ICRG) Ratings



# MAP



## KEY TAKEAWAYS

MOST LIKELY REGIMES & THEIR PROBABILITIES	
18-MONTH	ALP 65%
FIVE-YEAR	*ALP Coalition 50%

FORECASTS OF RISK TO INTERNATIONAL BUSINESS				
	TURMOIL	FINANCIAL TRANSFER	DIRECT INVESTMENT	EXPORT MARKET
18-MONTH	Low	A-	A-	A
FIVE-YEAR	Low	A-	A	A

() Indicates change in rating

\* Indicates forecast of a new regime

KEY ECONOMIC FORECASTS			
	REAL GDP GROWTH (%)	INFLATION (%)	CURRENT ACCOUNT (\$bn)
2019-2023(AVG)	2.2	3.5	24.75
2024(F)	1.4	3.6	5.50
2025-2029(F)	2.2	2.7	-4.60

### WEAKENING SUPPORT FOR THE ALP

Now past the mid-point of its three-year tenure, the ALP government headed by Prime Minister Anthony Albanese is facing strengthening political headwinds, as concerns about persistent high inflation, rising housing costs, and (more recently) immigration have weighed on the administration's popularity. The main opposition Coalition, a center-right alliance of the Liberal Party and the National Party, has opened a consistent lead over the ALP in polling on the primary vote, and the most recent opinion surveys indicate that Labor's once-comfortable lead on a two-party preferred basis has been eliminated. Perhaps more worrying for Albanese is the significant erosion of his advantage over Liberal Party leader Peter Dutton in polls of voter preferences for prime minister, which has narrowed to single digits.

The ALP is counting on the recent approval of two packages of industrial relations reforms to shore up its support among the blue-collar and middle-class voters who make up the core of its base. However, the recent polls reveal that satisfaction with the government's policies is not necessarily translating to a more favorable opinion of the ALP or its leader.

Proposed revisions to the third stage of tax reforms approved under the previous Coalition government that were scheduled to take effect from July 1 are a case in point. The government has framed the amendments as an attempt to put more money in the pockets of lower-income households hardest hit by

soaring living costs, but the proposal is not scoring political points with its intended beneficiaries and seems instead to have reinforced perceptions that Albanese is an erratic leader overly influenced by the polls, a factor cited for his weakening numbers related to leadership and trustworthiness, on which he is now viewed less favorably than Dutton.

The ALP claims a majority in the 151-member House of Representatives, but with just 26 seats in the 76-member Senate, the government will continue to depend on the backing of the Greens and two other senators to pass legislation in the upper chamber. Greens leader Adam Bandt has used that leverage to obtain concessions from the Labor government on his party's pet initiatives, and forced the government to include a cap on rent increases and the creation of a fund of at least A\$1 billion of incentives to state governments that agree to freeze rents in exchange for its backing for an ALP housing initiative. The approval of the measure after a prolonged delay in late September was cheered by the housing industry and resulted in a popularity boost for the Greens at the expense of the ALP, highlighting a dynamic that is likely to persist over the remainder of the current term.

The mid-year budget review completed in December showed revenues exceeding budgeted levels, despite an economic slowdown, on the back of strong commodity prices and the resilience of the labor market. Treasurer Jim Chalmers is resisting pressure from ALP backbenchers to spend the windfall on social support for low-income households, citing the risk of impeding the efforts of monetary authorities to contain inflation. But there is some debate about the fiscal impact of the proposed revisions to the stage-three budget reforms, which the Treasury contends would be inflation neutral but independent analysis suggests would generate a fiscal stimulus amounting to \$3 billion in the 2024/2025 fiscal year.

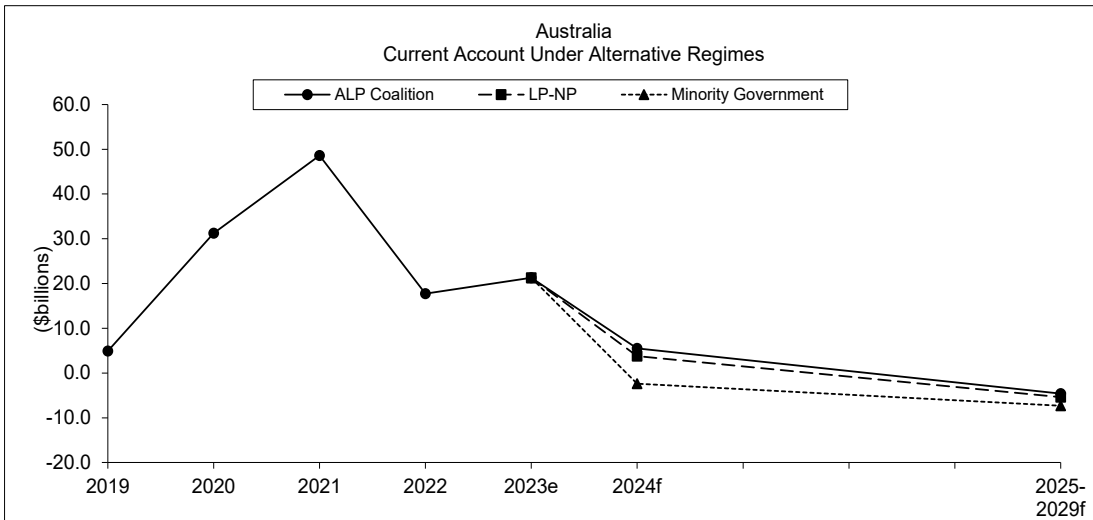
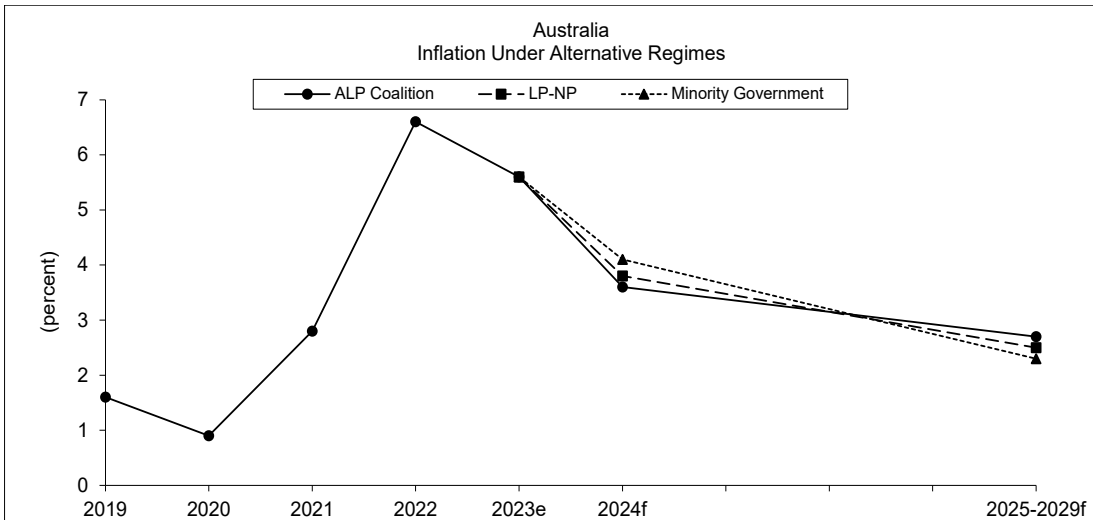
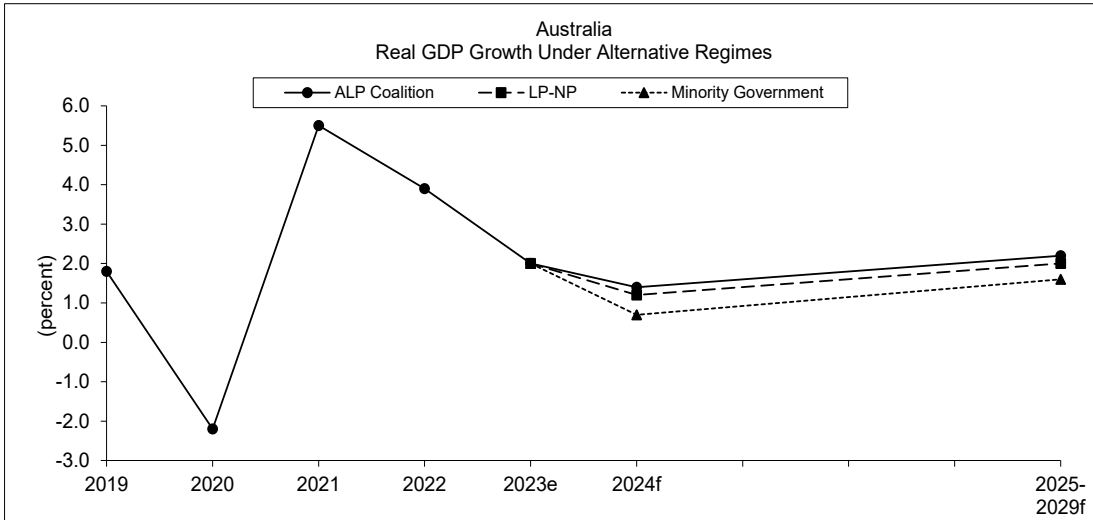
A continued drag on domestic activity from high interest rates and cost-of-living pressures will only partially be offset by improved external conditions, including the continued revival of tourism activity and an anticipated boost from rising numbers of foreign students, resulting in the deceleration of real growth to 1.4% in the current calendar year.

