OECD Economic Surveys: Australia 2026

January 2026
Volume 2026/03

OECD Economic Surveys: Australia 2026

This work was approved and declassified by the EDRC on 25/11/2025.

Please cite this publication as:
OECD (2026), *OECD Economic Surveys: Australia 2026*, OECD Publishing, Paris, https://doi.org/10.1787/d22a1efd-en.

ISBN 978-92-64-37920-6 (print)
ISBN 978-92-64-73141-7 (PDF)
ISBN 978-92-64-51643-4 (HTML)

OECD Economic Surveys
ISSN 0376-6438 (print)
ISSN 1609-7513 (online)

OECD Economic Surveys: Australia
ISSN 1995-3089 (print)
ISSN 1999-0146 (online)

Photo credits: Cover © anek.soowannaphoom/Shutterstock.com.

Corrigenda to OECD publications may be found at: https://www.oecd.org/en/publications/support/corrigenda.html.

Foreword

This Economic Survey was prepared by Geoff Barnard and David Cashin, under the supervision of Sebastian Barnes. Research assistance was provided by Damien Azzopardi and editorial support by Jean-Rémi Bertrand.

This Survey is published under the responsibility of the Economic and Development Review Committee of the OECD. The Committee discussed the draft Survey on 25 November 2025. The cut-off date for data used in the Survey is 14 January 2026.

Information about this and previous Surveys and more information about how Surveys are prepared is available at https://www.oecd.org/en/topics/economic-surveys.html .

Table of contents

FIGURES

TABLES

BOXES

Basic statistics of Australia, 2024

(Numbers in parentheses refer to the OECD average)

LAND, PEOPLE AND ELECTORAL CYCLE					
Population (million)	27.2		Population density per km²	3.5	(39.6)
Under 15 (%)	17.8	(16.7)	Life expectancy at birth (years, 2023)	83.0	(81.2)
Over 65 (%)	17.7	(18.6)	Men (2023)	81.1	(78.6)
International migrant stock (% of population)	30.4	(15.7)	Women (2023)	85.1	(83.8)
Latest 5-year average growth (%)	1.4	(0.5)	Latest general election	2025-May	
2025-May					
Gross domestic product (GDP)			Value added shares (%)		
In current prices (billion USD)	1 799.4		Agriculture, forestry and fishing	2.4	(2.5)
In current prices (billion AUD)	2 727.0		Industry including construction	27.7	(25.3)
Latest 5-year average real growth (%)	2.1	(1.8)	Services	69.9	(72.2)
Per capita (thousand USD PPP, OECD: 2023)[2]	72.6	(59.0)			
GENERAL GOVERNMENT					
Expenditure	38.9	(43.0)	Gross financial debt (OECD: 2023)	57.5	(110.4)
Revenue	36.2	(38.0)	Net financial debt (OECD: 2023)	1.0	(67.1)
EXTERNAL ACCOUNTS					
Exchange rate (AUD per USD)	1.52		Main exports (% of total merchandise exports)		
PPP exchange rate (USA = 1)	1.38		Fuels	33.2	
In per cent of GDP			Minerals	29.1	
Exports of goods and services	23.7	(30.3)	Stone and Glass	7.3	
Imports of goods and services	22.6	(29.9)	Main imports (% of total merchandise imports)		
Current account balance	-2.2	(-0.4)	Machinery and electronics	25.1	
Net international investment position	-22.4		Transportation	16.6	
			Fuels	13.3	
LABOUR MARKET, SKILLS AND INNOVATION					
Employment rate (aged 15 and over, %)	64.2	(58.0)	Unemployment rate, Labour Force Survey (aged 15 and over, %)	4.0	(4.9)
Men	68.1	(65.4)	Youth (aged 15-24, %)	9.4	(11.1)
Women	60.4	(51.0)	Long-term unemployed (1 year and over, %)	0.8	(1.0)
Participation rate (aged 15 and over, %)	66.9	(61.0)	Tertiary educational attainment (aged 25-64, %)	53.1	(41.2)
Average hours worked per year	1 627	(1 736)	Gross domestic expenditure on R&D (% of GDP, 2021, OECD: 2022)	1.9	(3.0)
ENVIRONMENT					
Total primary energy supply per capita (toe, 2023)	5.1	(3.7)	CO2 emissions from fuel combustion per capita (tonnes)	13.0	(7.5)
Renewables (%, 2023)	9.8	(12.5)	Water abstractions per capita (1 000 m³, 2022)	0.6	
Exposure to air pollution (more than 10 µg/m³ of PM 2.5, % of population, 2020)	16.1	(56.5)	Municipal waste per capita (tonnes, 2023)	0.5	(0.6)
SOCIETY					
Income inequality (Gini coefficient, 2020, OECD: latest available)	0.319	(0.315)	Education outcomes (PISA 2022 score)		
Relative poverty rate (%, 2020, OECD: 2022)	12.6	(11.5)	Reading	498	(476)
Median disposable household income (thousand USD PPP, 2020, OECD: 2022)	36.2	(30.4)	Mathematics	487	(472)
Public and private spending (% of GDP)			Science	507	(485)
Health care	10.3	(9.3)	Share of women in parliament (%)	38.0	(33.3)
Pensions (2022, OECD: 2021)	9.0	(9.9)	Net official development assistance (% of GNI, 2022)	0.2	(0.4)
Education (total spending, 2020)	6.2	(5.1)			

Note: The year is indicated in parenthesis if it deviates from the year in the main title of this table. Where the OECD aggregate is not provided in the source database, a simple OECD average of latest available data is calculated where data exist for at least 80% of member countries.

1. OECD aggregate refers to weighted average.

Source: Calculations based on data extracted from databases of the following organisations: OECD, International Energy Agency, International Labour Organisation, International Monetary Fund, United Nations, World Bank.

Executive summary

Key messages

Australia enjoys high living standards, supported by strong institutions and human capital. After a series of macroeconomic fluctuations in the five years since the onset of the COVID19 pandemic that were large by historical standards, the Australian economy is now normalising, but reform is needed to raise productivity growth, improve housing affordability and facilitate the energy transition.

- The budget deficit should be steadily reduced as planned, while improving the efficiency of the tax system and tackling the long-term challenges of ageing and climate-related costs.
- Reducing planning barriers, increasing the supply of affordable housing and avoiding tax and policy settings that boost housing demand would help to address high housing costs in many Australian cities.
- Effective implementation of the Safeguard Mechanism, reducing transport emissions and continuing to expand renewable generation while addressing challenges associated with increasingly intermittent power generation are needed to manage the climate transition.
- Competition has waned across the economy over the past two decades. The Competition Review has begun to address this, but additional measures are needed, including strengthened competition policy enforcement, reduced regulatory fragmentation and greater openness to international competition.

After a period of weak growth, the Australian economy is recovering

Australia has high levels of well-being, but experienced a slowdown in recent years. The economy is now recovering, but long-standing challenges of slower productivity growth, high housing costs and high carbon emissions need to be addressed.

Australia enjoys a high standard of living. This is supported by an open economy, strong institutions and extensive natural resources. Strong educational attainment and human capital have helped to sustain living standards. Output and employment grew at a solid pace in the years prior to the pandemic.

However, productivity growth has been slow in recent decades, while housing costs have risen strongly and carbon emissions remain high. Productivity growth in the 5 years prior to the pandemic was around half the average of the previous half century, although this is partly driven by developments in the mining sector and the expansion of the non-market sector, which is labour-intensive and where productivity is difficult to measure. Shifts in the geopolitical environment and digitalisation will require Australia to adapt. Housing affordability is strained for many Australians, particularly the young, and the climate transition will require additional efforts to meet national objectives.

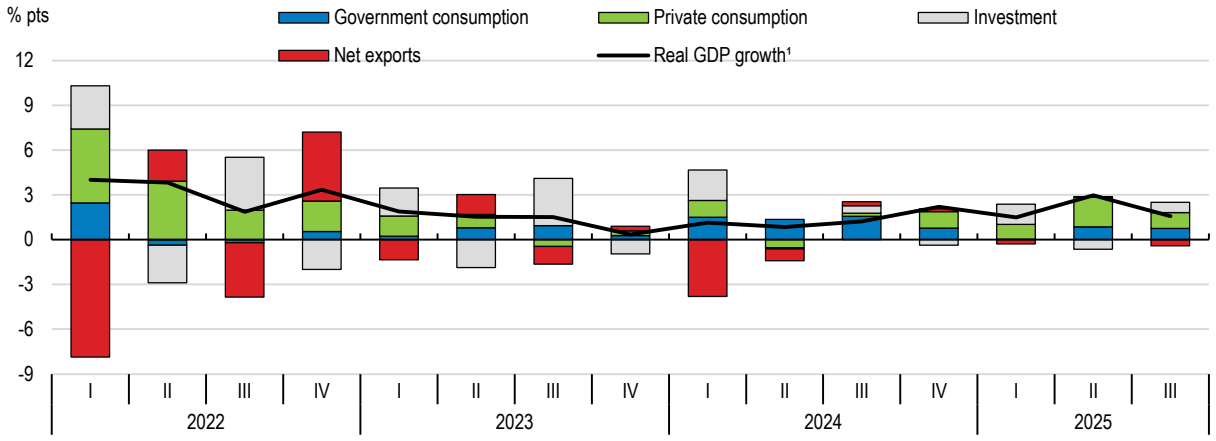
As in other countries, inflation surged and interest rates rose sharply in the wake of the pandemic. The combination of rebounding demand and supply constraints yielded large energy and food price shocks and then broader inflationary pressure, which triggered a tightening of monetary policy.

There was a marked decline in real disposable incomes as inflation surged ahead of nominal wage gains while bracket creep pushed up effective tax rates and mortgage costs soared. Investment has been held down by weak housing investment while higher commodity prices did not yield a boom in business investment (Figure 1). Immigration rebounded strongly following pandemic-related disruption while the unemployment rate has remained below pre-pandemic levels.

The economy will continue to recover in response to the easing of interest rates and the rebound in real disposable incomes. Investment and private demand are set to grow more rapidly as public consumption growth eases (Table 1). Overall, GDP growth is forecast to average a little more than 2% over the coming years, slightly above its trend rate.

Australia faces risks from shifts in the global economy. Exports depend significantly on the strength of demand and construction activity in China. Shifts in global supply chains related to higher trade restrictions in the world since 2025 could impact demand for Australian products.

Figure 1. Demand growth has been weak



1.Quarter-on-quarter annualised rates.
Source: OECD Analytical Database.

StatLink https://stat.link/tlbxs8

Table 1. Growth is projected to recover

Annual growth rates, %, unless specified

	2023	2024	2025	2026	2027
Real GDP	2.0	1.1	1.8	2.3	2.3
Unemployment rate (% of labour force)	3.7	4.0	4.2	4.4	4.5
Inflation (consumer price index)	5.6	3.2	2.7	2.7	2.5
General government budget balance (% of GDP)	-0.8	-2.7	-3.4	-2.8	-2.5
General government gross debt (% of GDP)	55.3	57.6	59.8	61.3	62.3

Source: OECD Economic Outlook 118 database.

Policy support for activity is rebalancing, but fiscal policy needs to address long-term issues

Monetary policy was tightened to address high inflation after the price shocks, but part of the tightening was unwound in 2025 as inflation settled in the target range. The general government budget deficit has widened and is projected to increase further in 2025-26. The planned gradual fiscal adjustment should be implemented by raising spending efficiency and improving the functioning of the tax system.

Interest rates rose sharply as inflation peaked in 2022, but easing began in 2025 as inflation rates returned to the target range. Headline and core inflation were around the official target for much of the past year but have increased in recent months. Given the uncertainty over inflation trends, a flexible and data-dependent approach to monetary policy is warranted for now, but if, as expected, inflation turns back down during 2026, there may be some space for further easing. Recent reforms to strengthen the governance of the Reserve Bank have helped to support more robust decision-making.

Despite higher interest rates the financial system has remained resilient. While household debt is high, mortgage delinquencies have risen only modestly in recent years and remain close to historical norms. The rate of bankruptcies appears

relatively high, but this has not translated into large losses for the banking system.

The general government deficit increased in 2024-25 and is planned to increase further in 2025-26. While this has helped to support the economy during a period of weak private demand, fiscal adjustment will be needed to narrow the deficit to stabilise the debt ratio and to avoid boosting demand once the output gap is closed. The government should implement the planned gradual fiscal adjustment for the coming years using a combination of measures to raise spending efficiency and improve the efficiency and fairness of the tax system.

While Australia has a relatively light government debt burden, long-term pressures need to be addressed. Although the private superannuation pensions are well established and the population remains relatively young, ageing will increase health and care costs. Australia will need to invest further in climate transition and adaptation, while the switch to electric vehicles will lead to lower government revenues in the absence of tax reforms.

Spending restraint can be implemented by raising efficiency and better management of high-cost programmes. Spending growth in the National Disability Insurance Scheme needs to be restrained more effectively, including by better controlling access to support. More systematic reviews of spending and implementation of ongoing efforts to improve evaluation would help.

The tax system is heavily reliant on labour taxes, while making less use of more efficient consumption, property and environmental taxes. The tax system should be rebalanced away from labour taxes by raising Goods and Services Tax rates and making greater use of property and environmental taxes, while easing the burden of income taxes. A system of regular reviews of spending efficiency and the tax system could build on existing ad hoc reviews.

High housing costs would be reduced by removing barriers to supply and tax distortions

Australia's housing is spacious and of high quality, but housing costs in large cities are high. Measures to ease land-use regulations and inefficient practices in the building industry would improve supply, while reforming property taxes would help to dampen property prices.

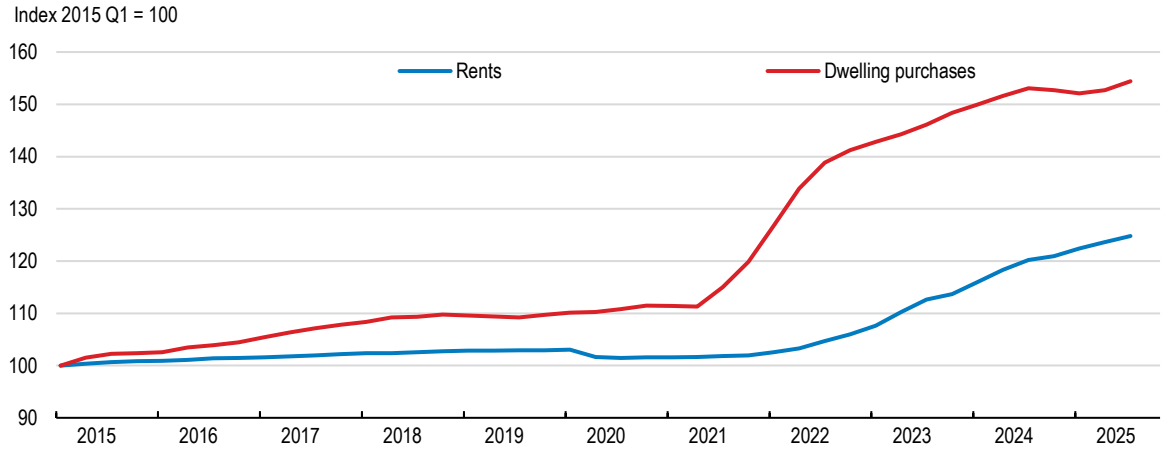
Housing costs are high, particularly in large cities, and have risen rapidly. While housing is spacious and of high quality, costs are relatively high by international comparison and have risen rapidly in the past few years (Figure 2). Housing shortages lead to overcrowding and financial strain, reduce labour mobility, worsen intergenerational equity and increase congestion as people travel large distances to work.

Construction of new homes has failed to respond to higher demand. Land-use restrictions should be eased to allow more and denser housing to be built, particularly along transport corridors, including reducing the scope for local planning decisions to unduly limit supply. The federal government could incentivise more planning flexibility at the local level. Low productivity in the construction sector, including slow adoption of modern practices, increases the costs of new building. Efforts to improve training and support new approaches through building regulations should be prioritised.

Low recurrent property taxes and subsidies contribute to high housing costs, given limited supply. Property taxes can be an efficient way of raising revenue and ensuring that taxation of real estate is aligned with that of other assets. While stamp duties are high, recurrent property taxes are low. A shift from transaction taxes to recurrent property taxes would help to align housing more closely with other assets and other forms of consumption.

Figure 2. Housing costs rose sharply over the past three years

Consumer price index categories: rents and dwelling purchases



Source: Australian Bureau of Statistics.

StatLink https://stat.link/ty2xhr

Australia has made progress on the energy transition, but greater efforts are needed

While per capita greenhouse gas emissions remain high, measures under the 2022 Climate Change Act are contributing to reduced emissions and a shift towards renewables, but further efforts will be needed to reduce transport emissions, manage a higher share of renewables in transport and tackle agricultural emissions.

Recent progress suggests that Australia is on track to meet its 2030 emissions reduction objective, supported by a rapid shift to renewables. Emissions remain high, but efforts to reduce them accelerated with the 2022 Climate Change Act. Australia uses a variety of instruments to achieve emissions reductions. These include support for renewables, a reformed Safeguard Mechanism for large emitters and vehicle efficiency standards. A rapid increase in renewables and declining use of coal for energy production is lowering emissions. Additional reductions could be achieved through greater ambition in the pricing of large-scale emissions.

Australia will need to continue rolling out renewable projects at pace while transforming the grid to manage the intermittency of renewables and find additional ways to reduce emissions. Rapid growth in renewable generation will need to be sustained to meet growing electricity demand and replace coal generation. Australia's ageing fleet of coal fired generators has increased volatility in electricity markets. Large-scale investments are needed to update electricity infrastructure, along with a sustained and rapid increase in renewable generation, storage and firming capacity.

To reduce emissions further, action will be needed in the transport sector and agriculture. Transport emissions continue to rise and Australia is heavily reliant on road transport, while take-up of electrical vehicles is relatively low. Setting a path to gradually raise taxes on motor fuel, including reducing credits for business fuel purchases, would help to encourage a shift to lower-emission modes of transport. Road-user charging could help to manage congestion. Investment in public transport and charging infrastructure, combined with measures to avoid urban sprawl, would help to reduce transport emissions. The agricultural sector is a major emitter of greenhouse gases, and its share is rising. A strategy is needed to reduce emissions in this sector, drawing from leading practices internationally.

Extreme heat events, wildfires and flooding will pose a growing risk to Australia as temperatures rise. Large areas of the country are highly vulnerable to heat risk, while the main cities are located in coastal areas. Australia is relatively well advanced in adaptation policies and insurance coverage, but challenges remain.

Revitalising competition would help to lower prices and boost productivity

Competition has waned across the Australian economy over the past two decades. Business and employment dynamism have declined, while market concentration has risen. The government's Competition Review, launched in 2023, has taken promising steps to address these issues, but further efforts are warranted.

Competitive pressures have weakened over past decades as reform momentum has eased. Many key sectors are highly concentrated. Prices are high and markups have risen. Firm entry and exit rates have declined over time, reducing the dynamism of the economy and weighing on productivity (Figure 3).

While Australia was once regarded as a leader, its competition policy framework has fallen behind the frontier relative to its OECD peers. Competition policy has been less demanding than in other jurisdictions, regulatory barriers to competition remain in place and high levels of regulatory fragmentation across the states and territories reduce competition. This is problematic given the unusual challenges Australia faces in fostering and sustaining competition given its external and internal geographical remoteness.

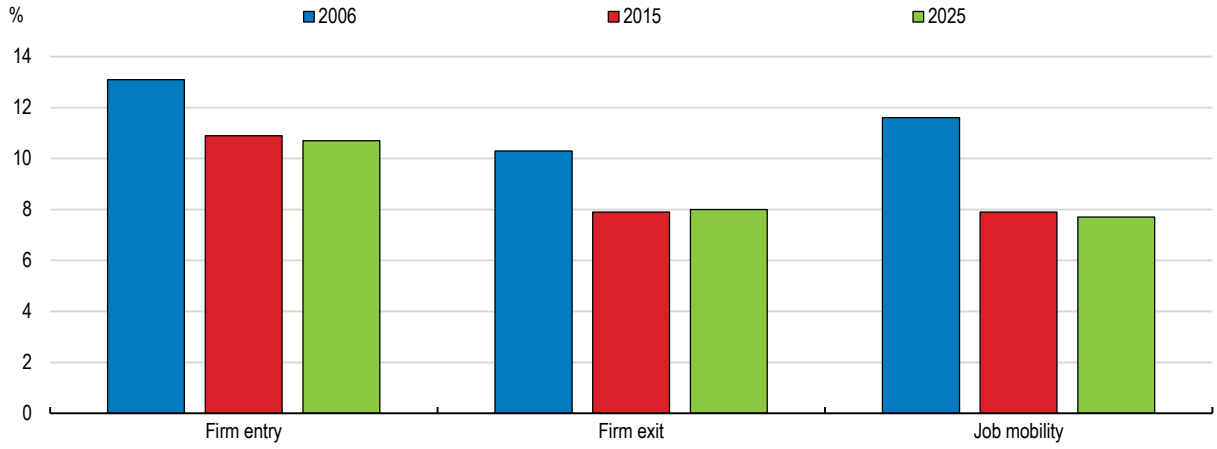
The new merger regime and National Competition Policy (NCP) agenda are positive steps to boost competition. The recently introduced merger regime, including mandatory notification, suspensory requirements and administrative rather than prosecutorial review, brings Australia in line with OECD best practices. Effective implementation of the new regime will be key to its success. The updated NCP agenda also includes Competition Payments to states to reward reform progress, based on past approaches, and should contribute to reduced regulatory fragmentation across states and territories.

The competition policy framework should be strengthened to address entrenched positions. While the merger reform should help to avoid further increases in concentration, it will not directly address existing anti-competitive practices. Despite prohibitions against misuses of market power, enforcement remains relatively light. Stronger measures to tackle abuse of dominance are needed, including reducing legal ambiguity in complex abuse cases and boosting penalties. To support more active pursuit of anti-competitive practices, Australia should undertake more frequent, data-rich and action-oriented market studies, with lead responsibility for such studies being determined on a case-by-case basis between the Australian Competition and Consumer Commission and the Productivity Commission.

Regulatory barriers continue to hold back competition, including differences in state-level regulations. Australia's fragmented licencing and permitting system is particularly cumbersome compared to best practice. To reduce administrative burdens on businesses and workers, there is a need to remove licences that are outdated or duplicative and tailor licences to risk, with streamlined or automatic approval for low-risk activities. Restrictions on foreign direct investment are high and should be narrowed to remove barriers to foreign competitors in the domestic economy. At the national level, the government should adopt an expedited approach to recognising trusted overseas standards to encourage overseas competition.

Key sectors of the economy are highly concentrated and the removal of barriers to new entrants should be a priority. The domestic aviation, telecommunications, banking, digital platforms, supermarket and automobile sectors would benefit from more intense competition. For example, to lower barriers to entry, promote innovation, and enhance consumer choice and competitive pressure in financial services, Australia should continue its push towards ensuring proportionality in the payments licensing framework, with lighter requirements for low-risk providers.

Figure 3. Measures of business dynamism have declined



Source: Australian Bureau of Statistics

StatLink https://stat.link/2x0wr9

MAIN FINDINGS	KEY RECOMMENDATIONS
Maintaining macroeconomic and fiscal stability	
The economy is projected to remain near full employment, with growth close to potential and inflation stable within the target range.	Maintain a data-dependent and flexible approach to monetary policy given the prevailing uncertainties.
There is a sizeable general government structural deficit in a context of rising long-term fiscal pressures related to population ageing and climate change.	Steadily reduce budget deficits as planned through a well-designed combination of expenditure restraint and revenue-enhancing tax reforms.
Australia's tax system relies heavily on labour taxes rather than more efficient consumption, property and environmental taxes.	Broaden the base of the Goods and Services Tax by reducing exemptions and consider increasing the rate, while at the same time reducing reliance on taxes on labour.
Improving housing affordability	
The key factor in the long-term shortfall in housing supply is restrictive land-use regulations, often in the form of building height restrictions and/or minimum lot sizes.	Ease planning restrictions to increase supply and facilitate higher density construction, particularly around transport connections.
Favourable tax treatment of housing and subsidy schemes add to demand, which ultimately increases property prices. Stamp duties (imposed at the state level) are high while recurrent taxes are relatively low and buy-to-let is favourably taxed.	Replace state-based transaction taxes on real estate (stamp duty) with recurrent land taxes; set at levels that align taxation of real estate more closely to that of other assets.
Social housing accounts for about 4% of the housing stock in Australia, down from 6% in 1990 and only about half the OECD average.	Raise the target for social housing and increase public funding.
Revitalising competition	
The previous voluntary notification merger regime allowed many deals to close without ACCC scrutiny.	Ensure successful implementation of the new merger regime, including periodic assessment of notification thresholds, as well as sufficient resources for the ACCC to meet its objectives.
There are relatively few successful competition law cases and penalties are low by international standards.	Enforce competition law more vigorously and consistently by enhancing ACCC enforcement capacity, simplifying the legal framework and increasing average penalties.
With widespread competition challenges, market studies are needed to identify barriers to competition and anti-competitive practices.	The ACCC and the Productivity Commission should make systematic use of market studies.
Differences in state-level regulation reduce competition, raise costs for firms—especially SMEs—and limit labour mobility.	Continue to pursue regulatory harmonisation across states and territories through the National Competition Policy (NCP).
Australia's licensing and permitting systems are relatively cumbersome compared to best practice and restrictions on FDI are high compared to other OECD countries.	Remove licensing requirements that are no longer necessary and base requirements on risk.
Competition from foreign entrants or suppliers is hindered by Australia maintaining different regulatory standards compared to larger international markets.	Adopt an expedited approach to recognising trusted overseas standards and reduce regulatory restrictions on FDI.
The banking and payment sectors rely on stringent licensing and capital requirements to safeguard system resilience. However, these requirements result in high barriers to entry.	Ensure proportionality with lighter licensing requirements for low-risk financial services providers and staged pathways to full authorisation for smaller entrants.
Addressing the climate transition	
Transport emissions remain high and taxes on motor fuels are relatively low, contributing to the low take-up of low emission vehicles.	Set out plans to gradually raise taxes on motor fuels, including reducing credits for business fuel purchases.
While emissions are falling in line with 2030 targets, particularly in the energy sector, further efforts will be needed to reduce emissions over the long term, including in transport and agriculture.	Develop a strategy to reduce emissions from agriculture, drawing on experience in the leading countries.

