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Australian Economic Outlook

Address to the Australian Government Fixed Income Forum

Thursday, 12 June 2025

Introduction

Kon'nichiwa and hello.

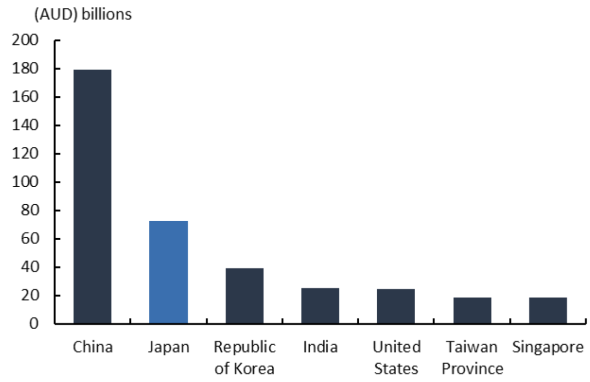
I am delighted to be with you today. And would like to thank the Australian Government Fixed Income Forum for this opportunity.

The Secretary to the Australian Treasury, Dr Steven Kennedy, regrets that he is unable to be here. But he has asked me to pass along his best wishes, for a very successful event.

Our nations share a long standing and close relationship. The strength of our ties is evident – in shared trade, investment, security and democratic interests.

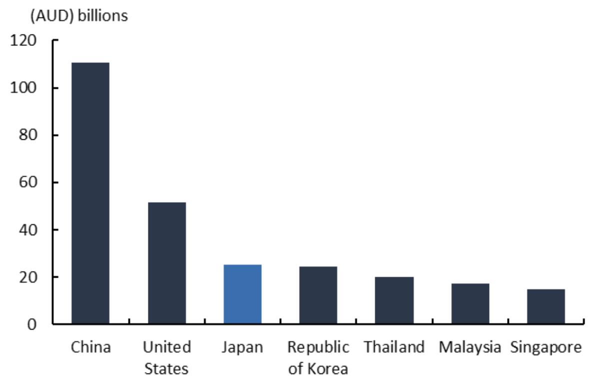
Japan continues to be Australia's second largest export market. Our third largest supplier of imports. And Japan has among the highest concentration of investors holding Australian Government Securities in the world.

Chart 1: Imports by country



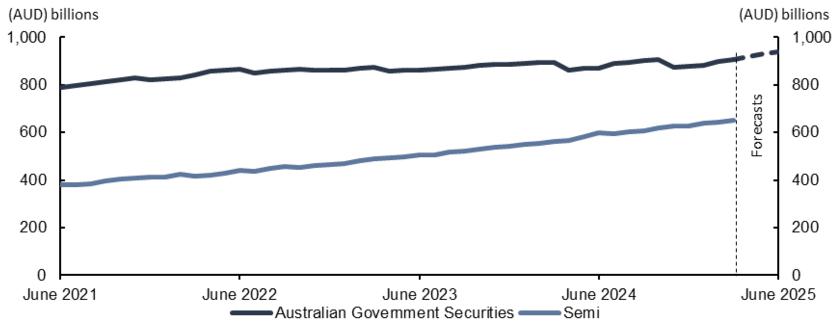
Source: ABS International Trade: Supplementary Information, Calendar Year, 2024, Table 1.

Chart 2: Exports by country



Source: ABS International Trade: Supplementary Information, Calendar Year, 2024, Table 1.

Chart 3: Increasing Australian debt issuance



Source: AOFM.

So, I am pleased to be able to share the latest updates on Australia's economic outlook.

This year's forum is a timely one.

Just last month, Australians voted in a national election. It was run by our independent and trusted Australian Electoral Commission.

And has taken place without incident or controversy. With the results readily accepted. Even though in some very close contests, counting and recounting took weeks to deliver final results.