ECONOMIC FORECASTS FOR THE THREE ALTERNATIVE REGIMES									
	ALP Coalition			LP-NP			Minority Government		
	GROWTH (%)	INFLATION (%)	CACC (\$bn)	GROWTH (%)	INFLATION (%)	CACC (\$bn)	GROWTH (%)	INFLATION (%)	CACC (\$bn)
2024	1.4	3.6	5.50	1.2	3.8	3.80	0.7	4.1	-2.40
2025-2029	2.2	2.7	-4.60	2.0	2.5	-5.40	1.6	2.3	-7.30

# REGIME, BUSINESS & INVESTMENT FORECASTS

SUMMARY OF 18-MONTH FORECAST				
REGIMES & PROBABILITIES		ALP 65%	LP-NP Coalition 30%	Minority Government 5%
RISK FACTORS	CURRENT			
Turmoil	Low	Same	Same	Same
Investment				
Equity	Moderate	SLIGHTLY MORE	SLIGHTLY LESS	Same
Operations	Low	SLIGHTLY MORE	Same	Same
Taxation	Low	Same	Same	Same
Repatriation	Low	Same	Same	Same
Exchange	Low	Same	Same	Same
Trade				
Tariffs	Low	Same	Same	Same
Other Barriers	Moderate	SLIGHTLY MORE	Same	SLIGHTLY MORE
Payment Delays	Low	Same	Same	Same
Economic Policy				
Expansion	Moderate	Same	Same	Same
Labor Costs	Very High	Same	Same	Same
Foreign Debt	Moderate	Same	Same	Same
SUMMARY OF FIVE-YEAR FORECAST				
REGIMES & PROBABILITIES		*ALP Coalition 50%	LP-NP 45%	Minority Government 5%
RISK FACTORS	BASE			
Turmoil	Low	Same	Same	Same
Restrictions				
Investment	Low	Same	Same	Same
Trade	Low	SLIGHTLY LESS	SLIGHTLY LESS	Same
Economic Problems				
Domestic	Moderate	Same	Same	Same
International	High	SLIGHTLY LESS	SLIGHTLY LESS	Same