1 Key policy insights

Geoff Barnard, OECD

In the wake of a series of major shocks and a tightening of monetary policy to curb inflation, the Australian economy is returning to its trend growth path after a period of weak demand. Employment is high, inflation has been in the target range for most of the past year, albeit with a recent move above that range, and real incomes are growing again. Fiscal deficits have widened, but should narrow in the next few years in line with the fiscal frameworks at federal and state levels. However, longer-term fiscal pressures will need to be addressed through a combination of expenditure restraint and tax reforms. The housing affordability problem needs to be tackled through measures that facilitate permitting, boost housing supply and ensure effective taxation of property. Carbon emissions, while still high, are falling towards Australia's 2030 target, and new targets for 2035 reflect a high degree of ambition, but further policy efforts will be needed to achieve the goal of Net Zero by 2050. Challenges remain to expand the share of renewables in the electricity grid and manage the transition as coal exits the electricity system, reduce emissions related to transport and agriculture and ensure that land-use regulation reflects climate risks

Australia enjoys relatively high per capita income and well-being, supported by macroeconomic stability and strong institutions, a large natural resources sector and dynamic services activity. While the Australian economy was resilient to the pandemic and less exposed to the energy and food price shocks than many economies, it experienced a marked slowdown in 2023-24. The economy is now recovering and set to grow broadly in line with pre-pandemic trends in the years ahead. The general government fiscal deficit has widened, but is set to narrow in the coming years as growth picks up and through a modest consolidation at both federal and state levels. Nevertheless, longer-term fiscal challenges will remain.

A number of factors weighed on the growth of productivity prior to the pandemic and renewed policy efforts are needed to re-invigorate business dynamism, including strengthening competition (see Chapter 2). Housing costs are high and there are shortages in major cities, driven in part by policies that boost demand while policy barriers impede the supply of new housing. Per capita carbon emissions are high, although falling broadly in line with Australia's 2030 emissions target. Additional efforts will be needed to achieve longer-term objectives, including on transport and agricultural emissions, and to ensure the reliability of electricity supply with a high share of renewables.

Section 1 sets out recent macroeconomic and financial developments and forecasts. Section 2 discusses monetary and financial policies and risks. Section 3 focusses on fiscal policy developments and policy requirements. Section 4 sets out the challenges to sustain strong long-term growth. Section 5 assesses policies to boost housing affordability. Section 6 considers progress in climate mitigation and adaptation. Section 7 covers anti-corruption policies.

1.1. Following recent shocks and fluctuations, Australia's economy is normalising

Over the past five years, the Australian economy faced a sequence of major shocks that have hit the global economy. This began with the pandemic in 2020-21 and was followed by the major energy and food price shock associated with the start of the war in Ukraine in 2022, then the sharp rise in interest rates as monetary policy was tightened from early 2022 in response to the inflation shock. These shocks resulted in a sequence of macroeconomic fluctuations that were highly unusual for Australia: it experienced its first negative year-on-year inflation followed by its highest inflation rate in decades, its first year of negative GDP growth since 1991 followed by its fastest annual growth since 1984 and then another sharp slowdown, its highest rate of unemployment in this century followed by the lowest rate since 1974, and wide swings in budget balances, population growth and other variables. After this half-decade of highly unusual macroeconomic fluctuations, there are numerous signs that the economy is normalising. Following a period of sluggish growth and weak domestic demand, particularly in 2023 and 2024, the economy is now recovering towards its trend path. While employment growth has remained relatively robust, overall productivity growth has been relatively weak, although some normalisation is in prospect on these fronts. Australia's resilience during the shocks of the past half-decade fits with its long-term experience of low variance of GDP growth and avoidance of recessions, supported by prudent fiscal policy and credible monetary policy, with idiosyncratic institutional features such as the system of mortgage offset accounts also helping to stabilise economic fluctuations.

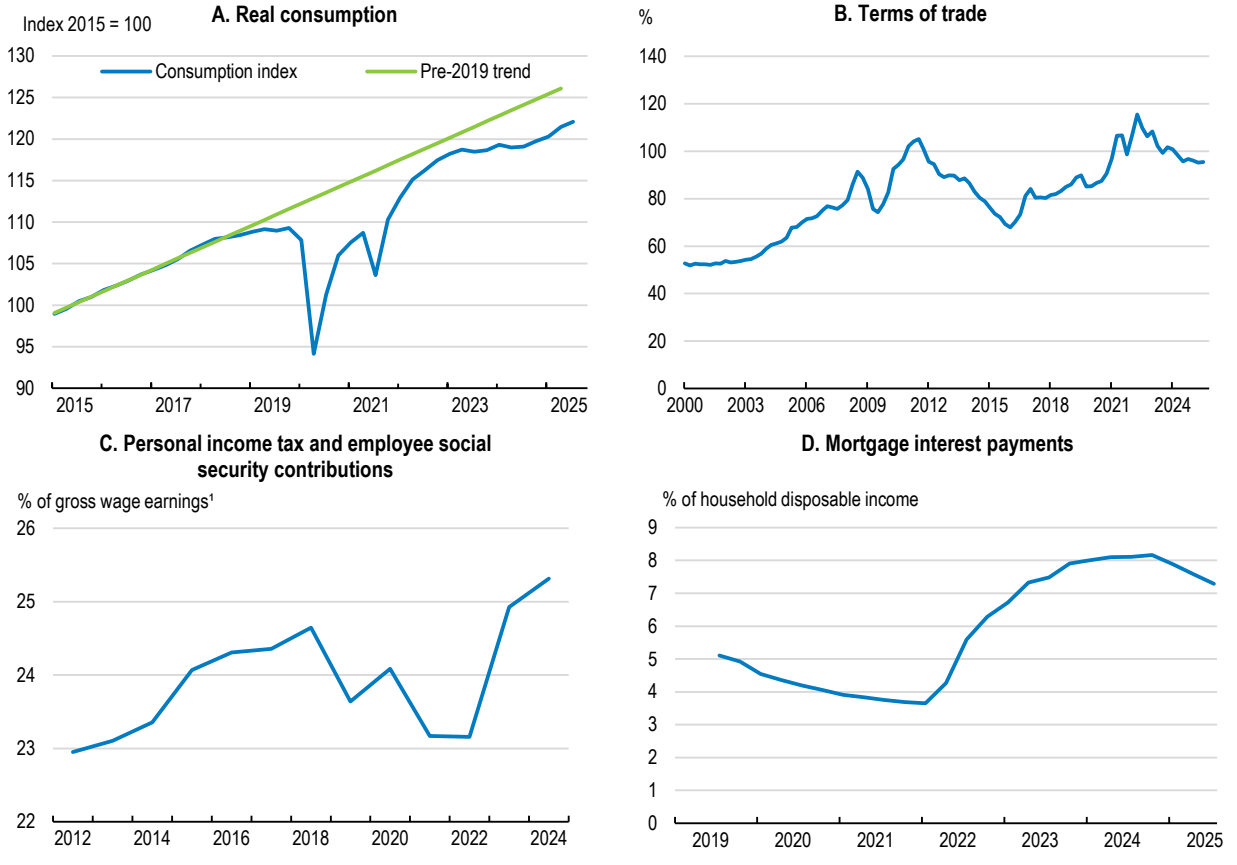
1.1.1. Growth has been relatively weak since 2022

GDP growth slowed to around 1% in annual terms during late 2023 and the first three quarters of 2024, well below its trend rate of around 2%. After a sharp drop in economic output in 2020, the reopening of the economy yielded a rapid recovery of GDP in 2021-22. However, the strong rebound in global demand, combined with supply-constraints, gave rise to large shocks to energy and food prices and led to higher inflation. The tightening of monetary policy that followed triggered some correction in the housing market, and combined with a modest tightening of fiscal policy, a slowdown in consumption growth. Non-residential private investment growth was resilient over 2022-24, but higher commodity prices did not trigger an

investment boom, as had been seen in some past episodes. Although Australia was less exposed to the energy shock than many other OECD countries given its energy mix and relatively low share of energy in the consumption basket, the ultimate impact on the economy has been relatively strong.

Real aggregate consumption was broadly flat between early 2022 and late 2024, despite rapid growth of the population driven by a surge in immigration after an interruption during the pandemic (Figure 1.1 Panel A). The softness of consumption growth largely reflected a sharp fall in real disposable household income which, despite some recovery in recent quarters, remains at its 2019 level in per capita terms and well below its pandemic-era peak. In contrast, while many OECD economies experienced falls in real wages and real disposable household incomes when inflation surged in 2021-23 as price rises outpaced nominal income gains, real incomes have risen since 2022 as nominal wages have tended to catch up with higher prices. The terms of trade worsened as the spike in commodity prices was unwound from mid-2022 onward (Figure 1.1 Panel B). A tightening of the fiscal stance, including through bracket creep that raised effective tax rates (Figure 1.1 Panel C), further contributed to depressing household incomes. Australian households faced higher interest costs due to higher mortgage rates given that variable rate mortgages are the norm and household debt is relatively high (Figure 1.1 Panel D). The rapid increase in the price level, combined with Australia's relatively inertial wage setting, with multi-year agreements being common, further depressed household incomes and spending in real terms. The impact on consumption was partly mitigated by pandemic-era savings and a fall in the household savings rate from around 6% in the years prior to the pandemic to around 2-3% in 2023 and 2024.

Figure 1.1. Bracket creep, rising mortgage costs and worsening terms of trade hindered household consumption growth in recent years

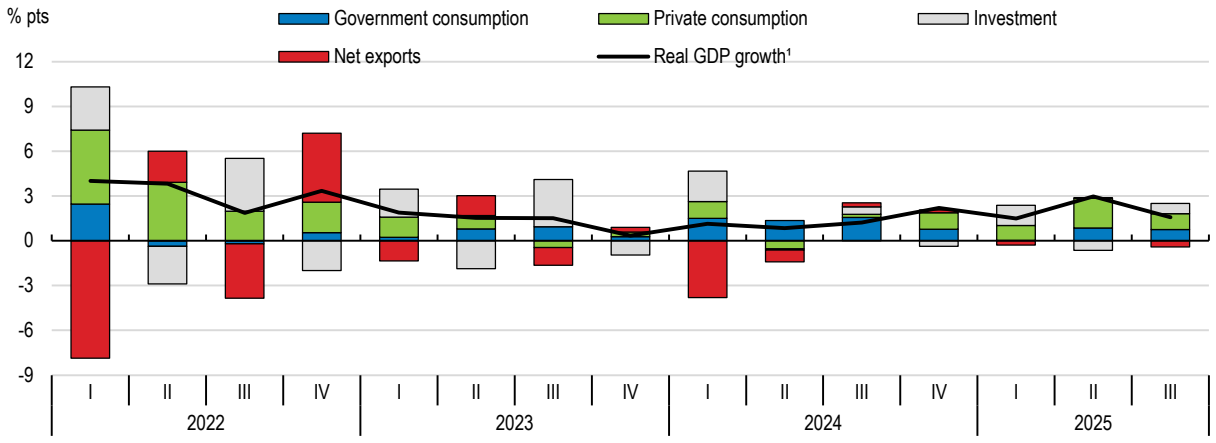


1. Married couple, one spouse employed, 100% of average gross earnings.
Source: OECD Analytical Database; OECD Taxing Wages 2025; and Australian Bureau of Statistics.

StatLink https://stat.link/rclv3q

The main offset to the slowing of household consumption growth from the beginning of 2022 through late 2024 was robust growth in government expenditure, which included cost-of-living support to households (Figure 1.2). In the absence of this impetus, Australia might well have experienced a recession during 2023-24. As it was, by the third quarter of 2024, year-on-year GDP growth had fallen to its lowest rate in 33 years, outside of the COVID episode. External demand has been erratic over the past few years, with a pick-up in export growth in 2023 but a slowing in 2024 that has continued into 2025.

Figure 1.2. Demand growth has been weak



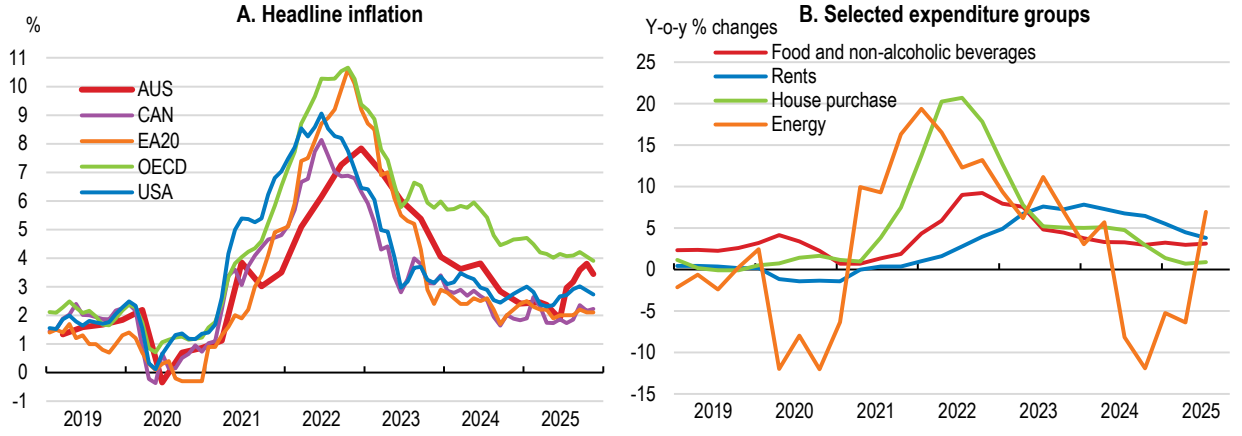
1. Quarter-on-quarter annualised rates.
Source: OECD Analytical Database.

StatLink https://stat.link/tlbxs8

1.1.2. Inflation returned to target before a recent upturn

With the initial energy and food price shocks, inflation returned in the second half of 2021 and rose further with the second big wave of international energy price rises in 2022, after the beginning of the war in Ukraine. Headline inflation peaked at close to 8% in late 2022, a somewhat lower and later peak than in many other OECD economies (Figure 1.3Panel A). Energy and food prices have a lower share in the Australian consumption basket than in some other OECD economies, and natural gas prices in particular rose by much more in Europe than in Australia. The fallback in inflation was less rapid in Australia than in many other OECD economies, in part reflecting the persistence of the rise in housing costs. The prices of newly-built houses, which are included in the CPI basket and which were affected by the surge in raw materials prices, continued to push inflation up in Australia during 2022, while rents surged during 2022-24, reflecting both an immigration-driven surge in population growth and the passing on of increases of mortgage costs by landlords as interest rates rose. On the other hand, wage pressures have been more muted than in many other advanced economies. Headline inflation returned to the target band of 2-3% in late 2024, before moving back above the range in the third quarter of 2025 as energy rebates were withdrawn. Underlying measures of inflation remained near the top end of the target range in the September quarter.

Figure 1.3 Inflation has moderated considerably as energy and food price pressures eased



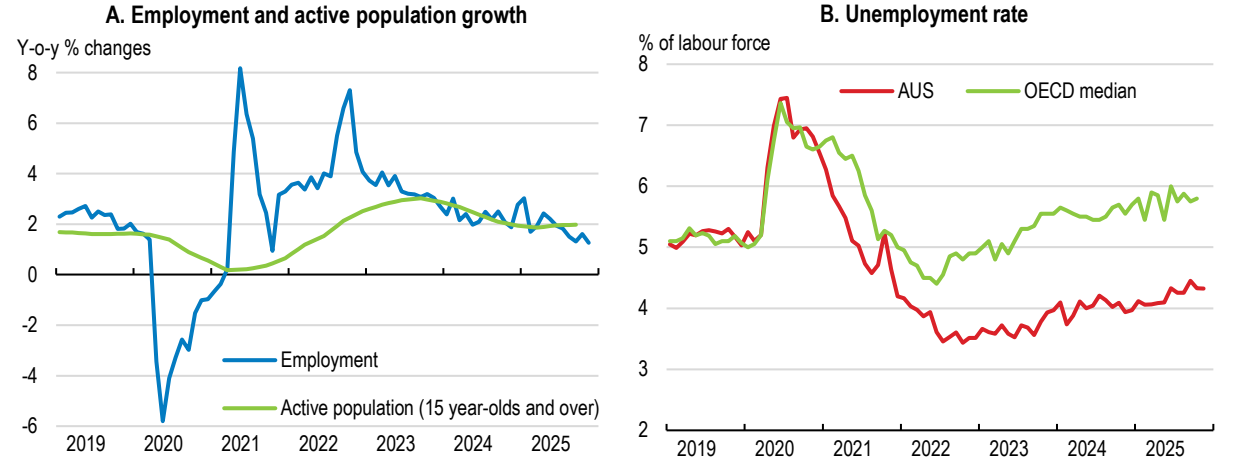
Source: OECD (2025) Consumer price indices (CPIs, HICPs), COICOP 1999; and ABS.

StatLink https://stat.link/bn2oe6

1.1.3. Employment growth has been resilient, but real wage growth has been weak

Employment growth has been strong following the pandemic and is broadly in line with pre-2019 trends (Figure 1.4 Panel A). The number of people employed and labour market participation as a share of the working age population are at record highs, as in many other OECD countries. Labour force participation and immigration have played a key role in labour market dynamics. COVID-era restrictions led to a slump in net migration, contributing to very high participation rates as the economy re-opened. Immigration grew strongly from 2022 after restrictions eased, contributing to strong growth of the working-age population and employment, even as aggregate demand growth has been subdued. The longstanding trend towards higher female labour force participation rates has also boosted participation. Despite the rapid growth in labour supply, the unemployment rate has increased by only around 1 percentage point and remains well below pre-pandemic levels (Figure 1.4 Panel B). As in many other OECD economies, these unemployment rates are low by historical standards, a little below those seen prior to the Global Financial Crisis in Australia but otherwise at levels last seen in the 1970s.

Figure 1.4. Job growth has remained strong and unemployment, though rising, remains low



Source: OECD Labour force statistics; and Australian Bureau of Statistics.

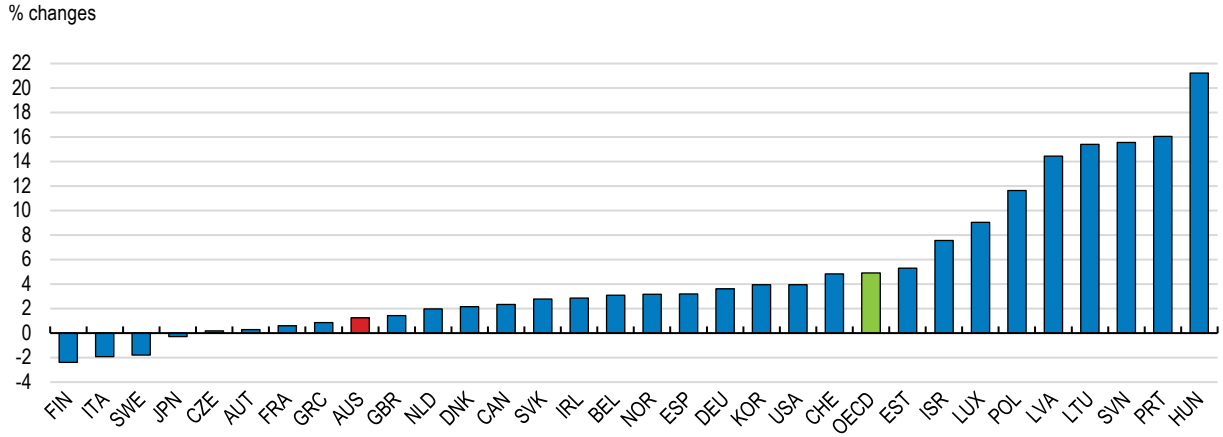
StatLink https://stat.link/04pe25

Rapid labour force growth from the end of the pandemic onward was more than matched by strong labour demand, yielding unprecedently strong average annual employment growth of 3.9% in the four years from the second quarter of 2020. The combination of high labour demand and sluggish overall growth is in part explained by the relatively strong performance of labour-intensive sectors of the economy, including parts of the services sector and healthcare and aged care activities.

Real wage growth has been weak in recent years, despite the tightness of the labour market, with labour shortages in sectors such as construction and healthcare triggering an adjustment of arrangements for employer-sponsored visas. Despite the acceleration of inflation in 2021-22, nominal wage growth initially remained similar to pre-pandemic norms of about 3% before picking up in 2023, but still lagging the rise in prices. This reflects the fact that Australia's wage-setting is relatively inertial: with a high proportion of workers covered by multi-year collective bargaining agreements, the pace of nominal wage increases responds more slowly to shifts in inflation and other factors than in most peer economies. Over the 3¾ years to the third quarter of 2025, real hourly wages in Australia fell by 2.6%, a larger decline than in almost any other OECD economy, leaving real wages little changed from pre-pandemic levels (Figure 1.5).

Figure 1.5. The growth of real wages and incomes since the onset of the pandemic has been weak both in absolute terms and relative to most other OECD economies

Cumulative real wage growth[1], 2020Q1-2025Q3

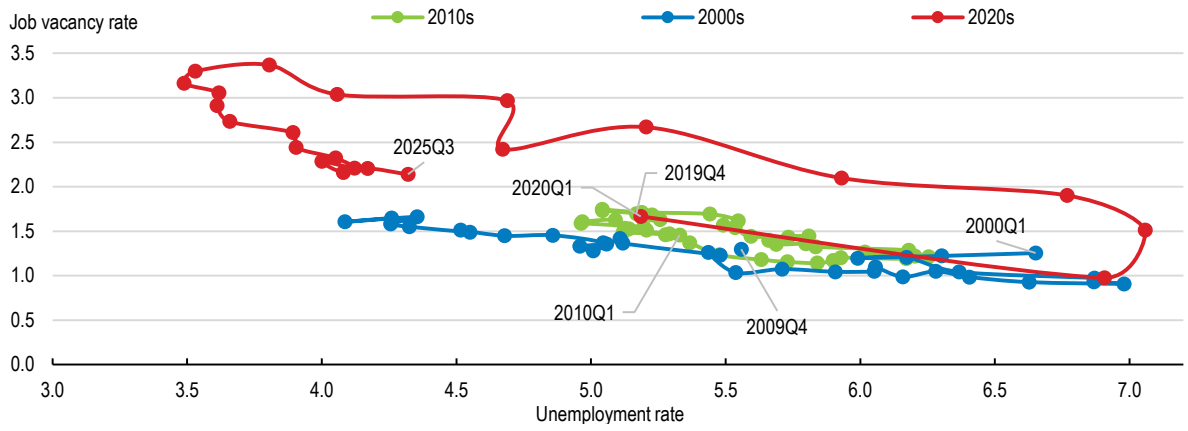


1. Real wages denote wage compensation per employee deflated by the consumer price index.
Source: OECD Analytics Database.

StatLink https://stat.link/ce0rdw

Labour market shortages have eased over the past three years, reflecting the sluggishness of domestic demand growth. As in many other advanced countries, vacancies were very high after the pandemic even relative to the low level of unemployment, as illustrated by the upward shift in the Beveridge Curve, the relationship between vacancies and unemployment (Figure 1.6). In recent quarters, however, the ratio of the vacancy rate to the unemployment rate has converged towards pre-pandemic norms, another aspect of the ongoing normalisation of macroeconomic conditions.

Figure 1.6. Australia's Beveridge Curve shifted in the 2020s but is normalising



Note: the job vacancy rate is measured as the ratio of job vacancies to labour force aged 15-year-old and over. Missing job vacancies data for 2008Q3 to 2009Q3.
Source: Australian Bureau of Statistics.