Voting is compulsory in Australia. So almost everyone turns out to vote. With our national symbol at elections being a democracy sausage – sold at fundraising barbeques at polling stations.

It is a resounding demonstration of our commitment to democratic principles. In a time of great global uncertainty.

Voters re-elected the Labor Government for a second term, led by Prime Minister Anthony Albanese. With a larger majority.

The Government has the opportunity to consolidate and advance its agenda – on issues such as housing, cost-of-living relief, and institutional reform.

Driving investment, including in the Australian Government Bond market

Strong, stable democracies like ours – with good governance, low sovereign risk, and adherence to the rule of law – are attractive destinations for overseas investment, including for Treasury bonds.

Across 2024–25, the Australian Office of Financial Management is expected to issue around AUD100 billion worth of Treasury Bonds.

Japan remains a significant investor base for these Australian Government Securities.

Japan also contributes strongly to Australia's broader foreign direct investment. With over AUD18 billion in inbound FDI transactions from Japan to Australia in 2024. Australia's total net FDI inflows are higher than many comparable economies – and are growing. At nearly AUD84 billion in 2024, up from AUD49 billion the year before.

These numbers are indicative of two broader narratives – one of growth and strength in our region – the other of the quest for stable and reliable investment opportunities in the face of global uncertainty.

Regional growth is a key focus for the Australian Government. Which has been determined to strengthen connections in our region.

As countries in the Indo-Pacific – including Japan, India and Indonesia – chart their own leadership roles.

As Japan did during its Presidency of the G7 in 2023. When your country made measuring welfare and wellbeing a priority. In a way that is reflective of diverse sets of values. Drawing on multidimensional, and non-GDP, indicators.

And as the region has forged new economic partnerships. I note this is what Japan has been doing with ASEAN.

From coordinating responses to COVID-19 in 2020, to industry-specific cooperation today. On clean energy, and ethical artificial intelligence.

It's what we have been trying to do with our partners too. On building new housing, and supply chain resilience.

This has enabled us to build mutually beneficial investment relationships. Because Australia's door is open. To investors, and friends alike.

The second key narrative impacting investment decision making is ongoing global uncertainty. I will talk more about that shortly.

Australia's economic outlook, before the emergence of trade tensions

Despite these challenges, Australia's economy is strong and stable. And remains an attractive destination for international investors. Being one of only nine economies with a AAA rating – from all three major credit rating agencies.

Over two months ago, we released our annual Australian Government Budget.

This was just before the announcement of President Trump's 'Liberation Day' tariffs, and the global trade developments that have followed.

I will discuss the forecasts in that Budget, and some ways that we have been thinking about the risks that have arisen through trade developments.

The Budget forecast the Australian economy to grow by one and a half per cent in real terms, in the year ending 30 June 2025 – in just a few weeks' time.

Growth is expected to strengthen further in 2025–26. And beyond.

This is in line with a growing momentum in Australia's private economic activity.

With growth in household disposable incomes. And a pick-up in household spending. Private final demand should rise from one per cent in 2024–25, to two and a half per cent in 2025–26.

Public final demand is also expected to remain a driver of growth in the near term. We have upgraded our forecasts in this regard – for this financial year.

And the next. In part to reflect higher spending by our state governments, including on infrastructure.

Australia's unemployment rate fell quickly from the middle of 2020, through to 2022. To date, most of these gains have been preserved.

In the Budget, we expect that the unemployment rate will remain well below pre-pandemic levels.

As employment growth eases, Australia's unemployment rate is forecast to stabilise at around four and a quarter per cent.

To most of the people in this room, that probably sounds quite high. When you consider Japan's unemployment rate is sitting at two and a half per cent today.

However, an unemployment rate persistently around this level, is remarkable by Australian standards.

Particularly when coupled with the moderation in inflation, that we have seen over the past two years.

Part of the difference between the Australian and Japanese unemployment rate is Australia's higher participation rate. Currently around 67 per cent, compared to Japan at around 63 per cent.