\* When present, indicates forecast of a new regime





# Australia

## Econometric Data

	2014-2018 Average	2019-2023 Average	2014	2015	2016	2017	2018
<b>Domestic Economic Indicators</b>							
GDP (Nominal, \$bn)	1350.40	1573.83	1456.93	1231.30	1263.94	1382.05	1417.76
Per Capita GDP (\$)	55991	60771	62076	51735	52380	56526	57237
Real GDP Growth Rate (%)	2.6	2.2	2.6	2.3	2.7	2.5	2.9
Inflation Rate (%)	1.8	3.5	2.5	1.5	1.3	2.0	1.9
Capital Investment (\$bn)	337.50	362.50	385.06	317.74	310.09	334.52	340.08
Capital Investment/GDP (%)	25.0	23.0	26.4	25.8	24.5	24.2	24.0
Budget Revenues (\$bn)	308.95	377.42	325.20	284.01	287.68	314.08	333.76
Budget Revenues/GDP (%)	22.9	24.0	22.3	23.1	22.8	22.7	23.5
Budget Expenditures (\$bn)	333.15	409.14	366.81	309.37	314.74	336.69	338.12
Budget Expenditures/GDP (%)	24.7	26.0	25.2	25.1	24.9	24.4	23.9
Budget Balance (\$bn)	-24.20	-31.71	-41.61	-25.36	-27.06	-22.61	-4.36
Budget Balance/GDP (%)	-1.8	-2.1	-2.9	-2.1	-2.1	-1.6	-0.3
Money Supply (M1, \$bn)	607.42	1038.18	580.87	549.25	588.33	660.23	658.40
Change in Real Wages (%)	-0.3	-0.3	1.7	0.2	-1.4	-2.3	0.5
Unemployment Rate (%)	5.8	4.8	6.1	6.1	5.7	5.6	5.3
<b>International Economic Indicators</b>							
Foreign Direct Investment (\$bn)	52.40	36.30	63.77	46.82	43.03	48.12	60.26
Forex Reserves (\$bn)	47.48	40.91	44.68	40.97	47.64	58.74	45.38
Gross Reserves (ex gold, \$bn)	52.81	53.24	50.81	46.54	52.09	63.56	51.04
Gold Reserves (\$bn)	2.93	3.72	3.08	2.73	2.98	3.02	2.83
Gross reserves (inc gold, \$bn)	55.74	56.96	53.89	49.27	55.07	66.58	53.87
Total Foreign Debt (\$bn)	1498.98	1742.70	1544.26	1450.90	1439.10	1504.21	1556.42
Total Foreign Debt/GDP (%)	111.3	110.6	106.0	117.8	113.9	108.8	109.8
Debt Service (\$bn)	39.70	45.98	43.94	36.69	39.50	38.50	39.85
Debt Service/XGS (%)	12.0	10.4	12.4	12.7	13.3	11.1	10.4
