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IMF Forecasts Continued Australian Economic Growth

Australia's economic growth is likely to continue in 2012 despite fears that recovery from the global financial crisis is "under threat", according to the International Monetary Fund (IMF). In a January 2012 briefing note to the G-20, the IMF states it does not expect a collapse in the world economy but warns that global activity is decelerating. The IMF expects the Euro area economy will fall into a mild recession in 2012 due to the rise in sovereign yields, the effects of bank deleveraging on the real economy, and the impact of additional fiscal consolidation. Growth in emerging and developing economies is also expected to slow because of the worsening external environment and a weakening of internal demand.

While Australia is not immune to changes in the global economy, the Asia-Pacific region is resilient and Australia's economy continues to grow, albeit at a slower pace. This current growth forecast extends 20 years of continued economic growth and reflects the fact that Australia's economic fundamentals remain among the strongest in the world.

- The IMF expects global GDP to grow 3.3 per cent this year, down from the 4 per cent predicted in September. World GDP growth in 2013 has also been downgraded from 4.5 to 3.9 per cent.
- The Euro area is anticipated to go into recession, with GDP shrinking by 0.5 per cent this year. Italy and Spain are expected to face contractions, slumping 2.2 per cent and 1.7 per cent respectively in 2012.
- The IMF expects the Asia-Pacific region will continue to perform strongly and underpin global growth. Thanks to robust domestic demand, growth in the region is expected to remain close to 6 per cent in 2012, recovering to 6.5 per cent in 2013. Emerging Asia will remain the fastest growing region in the world, led by China and India. In China, growth will remain between 8 and 8.5 per cent this year, returning to around 9 per cent by 2013. In India, growth will remain at around 7 per cent, edging above 7 per cent next year.
- The IMF downgraded its estimates for Australian growth this year from 3.3 to 3 per cent. Despite this, Australia is projected to grow at a faster rate in 2012 than in 2011 (2 per cent). Faster growth has been primarily driven by continued external demand for commodities and a strong rise in private investment in mining.
- In an OECD report, *Australia – Economic forecast summary (November 2011)*, the institution projected that Australia was likely to grow by 4 per cent for 2012 – the strongest among all major OECD economies and well above the OECD average of 1.6 per cent. The OECD said, "Vigorous investment and exports, buoyed by the mining boom, along with the positive income effect of high terms of trade, should offset the negative impact on activity of a persistently strong exchange rate and fiscal consolidation."
- Australia's fundamentals remain strong with unemployment at half the levels of Europe, a large investment pipeline, contained inflation, and low government debt. The Commonwealth Treasury predicts that Australia's Government net debt will likely peak at 8.9 per cent of GDP in 2011-12. This amounts to less than a tenth of the average net debt position of the major advanced economies, which is likely to reach 92.9 per cent of GDP in 2016.
- In late 2011, Australia received the coveted AAA credit rating from all three global ratings agencies for the first time in its history. This reflects Australia's sound economic fundamentals at a time when many other economies have suffered ratings downgrades.

Real GDP Growth (Per cent change)

	Year over Year Averages 2010	2011	2012P
World	**5.2**	**3.8**	**3.3**
Advanced Economies	**3.2**	**1.6**	**1.2**
Advanced G-20	**3.2**	**1.5**	**1.3**
Australia	**2.6**	**2.0**	**3.0**
Canada	3.2	2.3	1.7
France	1.4	1.6	0.2
Germany	3.6	3.0	0.3
Italy	1.5	0.4	-2.2
Japan	4.4	-0.9	1.7
South Korea	6.2	3.8	3.5
UK	2.1	0.9	0.6
USA	3.0	1.8	1.8
European Union	1.9	1.6	-0.1

	Year over Year Averages 2010	2011	2012P
Euro Area	**1.9**	**1.6**	**-0.5**
Emerging/Developing Economies	**7.3**	**6.2**	**5.5**
Emerging G-20	**8.5**	**7.2**	**6.1**
Argentina	9.2	9.2	3.6
Brazil	7.5	2.9	3.0
China	10.4	9.1	8.2
India	9.9	7.4	7.0
Indonesia	6.1	6.4	6.1
Mexico	5.4	4.1	3.5
Russia	4.0	4.1	3.3
Saudi Arabia	4.1	6.5	3.6
South Africa	2.9	3.1	2.5
Turkey	9.0	8.3	0.4

Sources: IMF, Meeting of G-20 Deputies, January 19-20, 2012, Mexico City, Table 1, Page 17; Austrade