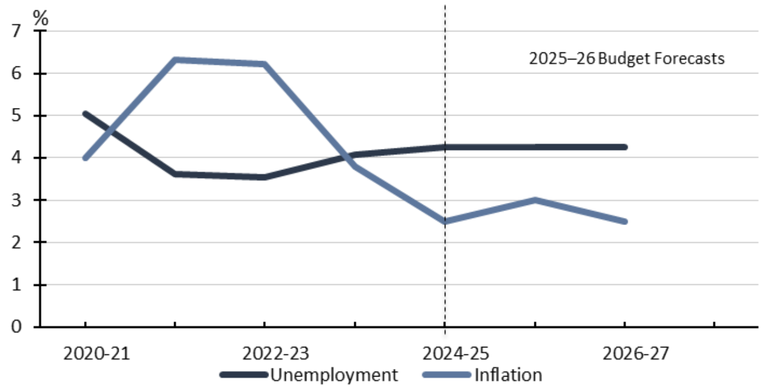
Inflation in Australia has moderated significantly from its peak in late 2022.

And by the March quarter of 2025, inflation had returned to the Reserve Bank of Australia's target band.

This sustainable return to the target band was earlier than what was forecast in our Budget.

And interest rates have recently started to ease – a very uncommon occurrence in Australian history, that this is happening with unemployment at its current low levels.

Chart 4: Unemployment, relative to inflation



Source: Treasury; ABS Labour Force, Australia, Table 1; ABS Consumer Price Index, Australia, Table 8.

Amidst trade tensions, we have prepared for different scenarios

There's no denying that growing trade tensions and global uncertainty have cast a shadow over both the global and Australian economic outlook.

But what our Budget updates have reaffirmed, is that Australia has sound economic fundamentals.

Our role in the Australian Treasury is to make sure our Government is ready – ready to respond quickly and effectively. If, or when, shocks from overseas hit our economy.

As part of our preparations, we have looked at how different global scenarios around trade tensions might play out. To inform sound and responsive macroeconomic management. And help sharpen the case for lifting long-term productivity – and for securing investment.

As you are aware, the United States' trade policy actions are highly uncertain. So in our Budget, Treasury looked at an illustrative[1] scenario, where the US imposed a 25 per cent tariff on all durable manufacturing imports.

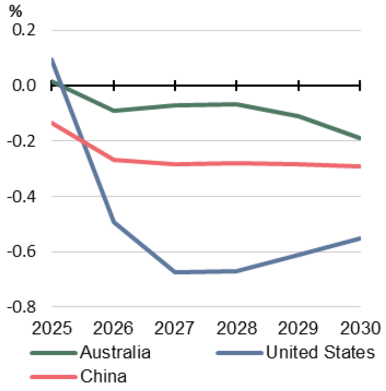
[1] Representative of a hypothetical shock, rather than an actual tariff announcement.

To understand what that could mean, for Australia.

Our scenario analysis showed that Australia's real GDP growth would likely fall over time – but only modestly. The bigger story wasn't from the direct effects of Australia's reduced trade with the US. But rather the indirect effects – the impact on Australia from slower growth in our major trading partners – which were nearly four times larger.

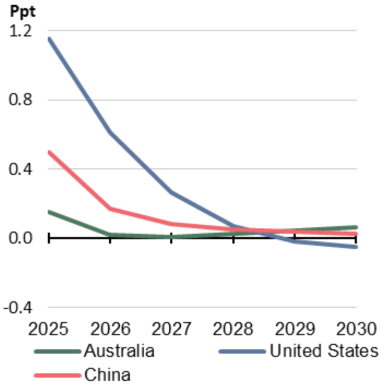
In a second scenario, if other countries struck back with their own tariffs on US durable manufactured goods – we saw global GDP take a bigger hit. And inflation rise more sharply.

