Regional Summary: Oceania

- Australia and New Zealand, the two largest nations in the South Pacific Ocean, account for the vast majority of the region’s economic activity. Both have strong political and cultural ties with the United Kingdom, enjoy high living standards, and benefit from educated populations.

- The region is likely to grow moderately in the coming years, with both Australia and New Zealand forecast growth rates ranging between 3.0% and 3.5% in 2017 and 2018. Inflation levels are forecast to increase slightly, ranging between 2.0% and 2.5% in 2017 and 2018.

- Australia and New Zealand are both members of the Trans-Pacific Partnership, with the aim to reduce regional trade barriers and tariffs as well as set up a trade dispute settlement mechanism.

- Macroeconomic challenges for the region include rising levels of unemployment; declining wages, which could hurt domestic demand; and low levels of private business investment outside the mining sector.
Economic Risk: Very Low

- The Australian economy is well diversified and dominated by its services sector, which accounts for nearly 70% of GDP. The largest components are finance, property, and business services.
- The government insists it will reach a balanced budget by 2021, but the viability of this goal is weakening as the budget deficit grows. Additional fiscal consolidation might be necessary to attain a balanced budget in that time frame.
- Long-term unemployment levels have risen since the mining investment downturn, and structural unemployment has increased marginally.
- Investment outside the mining sector has lagged but is expected to rise in the coming years, supporting the country’s strong economy. Projected rising domestic consumption should also support GDP growth.
- Rising nationalism and populist policies threaten Australia’s net export position, as export demand could weaken.

Political Risk: Very Low

- The Liberal-National coalition came to power in 2016, but lacks a strong majority. Political instability is possible prior to the 2019 elections.
- Australia’s legal system remains very strong, stable, and transparent, with minimal corruption. The stable regulatory environment, combined with the country’s resilient economy, makes Australia an attractive location for foreign direct investment.
- After much political debate, the government passed corporate tax reform legislation, which will lower the corporate tax rate to 25% by 2026. While this will increase the budget deficit, it could attract more companies to settle in Australia.
- The government has also focused on accelerating competition, innovation, and productivity in the service sector, particularly in the tech industry.

Financial System Risk: Very Low

- The Australian Prudential Regulation Authority (ARPA) and the Australian Securities and Investment Commission (ASIC) regulate the insurance industry in Australia. ARPA also serves as the regulator of the entire financial services industry and conforms to international standards.
- Monetary policy is expected to remain accommodating. In 2016, the Reserve Bank of Australia lowered its inflation policy rate to 1.5%.
- Interest rates remain low, but house prices and household debt ratios have risen. Considering Australia’s banking system has a large amount of exposure in the housing market, it should vigilantly monitor this sector.
- Credit lending to private citizens has risen rapidly in the past several years and is projected to rise even further in coming years, which could expose the credit market to risk should economic downturn occur.