Current Account (\$bn)	-42.15	24.75	-44.79	-56.98	-41.25	-35.91	-31.81
Current Account/GDP (%)	-3.2	1.6	-3.1	-4.6	-3.3	-2.6	-2.2
Current Account/XGS (%)	-13.0	5.7	-12.6	-19.7	-13.9	-10.4	-8.3
Exports (\$bn)	222.13	330.09	240.72	187.87	192.58	231.39	258.11
Imports (\$bn)	220.49	256.53	238.84	207.12	198.54	220.86	237.08
Trade Balance (\$bn)	1.65	73.55	1.88	-19.25	-5.96	10.53	21.03
Exports of Services (\$bn)	61.46	58.65	60.11	55.25	57.89	64.93	69.11
Income, credit (\$bn)	43.45	53.35	47.00	39.51	39.59	42.93	48.20
Transfers, credit (\$bn)	7.03	7.63	6.56	6.25	6.91	7.64	7.77
Exports G&S (\$bn)	334.06	449.72	354.39	288.88	296.97	346.89	383.19
Liabilities (\$bn)	1.56	1.44	2.71	2.48	1.16	0.74	0.73
Net Reserves (\$bn)	54.17	55.52	51.18	46.79	53.91	65.84	53.14
Liquidity (months import cover)	3.0	2.6	2.6	2.7	3.3	3.6	2.7
Currency Exchange Rate	1.286	1.434	1.108	1.332	1.345	1.305	1.339
Currency Change (%)	-4.7	-2.1	-6.4	-16.8	-1.0	3.1	-2.5
<b>Social Indicators</b>							
Population (million)	24.12	25.86	23.47	23.80	24.13	24.45	24.77
Population Growth (%)	1.4	1.5	1.4	1.4	1.4	1.3	1.3
Infant Deaths/1000	4	4	4	4	4	4	4
Persons under Age 15 (%)	18	18	18	18	18	18	18
Urban Population (%)	89	87	89	89	90	90	86
Urban Growth (%)	0.7	1.0	1.4	1.4	2.5	1.3	-3.2
Literacy % pop.	99	99	99	99	99	99	99
Agricultural Work Force (%)	4	3	4	4	4	4	3
Industry-Commerce Work Force (%)	21	19	21	21	21	21	19
Services Work Force (%)	76	78	75	75	75	75	78
Unionized Work Force (%)	16	16	16	16	16	16	16
Energy - total consumption (10 <sup>15</sup> Btu)	5.97	6.23	5.74	5.81	5.99	6.13	6.20
Energy - consumption/head (10 <sup>9</sup> Btu)	0.25	0.26	0.24	0.24	0.25	0.25	0.25

Note: \*Fiscal year ending June 30

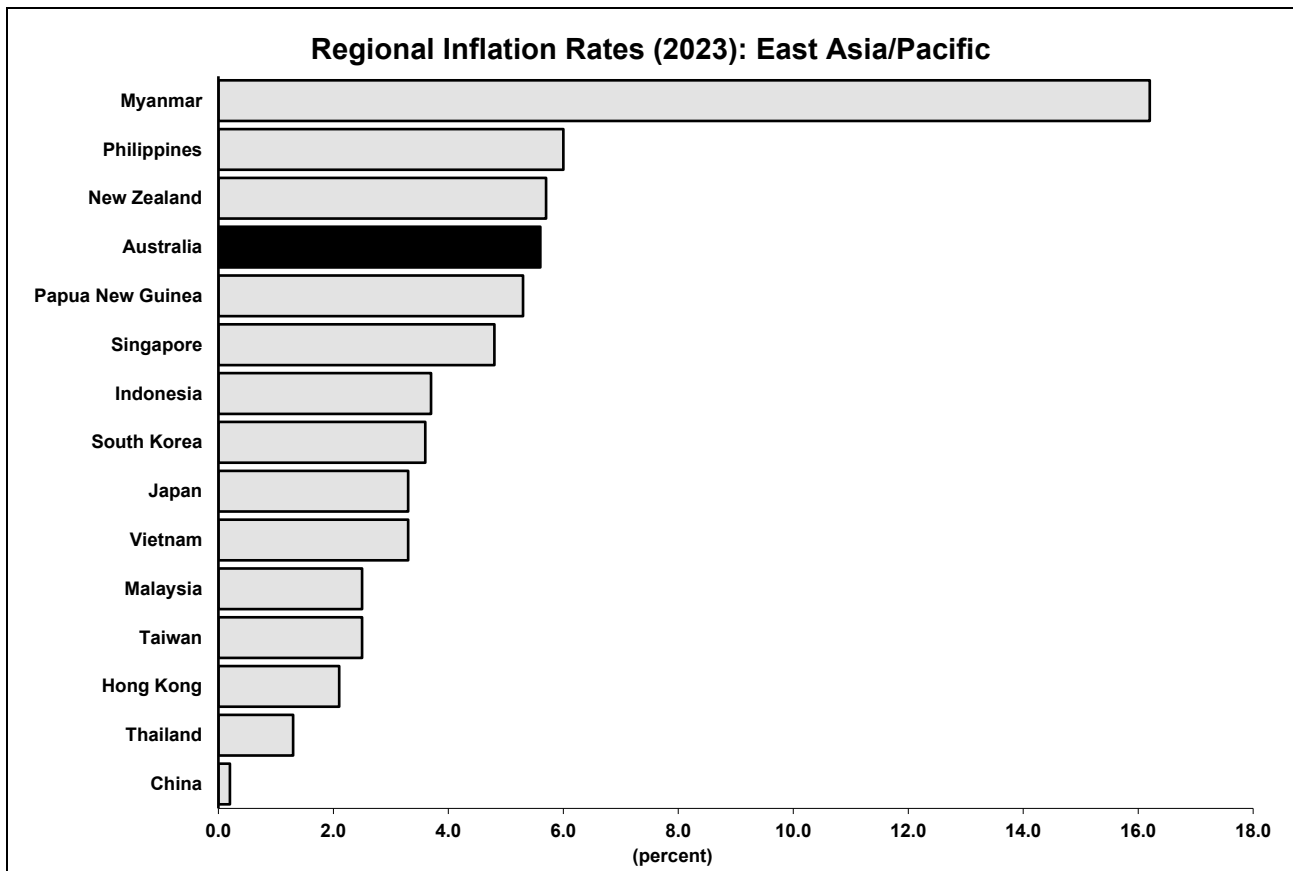
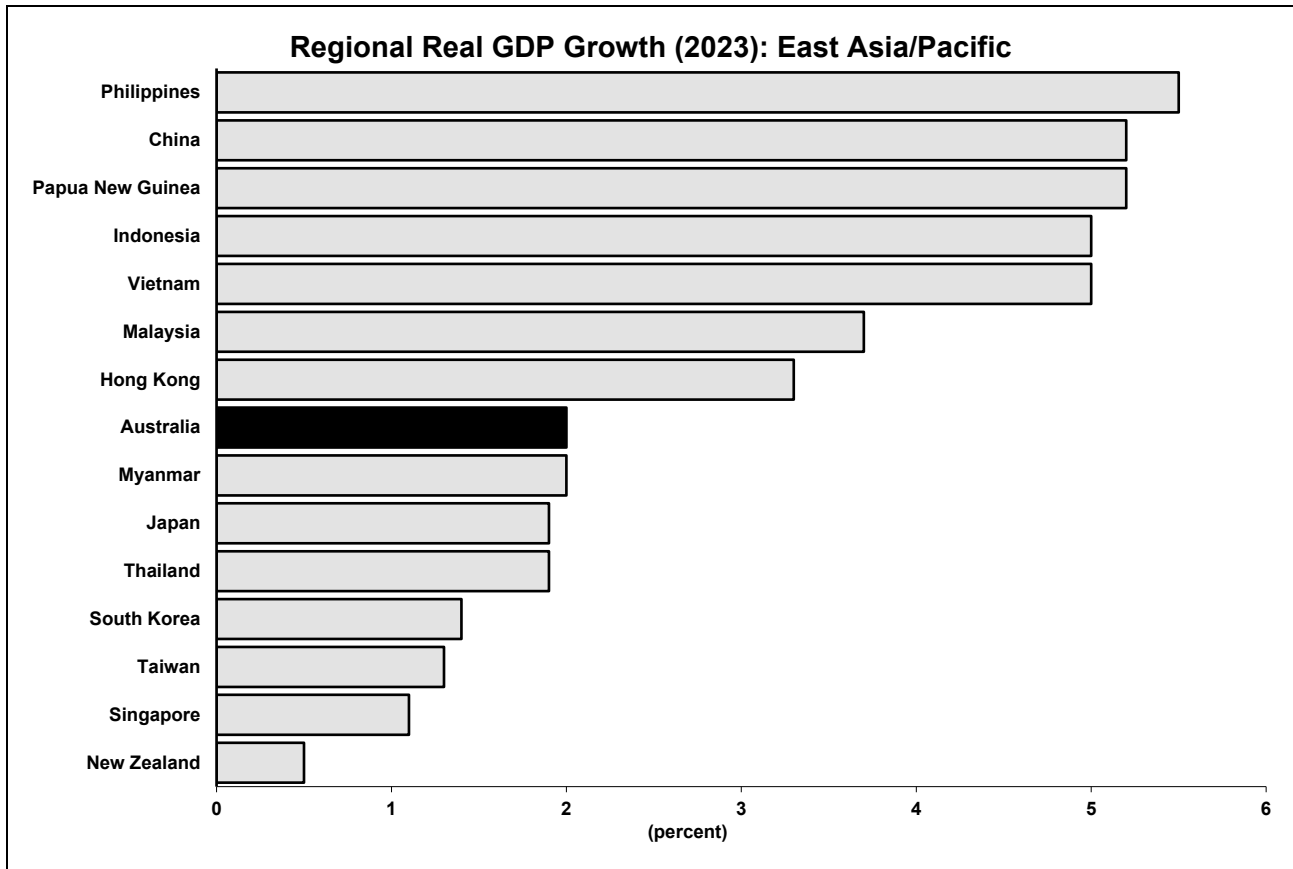
# Australia