Chart 5: Second Budget scenario, change to real GDP



Source: Treasury, 2025–26 Budget.

Chart 6: Second Budget scenario, change to inflation



Source: Treasury, 2025–26 Budget.

As we've seen, retaliation isn't just a theoretical risk – it has played out in the immediate aftermath of 'Liberation Day'. When a number of countries responded, including China. As the US threatened – and in some cases imposed – further tariffs. Which saw a significant increase in volatility, and repricing of financial assets globally.

And our analysis is clear – a cycle of retaliation would hurt the global economy.

While the recent pause in US-China retaliation offered some relief, the ongoing uncertainty over future trade policy is still putting pressure on both of our economies.

This risks undermining consumer and investor confidence, and driving volatility in financial markets. And if we have both tariffs and investor uncertainty, we expect this will lead to a far greater decline in growth, and business investment.

In Australia to date though, there has been no significant deterioration in business activity, nor the functioning of our economy and financial markets. On the latter, we continue to see normal functioning in primary and secondary markets – for Australian Government Securities.

Beyond any near term volatility, Treasury's analysis suggests that a shift away from US assets by investors, in response to recent policy choices, may benefit Australia.

If, in response, we are viewed as a more attractive investment destination.

In the face of these challenges, it is clear that any response must not only be decisive. But also thoughtful, and carefully managed. Ensuring that we safeguard both of our economies. And our future.

Rebuilding fiscal buffers, and fiscal sustainability in an uncertain world

Australia has spent the last three years focused on inflation, which is now back within our Reserve Bank's target band. And on improving the fiscal position.

Australia's economy recovered from the COVID-19 pandemic far better than we originally projected. With a very resilient labour market. And prices for our major commodity exports remaining solid.

This meant tax revenues were higher than anticipated. The Government banked around 7 of every 10 dollars of those additional tax receipts – using the windfall to improve the fiscal position.

This resulted in back-to-back budget surpluses, worth more than AUD37 billion.

And because of this, the Australian Government Budget position today is around AUD200 billion better off, than we forecast three years ago.

This has been an integral part of the Government's domestic strategy.

In Australia, for the near term, the fiscal outlook is relatively stable.

The role of fiscal policy now shifts to being focused on medium term sustainability, and preparing for uncertainty. This includes geopolitical shifts and tensions, that increase the risk of more frequent shocks.

We want our fiscal position to continue to provide policy flexibility for any required fiscal responses, to mitigate the effects of shocks – even just to accommodate any fiscal deterioration from automatic stabilisers.

In addition, as with any country, there are always social pressures to use fiscal levers to support different groups within society.

Whether that is our ageing population. Easing the cost-of-living. Or additional spending on schools, education and health.

In particular, we have rising spending pressures for disability support, aged care, health, and national security.

In the current world, we are increasingly expected to do more – like on Defence. Which we currently project to reach 2.3 per cent of GDP by 2029–30.

This all means that Government spending, as a share of the economy over the medium term, is expected to be at levels a bit higher than in recent decades.

To help address these pressures, the Government has implemented targeted saving measures in its last few Budgets.

Focusing on major fast growing spending areas, including disability support and aged care.

To ensure their sustainability into the future.

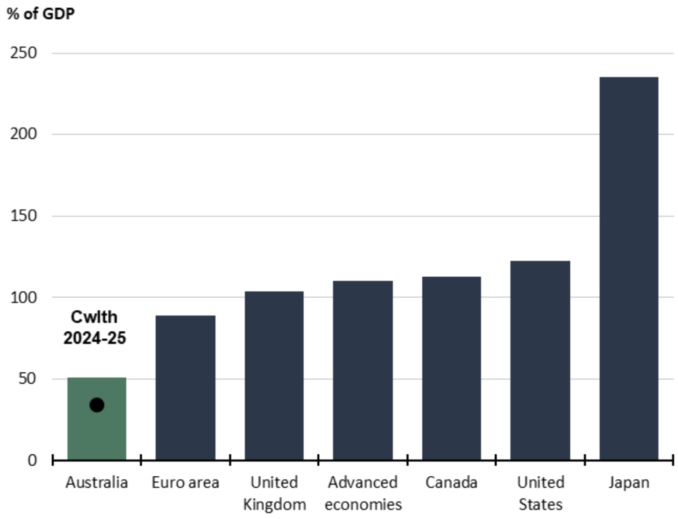
The Government's reforms to the fast-growing National Disability Insurance Scheme are moderating its annual expenditure growth. Which was at 22 per cent in 2021–22.

