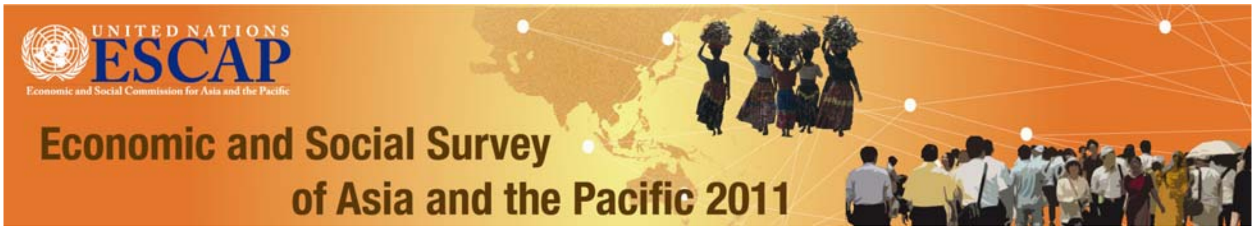

Australia

Briefing Notes for the Launch in Canberra, 5 May 2011

The Australian economy enjoys continuous positive growth

- Australia marked an extraordinary 17 years of continuous economic expansion. Economy grew by 2.7% in 2010 after a growth of 1.3% in 2009. Australia was one of the few developed countries that had weathered the global economic crisis and achieved positive growth during the economic crisis
- Growth in 2010 was broad-based, with the public sector making a major contribution to the process as the result of a sizeable economic stimulus package. Household consumption was also buoyed by the wealth effect of rising asset prices and by employment growth.
- Strong external demand for raw materials, such as coal and iron ore, helped to generate employment, in particular in the mining sector
- Unemployment rate fell to a low of 5.1% in December 2010,with higher demand for labour.

Modest inflationary pressure

- Inflation in Australia rose to 2.8% in 2010 from 1.8% in 2009, partly reflecting the effect of the looser monetary and fiscal policies of the last two years in response to the global economic crisis.
- The marked increase in global commodity prices in 2010 fed into domestic price pressures.
- Import prices have been, by and large, contained due to the strong Australian dollar; consequently, consumer price inflation has been modest

Export growth turns trade balance into surplus

- The strong demand for raw materials and commodities from the Asia-Pacific region was aided by higher prices of a wide range of commodities
- Growing trading links with Asia-Pacific countries, led by demand from China, supported the continued growth of its exports even during the economic crisis of 2008/09 in Europe and North America. China’s share in Australia’s exports has grown from around 5% to over 20% in the past 10 years. China, Japan and the Republic of Korea together absorbed half of Australia’s exports in 2009.

- Despite its impressive growth and export performance, Australia ran a deficit in its current account of around 2.7% of GDP in 2010, requiring the economy to deal with a significant external financing gap with relatively low domestic savings rate
- The currency appreciated against the US dollar, in line with global trends. It steadily appreciated since the beginning of 2009, by over 50% by the end of 2010.

Fiscal consolidation policies

- Australia's fiscal position has been relatively favourable compared to the dire state of public finances in many other countries of the OECD.
- The Government ran a budget surplus of about 1.00%-1.75% of GDP for six years prior to the global economic crisis, leaving substantial fiscal space to launch a large fiscal stimulus package to pre-empt the effects of the 2008/09 global recession.
- Fiscal stimulus in Australia amounted to over 4% of GDP in the two years ending in June 2010, above theG20 average. The stimulus package led to a budget deficit of about 2.4% of GDP in 2009 and 4.1% in 2010.
- Damage caused by floods and cyclones in early 2011 will put further pressure on fiscal balance.

Tightening of monetary policy

- Monetary policy has been progressively tightened since October 2009, much earlier than in other OECD countries, with cash rate raised to 4.75% by November 2010. In the view of the Reserve Bank of Australia, the historically favourable terms of trade, increasingprivate investment and a firming labour marketpose a medium-term risk of higher inflation.

Future outlook

- The economy is projected to grow at 2.3% in 2011, driven by continuing investment growth buoyed by the strong demand for mining sector products in the region
- Higher investment expenditures, in turn, should have positive knock-on effects for the rest of the economy. Consequential employment and income growth should support continued growth of household consumption.
- The economic damage and fiscal burden related to the large-scaleflooding and cyclones in Australia in the first quarter of 2011 will have a significant impact on the above prospects. The Government introduced a flood tax for reconstruction.

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