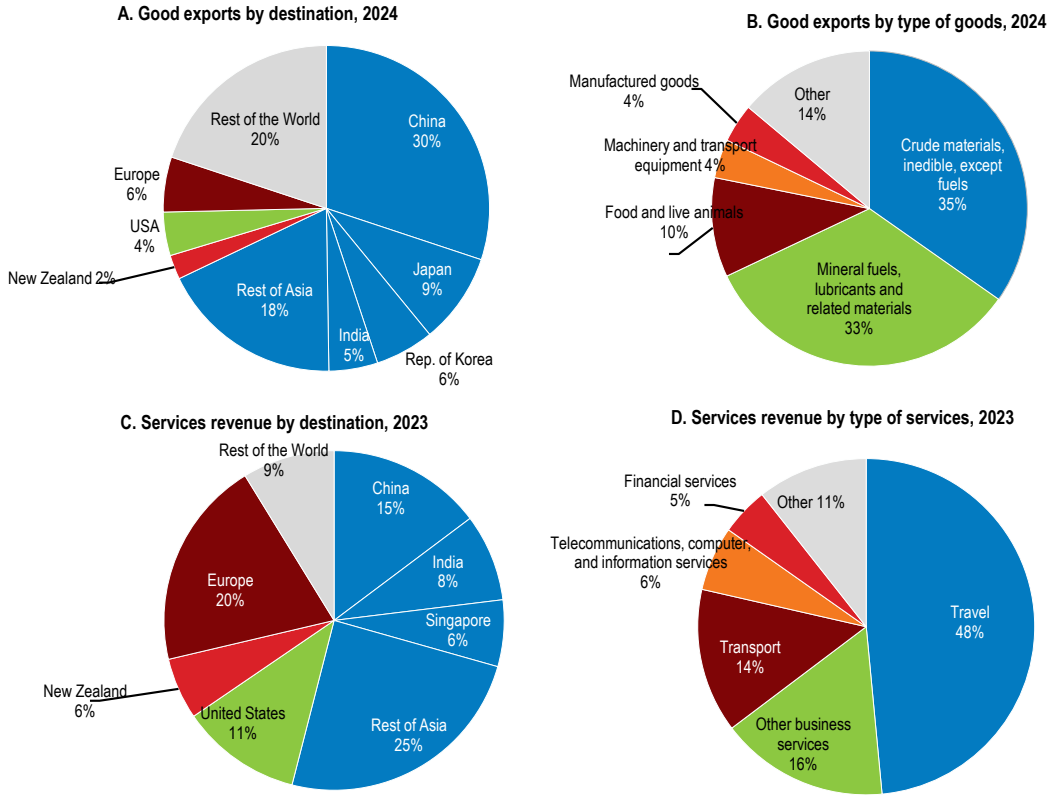
StatLink https://stat.link/t2fs0j

1.1.4. Exports have been driven by developments in commodity prices

The contribution of exports to growth has been weaker in recent years than prior to 2019. Commodities and energy account for two-thirds of Australia's goods exports (Figure 1.7 Panel B). The surge in coal prices following the Russian invasion of Ukraine boosted the price of Australian exports. Export volumes, however, have been relatively weak due to slower growth of demand in Australia's export markets and China's informal ban of Australian coal imports from 2020 to 2023. Over the past three years, improvements in the terms of trade have been reversed, with about two thirds of the positive terms-of-trade swing that took place between 2019 and mid-2022 being unwound by the second quarter of 2025. Exports of education services have tracked the variation in the number of foreign students. Asia accounts for nearly three quarters of Australia's goods exports (Figure 1.7 Panel A) and more than half of its service exports (Figure 1.7 Panel C). Australia has benefitted from a long period of strong growth in demand from China and other rapidly growing Asian economies, although this has moderated as Chinese growth has slowed and these economies pursue the energy transition. In particular, the extended property sector slump in China negatively impacted household wealth of Chinese travellers and this was reflected in sluggish Australian travel service exports – tourist arrivals remain below their pre-pandemic levels.

Since April 2025, a 10% US tariff now applies to most Australian manufactured goods with steel and aluminium at 50%. The small share of the United States as a direct export destination (4.3% of goods exports in 2024) illustrates that Australia's main exposure to the shift in US trade policy in 2025 comes not from a potential loss of exports to the United States but to indirect effects on demand for commodities by China and other Asian economies.

Figure 1.7. Asia accounts for the bulk of Australia's trade



Note: Data for Panels A and B are collected on the basis of the Standard International Trade Classification (SITC); data for Panels C and D are collected according to the Balance of Payments methodology.
Source: United Nations Comtrade database; and OECD International Trade in Services database.

StatLink https://stat.link/udrmgh

Despite relatively modest export volume growth, the current account balance improved from an average deficit of around 3% in the 5 years up to 2019 to around 2% in 2024, having been close to balance in 2022 and 2023 and in surplus in the COVID-affected years of 2020-21. This largely reflects the even greater weakness of imports due to weak consumption and, especially, the rise in export prices in 2021-22 (partially reversed since). The effective nominal exchange rate has been broadly stable over this period.

In the longer term, the ability to continue to export commodities remains key to Australia's exports, terms of trade and living standards. With China growing less quickly and possibly shifting towards less resource-intensive growth and away from coal-fired power generation to renewables, the key driver of price gains for Australia's main export commodities appears to be dissipating. Even if the extraordinary impetus to Australian minerals exports from China's exceptional growth surge over the past 35 years is waning, however, Australia remains well placed to benefit from its location in a high-growth region, which includes India.

1.1.5. Economic growth will pick up further as inflation stabilises

GDP growth has picked up since late 2024, marking the beginning of a recovery. Given renewed real wage growth, a continued rebound in real disposable household income and lower interest rates, private consumption growth is expected to pick up further in 2026-27, more than offsetting a planned slowdown in government consumption growth. Some interest-rate-sensitive investment, such as housing, is already rebounding in 2025. Non-mining business investment grew by 8.6% over the year to the third quarter of 2025, partly reflecting strong growth in investment related to artificial intelligence and digitalisation. The growth of mining business investment was weaker, 2.5% over the past year, as some large liquified natural gas (LNG)

projects reached completion. Public investment, particularly in infrastructure, has been an important driver of investment growth over the past two years, but is expected to slow, reflecting both fiscal constraints at the state level and the completion of some large projects. (Table 1.1).

A further recovery in private consumption and investment growth in 2026 is projected to push GDP growth up to 2.3% in 2026, roughly in line with potential. Employment growth and unemployment rate are anticipated to remain around their current levels, while inflation will stay close to the mid-point of the target range. Growth appears to be converging to rates similar to those prior to the pandemic, while the level of GDP is broadly on the same trajectory. This suggests that there are few remaining cyclical imbalances with inflation expected to stabilise near target and interest rates close to estimates of the natural rate.

Table 1.1. Economic recovery is projected to continue

	2022	2023	2024	2025	2026	2027
	Current prices AUD billion	Percentage changes, volume (2022/2023 prices)				
GDP at market prices	2 483.6	2.0	1.1	1.8	2.3	2.3
Private consumption	1 232.3	2.4	0.7	2.0	2.3	2.3
Government consumption	532.5	1.9	4.9	3.3	2.3	2.0
Gross fixed capital formation	568.1	5.1	2.2	1.1	2.3	2.7
Final domestic demand	2 332.9	2.9	2.0	2.0	2.3	2.3
Stockbuilding[1]	27.2	-0.9	0.1	0.1	0.0	0.0
Total domestic demand	2 360.1	1.9	2.1	2.1	2.3	2.3
Exports of goods and services	672.1	6.9	1.0	1.2	3.1	3.0
Imports of goods and services	548.6	6.7	5.7	2.1	3.4	3.1
Net exports[1]	123.5	0.4	-1.0	-0.2	0.0	0.0
Memorandum items						
GDP deflator		3.5	2.7	2.4	2.2	2.4
Consumer price index		5.6	3.2	2.7	2.7	2.5
Core inflation index[2]		5.4	3.7	2.9	2.6	2.5
Unemployment rate (% of labour force)		3.7	4.0	4.2	4.4	4.5
Household saving ratio, net (% of disposable income)		2.6	3.4	4.6	4.7	4.5
General government financial balance (% of GDP)		-0.8	-2.7	-3.4	-2.8	-2.5
General government gross debt (% of GDP)		55.3	57.6	59.8	61.3	62.3
Current account balance (% of GDP)		-0.2	-1.9	-2.0	-2.2	-2.2

1. Contributions to changes in real GDP, actual amount in the first column.
2. Data refer to trimmed mean inflation calculated by the Australian Bureau of Statistics, excluding the top and bottom 15% of the distribution of price changes.
Source: OECD Economic Outlook 118 database.

1.1.6. There are risks from shifts in the global economy

Australia's growth outlook depends in part on developments in the international economy and it is sensitive to global trade and financial conditions (Table 1.2). The more restrictive trade policies implemented by the United States and internationally in 2025 have potentially important implications for the global trading system. They may, in particular, affect the economy of China, Australia's largest trading partner by far. Lower demand from China for Australia's main export commodities could weigh on national income and the fiscal position, while if Chinese export prices are cut to gain market share elsewhere as exports to the United States fall, goods price inflation in Australia could be lower. A possible disruption of existing supply chains resulting from the ramping up of trade-restricting measures could lead to higher prices. Trade frictions could trigger a sharp correction in major financial markets, which would be expected to have negative implications for Australian economic activity, even if the drop in global financial asset prices in April 2025 had no material impact, as it

proved to be short-lived. Climate-related risks, to which Australia is particularly exposed, are becoming increasingly macro-relevant through the risk of drought and extreme weather events such as extreme heat, wildfires, high rainfall and coastal flooding.

Table 1.2. Events that could entail major changes to the outlook

Shock	Likely impact	Policy response options
A continuation or worsening of the global trade tensions	Lower demand for Australian export commodities directly or weaker demand in key export markets. Possible disruption of supply chains.	Improve the resilience of supply chains by increasing diversification. Collaborate with other countries, including within the WTO, to protect an open global trading system. Provide support to affected workers and regions, while supporting diversification and development of other export categories.
Global contagion from a financial crisis in a major economy	Sharp correction in equity prices, aggravated uncertainty, deterioration in consumer and business sentiment, fall in prices of Australia's main export commodities.	Lower policy interest rates, allow automatic stabilisers to work (implying temporarily higher fiscal deficits), implement liquidity support measures and release capital buffers.
A severe climate-related disaster	Extreme-weather events associated with climate change, including destructive storms, heat waves, forest fires and droughts, are becoming more frequent and more costly. Economic activity is concentrated in a few coastal cities.	Improve monitoring and forecasting of climate hazards and ensure that the information is widely disseminated. Improve the resilience of infrastructure to climate change. Ensure that adequate contingency plans are in place.

1.2. Monetary and financial policies are adapting to shifting conditions

1.2.1. Monetary policy should move from a restrictive to a neutral stance

The Reserve Bank of Australia (RBA) raised policy rates repeatedly beginning in 2022 in the face of surging inflation (Figure 1.8). Since May 2022, the RBA also ceased to replace maturing bonds acquired under its quantitative easing programmes, allowing its balance sheet to contract. As in many other countries, the tightening of policy from 2022 was among the sharpest in recent decades, albeit somewhat smaller in scale in Australia than most other advanced economies. The thirteen increases in the policy rate from May 2022 through November 2023, bringing the rate to 4.35%, shifted the monetary policy stance from accommodative to restrictive. Estimates of the neutral nominal rate range quite widely, but are clustered around 3%, with the model average estimate of the RBA currently at 3.1%.

Despite the scale of the policy tightening, the unemployment rate has increased by only about one percentage point from its mid-2022 lows. At least as regards labour market conditions, Australia was able to achieve a soft landing, reflecting in part the credibility of monetary policy, which helped to keep medium-term inflation expectations well anchored in the RBA's target range. As shown in Figure 1.6, a good part of the impact of tighter monetary policy on labour markets was manifested in a decrease in vacancies rather than job losses. Although the impact of the tightening of monetary policy on unemployment was relatively limited, the strong increase in interest rates did curb household consumption and housing investment in Australia. Indeed, despite the rise in interest rates being somewhat smaller than in Europe and North America, the slowdown in the growth of private demand was more pronounced in Australia, which could partly reflect the high share of variable-rate mortgages and muted nominal disposable income increases. The prevalence of offset and redraw accounts could have an ambiguous effect: while they allow mortgage-holders to reduce their mortgage interest bill by saving more into offset accounts when rates are higher, some households may draw down on these buffers to smooth consumption as rates increase.

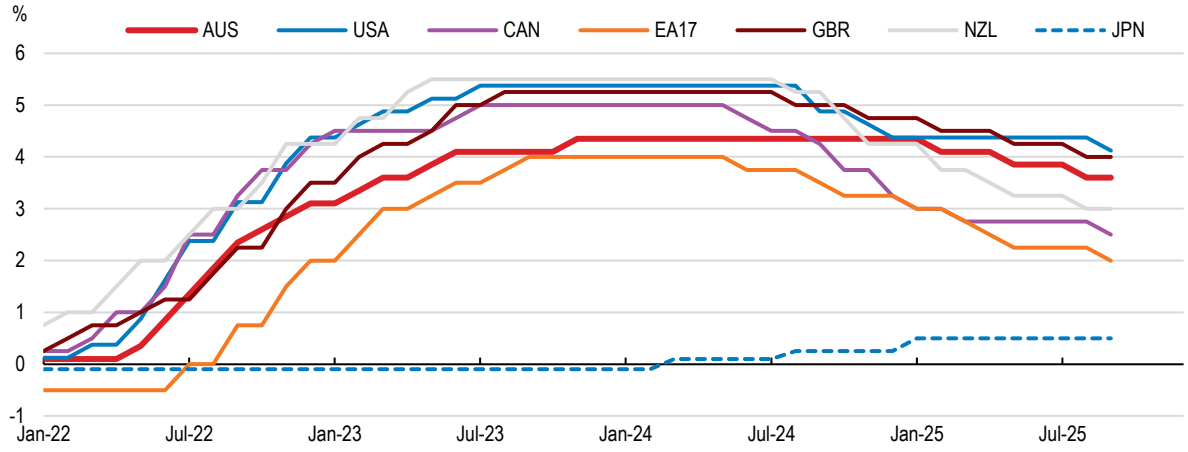
With inflation converging on target and private demand growth weak, the RBA made a first policy rate cut in February 2025, making it the last major central bank to begin easing policy, but consistent with the later timing of the peak in inflation and uncertainty about how quickly inflation was returning to target, with housing

inflation in particular remaining stubbornly high. Two further 25 basis point cuts followed in May and August 2025. Since then, there has been an unexpectedly marked upturn in inflation in the third quarter of 2025, with year-on-year core (trimmed mean) inflation picking up to 3.0% from 2.7% in the previous quarter. However, with labour market conditions continuing to soften gradually, inflation projected to return to the mid-point of the target range over the coming few quarters and inflation expectations well anchored, the available evidence suggests that policy settings could be eased modestly further in 2026, consistent with achieving a broadly neutral stance if conditions evolve as projected. However, given the upside surprises to inflation readings in recent months, a data-dependent and flexible approach to monetary policy should be maintained.

In 2024, the RBA adopted a new monetary policy implementation framework based on an ample reserves regime. This does not represent a shift in the monetary policy stance, but rather an evolution in how the RBA implements policy, as the level of banks' reserves continues to fall after the pandemic-era surge. Under the shift from the previous excess reserves regime in place since March 2020, banks will make more use of private markets and less of the RBA's Exchange Settlement balances – reserves. The RBA's ongoing approach of allowing its bond holdings to mature will, other things equal, continue to reduce the level of bank reserves. The RBA aims to continue to meet banks' demand for reserves, while keeping the policy rate (cash rate) close to target. This evolution in approach is similar to that of some other advanced economy central banks, including the European Central Bank and the Bank of England.

Figure 1.8. An easing cycle is underway

Policy rates



Source: OECD Analytical Database.

StatLink https://stat.link/rjz0al

Recent reforms of the RBA's governance, following a 2023 review, have clarified the RBA's mandate and enhanced transparency and governance, which were already fairly strong. The new Monetary Policy Board, separated from the Governance Board, has allowed the RBA to enhance the technical expertise of the rate-setting body, creating scope for more informed debate on policy decisions. While not unique among advanced economies, the retention of the possibility of ministerial override of RBA policy decisions in the new legislation means, however, that central bank independence remains incomplete, even if this provision remains unlikely to be invoked. The Treasurer's statutory power to override the Reserve Bank has never been used and involves several checks and balances, including the obligation to notify Parliament. However, given the importance of the independence of central banks to ensure price stability, providing an avenue that future governments could use to overrule the central bank creates a risk. Other independent central banks have proven able to manage challenging crises within their mandates. To safeguard central bank independence, the opportunity of the next review of the central bank law should be used to remove the Treasurer's right to override decisions

of the Monetary Policy Board. In addition, the ex-officio inclusion of the Treasury Secretary on the Monetary Policy Board, even though recommended in the independent review and despite the fact that the Treasury Secretary is required by law to act in an independent capacity as a member of the Board, creates additional questions about government influence over monetary policy decisions. Although this feature could help with the coordination of fiscal and monetary policy, there are other mechanisms for ensuring such coordination, including information sharing and joint research.

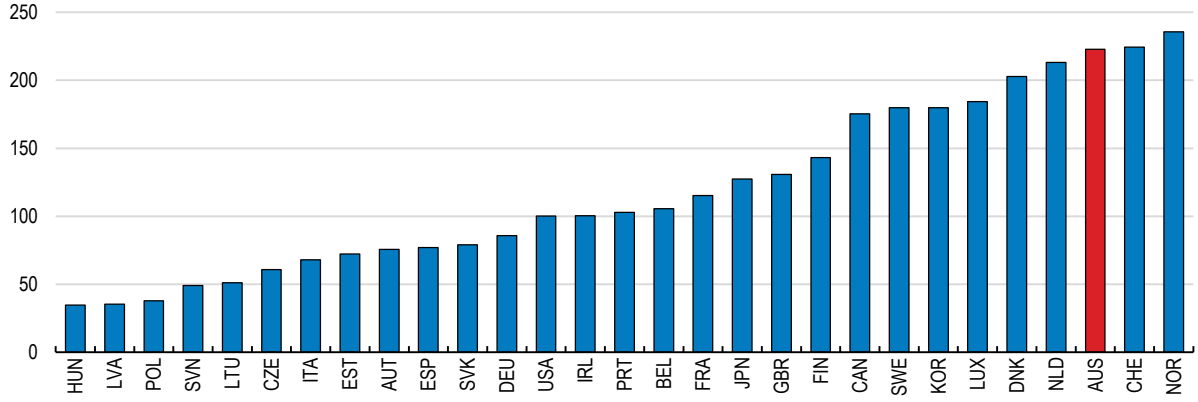
One area where coordination between Treasury and the RBA may be fruitful is in thinking through the case for a central bank digital currency (CBDC) in Australia and the preparations, legislative and otherwise, that would be needed if such a case were considered to become compelling. The proliferation of private stablecoins, especially those pegged to the US dollar, may impact monetary control in countries like Australia and increase the urgency of weighing the merits of a retail CBDC and thinking through the issues involved in introducing one, as a number of other economies are doing. The Australian authorities are monitoring the situation, including looking at what peer jurisdictions are doing.

1.2.2. The financial system remains robust, but supervision must adapt to evolving needs

Higher interest rates, the fall in real disposable income and broader pressures in the housing market put pressure on Australian households in recent years, but the financial system has remained resilient. While household debt as a share of income is high relative to other OECD economies (Figure 1.9), this can largely be explained by the fact that a greater share of the rental stock of housing is owned directly by households rather than by government, co-operatives or corporations (Kearns et al., 2020) Australian households on average have healthy balance sheets, owing to high asset holdings: net household wealth is roughly 11 times net household disposable income. Mortgage debt constitutes the bulk of this debt burden. The prevalence of variable-rate mortgages leads to a rapid transmission from policy rates to the cost of new and existing loans, although mortgagors' sizeable cash holdings in offset and redraw facilities (amounting to around 10% of GDP) provide a buffer for many borrowers against shocks to interest rates or incomes. While mortgage arrears have crept up since 2022, they remain low and similar to their pre-COVID levels and appear to have stabilised during 2025. The resilience of the labour market, as well as the easing of interest rates, has likely helped to protect households.

Figure 1.9. Australian households' debt burden is among the largest in the OECD

Household debt, share of net household disposable income, 2024 or latest year available



Source: OECD Analytical Database.

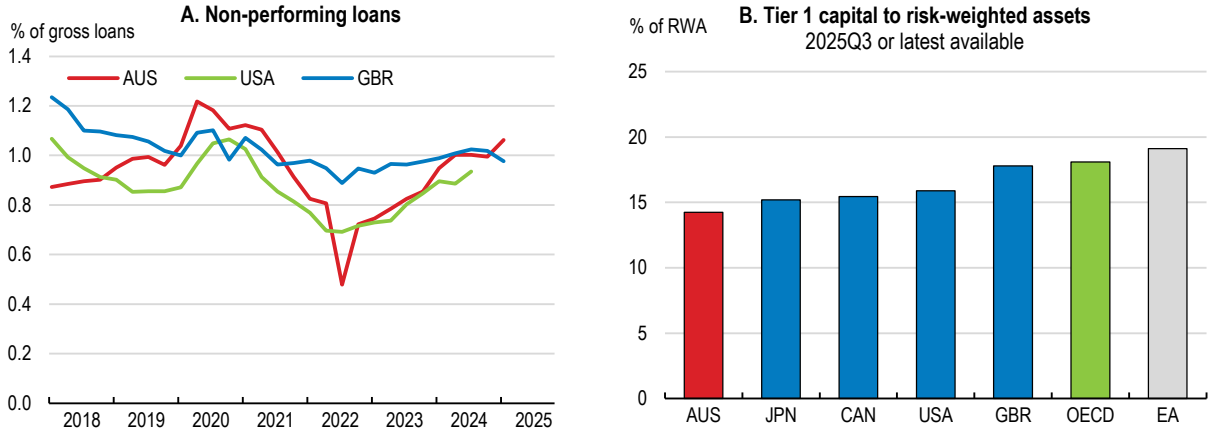
StatLink https://stat.link/molgce

Australian businesses, especially smaller firms, have experienced an increase in financial stress in recent years, though larger corporates appear to have remained resilient. The number of corporate insolvencies has risen

sharply over the past three years, reaching the highest rate in three decades. This partly reflects the unusually low rates of corporate failure around the pandemic due to temporary relief measures by the Government and creditor leniency, but many of the new insolvencies are in construction, accommodation and food services, industries that are sensitive to cost pressures and interest rates. However, compared with other OECD countries, Australia's corporate insolvency rate remains modest as a share of registered firms, corporate leverage is generally moderate and the increase in delinquent bank loans to firms has been limited. Around 20% of small business insolvencies comprise companies entering external administration using the small business restructuring process to restructure and remain viable.

Australia's banks report strong balance sheets. Non-performing loans remain low both in absolute terms and relative to most other OECD economies, having risen only modestly despite the recent pressures (Figure 1.10 Panel A). In June 2025, non-performing loans were about 1.25% of loans, largely explained by housing loans. The aggregate total capital ratio is around 20% with the Common Equity Tier 1 ratio about 12.6%, lower than the OECD average but still comfortable (Figure 1.10 Panel B). Key risks for lenders include high household debt combined with still-high mortgage rates and operational risks in financial market infrastructure.

Figure 1.10. The banking system's financial condition is strong



Source: IMF Financial Soundness Indicators.