## Econometric Data

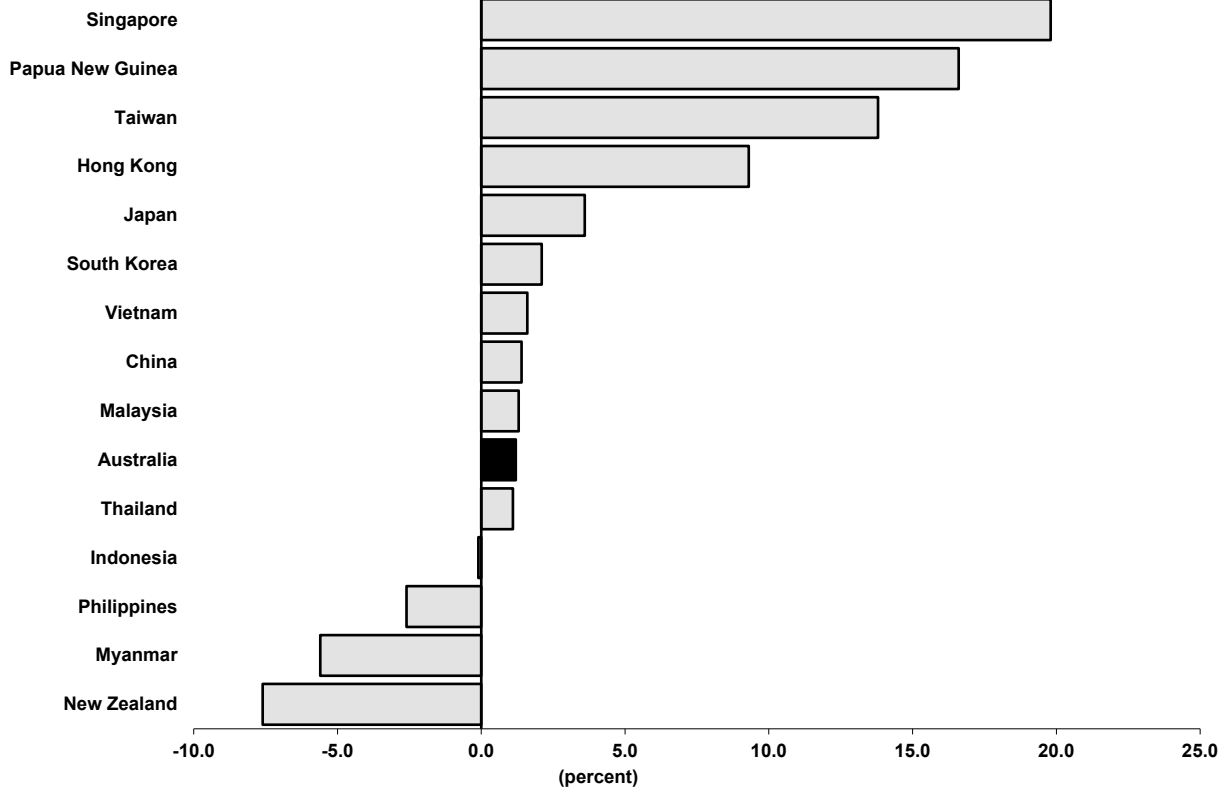
	2014-2018 Average	2019-2023 Average	2019	2020	2021	2022	2023
<b>Domestic Economic Indicators</b>							
GDP (Nominal, \$bn)	1350.40	1573.83	1388.22	1362.04	1656.56	1721.64	1740.69
Per Capita GDP (\$)	55991	60771	55330	53413	64233	65536	65341
Real GDP Growth Rate (%)	2.6	2.2	1.8	-2.2	5.5	3.9	2.0
Inflation Rate (%)	1.8	3.5	1.6	0.9	2.8	6.6	5.6
Capital Investment (\$bn)	337.50	362.50	315.24	305.68	380.43	392.50	418.64
Capital Investment/GDP (%)	25.0	23.0	22.7	22.4	23.0	22.8	24.1
Budget Revenues (\$bn)	308.95	377.42	337.24	323.05	390.33	405.24	431.26
Budget Revenues/GDP (%)	22.9	24.0	24.3	23.7	23.6	23.5	24.8
Budget Expenditures (\$bn)	333.15	409.14	332.34	378.28	491.05	427.41	416.61
Budget Expenditures/GDP (%)	24.7	26.0	23.9	27.8	29.6	24.8	23.9
Budget Balance (\$bn)	-24.20	-31.71	4.90	-55.23	-100.72	-22.17	14.65
Budget Balance/GDP (%)	-1.8	-2.1	0.4	-4.1	-6.1	-1.3	0.8
Money Supply (M1, \$bn)	607.42	1038.18	743.57	947.08	1223.35	1137.19	1139.73
Change in Real Wages (%)	-0.3	-0.3	0.6	1.6	1.5	-3.7	-1.7
Unemployment Rate (%)	5.8	4.8	5.2	6.5	5.1	3.7	3.6
<b>International Economic Indicators</b>							
Foreign Direct Investment (\$bn)	52.40	36.30	38.64	16.23	28.34	66.78	31.50
Forex Reserves (\$bn)	47.48	40.91	50.45	32.60	40.68	39.38	41.46
Gross Reserves (ex gold, \$bn)	52.81	53.24	56.36	39.62	54.44	55.86	59.92
Gold Reserves (\$bn)	2.93	3.72	2.38	3.39	4.20	3.40	5.21
Gross reserves (inc gold, \$bn)	55.74	56.96	58.74	43.01	58.64	59.26	65.13
Total Foreign Debt (\$bn)	1498.98	1742.70	1521.69	1510.05	1669.35	1971.01	2041.42
Total Foreign Debt/GDP (%)	111.3	110.6	109.6	110.9	100.8	114.5	117.3
Debt Service (\$bn)	39.70	45.98	42.89	43.62	41.60	50.93	50.86
Debt Service/XGS (%)	12.0	10.4	10.8	12.5	9.3	9.5	9.8
Current Account (\$bn)	-42.15	24.75	4.92	31.24	48.59	17.71	21.27
Current Account/GDP (%)	-3.2	1.6	0.4	2.3	2.9	1.0	1.2
Current Account/XGS (%)	-13.0	5.7	1.2	9.0	10.9	3.3	4.1
Exports (\$bn)	222.13	330.09	271.55	250.45	344.26	412.49	371.68
Imports (\$bn)	220.49	256.53	223.91	210.71	258.39	301.05	288.61
Trade Balance (\$bn)	1.65	73.55	47.64	39.74	85.87	111.44	83.07
Exports of Services (\$bn)	61.46	58.65	70.59	50.01	44.94	52.32	75.38
Income, credit (\$bn)	43.45	53.35	47.48	41.86	50.95	63.04	63.41
Transfers, credit (\$bn)	7.03	7.63	7.54	6.62	7.21	8.24	8.56
Exports G&S (\$bn)	334.06	449.72	397.16	348.94	447.36	536.09	519.03
Liabilities (\$bn)	1.56	1.44	0.21	1.31	1.71	3.19	0.76
Net Reserves (\$bn)	54.17	55.52	58.53	41.70	56.93	56.07	64.37
Liquidity (months import cover)	3.0	2.6	3.1	2.4	2.6	2.2	2.7
Currency Exchange Rate	1.286	1.434	1.439	1.453	1.332	1.442	1.506
Currency Change (%)	-4.7	-2.1	-6.9	-1.0	9.1	-7.6	-4.3
<b>Social Indicators</b>							
Population (million)	24.12	25.86	25.09	25.50	25.79	26.27	26.64
Population Growth (%)	1.4	1.5	1.3	1.6	1.1	1.9	1.4
Infant Deaths/1000	4	4	4	4	4	4	4
Persons under Age 15 (%)	18	18	18	18	18	18	18
Urban Population (%)	89	87	86	87	86	87	87
Urban Growth (%)	0.7	1.0	1.3	1.3	0.2	1.2	1.2
Literacy % pop.	99	99	99	99	99	99	99
Agricultural Work Force (%)	4	3	3	3	3	3	3
Industry-Commerce Work Force (%)	21	19	19	19	19	19	19
Services Work Force (%)	76	78	78	78	78	78	78
Unionized Work Force (%)	16	16	16	16	16	16	16
Energy - total consumption (10 <sup>15</sup> Btu)	5.97	6.23	6.29	6.35	6.74	5.85	5.90
Energy - consumption/head (10 <sup>9</sup> Btu)	0.25	0.26	0.25	0.26	0.26	0.26	0.26