After policy action by the Government, annual growth is anticipated to be no more than 8 per cent by the middle of 2026, with further moderation after this time.

Improved Budget outcomes were a feature of the last three years. Supported by stronger-than-expected tax receipts, and Budget savings and spending reprioritisations.

This is why Australia's gross debt today, is lower than it was projected to be three years ago. And with our gross debt-to-GDP lower than other advanced economies.

Chart 7: Gross debt in 2025



Source: Treasury and the International Monetary Fund.

However, tax windfalls have now substantially slowed, as commodity prices for our major exports have peaked. To maintain fiscal flexibility, future spending will need to be efficient and effective. Not just for taxpayers, but for the users of government services.

More generally, government policy – whether it is spending, tax, or regulation – will have a pro-growth, pro-resilience bias. With an eye to longer-term goals.

Enhancing competition is key to lifting productivity

As inflation subsides, the Australian Government has made it clear that its priority is productivity. Increasing the efficiency of our economy. Ensuring that we get better returns on investments.

While still managing inflation. And enabling stronger real wages growth.

Increasing the speed limit at which our economy can sustainably grow. Which supports the prosperity of our population, and the health of the Government's fiscal position.

This is the challenge that will shape the next three years.

Increased productivity is about rejuvenating the structures of our economy. Through regulatory and energy policy, that supports business and investment certainty. Through infrastructure investment, that supports better connectivity and supply chains.

Through careful Budget management and tax policy, that supports fiscal sustainability. Through institutional renewal at home, and promotion of global stability abroad. To deliver a more globally competitive economy. And increased living standards.

The Government has committed to reforms that will do just that.

Including the biggest reforms to our merger approval system in 50 years. To ensure our competition laws protect against anti-competitive mergers.

To make the merger system faster. Stronger. Simpler. More targeted. And more transparent.

The Government has also committed to a national competition policy agenda. A partnership between it, and our state governments. To remove unnecessary barriers to competition. As well as foster business entry and expansion.

This will deliver various long-lasting changes, that will support a fairer operating environment. And encourage business innovation.

With reforms to improve labour mobility. Such as banning non-compete clauses for low- and middle-income workers, reforming occupational licencing, and streamlining screening checks for workers in the care economy.

There is also a commitment to greater adoption of trusted overseas standards to improve trade opportunities, starting with product safety standards.

Reforms to commercial planning and zoning processes and approvals, and greater uptake of modern construction methods, will also increase business opportunities.

Each of these items is modest by itself. But the benefits add up, when you combine them together. And improving productivity is often through addressing the many small things.

Looking ahead, our Treasurer has asked Australia's Productivity Commission, to identify and report on additional reforms that should be prioritised under the Government's productivity growth agenda. Made up of these five pillars:

- creating a more dynamic and resilient economy
- building a more skilled and adaptable workforce

- harnessing data and digital technology
- delivering quality care more efficiently
- and investing in cheaper, cleaner energy, and the net zero transformation.

The Productivity Commission has already published 15 potential reform areas that will enhance productivity.

From reducing the impact of regulation on business dynamism, to streamlining occupational entry regulations. And speeding up approvals for new energy infrastructure.

A final report on this will be delivered to our Government by the end of 2025.