StatLink https://stat.link/3mlouw

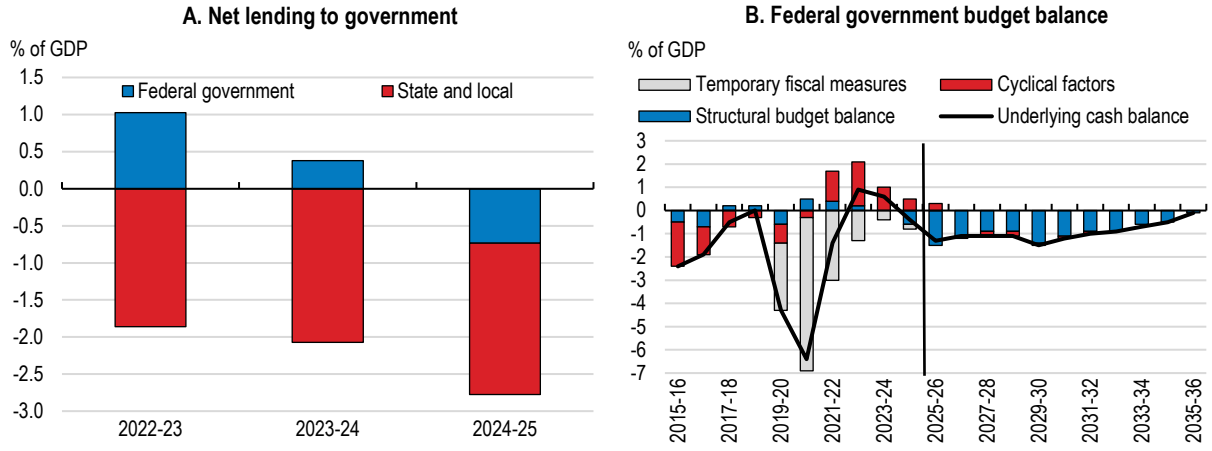
Australia's existing macroprudential framework has served it well, but needs to continue to evolve to address new risks and improve monitoring of non-bank financial institutions (NBFIs). Minimising lags between financial innovations (like fintech) and regulation and supervision and allowing more regulatory experimentation (regulatory sandboxes with macroprudential oversight built in) would help foster innovation. Greater data collection on non-bank borrower behaviour and embedding financial stability criteria into fintech licensing could help bring policy more in line with best practice globally. While NBFIs (including shadow banking and fintech lenders) have so far posed limited direct systemic risk, their growing role, combined with their interconnectedness and the fact that oversight is less stringent for these institutions, suggests that this could change (IMF, 2025), and consideration should be given to how to reinforce the existing regulatory framework. Best practice internationally (for example in the European Union) suggests that extending regulation, stress-testing, disclosure, and more direct tools over non-bank credit providers (such as countercyclical capital buffers and borrower-based measures like loan-to-value or debt-to-income limits) could be considered. There appears to be scope to improve transparency about foreign exposures, derivatives usage, and funding structure in NBFIs. Much higher corporate insolvencies, sharper rate cycles or external shocks could expose vulnerabilities through these channels that are less visible under current supervision.

1.3. Budgets are in deficit at both federal and state levels, and longer-term fiscal pressures need to be addressed

1.3.1. The public finances have weakened

Over the past three years the general government deficit has expanded by about 1½ percentage points of GDP (Figure 1.11 Panel A). The federal government net lending turned negative again in 2024-25 as a result of expansionary policy changes and other factors. Broader measures of the federal budget balance, on an accrual basis and including all investment, show a similar deterioration to the cash balance, but have remained in deficit since 2008. Following two years of strong revenue growth and the withdrawal of temporary fiscal measures introduced during the pandemic, the 2023-24 and 2024-25 budgets enacted permanent spending increases, tax cuts and extended some cost-of-living reliefs (Figure 1.11 Panel B). While revenue outcomes in recent years have been supported by higher-than-expected commodity prices, spending pressures have been strong in the areas of health and welfare, including the National Disability Insurance Scheme (NDIS), and an increase in interest costs. According to Mid-Year Economic and Fiscal Outlook projections released in December 2025, the deficit was expected to widen again to 1.3% of GDP in 2025-26, although the outturn for 2024-25 was better than expected, at 0.4% of GDP.

Figure 1.11. A structural deficit has opened up at the federal level on a cash basis, but is projected to narrow over the medium term



Source: ABS; and Australia Budget 2025-26.

StatLink https://stat.link/wea0v1

State and territory budgets have also generally recorded deficits in recent years (Figure 1.11 Panel A), though the size of those deficits differs markedly across jurisdictions. The aggregated deficit for sub-federal governments in the 2024-25 fiscal year was 2.1% of GDP, but is expected to narrow somewhat in the current fiscal year as some major infrastructure projects wind down, although the pipeline of projects remains substantial. Australian states and territories have significant spending responsibilities in areas such as health and education, but limited revenue-raising powers, with the result that they account for almost 40% of spending but just 20% of total revenue. States and territories rely on transfers from the federal government, including the distribution of revenues from the goods and services tax according to an agreed formula. The federal government is maintaining top-up payments and has extended the "no worse off" guarantee to states made in 2018 as part of new arrangements for the distribution of the Goods and Services Tax. Net public debt relative to Gross State Product (GSP) has risen in all states and territories in recent years, reaching around 25% in the Northern Territory and Victoria and with the aggregate across states estimated at 13% of GDP (Parliamentary Budget Office, 2024).

In the coming years, the government plans that the federal deficit will gradually close, consistent with its fiscal framework (Box.1.2). Together with the projected shift to a neutral monetary policy stance on the part of the

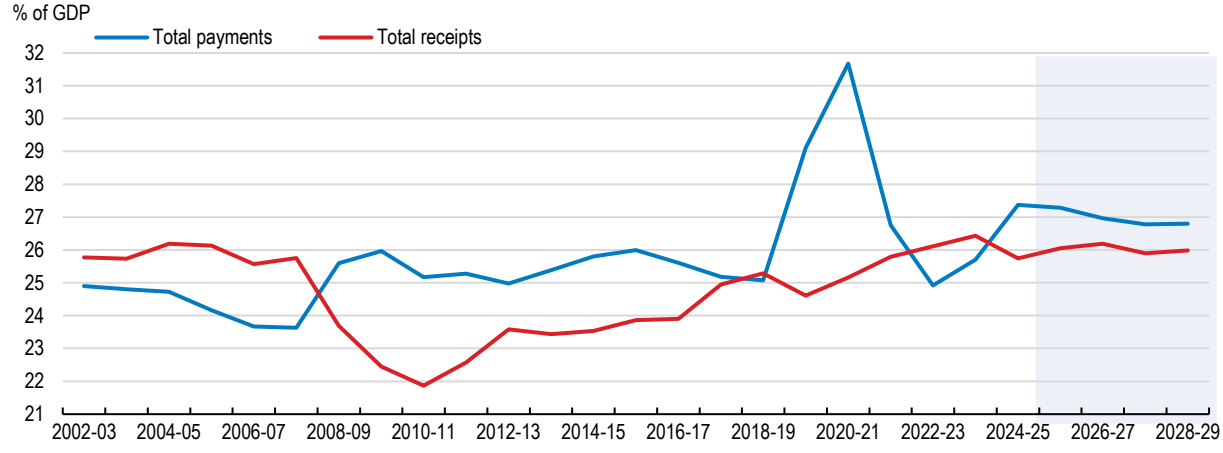
RBA, this implies a welcome rebalancing of macroeconomic policies. Under medium-term fiscal plans, revenue is expected to grow broadly in line with nominal GDP despite technical assumptions that commodity prices will fall and income tax cuts in FY2026-27 and FY2027-28. These tax cuts contribute to mitigating "bracket creep" from earlier years: the marginal rate in the first band of the personal income tax (currently 16%), which applies to taxable income between AUD 18,201 and AUD 45,000, will be reduced to 15% from 1 July 2026, then to 14% from 1 July 2027. Spending growth would be constrained to be significantly slower still, at about 1.7% in real terms over the four fiscal years to 2028-29 (Figure 1.12). Meeting the spending plans will notably include reining in spending on the NDIS, which is expected to cost AUD 46 billion in FY2025-26 (1.5% of GDP) and whose growth has averaged over 20% a year over the past 5 years. Some progress has been made in this direction (Table 1.3). The NDIS Financial Sustainability Framework aims to limit annual growth of Scheme costs to no more than 8% from 1 July 2026, but reforms are needed to achieve this, as discussed below. The federal budget continues to use conservative assumptions for commodity prices: in the range of 30-40% below current levels for iron ore, coal and natural gas. If commodity prices do not fall as assumed, revenue would be higher than projected.

Table 1.3. Past OECD recommendations on fiscal policy

Key recommendations	Action taken since October 2023
Slow the growth in National Disability Insurance Scheme costs, through better clarity on the eligibility and scope of support packages, as well as improved scheme administration.	The Australian Government has commenced implementing reforms to slow growth in NDIS spending, starting with the Getting the NDIS Back on Track Bill No. 1 passed in August 2024, estimated to reduce NDIS spending by around AUD 60 billion over 10 years.
Broaden the base of the goods and services tax through reducing exemptions and consider increasing the rate.	The GST rate remains at 10% and the base remains unchanged.
Further reduce tax concessions on private pensions.	The Better Targeted Superannuation Concessions measure from 1 July 2026 will reduce the tax concessions for large superannuation balance holders by applying a concessional headline tax rate of: • 30% on the proportion of earnings corresponding to balances between AUD 3 million and 10 million. • 40% on the proportion of earnings attributable to balances above AUD 10 million. These reforms still maintain the concessional tax treatment of superannuation relative to the highest marginal tax rate of 45%.

Figure 1.12. Projected reductions in the federal deficit rely on spending restraint

Federal revenues and payments



Source: Commonwealth of Australia (2025).

StatLink https://stat.link/z8cys1

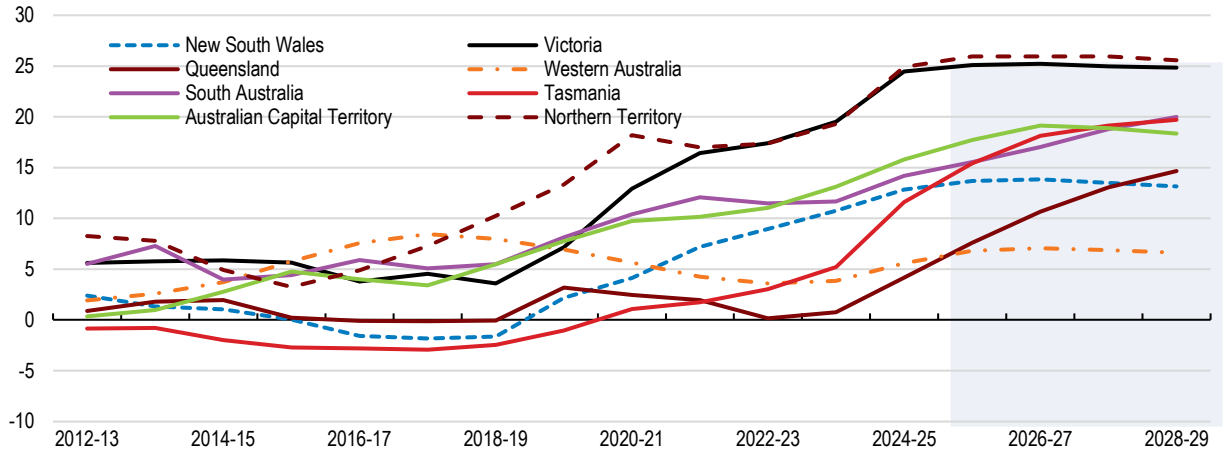
Budget forecasts at the state and territory level imply that the aggregate fiscal balance would remain in deficit through FY2028-29, although with declining magnitudes. State budgets imply a stabilisation of public debt to

Gross State Product ratios in most cases over the coming years (Figure 1.13), but governments face challenges in moderating operating expenditure growth and sequencing infrastructure investment so as to avoid debt increases.

On a general government basis, consolidating across levels of government, the deficit is expected to peak in 2025 at nearly 3½ per cent of GDP before narrowing over the coming years. General government gross debt is expected to reach 62.5% of GDP by end-2027, up from around 40% a decade earlier. With substantial public financial assets particularly on account of pre-funding of public pension obligations, Australia's net general government debt is considerably lower, at about 35% in fiscal year 2024-25.

Figure 1.13. Public debt has risen in most states

Net debt, % of gross state product



Source: Parliamentary Budget Office, 2025 National Fiscal Outlook.

StatLink https://stat.link/41tkvw

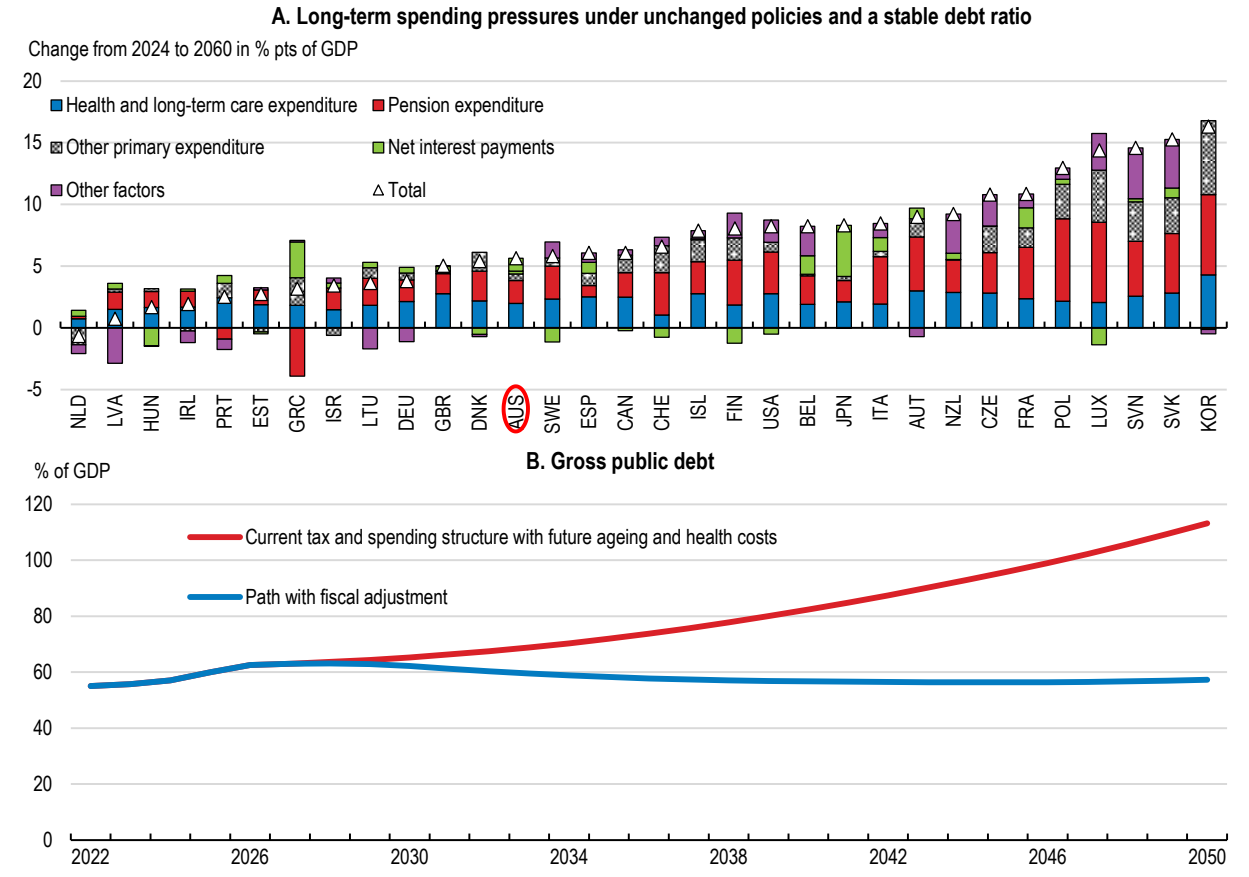
1.3.2. The deficit needs to be narrowed as planned, but long-term pressures suggest that further policy effort will be needed

The federal government should implement its plan to narrow the deficit steadily so as to put the debt-to-GDP ratio on a stable or downward path, supported by similar approaches at the state level. While debt levels are not high (particularly in net terms), they have increased substantially due to the pandemic and the normalisation of macroeconomic conditions means that there is no longer any strong need for fiscal support to households or firms, as was the case during the pandemic and at the time of the post-COVID energy price shocks. Government support to demand should be gradually scaled back to avoid risks of overstimulating the economy and as part of a rebalancing between monetary and fiscal policy. Prudence with regard to commodity revenues should be maintained, although it could be preferable for reasons of transparency and credibility to use more neutral baseline assumptions about commodity prices and include an explicit contingency reserve as has been used by many other OECD countries including Chile, Sweden and Canada.

A medium-term consolidation effort is needed both to address the existing deficit and longer-term pressures consistent with the federal government's plans. Over time, costs relating to health and aged care will increase as Australia's population ages, putting upward pressure on public spending amounting to 1.5% of GDP by 2050, although the increase in pension costs is relatively small compared to many other countries due to the large role of private pension provision (Figure 1.14 Panel A). Under current tax and spending settings and including planned fiscal measures to 2026-27 but not in later years and indexing the income tax system in later years, the budget deficit would persist and increase, putting the debt ratio on a steep upward path (Figure 1.14 Panel B). Under a sustained fiscal adjustment effort consistent with the fiscal framework and the federal government's plans, the deficit would narrow and the debt ratio would be stabilised, but this requires savings

or additional revenues across both levels of government amounting to 0.5% of GDP per year for three years (i.e. to 2030-31). Table 1.4 shows a set of measures that would achieve this plan and consistent with the recommendations in this Survey.

Figure 1.14. Without fiscal adjustment, public debt would rise rapidly in coming decades



Source: OECD Long-term Model, OECD calculations.

StatLink https://stat.link/gdxr47

Governments will also need to deal with a range of other substantial pressures. First, achieving the climate transition will likely imply significant additional fiscal costs, including to support climate mitigation efforts and the costs associated with adapting public infrastructure to rising climate hazards. At the same time, fuel excise revenues, which currently amount to about 0.6% of GDP, will fall as adoption of electric vehicles continues to increase, while tax receipts from fossil fuel extraction industries (especially via corporate income tax) may tail off as the global net zero transition proceeds. The pressures from population ageing and the climate transition are felt by state and territory governments, as well as the federal government. Second, higher defence spending will need to be financed, although recent and planned increases in defence spending are not as great in Australia as in many other OECD countries. Australia's inaugural 2024 National Defence Strategy reintroduced the measure of defence spending as a percentage of GDP, committing to increase defence investment to 2.4% of GDP by 2033–34 from its current level of 2.0%, reaching 2.2% by 2028-29.

Box.1.1. Estimated budget impact of fiscal measures in the Economic Survey

This box summarises the estimated impact of fiscal policy recommendations in this Survey, together with the budgetary impact of undertaking the recommended structural reforms. The estimated fiscal effects include only the direct impact and exclude potential behavioural responses that might occur due to a policy change. While many recommended reforms in this Survey have budget and GDP implications, not all can be quantified due to model limitations. The package is designed to support growth in a fair and efficient way, as well as achieving the medium-term fiscal adjustment required to narrow the deficit and manage longer-term costs. The fiscal objectives could be achieved using other combinations of spending and tax measures.

Table 1.4. Illustrative impact of recommendations on the government balance

Policy	Scenario	Impact on budget balance (annual, % of GDP)
Revenue measures		**+0.5**
Increase fuel taxes and road-user charges	Increase the taxation of motor fuels towards European levels. To compensate for the likely decline over time in these revenues as drivers shift to EVs, implement road-user charges.	+
Increase recurrent property taxes	Lower stamp duties while raising recurrent land taxes to make property taxation more consistent with the taxation of similar assets and phase out the favourable treatment of negative gearing.	+
Reduce superannuation tax concessions	A package of changes including taxing superannuation earnings in retirement at 15% and cap pre-tax contributions at AUD 20,000.[1]	+0.3
Increase the GST rate and broaden the base, while lower incoming tases	Increase the GST rate to 15% over five years and narrow exemptions. Introduce compensation for low-income households through increased welfare and income tax cuts in a revenue-neutral way.[2]	+0.1
Spending measures		**+1.0**
Restrain NDIS spending growth	Cap nominal spending growth at 5% per year	+0.5
Boost investment in social housing	Substantially increase the size of the Housing Australia Future Fund and raise the target for the social housing it funds.	-0.3
Raise spending efficiency at state and federal level.	Measures could include savings identified through regular spending reviews.	++
Total impact		**+1.5**

Note: Behavioural changes in response to a tax or spending change are not taken into account. Reform recommendations with fiscal impacts of less than 0.1% of GDP are not included.
Source: 1. Based on estimates from Coates and Moloney (2023). 2. Based on estimates from Daley and Wood (2015).

1.3.3. The fiscal framework has worked relatively well to date but could be strengthened

The fiscal framework of the federal government is outlined in the 1998 *Charter of Budget Honesty*. This is based on a principles-based approach, with the government required to publish a series of reports each year detailing current public finances and the fiscal outlook. The transparency of public finances also benefits from well-designed medium-term budget forecasts, reporting by the Parliamentary Budget Office (an independent fiscal institution created in 2012) and Intergenerational Reports, produced at least every 5 years, which project outlooks for the economy and the federal government's budget over the next 40 years, examining the long-term sustainability of current policies and how demographic, technological and other structural trends may affect the economy and the budget. However, Intergenerational Reports are generally not conducted at the state/territory level, where much of the fiscal stress is currently focused, and there is no combined federal-state report; producing such reports on a general government basis would be a useful step. Transparency is

also enhanced by the practice of issuing a Pre-election Economic and Fiscal Outlook (PEFO) ahead of each federal parliamentary election. The PEFO is issued by the Treasury Secretary and the Finance Secretary (rather than the Treasurer) within 10 days of the issue of the writs for a federal election and provides updated information on the economic and fiscal outlook. In addition, the Treasurer prepares a Fiscal Strategy Statement with each annual budget. The 2025-26 Budget commits to expenditure restraint and saving much of any revenue windfalls with a view to reducing the ratio of gross federal government debt to GDP over time (Box.1.2).

Box.1.2. The Federal Government Fiscal Strategy – Budget 2025-26

The fiscal strategy in Australia is revised annually depending on the priorities of the government and the economic context. The current Economic and Fiscal Strategy aims make the economy more resilient and put the budget on a more sustainable footing over time. To that end, the 2025-26 Federal Budget retains the overall goal of reducing gross debt as a share of the economy over time. This is to be achieved by:

- Allowing tax receipts and income support to respond in line with changes in the economy and directing the majority of improvements in tax receipts to budget repair.
- Limiting growth in spending until gross debt as a share of GDP is on a downwards trajectory, while growth prospects are sound and unemployment is low.
- Improving the efficiency, quality and sustainability of spending.
- Focusing new spending on investments and reforms that build the capability of our people, expand the productive capacity of our economy, and support action on climate change.
- Delivering a tax system that funds government services in an efficient, fair and sustainable way.

Source: Commonwealth of Australia, 2025

Unlike some other OECD countries, and in contrast to some periods in its own history, Australia's fiscal strategy does not include a numerical spending target. Such a target could be particularly useful in the Australian context given that revenues are heavily influenced by global commodity prices and therefore difficult for the government to control. It could also improve the accountability of fiscal policy and benefit budget management by more clearly defining the budget envelope as spending proposals are developed. A spending target or ceiling would allow revenue shortfalls to be fully accommodated, while revenue windfalls would be automatically allocated to budget repair. Spending targets or ceilings can also be designed to provide flexibility, such as by allowing for additional spending to achieve discretionary revenue increases or related to cyclical unemployment benefits to avoid disincentivising revenue-enhancing tax reform or creating pro-cyclicality.

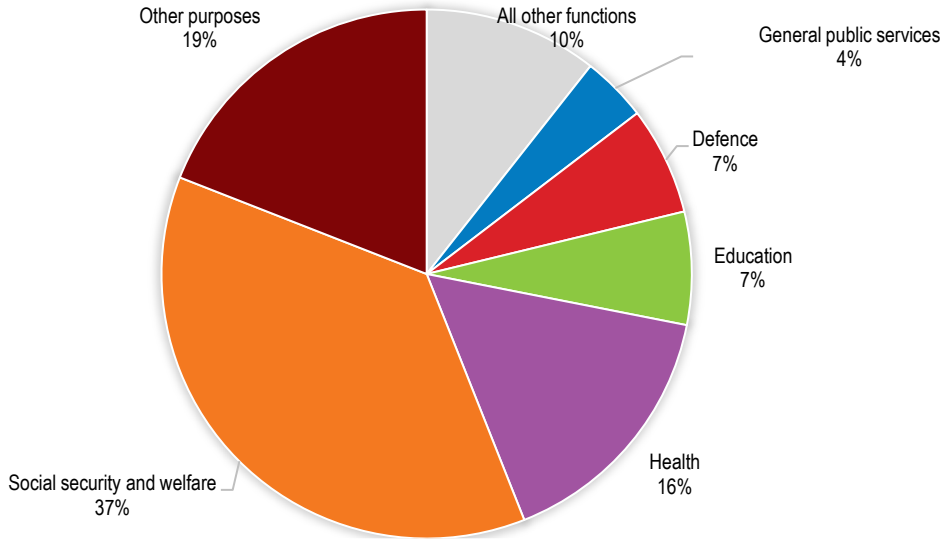
The greatest strains in public finances currently are at the state and territory level, with some jurisdictions experiencing a marked deterioration in the past few years, and the fiscal framework could benefit from stronger interaction between the federal and state budgetary policies. The Council on Federal Financial Relations (CFFR), comprising the Federal Treasurer and all state treasurers, is responsible for overseeing the financial relationship between the Commonwealth and state and territory governments. In practice, dialogue on fiscal policies across jurisdictions is limited, although the federal government interacts extensively with the subnational level on funding of specific programmes. This suggests that there is scope for the CFFR to play a more active role in federal-state fiscal policy discussions, especially on medium-term cost driver issues. The Parliamentary Budget Office's annual National Fiscal Outlook reports are a valuable centralised source of information on government finances at both federal and state/territory level, but such information could usefully be updated more frequently. More fundamentally, reform of horizontal fiscal equalisation (HFE) arrangements could reduce distortions, improve incentives for efficient revenue raising at the state level, and reduce dependence on transfers. The Productivity Commission has made recommendations about improving transparency, modelling, and governance of HFE to better support state budget planning (Productivity Commission, 2018).