Note: \*Fiscal year ending June 30

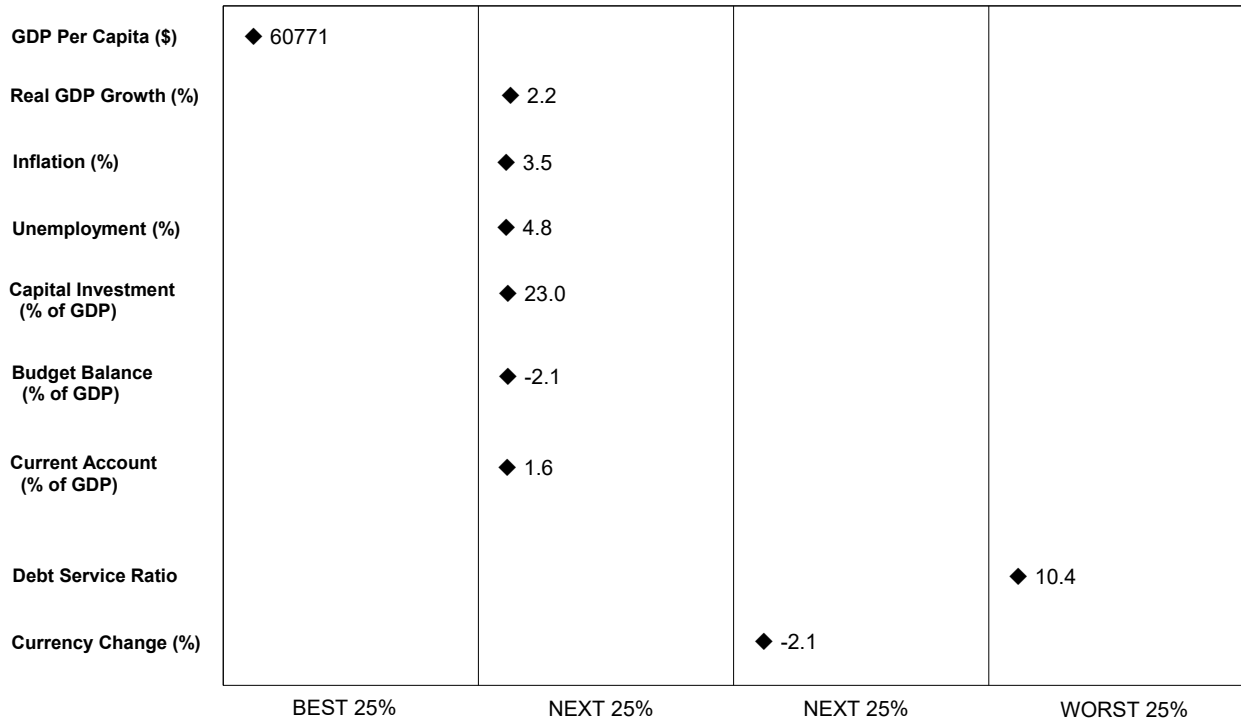
# INTRA-REGIONAL COMPARISONS



### Regional Current Account/GDP (2023): East Asia/Pacific



### Economic Performance Profile Country's Ranking Relative to All Countries Covered by Political Risk Services 2019-2023



# GEOPOLITICAL & ECONOMIC ANALYSIS

## WEAKENING SUPPORT FOR THE ALP

Now past the mid-point of its three-year tenure, the Australian Labor Party (ALP) government headed by Prime Minister Anthony Albanese is facing strengthening political headwinds, as concerns about persistent high inflation, rising housing costs, and, increasingly, immigration have weighed on the administration's popularity. Support for the prime minister and his party has softened since the defeat of a controversial government-backed proposal to enhance the political access of minority indigenous groups at a referendum held in October, and the ALP's subsequent shift in focus to economic issues and workplace reforms has so far failed to reverse the slide.

The main opposition Coalition, a center-right alliance of the Liberal Party and the National Party, has opened a consistent lead over the ALP in polling on the primary vote, and the most recent opinion surveys indicate that Labor's once-comfortable lead on a two-party preferred basis has been eliminated. Perhaps more worrying for Albanese is the significant erosion of his advantage over Liberal Party leader Peter Dutton in polls of voter preferences for prime minister, which has narrowed to single digits.

The ALP still has time to engineer a popular revival, and the party is counting on the recent approval of two packages of industrial relations reforms to shore up its support among the blue-collar and middle-class voters who make up the core of its base. However, the recent polls reveal that satisfaction with the government's policies is not necessarily translating to a more favorable opinion of the ALP or its leader.

Proposed revisions to the third stage of tax reforms approved under the previous Coalition government that were scheduled to take effect from July 1 are a case in point. Key changes include the retention of the 37% tax bracket for those making \$135,000-\$190,000 (for whom the rate is programmed to fall to 30%), the inclusion of those making \$190,000-\$200,000 in the top tax bracket of 45% (rather than 30% as currently planned), and a decrease in the tax rate for those earning \$18,200-\$45,000 from 19% to 16%.

The last of those revisions implies a smaller tax bill for nearly all tax-liable households, but the decrease would be much smaller than under the original plan for those earning \$135,000-\$190,000 (about 7.3% of tax filers), while those earning \$190,000-\$200,000 (somewhat more than 1% of taxpayers) would see their tax bill increase significantly.

The government has framed the amendments as an attempt to put more money in the pockets of lower-income households hardest hit by soaring living costs. But the evidence to date suggests that the proposal is not scoring political points with its intended beneficiaries and seems instead to have reinforced perceptions that Albanese is an erratic leader overly influenced by the polls, a factor cited for

his weakening numbers related to leadership and trustworthiness, on which he is now viewed less favorably than Dutton.

All parties will be watching closely the outcome of an early March by-election for the Dunkley parliamentary seat that was held by ALP lawmaker Peta Murphy until her death in early December. Polling data for the race shows the Liberal candidate holding a 51%-49% lead over the Labor contender, despite the local electorate's overwhelming support for recently approved workplace reforms that were strongly opposed by Dutton and his party. A defeat for the ALP would signal that implementation of popular policies may not be enough to shift the political currents back in Labor's favor, a conclusion that could spell trouble for Albanese.

The outcome of the by-election will not affect the ALP's claim to a majority in the 151-member House of Representatives, but with just 26 seats in the 76-member Senate, the government will continue to depend on the backing of the Greens and two other senators to pass legislation in the upper chamber. Greens leader Adam Bandt has used that leverage to obtain concessions from the Labor government on his party's pet initiatives, including a commitment to a more ambitious carbon-reduction target, and to protect the interests of renters, who make up a significant portion of the party's base.

Early last year, the government set a target of building 1.2 million new homes over five years beginning in July 2024, and proposed \$2 billion in funding under a Housing Australia Future Fund (HAFF) bill introduced in March. The Greens conditioned their support for the HAFF on the inclusion of a cap on rent increases and the creation of a fund of at least A\$1 billion that would be made available to states and territories that agree to freeze rents for a period of two years.

The Greens and the Coalition blocked passage of the HAFF in a vote held shortly before the start of the winter recess in July, prompting a threat by Albanese to call a double-dissolution snap election if the measure failed to pass in a second vote later in the year. However, polling data pointing to the defeat of the Voice to Parliament scheme at the October referendum made a snap election a risky proposition, and Albanese agreed to the Greens' demands. The approval of the measure in late September was cheered by the housing industry and resulted in a popularity boost for the Greens at the expense of the ALP, highlighting a dynamic that is likely to persist over the remainder of the current term.

## **BUDGET POSITION IMPROVING ON STRONG RESOURCES REVENUES**

The budget for 2023/2024 projected a small underlying cash deficit in the current fiscal year (to June 30), despite expectations of sustained strong revenues from the production and sale of iron ore, gas, and coal. However, the mid-year budget review completed in December showed revenues exceeding budgeted levels, despite an economic slowdown, on the back of strong commodity prices and the resilience of the labor market.

Treasurer Jim Chalmers is resisting pressure from ALP backbenchers to spend the windfall on social support for low-income households, citing the risk of impeding the efforts of the Reserve Bank of Australia (RBA) to contain inflation. But there is debate about the fiscal impact of the proposed revisions to the stage-three budget reforms, which the Treasury contends would be inflation neutral but independent analysis suggests would generate a fiscal stimulus amounting to \$3 billion in the 2024/2025 fiscal year.

Policy makers foresee deficits going forward, largely attributable to the spending increases implied by the ALP's stated commitment to a "values-based capitalism," defined by Chalmers as the promotion of social inclusion alongside the dismantling of structures that contribute to "entrenched disadvantage." In the near term, the pursuit of "values-based capitalism" will include the expanded use of co-investment by government and private entities in projects that are consistent with the ALP's environmental and social policy objectives, a model already being put to use in the areas of affordable housing and the development of renewable energy sources.