This is complemented by our enhanced trade and investment offering

Australia is committed to working with Japan – and with the region – to ensure strong and prosperous growth across the Indo-Pacific. Improving both our growth prospects, and those of other nations.

We are investing a lot in building strong and more diversified regional relationships, and deepening ties with East Asia. We launched our *Southeast Asia Economic Strategy to 2040*. In recognition that regional economic success is critical for all of us. Our prosperity. And our security.

As our region faces growing geostrategic competition, it is in Australia and Japan's interests to ensure key supply chains are diversified and resilient. Especially for critical minerals. Which I note has been an area of growth in our friendship.

Critical minerals are a key part of global efforts to decarbonise, including for Australia's plan to reach net zero by 2050. They are essential inputs across a range of sectors. And are needed to build solar panels, batteries, wind turbines and electric vehicles.

As we move through the energy transformation, it is clear the Australian Government wants Australia to be a long-term stable supplier of critical minerals. For partners like Japan.

Our like-minded approach to critical minerals, has led to many productive investments over the past few years.

In fact, one of Australia's largest rare earth mining companies – Lynas Rare Earths – has been supported by Japanese investment for more than a decade.

The Australian Government is looking for ways to further embed this relationship. In 2022, the Government signed a Critical Minerals Partnership with Japan. The Government is investing more than AUD40 million in critical minerals international partnerships just like this one – to build secure supply chains with like-minded partners.

We are also investing in this sector in our own right. To maintain our status as a partner of choice.

A big step we took into this arena was announcing a Future Made in Australia agenda in 2024. To enhance Australia's role, as a renewable energy superpower.

During our election, Prime Minister Albanese announced a AUD1.2 billion investment in a Critical Minerals Strategic Reserve. Which will focus on the minerals that are most important for Australia's national security. As well as the strategic purposes of Australia and our likeminded partners, such as Japan.

Australia also recognises the imperative of stable democratic partners in creating business relationships.

In the face of the global turmoil, free trade and trade diversification are fundamental for supporting economic resilience.

And the capacity to adapt when disruptions occur. Diversification helps mitigate risks associated with over-exposure – to any one market, or product.

This is why Australia is diversifying our export markets, supported by our global framework of free trade agreements. Including boosting trade among members of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership. Which Japan is a fellow signatory of.

The Australian Government also has a commitment to offer AUD1 billion in zero interest loans, to Australian firms that take advantage of new markets and export opportunities.

And last year, our Government abolished 457 nuisance, historical tariffs. To streamline approximately AUD8.5 billion in annual trade.

The Australian Government also has an approach to migration that is designed to attract migrants who will make a significant contribution to our economy.

To ensure Australia has a workforce with the skills it needs, for a strong economic future. When migration is combined with natural increase, our population is forecast to grow by 5.1 per cent, over the five years to 2028–29.

Australia understands the importance of not just stating our values. But continuing to embody them.

Conclusion

When the Secretary to the Australian Treasury last addressed this forum, he spoke about the strength of the Australia-Japan relationship. Our shared values. And interests. Today, I would like to finish on this note.

The friendship between our countries is not one Australia takes for granted.

Japan is more than one of our largest and most trusted investors. Our connection goes deeper than transactional metrics.

We share a mutual understanding of the importance of our region. The need to ensure responsible economic management. And the primacy of the democratic process. Which both of our democracies have been through in recent months.

Japan is facing similar policy issues to Australia. As our populations age, as our economies look for ways to enhance productivity, while also maintaining sound fiscal policy.

We look to Japan for innovation, investment and partnership.

The Australia-Japan relationship has a long history, and a bright future. Based on mutual interest, respect and more importantly than ever – values.

Australia is a good and a stable partner. And a good investment destination for Japanese investors. With our strong economic and fiscal credentials.

We want to keep building this relationship. And listening to each other.

Which is what this forum is designed for. And I'm looking forward to talking further with many of you, one-on-one today.

Thank you.