1.3.4. Raising public spending efficiency

Federal expenditures are weighted toward social transfers and welfare, aged care and pensions, the NDIS and health (Figure 1.15). The Parliamentary Budget Office projections show that the strongest medium-term expenditure growth is expected to come from the NDIS and aged care, in addition to debt-servicing costs. Australia's only state-funded pension is the means-tested Age Pension, received partially or fully by just over half of pensioners, whose age of eligibility has already been raised to 67. This could be partially indexed to life expectancy to help manage longer-term costs, although it is already above the current OECD average.

Figure 1.15. Federal spending is dominated by social security and health

Federal expenses by function in 2025-26



Source: Commonwealth of Australia 2025

StatLink https://stat.link/etc1si

The National Disability Insurance Scheme (NDIS) began operation in 2013 with the aim of improving the quality of life of people with disabilities, but spending on the programme has grown very rapidly and far exceeds initial expectations, creating significant pressure on overall government spending and currently amounting to 1.5% of GDP (Box 1.3). While overall spending on disability supports (in-kind and cash) are around the OECD average, they have risen rapidly in Australia and are higher than in other countries with similar social systems, including Canada. The 2023 NDIS Review made a large number of recommendations, including better foundational supports outside individual budgets, improved unified planning with states and territories, jointly designing funding and commissioning support, better market stewardship, more transparent and rigorous pricing and better outcomes measurement. As a first step, the NDIS legislation was amended in 2024 and the government is considering further updates to the NDIS rules. The 2024-25 federal Budget projected AUD 14.4 billion in savings measures over four years (about 0.1% of GDP annually) to moderate the growth in the NDIS, including via plan-inflation controls and simplifying budgets. In November 2024, it was projected that NDIS costs in 2034-35 would be about ¼ percentage point of GDP lower than otherwise because of the reforms.

It will take time to evaluate the extent to which the NDIS reforms are improving delivery and cost efficiency, but it will be crucial to ensure that well-designed supports are provided in a cost-effective way and that overall costs are managed. There appears to be scope to better control all the main parameters of the Scheme: the number of people eligible for the scheme, the quantity of services provided to each eligible person and the unit cost of those services. Unlike cash benefits, where Australia has a good record of cost control and efficiency, the NDIS and other in-kind benefit programmes are not means-tested. Consideration could be given to revisiting that approach, given the scale of cost pressures in the NDIS and the potential for the cost of other

in-kind benefit programmes to balloon. Other OECD countries, including Denmark and the United Kingdom, have experienced similar problems with containing the costs of disability support programmes. Some of these countries use compulsory independent assessments to determine eligibility for benefits, an approach not applied to date in Australia. In addition, with broad eligibility and high spending allocations for participants, demand for the services covered by the Scheme is high and prices have been clustered around the maximum allowable level (e61, 2025). Providing incentives for Scheme participants to get some gain from securing prices below the ceiling could be another way of limiting cost inflation. Finally, given that growth of the Scheme has been greatest among children, it would be helpful to increase the focus on creating exits over time.

Box 1.3. The National Disability Insurance Scheme: Design, Costs and Fiscal Pressures

The NDIS was established in response to the Productivity Commission's 2011 review of disability care and support, which concluded that disability services were fragmented, under-funded and inequitable. The scheme commenced in 2013 with the aim of providing nationally consistent, individualised funding for supports deemed "reasonable and necessary."

The scheme covers people with permanent and significant disability, including intellectual, psychosocial, physical and sensory impairments, autism, and acquired brain injury. To be eligible, individuals must be under 65 years of age at entry, meet residency requirements, and satisfy functional impairment or early-intervention criteria. Participants receive funding through individual plans developed with the National Disability Insurance Agency (NDIA).

The NDIS is distinctive in serving a younger-than-normal cohort for a disability program. As of March 2025, more than half of participants are under 25 years of age, with the 0–6 age group the fastest-growing segment, reflecting the growing prevalence of developmental delay and autism as primary disabilities. School-age children and adolescents (7–18) also account for a large share. Adults aged 25–64 make up most of the remainder, with relatively few entrants above 60 given the age-65 eligibility cut-off. This profile implies that scheme costs could persist for decades as younger participants may receive support over the life course.

Scheme expenditures were equivalent to around 1% of GDP in 2018–19, shortly after the NDIS was fully scaled up, and reached around 1.5% of GDP in 2024–25, with further increases expected without reform. Since the programme reached maturity, average annual cost growth has been approximately 12%, well above the long-run average rate of consumer price inflation and significantly faster than growth in other large government health programmes. By comparison, Australian Institute of Health and Welfare data show total health expenditure rising at an average annual rate of 3–4% over the past decade, or around 2% per capita in real terms.

In April 2023, governments endorsed an NDIS Financial Sustainability Framework, which aims to limit scheme expenditure growth to 8% annually by 2026–27. Cost-control mechanisms include: (i) price caps and an Annual Pricing Review to benchmark service costs; (ii) strengthened plan decision-making tools, including reference packages to ensure consistency; and (iii) reforms recommended by the 2023 NDIS Review, such as clearer functional assessments and the development of "foundational supports" outside the scheme. The previous Economic Survey of Australia (OECD, 2023a) highlighted the need to improve administration and clarify eligibility criteria to maintain sustainability while preserving participant outcomes.

Spending pressures increase the need to prioritise government spending and raise efficiency. Australia does not have a system of comprehensive spending reviews, either targeted at overall spending or specific programmes, like the United Kingdom and some other OECD countries. There have been some ad hoc commissions and reviews in the past, including of specific programmes or spending areas, as well as reporting by the National Audit Office. While spending in some key areas such as health appears to be fairly efficient overall, there is scope to improve the cost-effectiveness of spending in some parts of the system (OECD,

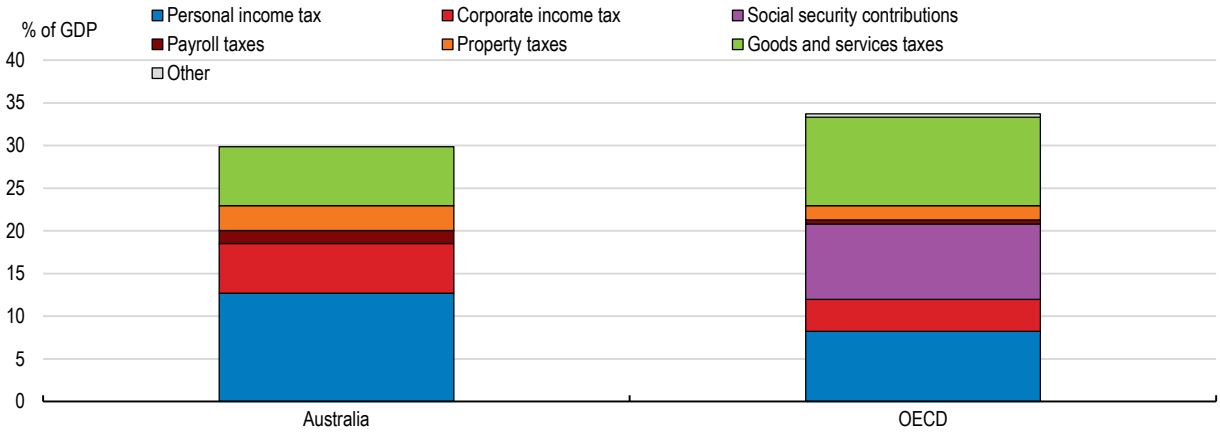
2023a). The establishment of the Australian Centre for Evaluation (ACE) in the Australian Treasury in the 2023-24 Budget has provided significant impetus to promoting the systematic use of high-quality evaluation to support evidence-based policy decisions and to implement the 2021 Commonwealth Evaluation Policy, which sets out the Government's expectations in relation to evaluating government programs and activities. The ACE's tasks include providing evaluation leadership across the Australian government, building evaluation capability, supporting planning and use of evaluations in the budget process, and championing high-quality impact evaluation. It collates an annual report on the State of Evaluation in the Australian Government, and in July 2025 it also launched a library of past policy evaluations. For infrastructure and social programmes, more rigorous cost-benefit analysis for major infrastructure projects would be beneficial.

1.3.5. Tax reforms to address fiscal pressures and improve economic efficiency

Australia's tax system relies heavily on labour taxes rather than more efficient consumption, property and environmental taxes. The tax revenue-to-GDP ratio appears low compared to most OECD peers, but this is partly an illusion reflecting the fact that compulsory superannuation saving in Australia, which plays a similar role to social security contributions in most other OECD countries, is not counted as a tax but still represents a mandatory payment for workers. Adjusting for this idiosyncrasy, the tax burden is only slightly below the OECD average, although significantly below European norms. However, the tax mix is unusual compared to many OECD countries, with much less reliance on goods and services taxes and more direct taxation, especially corporate income taxation (Figure 1.16) – this partly reflects the importance of location-specific rents in the resource sector. Australia raises comparatively little revenue from environmental and property taxes. Within real estate taxes, most revenue is from transaction taxes (stamp duty) with relatively low recurrent taxes on property.

Figure 1.16. Australia's revenue mix is skewed towards direct taxation

2023



Source: OECD Revenue Statistics Database.

StatLink https://stat.link/us217q

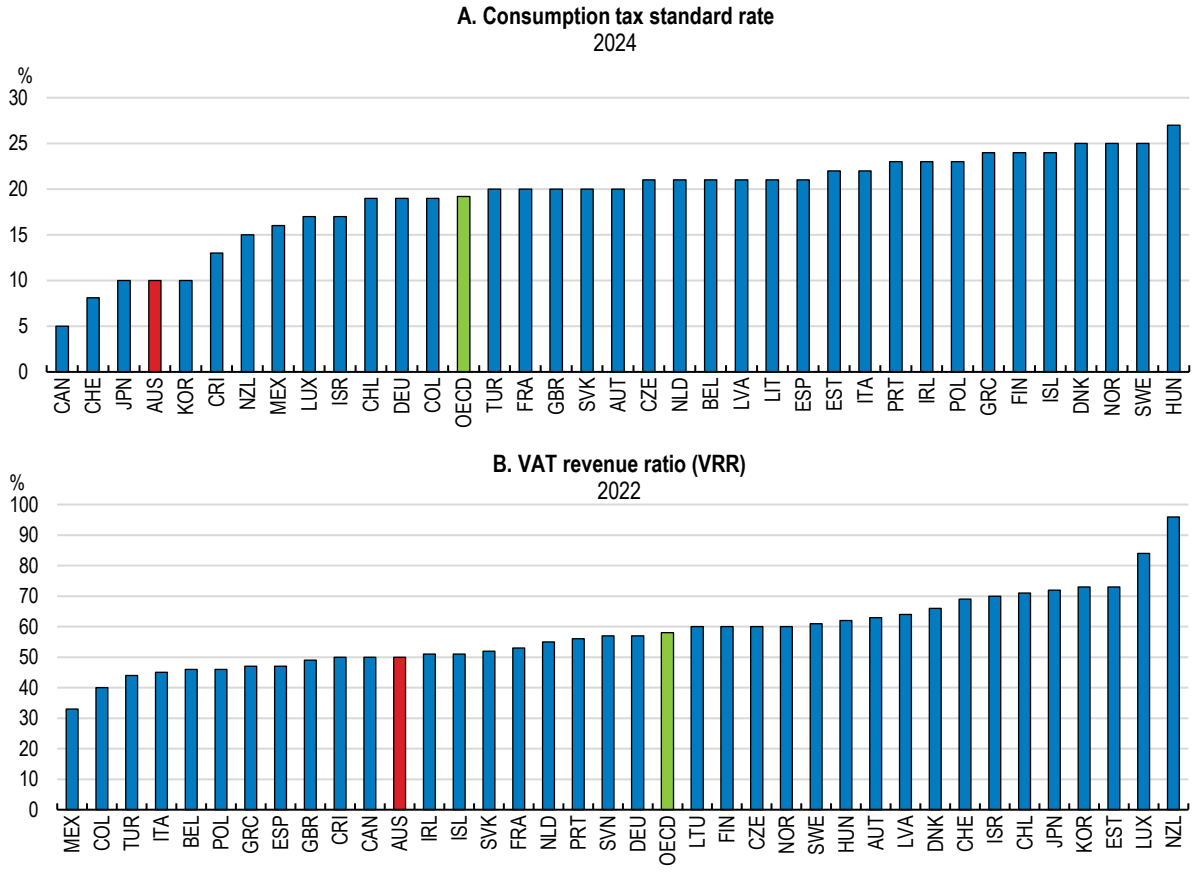
This tax mix could be improved in several respects to better support growth while at the same time helping to eliminate the structural deficit. OECD analysis on the tax mix has found that taxes on consumption and property are more favourable for growth than taxes on income, with recurrent taxes on immovable property being found to have the least adverse effect on GDP per capita (Johansson et al., 2008). One direction of reform would be to raise the Goods and Services Tax (GST) rate from the current level of 10%, which is low by international standards (Figure 1.17Panel A), and/or broaden its base by reducing exemptions (Figure 1.17 Panel B). Given that much of the benefit of exemptions currently goes to higher-income households, a move that both raises the rate and broadens the base would be only mildly regressive, and that could be counteracted via other changes in the tax/benefit system. Raising the rate of GST would require the agreement

of the federal government and all states and territories, which is challenging, but the context of a re-examination of horizontal fiscal equalisation may provide an opportunity to mobilise the necessary support.

Corporate taxes account for a high share of revenues in Australia. This partly reflects the high share of profits in GDP, but also relatively high headline rates. High corporate taxes are generally found to have the largest negative growth impacts, discouraging investment and innovation (Hanappi et al., 2023). Corporate income tax can play a useful role in raising revenues, including to prevent shareholders from sheltering their equity income from taxation and avoiding large differences in the tax burdens on corporate versus unincorporated businesses, but high rates and complex systems can be counterproductive.

For a country like Australia with a large mining industry, natural resource taxation has important implications for the public finances, economic activity and the distribution of income. It has long been recognised that there are strong efficiency and equity grounds for the state to capture a large share of economic rents from the extraction of non-renewable mineral resources via taxation (Boadway and Flatters, 1993). While the Petroleum Resource Rent Tax (PRRT), a federal tax on offshore oil and gas extraction, was introduced in the 1980s, it has generally been recognised, including by the Henry review and the more recent PRRT review, that Australia has tended to undertax resource rents. Since the Henry review, states and territories have generally increased royalties and adapted their design to capture a greater share of rents. Even so, by some estimates, the foregone revenue from inadequate resource rent taxation could exceed 2% of GDP, while even minor adjustments to the royalties system could raise about 0.5% of GDP (Prosper Australia, 2024). In addition, the system is complex, with state and territory governments generally applying output-based royalties on onshore mining and the federal government taxing offshore resource extraction. Norway is an example of an OECD country which has been successful in capturing a large share of natural resource rents and using the revenue to improve government saving, ensuring that a large part of non-renewable resource wealth is converted into sustainable financial wealth, while at the same time maintaining a profitable resource sector. Enhanced taxation of resource rents could be combined with a reduction in the headline rate of corporate income tax, shifting some of the tax burden from mobile capital to immobile, land-based assets.

Figure 1.17. Australia's GST rate is low, with a relatively high degree of exemptions



Note: VRR is a measure of the extent to which a VAT regime collects the VAT on the natural base of the tax, i.e. on final consumption expenditure. To achieve this, the VRR estimates the difference, if any, between the VAT revenue actually collected under a country's VAT regime and what would theoretically be raised if VAT was uniformly applied at the standard rate to the entire potential tax base and all revenue was collected.
Source: OECD Consumption Tax Trends 2024.

StatLink https://stat.link/wn4ero

There are several other avenues to improve the functioning of the tax system in a growth-friendly and fair way. First, recurrent taxation on immovable property is relatively low, while stamp duty is high. This tends to inflate property prices while making it costly to move (as discussed in Section 1.5), and there is a good case for rebalancing the mix by reducing stamp duties while increasing recurrent land taxes. Second, environmental taxes, including on fuel, are lower than in many OECD countries. Raising these taxes would contribute to climate change objectives (see Section 1.6), as well as raising revenue efficiently. Third, the non-indexation of tax brackets, resulting in "bracket creep" or fiscal drag, risks creating unintended distortions of the tax system by bringing more people into brackets with higher marginal tax rates, although these effects have typically been mitigated in the past by periodic cuts in income tax rates. Although non-indexation of brackets can help with fiscal consolidation and provides a degree of flexibility to policymakers as to when and how to return revenues from bracket creep, it is less transparent and more arbitrary than discretionary changes in the tax system to achieve revenue objectives. Many countries, including the United States, index income tax thresholds. Fourth, as in many other countries, the taxation of savings is complex and inconsistent across assets. To improve efficiency and equity and lessen complexity, changes could be made to reduce the tax concessions for superannuation, including further reducing the concessions favouring higher-income, higher-wealth households, such as by lowering the cap on concessional superannuation contributions (currently AUD 30,000 per year). This would help to return the superannuation system to its original purpose of ensuring adequate retirement incomes rather than providing concessional tax arrangements for wealth accumulation. Cutting or eliminating some capital gains tax discounts could also help, as would phasing out "negative

gearing", whereby losses on investment properties can be deducted against other taxable income. Fifth, Australia does not have an inheritance tax, although capital gains are generally taxed at death. Most OECD countries have an inheritance tax (OECD, 2022): these typically include favourable treatment for close relatives, exclude the primary residence and set high wealth thresholds. However, as an increasing number of people have significant assets and given a high level of wealth inequality, this can be an efficient and fair way of raising revenue.

Motor fuel revenues currently amount to about 0.6% of GDP. In the near term, fuel tax rates could be raised towards European levels to encourage the switch to more efficient and lower emissions vehicles (see Section 1.4.2). However, these revenues will decline over time as drivers shift to electric vehicles, and will not be fully compensated by more revenue from taxes on electricity consumption, as these are much lighter than those on motor fuels. Countries are increasingly imposing road-user charges for driving, which can be an efficient and equitable way to fund transport infrastructure and reduce congestion and emissions. Road-user charges can be designed to directly reflect road wear, distance travelled, time of day, vehicle type, and location. Among the countries most advanced in the implementation of road-user charging are Singapore, which uses dynamic GPS-based congestion pricing; Germany, which applies kilometre- based tolling to heavy vehicles across its highway network; and New Zealand, which has had a distance-based RUC for diesel vehicles since the 1970s. In Australia's case, it is likely to be most promising to deploy road-user charging to target congestion and pollution in major cities (Grattan Institute, 2019), where public transport alternatives to road use are available. However, the Government has indicated that a nationally consistent approach will be considered that does not deter uptake of electric vehicles. A form of road user charging already exists in Australia for heavy vehicles, but this takes the form of a reduction in the concessions given to enterprises for fuel excise tax, and is thus reliant on the vehicles running on fossil fuels.

Most of the challenges in the Australian tax system and potential solutions have long been identified, notably in the Henry review (Commonwealth of Australia, 2009). Many of the recommendations in the Henry review were never implemented or were partially implemented but subsequently reversed. Current circumstances may be more favourable to making progress on improving the economic efficiency, equity and revenue-raising potential of the Australian tax system. Notably, with federal and state budgets projected to be in deficit for years to come and growing fiscal pressures coming from population ageing and the climate transition, there should be a greater sense of urgency about improving the public finances. Australia could consider commissioning a new review to provide updated expert advice on the options to reform the tax system, reflecting current circumstances and the latest evidence, or set up a process of tax reviews to provide advice on a regular basis, as is done in Ireland.

1.4. Raising medium-term economic prospects

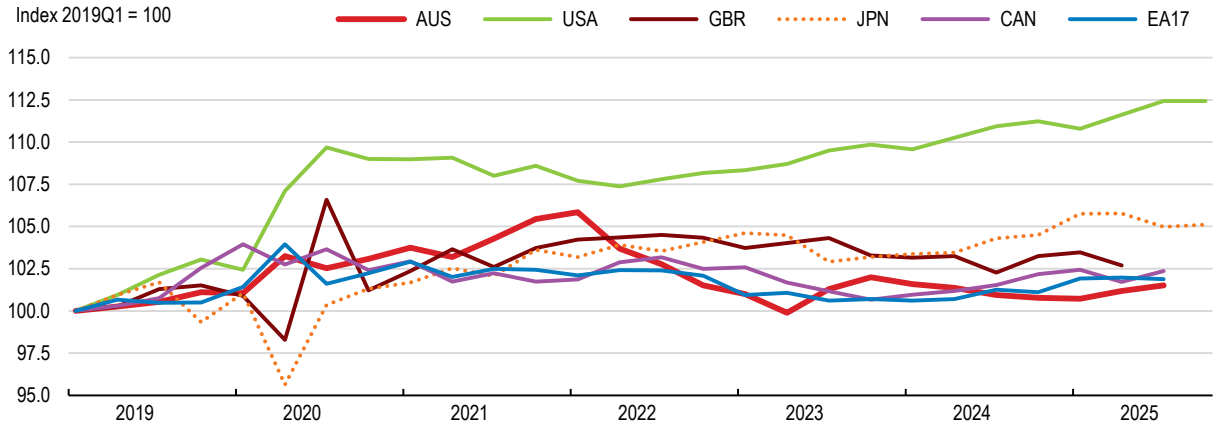
Continued improvement in living standards will depend primarily on sustained increases in productivity, given that labour utilisation is already high: Australia's employment-to-population ratio is among the highest in the OECD. Productivity growth in the run-up to the pandemic had already slowed to its lowest rate in recent decades (Figure 1.19 Panel A), and measured productivity stalled and even turned down after the pandemic as employment growth outstripped output growth, leaving the level of labour productivity no higher than a decade ago.

Cyclical and sector-specific factors can explain much of the extreme weakness of Australia's productivity growth over the past few years, but even correcting for these factors, the trend rate of growth appears modest both in relation to past periods and to many international peers. Recent developments have been affected by the composition of growth during the recent past and probably also by the phenomenon that migrants (of which there was a strong inflow in 2022-24) are generally characterised by lower wages and productivity when they first arrive before subsequently experiencing faster wage growth than native-born workers (Chiswick, 1978, Dustmann, 2000). This is likely to have been especially important in recent years, when much of the post-pandemic surge in migration was for temporary migration (for example, students), who are more likely

to be working in lower-wage jobs. Developments in the mining sector are of particular importance for economy-wide productivity. Given the very high level of productivity in mining, because of its capital intensity and resource rents, the sector has a disproportionate effect on average economy-wide productivity, and mining productivity can fluctuate widely (Figure 1.19 Panel B) with a structural trend towards lower productivity in each mine as the easiest-to-access deposits are used up. In addition, the trend expansion of the non-market sector, where output is generally taken to be equal to inputs, ruling out productivity growth, has exerted an increasing drag on measured economy-wide productivity. That factor was exacerbated by the unusually fast growth in non-market sector employment over 2023-24, while market sector employment growth slowed. This pattern has been reversing in 2025 as non-market employment growth slows and market sector hiring picks up, suggesting that this drag factor is now lessening. In addition, the fact that productivity growth in the non-market sector may be occurring (Productivity Commission, 2024), even though unmeasured by construction in the national accounts, means that economy-wide productivity growth tends to be underestimated. The growth of non-mining private sector productivity, which might be considered a measure of "core" productivity in Australia, remains in line with pre-pandemic trends and has if anything accelerated in the past few years. Productivity has grown rapidly in the ICT and business services sector, where output growth has also been high, although Australia's ICT sector is relatively small. Overall, however, slow economy-wide productivity growth over a long period points to a relative lack of dynamism and innovation.