It is probably a safe bet that it will eventually also entail a further increase in taxes on wealth. A planned reduction in the tax deduction on retirement accounts valued at more than \$3 million is due to take effect in 2025/2026. Otherwise, the uncertain inflation effect of the proposed revisions to the stage-three tax cuts (assuming they are approved) likely means there will not be any further moves to redistribute the tax burden until after the 2025 elections.

## **RELATIONS WITH CHINA WILL REMAIN VOLATILE**

The ALP made clear upon returning to office that it hoped for a reset of relations with China, which deteriorated alarmingly under the Coalition government headed by Scott Morrison. Foreign Minister Penny Wong met with her Chinese counterpart Wang Yi on the sidelines of the G20 meeting in Bali in July 2022, and hopes for a thaw were bolstered by Beijing's adoption of a less antagonistic diplomatic posture following the formal election of President Xi Jinping to a third five-year term as head of the ruling Communist Party in October 2022.

Australia delivered its first shipment of coal to China in more than two years in early 2023 and Albanese's meeting with Xi in Beijing in November marked the first such official visit by an Australian prime minister in seven years. However, Beijing's rebuff of Washington's call to establish "guardrails" to ensure that the rivalry between the two powers remains peaceful and China's increasingly bellicose rhetoric and overt displays of intimidation toward Taiwan underscore the limited room for a deep and sustained rapprochement.



Progress toward improved relations encountered a fresh setback earlier this month, when Yang Hengjun, an Australian citizen, was handed a suspended death sentence following his conviction by a Chinese court on charges of spying. Australian officials have cited the failure of Chinese diplomats to share any convincing evidence of Yang's alleged crimes as cause for suspicion of a political motive behind the case, which has given rise to speculation of a possible turf war between China's diplomatic corps and leaders of its security apparatus.

In any case, the government will continue to take steps to mitigate the risks stemming from China's dominance in the global market for lithium and other essential components of the clean-energy supply chain. For its part, China is seeking to reduce its reliance on Australia for iron ore by financing the massive Simandou mining project in Guinea, which is now set to proceed apace after years of delays caused by legal battles, government instability, and the reservations about the huge price tag for the infrastructure that will be required to transport ore to coastal ports for shipment overseas.

Moreover, there is little cause to expect any meaningful changes in Australia's security strategy, which will focus on strengthening the overlapping alliances with western and regional partners designed to contain the risks posed by China. The Defense Strategic Review released in April 2023 explicitly shifted Australia's posture from homeland defense to deterrence "through denial" of any attempt by adversaries "to project power against Australia through our northern approaches."

Although China is not mentioned, the revised strategy is obviously guided by the aggressively expansionary ambitions of the Communist regime in Beijing. Australia is moving forward with plans to purchase of a fleet of nuclear-powered submarines that will be built in cooperation with the US and the UK, with the express aim of creating a bulwark against Chinese naval strength in the Pacific.

## **HIGH INTEREST RATES WEIGHING ON GROWTH**

Real GDP growth slowed to an estimated 2.2% last year, from 3.7% in 2022, reflecting the dampening effect of monetary tightening, lower commodity prices, and a general weakening of external demand. The mid-year budget review in December affirmed the official forecast of 1.75% real growth in the fiscal year to June 2024, which assumes a continued drag on domestic activity from high interest rates and cost-of-living pressures that will only partially be offset by improved external conditions, including the continued revival of tourism activity and an anticipated boost from rising numbers of foreign students. Those same factors will continue to have a dampening effect in the second half of the year, resulting in the deceleration of real growth for the calendar year to 1.4% in 2024.

Year-on-year inflation has eased gradually but steadily since peaking at 7.8% in the fourth quarter of 2022, but the average of 4.1% in October-December 2023 still exceeded the upper end of the 2%-3% target range by an uncomfortable margin. The RBA raised the cash rate by 25 basis points to an 11-year



high of 4.35% at its November meeting, citing price pressures from government spending on infrastructure and the stickiness of services inflation as cause for caution. Inflation is forecast to average 3.6% in 2024, and monetary authorities do not foresee consumer price increases easing to within the target range before the second half of next year, reducing the likelihood of any significant policy easing in the near term.

The factors contributing to the deceleration of economic growth have had a dampening effect on demand for imports, helping to keep the current account balance in positive territory. The current account surplus is forecast to narrow from an average of more than 1% of GDP in 2022-2023 to just 0.3% of GDP this year as commodity prices ease, but improved services exports will limit the risk of a shift into deficit in the near term. In any case, the generally favorable outlook for fiscal stability will limit the risk of financing issues in the near term.

# INTERNATIONAL COUNTRY RISK GUIDE (ICRG) RATINGS

PRS' Country Reports and Economic Forecasts (CREF) and the International Country Risk Guide (ICRG) have been independently back-tested for accuracy and relevance for over 40 years.

In a landmark 2014 study published in the International Journal of Business Studies\* – using data on political risk claims and a unique textual-based database of risk realizations – both CREF and ICRG forecasts were found to have “predictive power for both political risk insurance claims as well as political risk events measured by news coverage.”

It is therefore instructive to present the scores from Table 1 of the ICRG for a complimentary look at the composite risk scores – calculated by using a combination of the overall political, financial, and economic risk metrics – for the 141+ countries covered each month. Please contact [custserv@prsgroup.com](mailto:custserv@prsgroup.com) for more information.

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING FEBRUARY 2024 VERSUS MARCH 2023					
RANK IN 2/24	COUNTRY	COMPOSITE RISK RATING 2/24	COMPOSITE RISK RATING 3/23	2/24 VERSUS 3/23	RANK IN 3/23
<i>Very Low Risk</i>					
1	Norway	86.8	86.3	0.5	2
2	Denmark	86.3	84.3	2.0	6
3	Switzerland	86.0	87.0	-1.0	1
4	Taiwan	85.5	84.8	0.8	5
5	Luxembourg	84.3	85.8	-1.5	4
5	Singapore	84.3	86.3	-2.0	2
7	Ireland	83.8	83.3	0.5	8
8	Saudi Arabia	82.8	84.0	-1.3	7
9	Brunei	81.8	81.5	0.3	10
10	Netherlands	81.0	80.3	0.8	14
11	Iceland	80.8	80.0	0.8	16
12	Canada	80.5	80.5	0.0	13

\* C Harvey, et al., “Political Risk Spreads,” Journal of International Business Studies, (2014), 471-493.