Figure 1.18. Australia's productivity is below pre-pandemic levels and has underperformed peers

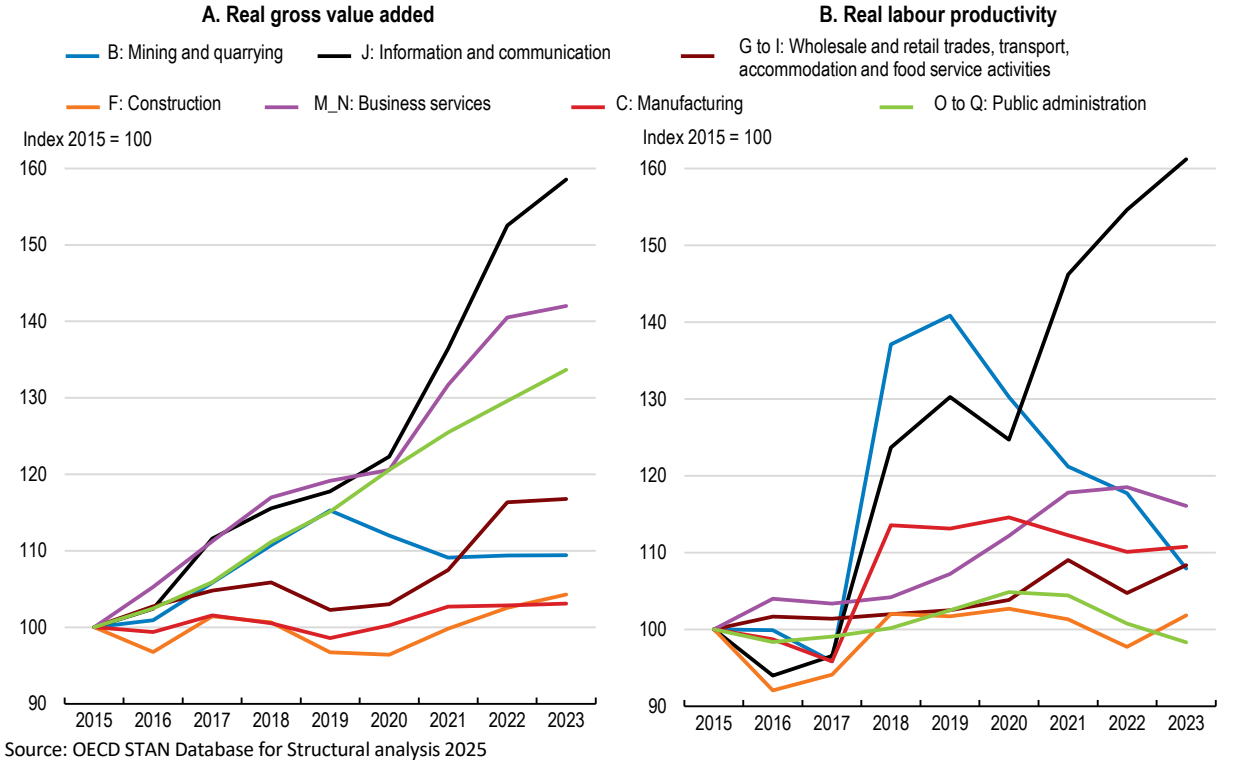
Labour productivity index, 2019Q1 = 100



Source: OECD Economic Outlook database.

StatLink https://stat.link/to137l

Figure 1.19. Different sectors have seen widely varying productivity developments



Source: OECD STAN Database for Structural analysis 2025

StatLink https://stat.link/somkc6

The government has set productivity growth, fiscal sustainability and economic resilience as its key priorities and, beginning with the Economic Reform Roundtable in August 2025, has launched consultations on the sorts of reforms that are needed. Australia has formidable assets as a stable, democratic, open, resource-rich market-oriented economy with a well-educated workforce and strong governance and situated in the high-growth Asia-Pacific region. However, the country faces a range of structural changes, including population ageing, the climate transition and developments in key export markets that are likely to pose challenges as well as opportunities for growth. Seizing the opportunities of the digital revolution and artificial intelligence could deliver a substantial boost to productivity in the years ahead (Filipucci et al., 2024), but will lead to major structural changes in the economy and employment, and require appropriate policies for skills, digital investment and innovation to reap the benefits.

The Government recognised at the time of the Economic Reform Roundtable that it was unlikely that any one big policy action would unlock faster trend productivity growth, but rightly judged that a range of structural policies would support that aim, including efforts to increase competition and create a single national market (see Chapter 2). As discussed in the previous Economic Survey (OECD, 2023a) there remains a need to improve outcomes from the school system, strengthen vocational education and remove barriers to women's participation in the labour market. Although gender inequalities have declined, Australian women still have lower employment rates, hourly wages and hours worked than their male counterparts, and thus also accumulate less pension savings. In 2024, the government established a 10-year gender equality strategy (Commonwealth of Australia, 2024), and the government's Women's Budget Statement for 2025-26 noted progress, including a reduction in the gender pay gap from 14.1% in May 2022 to 11.9% in November 2024. Table 1.6 summarises developments since the previous Economic Survey on recommendations on gender inequality. It will also be key to ensure that the migration system effectively meets Australia's skills needs. Given the trend fall in fertility rates, Australia's working-age population would already be falling in the absence of continued net immigration, and, as well as supporting the workforce, immigration benefits overall

Australian productivity and the public finances (OECD, 2023b, Varela et al. 2021). Challenges remain in the immigration system, however, including skill mismatches: it is notable that pronounced skills shortages in some sectors emerged at the same time as Australia was experiencing record net immigration immediately after the pandemic. Taken together, policy measures recommended in this Survey could boost growth in Australia significantly (Box.1.4).

Australia needs to address long-run challenges to well-being and growth associated with obstacles to the effective functioning of the housing market and the need to accelerate the reduction in carbon emissions to meet the government's objectives, as well as making Australia more resilient to climate risks and dovetailing the achievement of climate goals with growth objectives. These issues are addressed in the next sections. In these and other areas, continued efforts will also be needed to overcome the inequality experienced by Indigenous people and achieve life outcomes equal to all Australians. The Closing the Gap agreement specifies 23 targets and 164 supporting indicators, and the Productivity Commission produces an Annual Data Compilation Report to monitor progress (Productivity Commission, 2025a). As of mid-2025, progress was found to be mixed, with an improvement in housing, but insufficient to be on track for the 2031 target.

Box.1.4. Estimated impact of structural reforms recommended in the Economic Survey

This box summarises potential medium-term impacts of selected structural reforms included in this Survey on GDP (Table 1.5). The quantification impacts and the packages of reforms are only illustrative.

Table 1.5. Illustrative impact of structural reforms on GDP level

Policy	Measures	10-year cumulative impact, %	20-year cumulative impact, %
Tax reform	Increasing the GST to 15% and reducing the labour tax wedge by 5 ppts over 5 years (revenue neutral measure).	+1.6	+2.0
R&D business support	Increasing business R&D by 0.5 ppt of GDP, by improving efficiency of programmes.	+0.2	+0.8
Index the retirement age to longevity	Increasing the statutory pension age by six months every five years from 2025 to reach 70 by 2050.	+0.6	+1.2
Reduce regulatory barriers to competition	Reforming licensing and permit procedures to be equivalent to those in Denmark	+0.6	+1.0
Reduce regulatory barriers to competition	Reforming regulatory procedures such that their complexity is equivalent to that in the Netherlands.	+0.4	+0.7
Sum of impacts		**+3.4**	**+5.8**

Source: OECD long-term model and OECD calculations

Table 1.6. Past OECD recommendations on improving gender equality

Key recommendations	Action taken since October 2023
Introduce a more gradual tapering of benefits as household earnings rise, potentially funded through removing Family Tax Benefit Part B for couple families.	No relevant changes since October 2023.
Further increase the rate for JobSeeker benefits and consider further options to reduce disincentives for recipients to increase working hours.	As part of the 2024-25 Budget. eligibility for the higher rate of JobSeeker Payment has been modestly expanded for individuals with a partial capacity to work between zero and 14 hours per week.
Improve access and affordability of high-quality childcare by encouraging the development of the private childcare sector and improving provision for non-standard hours of care.	The Government has committed to building a universal early education and care system, where every child is guaranteed access to at least three days of quality early education, and care is simple and affordable. AUD 5.0 billion has been allocated over five years, including to support a 15% wage increase for early childhood education and care workers, establishing the Building Early Education Fund to increase supply of quality services in areas of need, replacing the Child Care Subsidy Activity Test with the 3 Day Guarantee, and developing a Service Delivery Price to better understand sector prices and cost drivers and inform future reforms.
Along with extending public parental leave duration, prioritise raising the rate at which it is paid and increasing the share of parental leave reserved specifically for fathers.	From 1 July 2025, Superannuation Guarantee equivalent payments will be made to recipients of Government funded Paid Parental Leave (PPL).
Implement effective programmes that focus on promoting early work experience, apprenticeships and mentoring arrangements for females studying STEM and ICT and men studying caring professions.	The Building Women's Careers (BWC) Program aims to drive structural and cultural change in work and training environments to improve women's access to flexible, safe and inclusive opportunities in the key male-dominated industries and sectors of construction, clean energy, advanced manufacturing and digital and technology.

1.5. Housing is expensive and in short supply

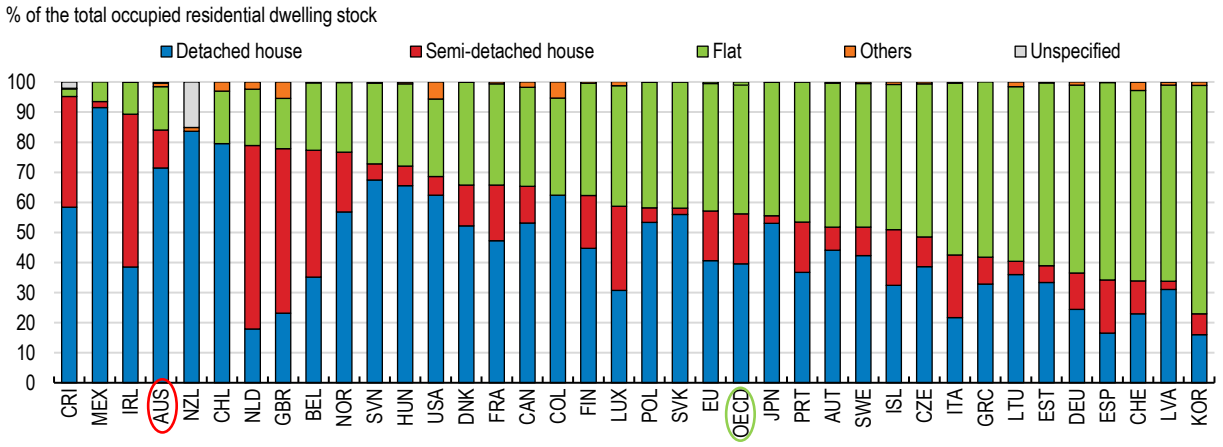
Housing is key to people's well-being and also supports the effective functioning of the economy (OECD, 2023c). It is generally the largest component of the cost of living and the largest component of wealth for most households. Construction and real estate activities account for a substantial share of the economy, around 19% of gross value added in Australia (including imputed rents on owner-occupied housing), among the highest in the OECD. By facilitating or impeding agglomeration, the amount, cost and distribution of housing affect aggregate productivity. Housing finance has implications for macroeconomic stability and resilience. In addition, the environmental performance of housing determines a sizeable share of greenhouse gas emissions.

1.5.1. Housing costs are high in Australia and rose rapidly in recent years, although some factors have become more favourable of late

Australia is among the countries with the highest average living space per person, reflecting a high proportion of detached houses (Figure 1.20), which are on average large. Housing in Australia has, however, become increasingly expensive. Over the past 30 years, house prices have risen strongly real terms, increasing more in relation to household incomes than in any other OECD country (Figure 1.21). This has left Australian households with a high average ratio of mortgage debt to disposable income. The run-up in prices has been skewed towards the largest cities, especially Sydney, exacerbating housing cost differentials vis-à-vis the rest of the country.

Figure 1.20. Australia has a large share of detached houses

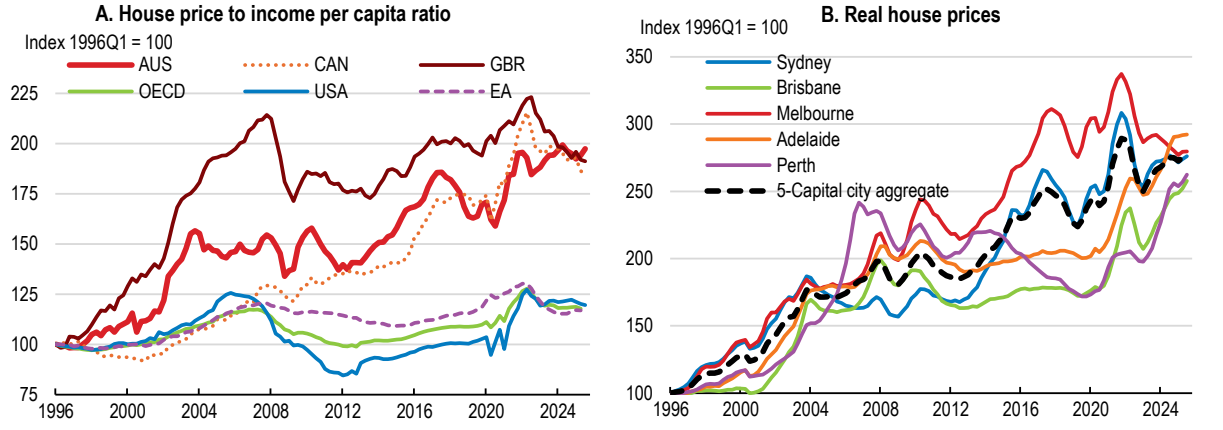
Occupied residential dwelling types, 2022 or latest available year



Note: 2021 data for Australia.
Source: OECD Affordable Housing Database – http://oe.cd/ahd

StatLink https://stat.link/jcuhok

Figure 1.21. House prices have risen very strongly in real terms over the past 30 years



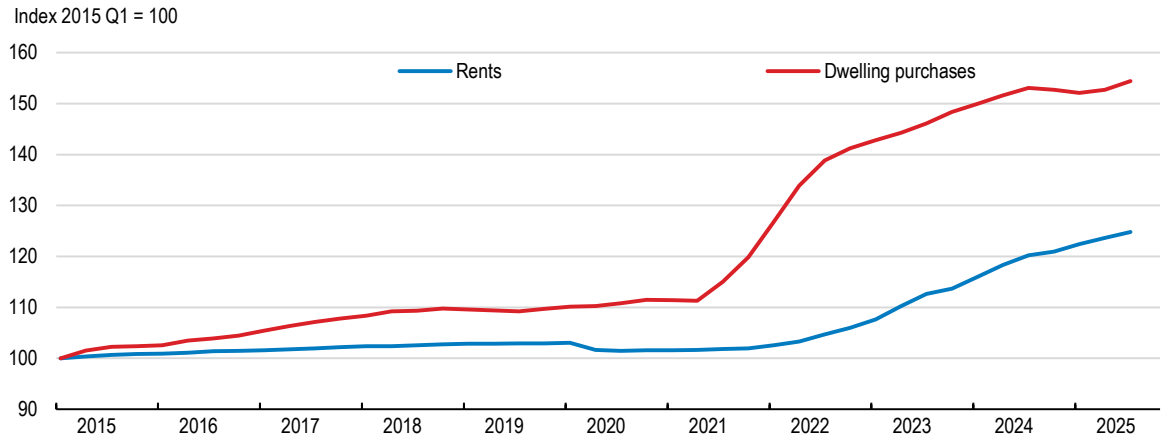
Source: OECD Analytical house prices indicators; and Cotality.

StatLink https://stat.link/e8ld37

While the impact of rising house prices on household budgets was mitigated for a long time by the downtrend in global interest rates, which kept mortgage servicing costs little changed and facilitated a containment of rental inflation, this changed in 2022 with the sharp upward move in interest rates. Over the past three years, the housing components of the consumer price index surged (Figure 1.22). The increase in rents was a particularly sharp shift from past years, with recent rental inflation some eight times higher than in the years just preceding the pandemic. The CPI does not include mortgage servicing costs, but the increase in mortgage interest payments was extremely large (Figure 1.1 Panel D). As of the most recent census in 2021, 35% of Australian households had a mortgage.

Figure 1.22. Housing costs have risen sharply over the past three years

Consumer price index categories: rents and dwelling purchases

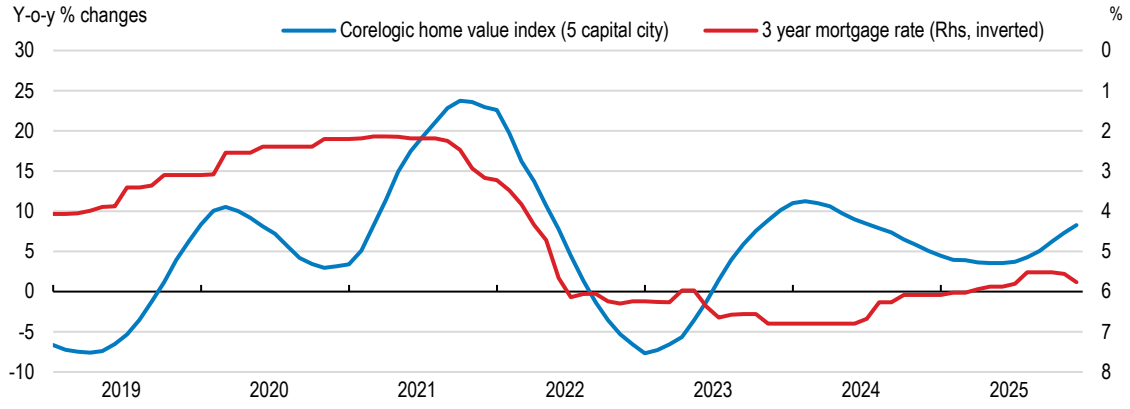


Source: Australian Bureau of Statistics.

StatLink https://stat.link/ty2xhr

Normally, the scale of the increase in mortgage interest rates seen in 2022-24 would have been expected to trigger a sizeable fall in house prices. While there was an initial dip in Australia, prices rebounded surprisingly quickly, with year-on-year increases exceeding 10% again by mid-2023 before easing somewhat (Figure 1.23). The volume of housing transactions did, however, fall sharply, almost halving in Sydney and Melbourne between the fourth quarter of 2021 and the first quarter of 2023, and only making up about one third of that fall by the first quarter of 2025.

Figure 1.23. House price growth was surprisingly strong in 2023-24 given the level of mortgage rates



Source: Cotality; and Reserve Bank of Australia.

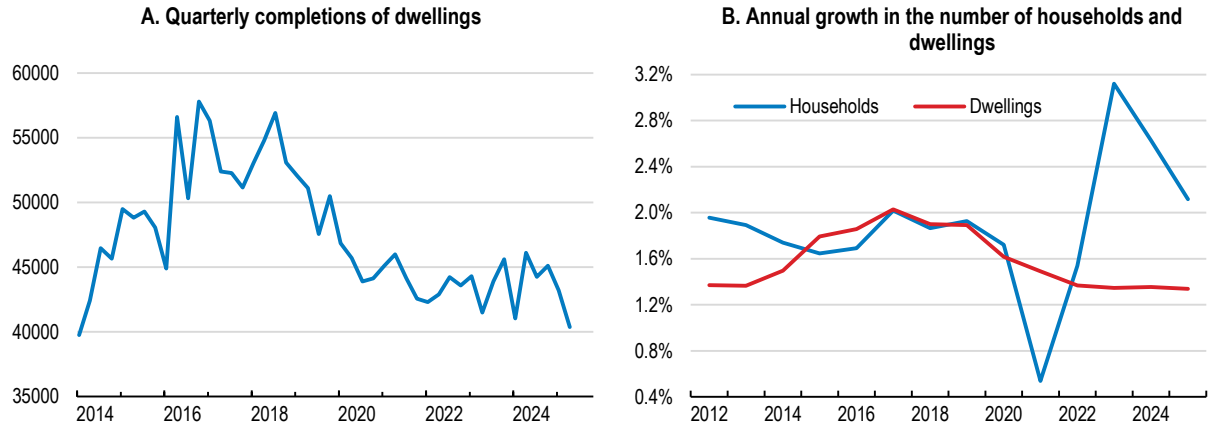
StatLink https://stat.link/flhv61

A number of factors have contributed to the worsening of housing affordability, reflecting both supply and demand factors and a combination of longer-term structural factors and cyclical or temporary ones. The worsening of affordability that has arisen since 2022 results from acute issues of rising demand and strong construction cost inflation being overlaid on a chronic issue of insufficient supply. The spike in construction cost inflation was fuelled by sharp rises in raw materials prices (e.g. timber and steel) and shortages of skilled labour, aggravated by competition for labour from public infrastructure projects. Policy also played a role in

exacerbating cost pressures, with the HomeBuilder Grant, introduced during the pandemic, subsidising the building of new homes or conducting renovations. The increased incidence of climate-related disasters over time has also meant that resources that would otherwise have been available to increase housing supply have increasingly been diverted to repair and replacement of the existing housing stock.

Recent building completions remain stubbornly low, well below pre-pandemic levels (Figure 1.24 Panel A). At the same time, population growth surged after the pandemic, reflecting record net immigration, while the downtrend in the average size of households (driven by factors such as later couple formation and the rising share of the elderly) has sped up in recent years, such that the underlying rate of growth of demand for dwellings has increased (Figure 1.24 Panel B). With trend population growth of more than 400,000 a year and a continuing downtrend in average household size, it is likely that about 250,000 new dwellings would need to be completed each year to keep up with the growth in demand, compared to a current level of about 180,000. In addition, completions should probably run ahead of household formation for a time to unwind the shortage that has built up.

Figure 1.24. Dwelling completions are low and housing stock growth lags household formation

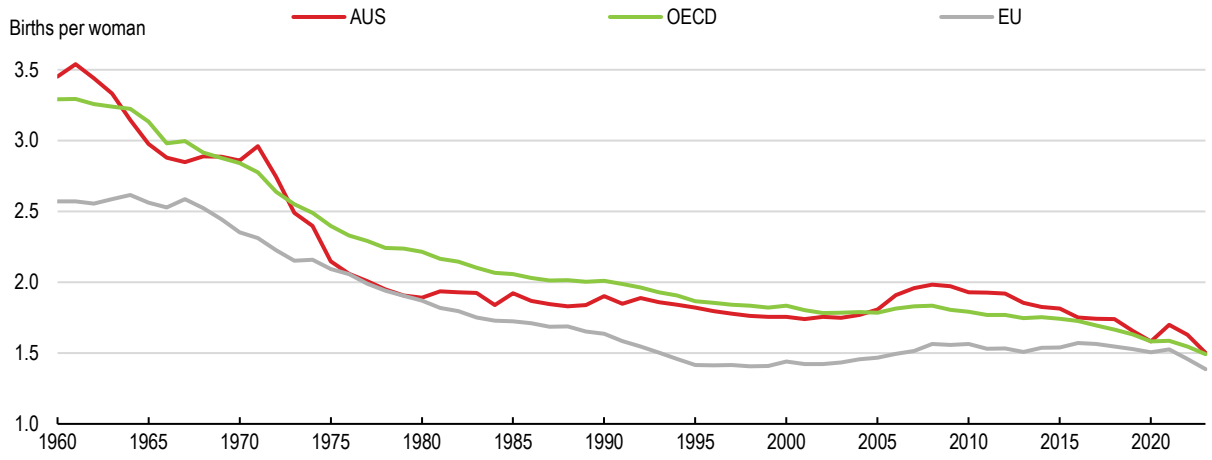


Source: Australian Bureau of Statistics, and OECD Secretariat calculations.

StatLink https://stat.link/t9ickg

Some of the adverse cyclical/temporary factors that sharply worsened housing affordability in the last few years are now turning in a more favourable direction. Notably, policy interest rates and mortgage rates have fallen and rent inflation has eased, while the spike in construction cost inflation is being unwound, even though upward pressures on construction costs remain. In addition, the immigration surge has eased, with net inflows returning to more normal levels, while the natural rate of increase of the native-born population remains on a downtrend (Figure 1.25), pointing, other things equal, to less rapid growth in household formation in the future. Thus, the affordability problem is less acute than it was. The turning of the cycle is also being reflected in total housing investment, which was falling for much of 2021-23, but has grown by 5.6% over the latest four quarters. Building approvals have also rebounded during 2025. Despite the cyclical improvement, however, a major structural affordability problem remains.

Figure 1.25. Fertility rates are at all-time lows and trending downward



Source: World Bank WDI.

StatLink https://stat.link/7p4n8q

1.5.2. Strained housing affordability has many negative consequences

The worsening of housing affordability in recent years, concentrated in the major cities, impacts on living standards and well-being in several ways. The proportion of households experiencing housing stress has jumped, with rent or mortgage payments accounting for a higher share of income. In 2023, the share of low-income renters in rental stress (paying more than 30% of income in rent) was 54%, up from 47% in 2020, and rent inflation continued to outstrip the growth of incomes in 2024. Among households with a mortgage, the share of borrowers reporting that mortgage payments and essential expenses exceeded their income jumped from about 0.5% in early 2021 to more than 4% two years later, before declining somewhat in the second half of 2024. A corollary of the increase in housing stress is growing rates of homelessness, as well as overcrowding. At the time of the 2021 census, the share of the homeless in Australia's population was about 0.4%, (with much higher rates for Indigenous Australians) and associations report increases in recent years, including among working people and families. Australia has a broader definition of homelessness than most other OECD countries, complicating international comparisons, but other countries with broad definitions, including Denmark, Finland and Norway, have much lower rates.

Since homeowners have benefited from the rise in real house prices and are disproportionately older, the worsening of affordability has increased intergenerational inequality. Home ownership among the young has fallen substantially over the past few decades; while recent data are lacking, it is likely that the rise in mortgage rates and the fall in real wages since 2022, together with continued rises in house prices, will have yielded a further drop. Geographic mobility among the young has also declined, reflecting a tendency for them to live longer with their parents. These phenomena, common to a number of other OECD economies, are cited as reasons for growing disillusionment among the young. In the latest Mapping Social Cohesion report (Scanlon Institute, 2024), one third of 18-24-year-olds saw home ownership as important but unlikely in the next 10 years, and this was associated with much lower measures of social cohesion.

The rise in housing costs and its concentration in major urban centres exerts a drag on productivity growth, worsens traffic congestion, raises national greenhouse gas emissions and worsens spatial wealth inequalities. The lack of sufficient high- and medium-density housing in the big cities prevents the productivity gains from agglomeration (Ciccone and Hall, 1996), largely via deep labour markets, from being fully reaped. Housebuilding is pushed out to the suburbs, aggravating urban sprawl, resulting in more driving, longer average commuting times and higher emissions per person both from housing itself and from transport. Higher real estate prices in cities also raise the costs for governments of providing infrastructure, which again impedes productivity growth and amenities for the population. In addition, the concentration of house price

gains in the state capital cities, and especially the largest urban areas, means that spatial income inequality – among states and between urban and rural areas – has also trended upward.

1.5.3. Governments have responded to affordability challenges, but structural problems remain

Governments at both the federal and sub-federal levels have long recognised the shortage of housing, especially in the big cities, and have put in place a range of policy initiatives aimed at improving affordability. The federal government has also consolidated responsibilities for housing in the Treasury, improving the coordination of policy-making in this area, although at the state level responsibilities generally span multiple ministries. The 2022 National Housing Accord between the federal government, the governments of the states and territories, the Australian Local Government Association, superannuation funds and associations, institutional investors and building and construction bodies, includes a target of building 1.2 million new "well-located homes" over 5 years from mid-2024 and provides financial incentives to states to boost housing supply. The federal government has also created the Housing Australia Future Fund, a dedicated investment vehicle to increase social and affordable housing, initially at a pace of AUD 500 million per year, with a target of supporting the construction of 40,000 social and affordable homes over five years via the HAFF and the National Housing Accord Facility (NHAF). In addition, the 2025-26 Budget boosted guarantees for Housing Australia from AUD 10 billion to AUD 26 billion to enable it to provide lower-cost and longer-term finance for the building of social and affordable homes.

The Australian Government 5% Deposit Scheme (formerly the Home Guarantee Scheme) was expanded in October 2025 to give all first homebuyers the ability to buy with a 5% deposit, with no cap on the number of places, no income caps, and increased property price caps. Further support will be provided to 40,000 Australians locked out of homeownership through the Help to Buy shared-equity scheme which is expected to launch by the end of 2025. These schemes support home buyers through the provision of guarantees and financial support. In the 2024–25 Budget, the maximum fortnightly rates of Commonwealth Rent Assistance (CRA) were increased by 10%. This followed a 15% increase in the 2023–24 Budget. Under the National Agreement on Social Housing and Homelessness, the Australian Government provides around AUD 1.8 billion to state and territory governments annually. This funding helps people who are experiencing, or at risk of, homelessness and supports the effective operation of Australia's social housing and homelessness services sectors. The Agreement dedicates AUD 400 million to homelessness each year which must be matched by the states and territories. Investment continues in youth homelessness prevention through the Reconnect Program and providing new funding for homelessness research, advocacy and coordination.

Restrictive land use regulations hold back construction

The key factor in the long-term shortfall in supply is restrictive land-use regulations, often in the form of building height restrictions and/or minimum lot sizes. While this issue afflicts many countries, an OECD indicator of land-use restrictiveness suggests that Australia has the most decentralised land-use and planning regulation with the highest degree of overlap between levels of government (Cavalleri et al., 2019), which tend to be associated with tighter regulation. Land-use policy reforms, such as removing overly tight building height restrictions or minimum lot size requirements, are needed to achieve more medium- and high-density housing. Reforms of this sort have improved affordability in cities such as Aukland and Tokyo. The federal government could seek ways to give incentives to local authorities to engage in land-use expansion, for example requiring a city bidding for infrastructure investment to undo some exclusionary zoning. In addition, reducing the fragmentation and overlap between levels of government in land-use regulation could help to ensure that decision-making is based on the needs of entire metropolitan areas, rather than those of individual jurisdictions within those areas. France's experience with the compulsory integration of some suburbs into larger jurisdictions resulted in the issuance of more building permits (Tricaud, 2025), while Austria's Conference on Spatial Planning oversees spatial planning coordination between the three levels of government.

The Victoria and New South Wales government have implemented measures to expand urban housing via fast-tracking permitting. These measures allow more homes to be built around commercial centres and existing transport links, and both have established accelerated development pathways for major projects and revising housing targets. Councils in Victoria have to approve developments if they meet the state's townhouse and low-rise housing code. In the context of the National Competition Policy (see Chapter 2), the federal government could give financial incentives to the states to emulate these examples, even though the benefits of the reforms will be slow to be realised, as it will take years for land to be agglomerated and development planned and executed. The availability of information on housing varies significantly by state – for example, Victoria has some stipulations that other states do not – and convergence towards best practice would be welcome, with again a possible role for the federal government in incentivising this.

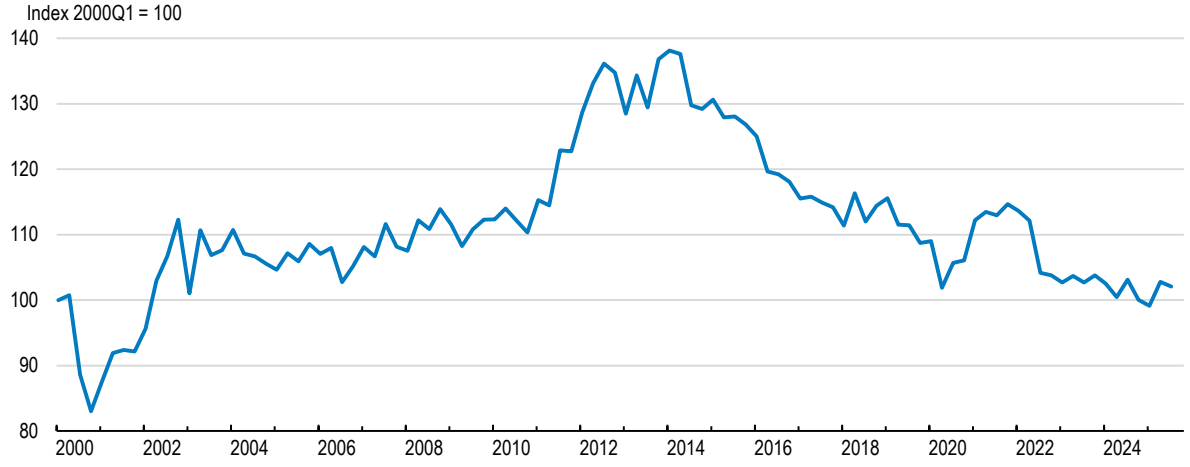
Productivity growth in housebuilding has been slow

A further factor pushing housing construction costs upward is the lack of productivity growth in construction over a remarkably long period (Figure 1.26; the Productivity Commission (2025b) diagnoses the problem in detail). Recent work in the United States has linked stagnant productivity over several decades to a proliferation of regulations that favoured small projects and small firms, with small firms investing less in technology and being less productive on average than larger ones (D'Amico et al. 2024). Similar work in Australia (CEDA, 2025) has confirmed that the same pattern is observed. Regulation in construction, even beyond planning, has increased greatly over several decades, with a steady increase in the number of approvals needed. In addition, the fact that rules are specific to local areas can favour small firms; average firm size in construction in Australia is lower than in the economy at large and smaller firms are characterised by lower levels of labour productivity than larger firms. In the wake of the August 2025 Economic Reform Roundtable, where these problems were discussed, the Government announced a four-year freeze on further changes to the complex National Construction Code and work to streamline it.

The government allocated AUD 54 million in the 2025-26 Budget to support prefabricated and modular housing, including AUD 49.3 million for state programmes and AUD 4.7 million for national certification to shorten build times. From July 2025, the Housing Construction Apprenticeship stream of the Key Apprenticeship Programme will provide up to AUD 10,000 to eligible apprentices commencing in high-priority housing construction occupations, and a Priority Hiring Incentive will provide up to AUD 5,000 to employers in priority occupations, addressing skilled trade shortages in building. Measures have also been taken to increase immigration of skilled construction workers and other in-demand occupations.

Figure 1.26. Productivity in construction is lower than it was 20 years ago

Real gross value added per employee in construction



Source: Australian Bureau of Statistics.

StatLink https://stat.link/0d7m3y

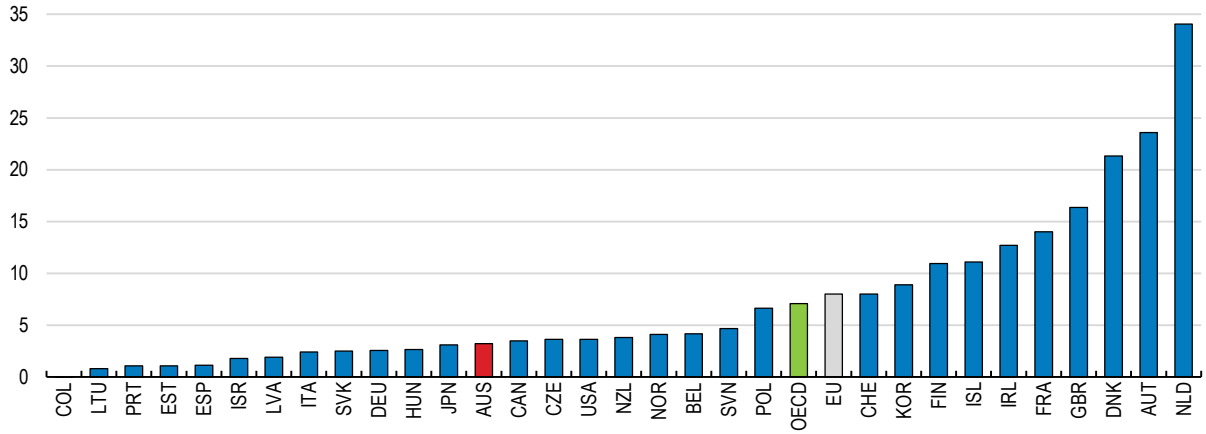
Implementation of some of these initiatives is underway, but progress appears only partial to date. For example, housebuilding in the first year of the National Housing Accord was well below the target pace, suggesting that completions would have to be around 255,000 per year for the remaining four years, roughly half again the recent rate. In order to make up lost ground on the National Housing Accord targets, the federal government could increase the payments available to states and territories and ease the requirements for accessing the funding. Under the Accord, states receive payments for homebuilding in excess of the target, but with construction well behind schedule in the first year (for reasons that go beyond policy settings), they may see little incentive in making greater policy efforts. Alternatively, the Accord could be redesigned so that payments are linked to policy efforts rather than housebuilding outcomes, along the lines of the National Competition Policy (see Chapter 2).

Investment in social or affordable housing has been weak

1.74. While the bulk of the supply constraint problem concerns private housebuilding, the low rate of public investment has also contributed to the lack of affordable housing. Building affordable housing where people want to live is often unprofitable for developers, so that building affordable housing generally requires public support and can contribute to social diversity. Social housing accounts for about 4% of the housing stock in Australia, down from 6% in 1990 and only about half the OECD average (Figure 1.27). The Housing Australia Future Fund (HAFF), the returns on which are used to pay for the construction of social and affordable housing, is expected to support a total of 20,000 social housing units over 5 years, which may be insufficient to reverse the decline in the share of the housing stock, although there has been some pick-up in momentum, with a growing pipeline of homes contracted by the HAFF. The government remains committed to increasing the supply of social and affordable housing, with a target to support 55,000 homes by mid-2029, both through the HAFF and a range of other housing programs. Greater public investment in social and affordable housing would have the dual benefit of protecting low-income or vulnerable households, while expanding the housing supply and thereby alleviating upward pressure on house prices. One means of achieving that would be to substantially increase the size of the HAFF and raise the target for the social housing it funds.

Figure 1.27. Social housing makes up only a small part of the housing stock

Share of social rental dwellings to total number of dwellings, 2022 or latest year available



Source: OECD Affordable Housing database.

StatLink https://stat.link/g9fjeh

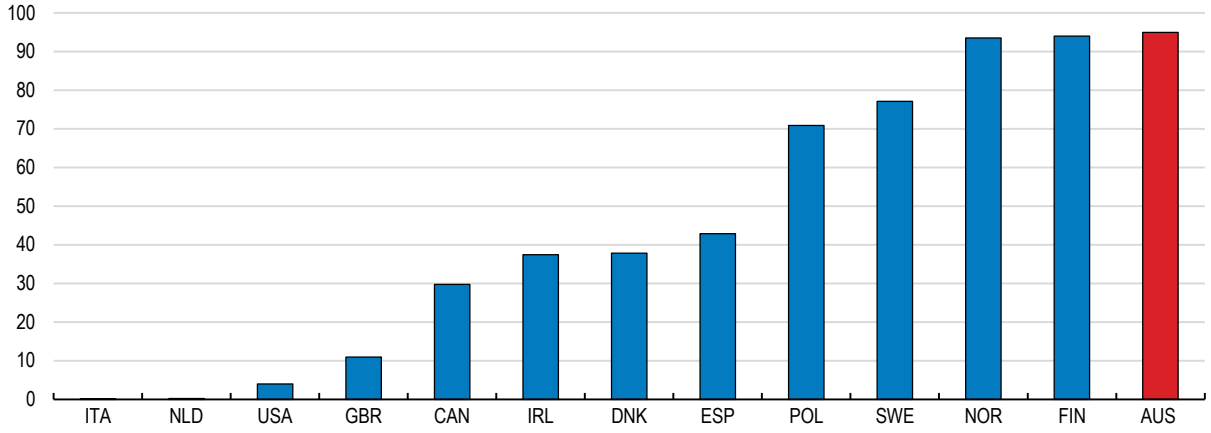
Reliance on adjustable-rate mortgages creates risks for affordability

The rapid rise in interest rates beginning in 2022 also aggravated the housing affordability crisis in Australia. In many OECD economies, the impact on household budgets of tighter monetary policy was initially muted, as most countries have a high share of fixed-rate mortgages. In Australia, by contrast, the bulk of mortgages are

on adjustable rates (Figure 1.28), so that mortgage payments respond quickly to changes in interest rates. The rise in mortgage rates also contributed to the rapid increase in rents, as landlords facing higher mortgage payments were induced to raise rents to compensate.

Figure 1.28. Australia has a high share of adjustable-rate mortgages

Share of variable rate mortgages outstanding, 2025Q1 or latest year available



Note: For AUS, 95% obtained as simple average of the latest investor presentation for the existing home loans portfolio of Commonwealth bank, NAB, and ANZ.
Source: European Mortgage Federation (EMF), Federal Housing Finance Agency (FHFA); and Central banks.

StatLink https://stat.link/ich849

The tax system and subsidies boost housing demand

The tax system and governmental support programmes contribute to lowering the immediate cost of housing, but have added to upward pressure on house prices and rents. The overall taxation of property is lower than for other assets and consumption. While total property-related receipts are above the OECD average, this is skewed towards stamp duty on transactions rather than recurrent taxes on housing consumption and assets (land and structures). Transactions taxes make it costly to move, impeding labour mobility and resulting in more people remaining in sub-optimal housing (for example, by disincentivising downsizing by older homeowners), with negative consequences for intergenerational equity. Recurrent property tax revenues are also more stable than stamp duty receipts, making states' public finances more predictable. The move by the Australian Capital Territory (ACT) to replace stamp duty (a tax on transactions) with a recurrent land tax therefore looked like a promising initiative that might provide a useful model for other states and territories, although progress has bogged down during the long transition period. A similar move in New South Wales was cancelled owing to a change of government. A key obstacle to such a shift has been an initial loss of revenue (even if the switch is designed to raise the same revenue over time); especially given that some of the economic gains from a switch from stamp duties to recurrent property taxes would be reflected in higher federal revenues, there may be a role for the federal government to compensate states initially for the up-front revenue shortfalls.

Recurrent taxes on houses and land are relatively low compared to other countries, as well as lower than for other assets and other types of consumption. While there is no mortgage interest deductibility for owner occupiers, the sale of a principal residence is exempt from capital gains tax and the low level of property taxes leaves owner occupation undertaxed. Home ownership as an investor is further supported by a 50% capital gains tax reduction for the sale of any asset held more than 12 months, mortgage interest deductibility for investment properties and the provision for "negative gearing" (allowing the excess of costs over revenues from a rental property to be claimed by the owner as a tax deduction on other income). Removing some of the favourable tax treatment of residential property ownership, including capital gains tax concessions and negative gearing, would help to cool demand and could help to mitigate upward pressure on house prices.

Shifting the basis from the value of structures to current land prices would encourage construction in valuable developable areas, helping to address supply-demand mismatches and lower obstacles to mobility, facilitating labour market adjustment and boosting economic growth. Victoria also has a tax on vacant properties, recently amended to provide for a tax rate that rises over time if properties remain unused, which has the potential to boost the supply of housing on the market, but only a small number of vacant dwellings are subject to the tax, pointing to enforcement challenges.

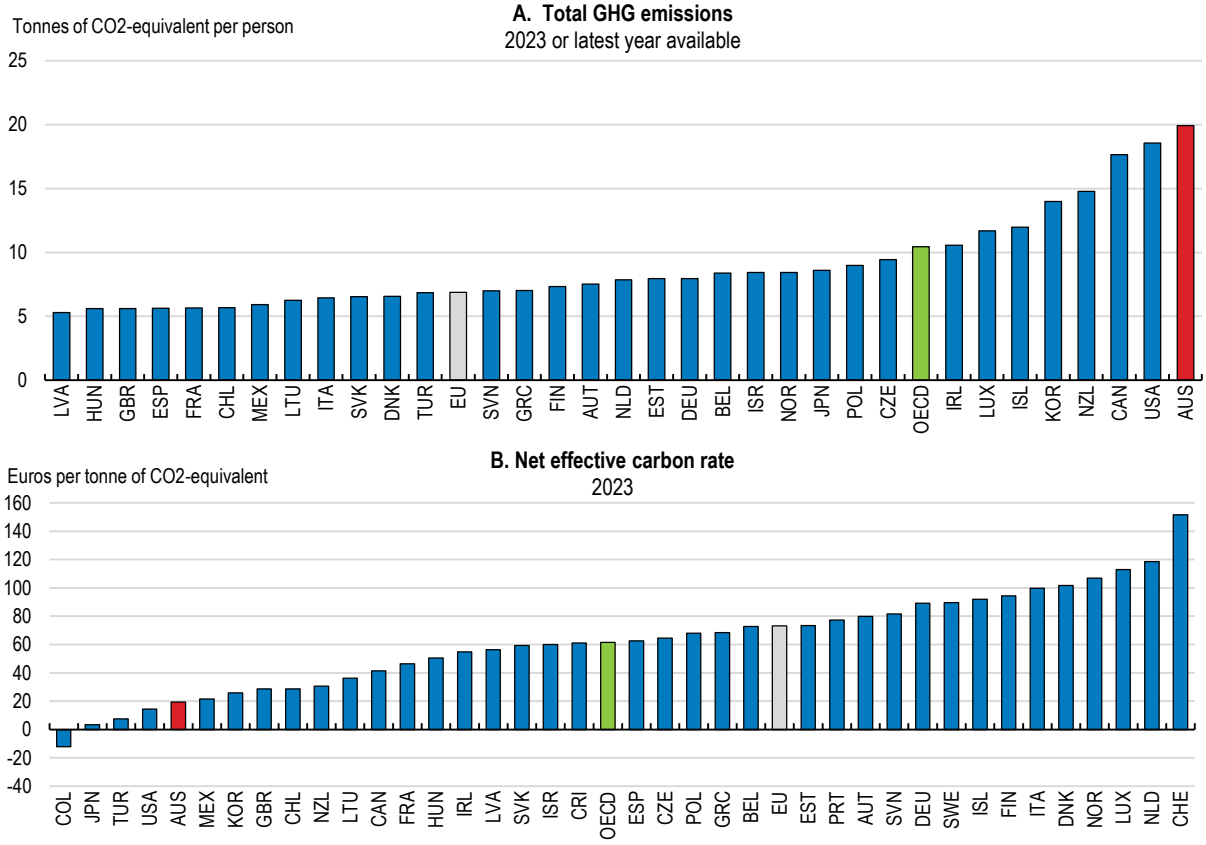
While it may be necessary to continue with some demand-side support for households, especially low- and middle-income households who would otherwise be locked out of the market, the government should limit the cost and duration of such support and at the same time focus on improving supply. Any demand-side support should primarily take the form of rent assistance, as housing stress tends to be greatest among renters, while the targeting of the Help to Buy scheme could be better focused on low-income households.

1.6. Greenhouse gas emissions are on a downward path, but further progress is needed

1.6.1. Energy transition policy efforts and outcomes have improved in recent years

Australia was for many years an international laggard on climate action and still has among the highest per capita carbon emissions of any country in the world and among the lowest implicit prices of carbon (Figure 1.29). In recent years, however, Australia has made relatively rapid progress on the energy transition, with a growing proportion of climate policy instruments adopted in most areas (Figure 1.30). Whereas previously there had been a piecemeal approach, with actions largely taken by industry, households, and state and territory governments, the federal government has taken several significant initiatives in the past few years, beginning with the Climate Change Act of 2022, which enshrined Australia's 2030 and 2050 emissions targets in law, and the creation in 2022 of the Department of Climate Change, Energy, the Environment and Water (DCCEEW). The Climate Change Act requires the Minister for Climate Change and Energy to make an annual statement to Parliament outlining progress towards emissions targets and saying whether current policies are effective.

Figure 1.29. Australia has high emissions and low effective carbon prices



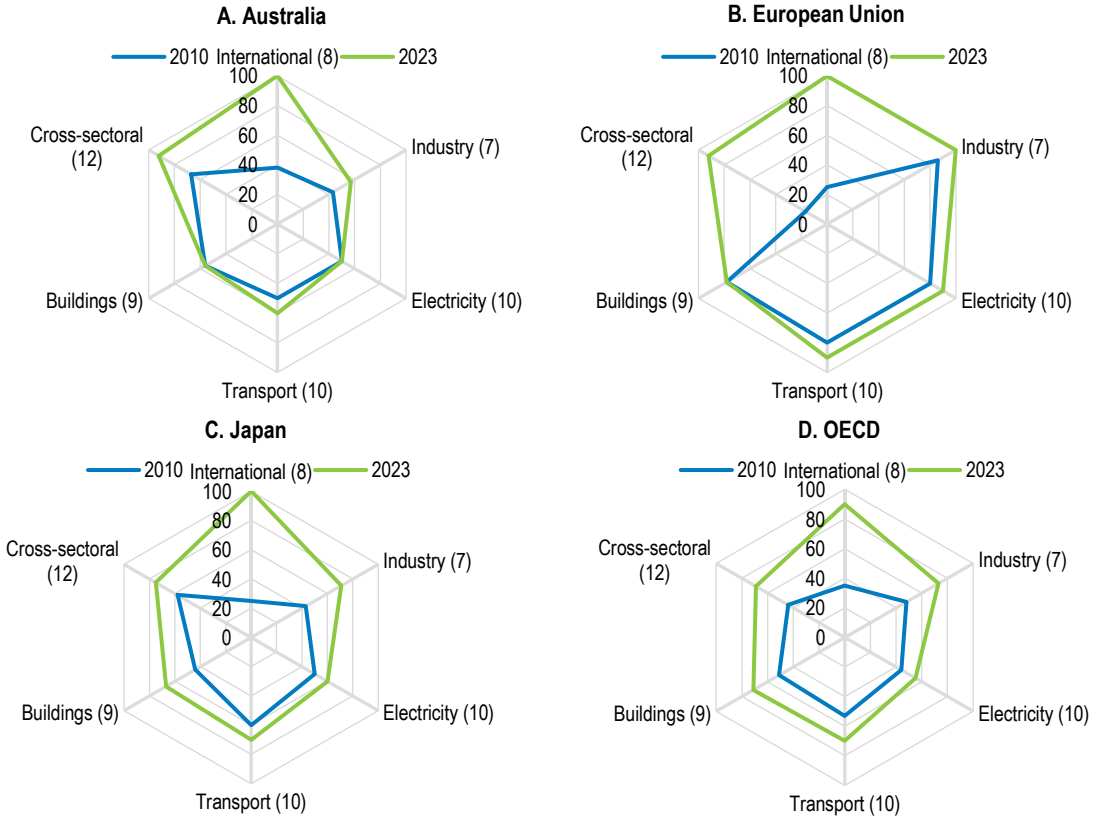
Note: Panel A Excluding land use, land-use change and forestry (LULUCF).
Source: OECD Environment Statistics.