**TABLE 1**  
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**FEBRUARY 2024 VERSUS MARCH 2023**

<b>RANK IN 2/24</b>	<b>COUNTRY</b>	<b>COMPOSITE RISK RATING 2/24</b>	<b>COMPOSITE RISK RATING 3/23</b>	<b>2/24 VERSUS 3/23</b>	<b>RANK IN 3/23</b>
12	Qatar	80.5	80.3	0.3	14
12	United Arab Emirates	80.5	81.8	-1.3	9
15	Australia	80.0	79.8	0.3	17
16	Kuwait	79.8	81.3	-1.5	11
17	Sweden	79.3	81.0	-1.8	12
18	Botswana	79.0	78.8	0.3	20
18	Korea, Republic	79.0	79.8	-0.8	17
20	Germany	78.3	79.3	-1.0	19
20	Hong Kong	78.3	78.5	-0.3	22
20	New Zealand	78.3	77.3	1.0	26
23	Finland	77.8	78.5	-0.8	22
23	Japan	77.8	77.5	0.3	25
25	Austria	77.3	78.8	-1.5	20
26	United Kingdom	77.0	73.5	3.5	42
27	Bahamas	76.8	74.5	2.3	35
28	Oman	76.5	78.0	-1.5	24
28	Trinidad & Tobago	76.5	76.8	-0.3	28
30	Portugal	76.3	75.8	0.5	30
31	Costa Rica	75.8	71.8	4.0	49
31	Croatia	75.8	74.0	1.8	38
33	Czech Republic	75.3	76.3	-1.0	29
33	Italy	75.3	74.5	0.8	35
33	Kazakhstan	75.3	77.3	-2.0	26
36	Slovenia	75.0	74.0	1.0	38
37	Uzbekistan	74.8	73	2.3	45
38	Belgium	74.5	75.3	-0.8	32
38	Guyana	74.5	75.0	-0.5	34
40	Libya	74.3	74.0	0.3	38

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41	Malaysia	74.0	75.3	-1.3	32
42	Azerbaijan	73.8	72.5	1.3	45
42	Malta	73.8	74.0	-0.3	38
42	Panama	73.8	73.5	0.3	42
42	Uruguay	73.8	75.5	-1.8	31
46	Israel	73.0	74.5	-1.5	35
46	Poland	73.0	71.5	1.5	52
48	France	72.8	71.5	1.3	52
49	Bahrain	72.5	68.8	3.8	74
49	Jamaica	72.5	72.0	0.5	48
49	Latvia	72.5	72.3	0.3	47
52	Chile	72.0	70.8	1.3	61
52	India	72.0	70.5	1.5	63
52	Spain	72.0	71.5	0.5	52
55	Dominican Republic	71.8	71.8	0.0	49
55	Philippines	71.8	71.5	0.3	52
57	Brazil	71.5	69.3	2.3	68
57	Thailand	71.5	69.8	1.8	66
57	Vietnam	71.5	71.5	0.0	52
60	Bulgaria	71.3	71.0	0.3	59
60	Cyprus	71.3	71.3	0.0	58
60	Guatemala	71.3	71.0	0.3	59
63	China, Peoples' Rep.	71.0	71.5	-0.5	52
63	Hungary	71.0	73.0	-2.0	44
63	Paraguay	71.0	64.0	7.0	96
63	United States	71.0	70.5	0.5	63
67	Namibia	70.8	68.3	2.5	77
68	Gabon	70.3	67.3	3.0	80

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69	Indonesia	70.0	69.5	0.5	67
69	Lithuania	70.0	70.8	-0.8	61
71	Mongolia	69.8	64.5	5.3	94
71	Papua New Guinea	69.8	69.3	0.5	68
73	Greece	69.5	69.0	0.5	72
73	Peru	69.5	68.3	1.3	77
75	Russia	69.3	69.3	0.0	68
76	El Salvador	69.0	65.8	3.3	89
77	Algeria	68.8	68.8	0.0	74
77	Congo, Republic	68.8	68.5	0.3	76
77	Mexico	68.8	67.3	1.5	80
80	Estonia	68.0	71.8	-3.8	49
81	Romania	67.5	67.3	0.3	80
82	Armenia	67.0	60.0	7.0	111
82	Slovakia	67.0	69.3	-2.3	68
82	South Africa	67.0	67.0	0.0	84
82	Zambia	67.0	60.8	6.3	108
86	Gambia	66.8	65.8	1.0	91
86	Honduras	66.8	67.0	-0.3	84
86	Morocco	66.8	66.0	0.8	88
89	Albania	66.3	64.0	2.3	96
90	Serbia	66.0	66.5	-0.5	86
91	Tanzania	65.8	65.3	0.5	93
92	Bangladesh	65.3	62.5	2.8	103
93	Ecuador	65.0	68.0	-3.0	79
94	Bolivia	64.8	66.3	-1.5	87
95	Cote d'Ivoire	64.3	62.8	1.5	100
96	Madagascar	64.0	63.0	1.0	99

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96	Suriname	64.0	56.8	7.3	124
98	Colombia	63.8	63.8	0.0	98
98	Iran	63.8	67.3	-3.5	80
98	Jordan	63.8	65.5	-1.8	92
98	Nicaragua	63.8	62.8	1.0	100
98	Togo	63.8	62.8	1.0	100
103	Guinea-Bissau	63.5	64.3	-0.8	95
104	Ghana	62.5	59.5	3.0	114
104	Moldova	62.5	58.5	4.0	118
106	Belarus	61.5	60.5	1.0	109
107	Kenya	61.3	57.8	3.5	121
108	Cameroon	61.0	61.0	0.0	105
108	Cuba	61.0	69.0	-8.0	72
108	Tunisia	61.0	61.0	0.0	105
111	Iraq	60.8	70.0	-9.3	65
112	Angola	60.5	65.8	-5.3	89
112	Ukraine	60.5	52.3	8.3	133
114	Egypt	60.3	57.0	3.3	123
115	Liberia	60.0	56.8	3.3	124
115	Uganda	60.0	60.3	-0.3	110
117	Mozambique	59.8	54.5	5.3	128
118	Guinea	59.3	57.5	1.8	122
119	Mali	58.8	58.0	0.8	120
120	Argentina	58.5	61.0	-2.5	105
120	Ethiopia	58.5	59.3	-0.8	116
122	Burkina Faso	58.3	60.0	-1.8	111
122	Myanmar	58.3	56.3	2.0	126
122	Senegal	58.3	58.5	-0.3	118

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122	Sierra Leone	58.3	53.0	5.3	130
126	Zimbabwe	58.0	61.3	-3.3	104
127	Sri Lanka	56.3	52.8	3.5	131
128	Turkey	56.0	55.8	0.3	127
129	Congo, Dem. Republic	55.5	60.0	-4.5	111
129	Yemen, Republic	55.5	49.5	6.0	138
131	Nigeria	55.0	59.5	-4.5	114
132	Somalia	54.3	51.5	2.8	134
133	Haiti	54.0	53.8	0.3	129
134	Pakistan	53.5	49.8	3.8	137
135	Venezuela	53.0	59.3	-6.3	116
136	Malawi	52.0	50.5	1.5	136
137	Korea, D.P.R.	49.3	51.0	-1.8	135
138	Niger	47.8	52.8	-5.0	131
139	Syria	44.3	44.3	0.0	139
140	Sudan	43.5	44.0	-0.5	140
141	Lebanon	34.5	36.3	-1.8	141

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