StatLink https://stat.link/6qjlwg

Since 2022, there have been several federal government policies to support the transition, including the Capacity Investment Scheme (CIS) to boost accelerated investment in renewable electricity-generation and dispatchable capacity, the reform of the Safeguard Mechanism to reduce industrial emissions and the New Vehicle Efficiency Standard to reduce transport emissions. In 2022, Australia joined the Global Methane Pledge, an international effort to reduce global methane emissions from 2020 levels by 30% by 2030: Australia is the world's 12th largest emitter of methane, primarily due to agriculture, together with mining activities and gas extraction.

Figure 1.30. Australia's performance on adoption of climate policy instruments has improved

% of climate policy instruments adopted across areas



Note: The number of policy instruments tracked in the Climate Actions and Policies Measurement Framework (CAPMF) for each area is displayed in parentheses. The CAPMF is a structured and harmonised climate mitigation policy database, covering 56 policy instruments and 130 policy measures. Climate action is defined as policy adoption according to the Climate Actions and Policies Measurement Framework (CAPMF) plus policy stringency. Policy stringency is defined as the degree to which climate actions and policies incentivize or enable GHG emissions mitigation at home or abroad.
Source: OECD Climate Actions and Policies Measurement Framework.

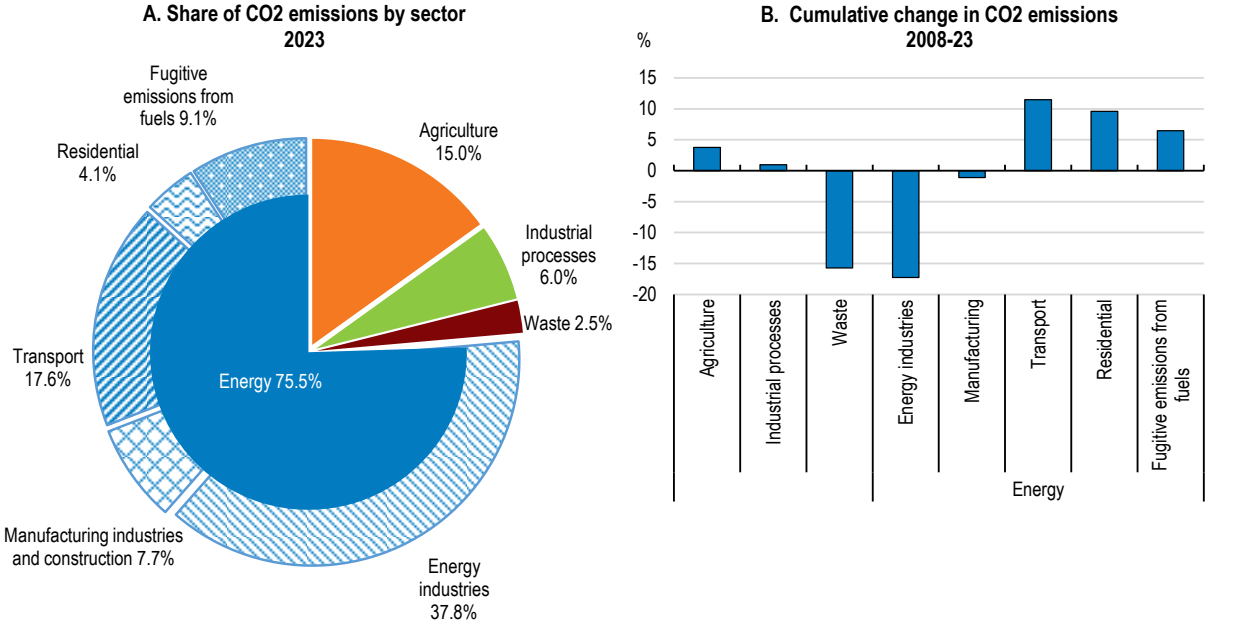
StatLink https://stat.link/v51i9m

The Safeguard Mechanism, established in 2016, sets limits known as baselines on Scope 1 emissions for large industrial emitters (for a fuller description see previous Survey (OECD, 2023)), which together accounted for 31% of Australia's greenhouse gas emissions in 2023-24 (Figure 1.31 Panel A). Emitters must meet baselines by undertaking onsite abatement or purchasing and surrendering eligible carbon credits from within the scheme (Safeguard Mechanism credits) or other parts of the economy (Australian Carbon Credit Units) system. The mechanism suffered initially from excessively high baselines, which meant that its impact on emissions was limited. In 2023 the scheme was reformed to ensure covered facilities reduced their emissions on a trajectory consistent with Australia's climate targets. The reforms included: setting emission reduction targets for the scheme overall; setting baselines to decline over time; and introducing the ability to earn Safeguard Mechanism Credits for emitting below baselines, to incentivise onsite abatement. In the first year of implementation of the reformed Safeguard Mechanism net emissions covered by the scheme declined to 127.8 Mt CO2e from 137.9 Mt CO2e in the previous year. In the future, it may be useful to switch to limits on total emissions if the current Safeguard Mechanism baselines, which are based on emissions intensity, fail to deliver the desired emissions reductions, and to consider broadening the coverage of the mechanism (OECD, 2023; see Table 1.7 for actions taken since 2023).

Table 1.7. Past OECD recommendations on responding to climate change

Key recommendations	Action taken since October 2023
Consider scaling up and refocusing public funding towards the development and demonstration of clean energy and energy-efficiency technologies. Stand ready to provide further policy support and accelerate the planning and implementation of renewable energy projects to ensure that renewable energy targets are met.	Through its Future Made in Australia agenda, the 2024-25 Budget provided an estimated AUD 22.7 billion over ten years to accelerate investment in priority industries, including renewable hydrogen, green metals, low-carbon liquid fuels, refining and processing of critical minerals and manufacturing of clean energy technologies including in solar and battery supply chains. The Government has expanded the Capacity Investment Scheme, a revenue underwriting scheme designed to accelerate investment in renewable energy generation and clean dispatchable capacity. The CIS has a target of 26 GW of renewable generation capacity and 14 GW of clean dispatchable capacity.
Switch to limits on total emissions if the current Safeguard Mechanism baselines based on emissions intensity fail to deliver the desired emissions reductions and consider broadening the coverage of the mechanism.	Safeguard Mechanism reforms are due to be reviewed in 2026-27, to ensure that they are operating as intended.
Align the various state subsidy programmes for electric vehicles and introduce stringent federal fuel economy standards.	Australia has introduced a New Vehicle Efficiency Standard, which commenced from 1 January 2025. It applies to most passenger vehicles and light commercial vehicles sold in Australia.
Further increase support for agricultural research and development as well as extension services and agricultural education, with a particular focus on emissions reduction technologies and practices.	The 2024-25 Budget contained AUD 63.8 million over ten years to support initial emission reduction efforts in the agriculture and land sectors. This included AUD 27.8 million to accelerate on-the-ground action through upskilling of advisors, farmers and land managers in the Carbon Farming Outreach Programme; (4) AUD 28.7 million to improve greenhouse gas accounting from the national to the farm level. .In addition, the Government is allocating (1) an additional AUD 1 billion for the Regional Investment Corporation to boost climate resilience; and (2) AUD 87 million to establish the Zero Net Emissions Agriculture Cooperative Research Centre.
Regularly update energy efficiency requirements in the National Construction Code.	Through 2024 and 2025, most states and territories have adopted the higher energy efficiency requirements contained in NCC 2022. The Building Ministers' Meeting has approved NCC2025 provisions that include updating energy performance provisions for commercial buildings. The Commonwealth is currently working with state and territory governments to support the building ministers' commitment to include climate resilience as a specific objective of the Australian Building Codes Board (ABCB).
Consider improving the disclosure of climate and hazard-related risks in certain cases such as the sale of residential or commercial properties. Require all states and territories to consider climate and hazard risk when making land-use planning decisions for new developments.	Each of Australia's state and territory-based planning systems have regulation that considers climate and hazard risks for new developments. States and territories will continue to update and evolve their planning schemes to consider climate and hazard risks, including through measure 8 from the National Planning Reform. New climate-related financial disclosure requirements are being phased in over several years for large corporations, with the first tranche of reporting obligations commencing on 1 January 2025.

Figure 1.31. Energy sector emissions have fallen the most, but have increased in transport



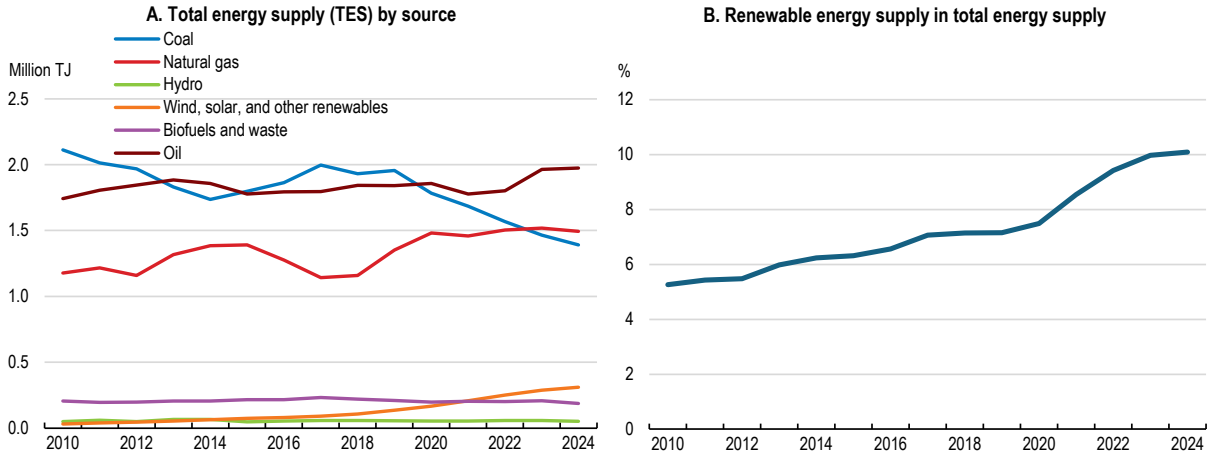
Note: Excludes land use, land use change and forestry (LULUCF).
Source: OECD Green growth indicators database.

StatLink https://stat.link/l7cb9k

1.6.2. The share of renewables in electricity generation is growing, but needs to be accompanied by more investment in grids and other measures

Encouraged by the ramping up of policy action, emissions from the energy sector have been falling (Figure 1.31 Panel B). This is largely driven by a fall in energy production from coal (Figure 1.32 Panel A), partly reflecting the fact that many coal-fired power stations are reaching the end of their service life. Meanwhile, the share of renewables in the total energy supply has been rising rapidly, particularly in recent years (Figure 1.32 Panel B). The share of renewables in total electricity supply is above the OECD average and rising fast, reflecting favourable conditions for solar and wind power. There have been rapid gains in rooftop solar generation, an area where Australia already leads the world, in part because of longstanding support from the federal government's Small-scale Renewable Energy Scheme, as well as schemes at the state and local levels.

Figure 1.32. Coal use is falling, while the share of renewables in energy supply is rising rapidly



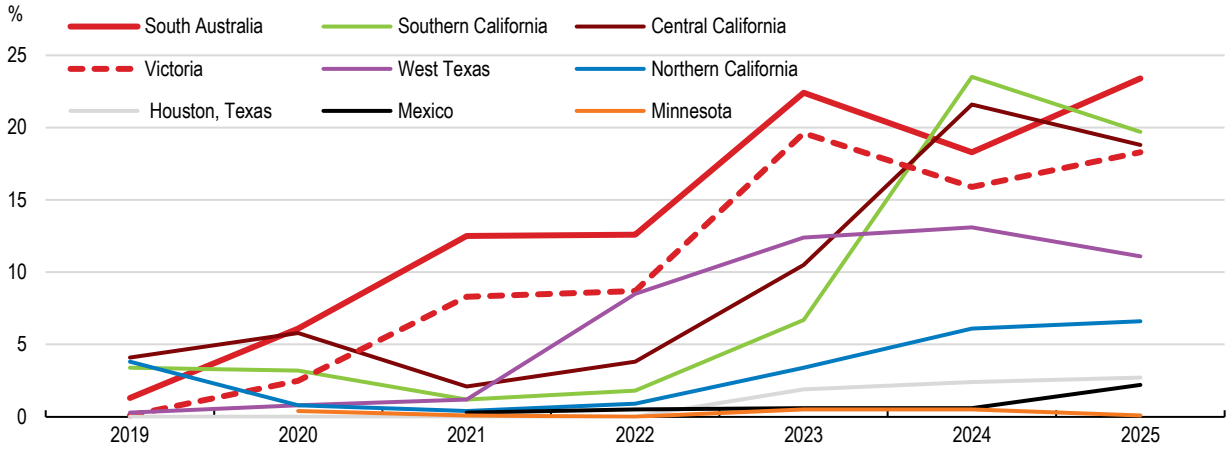
Note: (Panel A) "Wind, solar, and other renewables" corresponds to wind, solar, geothermal and tide/wave/ocean.
Source: IEA World energy balance database; and OECD Green growth database.

StatLink https://stat.link/zilmuv

Despite the intensification of policy efforts and improved outcomes, especially as regards renewable energy generation, significant challenges with intermittency, storage, and transmission infrastructure remain. In particular, the high incidence of negative wholesale electricity prices in South Australia and Victoria compared to markets in other countries, including markets in the United States with similar shares of renewables (Figure 1.33), are indicative of the need for network expansion and improved regulation and incentives, including storage, to smooth output and balance demand with supply (IEA, 2025). Price volatility for electricity generators is very high with wholesale prices range from negative prices to above AUD 500 per MWh, with interconnector congestion, as well as outages at Australia's ageing coal power stations, contributing to price spikes.

Figure 1.33. The incidence of negative wholesale electricity prices is high and rising

Share of time that hourly wholesale electricity prices in selected regions were negative in the first half of the year, 2019-2025



Notes: Southern California corresponds to area SP15 in the state's zonal regions, Central California to area ZP26 and Northern California to area NP15. For South Australia and Victoria, five-minute interval prices were converted to hourly averages to enable comparison.
Source: IEA (2025), Electricity Mid-Year Update 2025.

StatLink https://stat.link/69vrfa

Policy efforts are underway to mitigate this problem. The expanded Capacity Investment Scheme aims to add 26 GW of renewable energy generation and 14 GW of new dispatchable capacity, including battery storage,

by 2030 and in May 2024 the federal government published its first National Battery Strategy (NBS), which identifies manufacturing energy storage systems as a high-value opportunity for Australia's domestic battery manufacturing industry. The NBS is backed by substantial funding, including the AUD 0.5 billion Battery Breakthrough Initiative. Separately, since its introduction on 1 July 2025, the Cheaper Home Batteries Program has supported rapid uptake of battery storage for households and communities. The other main option for storage, pumped hydro, has been developed to some degree in Australia, but efforts have been plagued by delays and cost overruns. A full range of policy options may be needed to ensure stable supply, including dynamic pricing mechanisms on the demand side, changes to the framework for the wholesale market and long-term contracts, further investments in the grid, including to increase digitalisation, and achieving a balanced energy mix. The forthcoming review of the National Electricity Market is expected to provide policy recommendations on these issues.

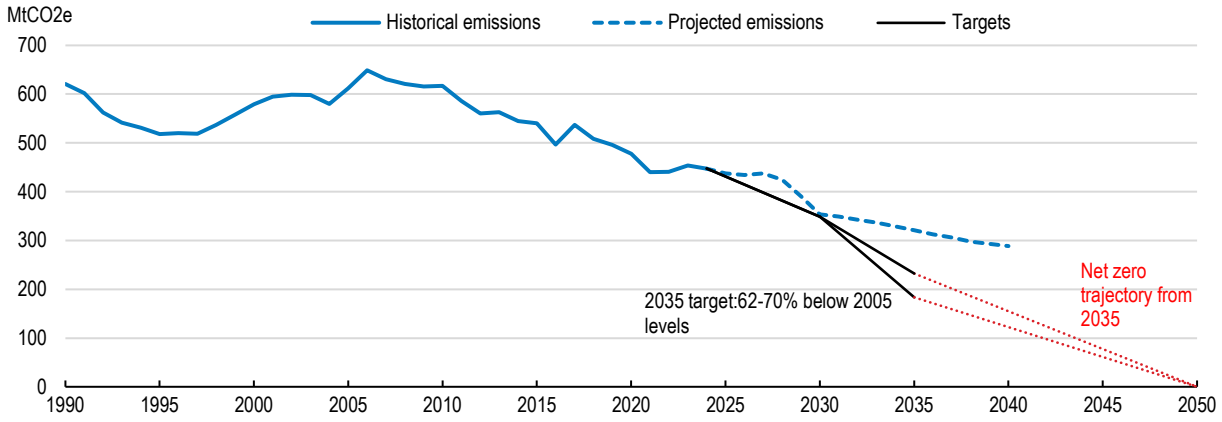
1.6.3. The 2030 emissions target looks within reach, but further efforts will be needed to achieve longer-term objectives

With the pick-up in policy efforts, the government's latest assessment is that Australia is broadly on track to meet its 2030 target, which is to reduce greenhouse gas emissions to 43% below 2005 levels (DCCEEW, 2024). Emissions were 28.2% below 2005 levels in 2024 and recent reductions are in line with what would be required to meet the 2030 target. Risks remain, however. In particular, the 2030 emissions target will require continued rapid reductions in power sector emissions, which cannot be taken as given. The latest assessment by the Climate Change Authority (2024) indicate that a further acceleration in the rollout of renewables is needed to meet the government's separate 2030 target of an 82% renewables share in electricity production, as this would require the share to more than double in 6 years. Achieving the renewables target requires continued commitment from the federal government, as well as coordination with and support from states and territories. Not all states and territories have 2030 renewable energy targets. While electricity production remains the largest sectoral source of emissions, meeting the 2030 emissions target would also be facilitated by progress in reducing emissions in other sectors, including transport, industry, agriculture, and housing.

Australia's longer-term objective is to reach net zero emissions by 2050, which would require additional efforts in the decades to come relative to existing policies (Figure 1.34). The decarbonisation of electricity production will have to be completed even as demand for electricity rises rapidly, spurred by the expansion of data centres, electrification of key sectors like industry and transport and emerging green industries. Estimates from BloombergNEF (2024) suggest that annual spending on power grids will have to double relative to 2023 levels, while annual investment in renewable energy will have to increase by 23%.

The federal government recognises the scale of the challenge in meeting the 2050 net zero target. In September 2025 it released a Net Zero Plan, which includes emissions targets for 2035, as required for the updated Nationally Determined Contribution under the Paris Agreement. Australia's 2035 emissions target is 62-70% below 2005 levels -- a range rather than a single point target was adopted to allow for exogenous risks such as shifts in global markets and weather patterns, which can move outcomes by several percentage points for given policy settings. The 2035 target reflects a high level of ambition, implying larger reductions from 2030 to 2035 than would be given by a linear reduction from the 2030 target to the 2050 Net Zero target, and a substantial acceleration from the progress made over the past two decades. This is made possible by further rapid reductions in emissions from the power sector, which accounts for much of the overall targeted reduction through 2035; this will require follow-up policies to the Renewable Energy Target and the Capacity Investment Scheme, which end in 2030 (Productivity Commission, 2025c). The plan is supported by scenario modelling by the Treasury and includes six sectoral decarbonisation plans that cover all major sources of emissions across the economy: electricity and energy; transport; industry; agriculture and land; resources; and the built environment. The sector plans provide detail on the pathways, opportunities for abatement and policy directions in each sector.

Figure 1.34. Australia appears to be broadly on-track to meet 2030 objectives, but further efforts will be needed to achieve net zero emissions by 2050



Note: "Targets" refers to greenhouse gas emission targets defined in the 2025 Australia's Net Zero Plan. The targets represent a 43% GHG emissions reduction by 2030 relative to 2005, 62-70% by 2035 relative to 2005, and a climate neutrality goal by 2050, shown here as zero net emissions in 2050.
Source: Department of Climate Change, Energy, the Environment and Water (DCCEEW).

StatLink https://stat.link/qvns7l

1.6.4. Transport emissions need to be reduced

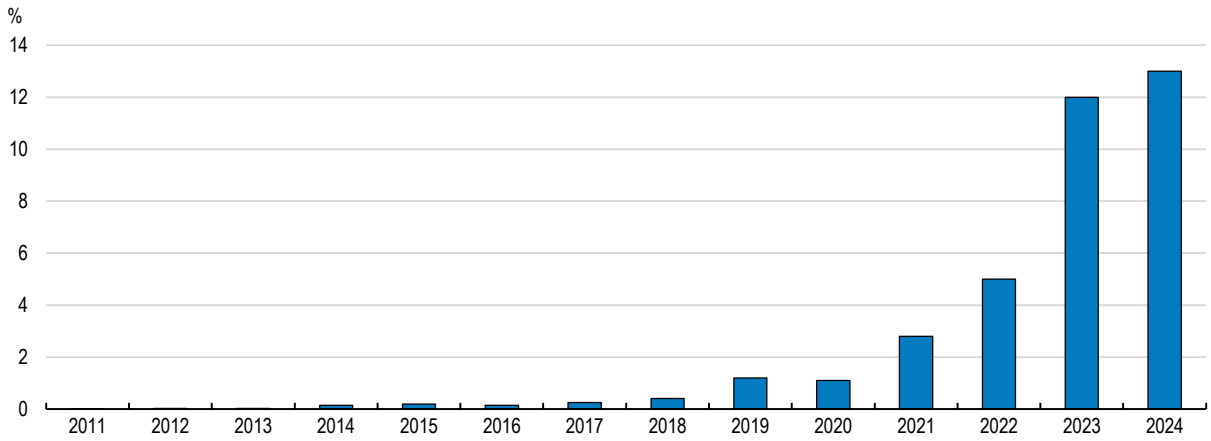
Emissions from the transport sector account for about a fifth of carbon emissions in Australia and have been rising over time (Figure 1.31 Panel B), reflecting a high degree of reliance on road transport, the prevalence of larger cars and growing emissions from aviation. In 2025, the New Vehicle Efficiency Standard introduced Australia's first mandatory vehicle emissions targets. These are less demanding than those in Europe and some other OECD economies, but nonetheless represent a significant degree of regulatory catch- up.

Greater efforts could be made to reduce reliance on car transport and reduce emissions from driving. The taxation of motor fuels remains well below European levels, although it is similar to the levels prevailing in other OECD countries such as Canada and Japan. There are state-level duties on motor vehicle registration and annual registration fees, some of which are based on vehicle mass or, in the case of the Australian Capital Territory, emissions. Increasing the taxation of fuels and vehicles and linking it to emissions may help to encourage a switch to less polluting transport solutions. Continuing to invest in public transport in urban areas where this is viable would support this process.

The number of electric vehicles sold in Australia has been rising rapidly (Figure 1.35), but remains low relative to peer economies: in 2024, 13% of new cars (passenger and SUVs) sold in Australia were electric vehicles (EVs), compared to more than 20% in the European Union and over 90% in Norway. As well as increasing the costs of operating internal combustion engine vehicles through higher taxation, one key to speeding up EV adoption is having an adequate network of public chargers and encouraging the development of private charging. Despite rapid growth in recent years, Australia has fewer fast chargers per EV than many other high-income countries. Countries in Europe and North America that have achieved a higher density of chargers than Australia have used a variety of policy instruments, including government funding for public chargers (especially along highways), mandates for charging stations at petrol stations and shopping centres, and regulatory requirements for new buildings and for interoperability of chargers. As part of the Net Zero Plan announced in September 2025, the Government is providing AUD 40 million to deliver nationwide public kerbside and fast EV charge points.

Figure 1.35. Take-up of electric vehicles is increasing rapidly, but from a low base

Cars, electric vehicle sales share



Source: IEA Global EV Data Explorer. https://www.iea.org/data-and-statistics/data-tools/global-ev-data-explorer

StatLink https://stat.link/d3xs5p

Some of Australia's challenges in reducing transport emissions are linked to the prevalence of urban sprawl in its main cities, which in turn is related to the insufficiency of medium- and high-density housing supply (Section 1.5). Given large, low-density urban areas, public transport networks are less well developed than in many European and North American cities, while car use is often relatively attractive owing to abundant parking in suburbs, historical car-centric urban planning and expensive public transportation. Land-use regulation more favourable to higher-density housing would not only improve labour mobility and reap productivity gains from agglomeration, but would also contribute to meeting Australia's emissions goals.

1.6.5. Agricultural emissions remain high

Agriculture accounted for about 18% of Australia's GHG emissions in 2024, a higher share than the OECD average, and the share is projected to increase in the coming decades. Emissions from Australian agriculture in 2024 were 8.8% below 2005 levels, but little changed from 2008 and have risen about 5% since the low point in 2019. The Australian Carbon Credit Unit (ACCU) scheme is a part of a suite of policy instruments, as outlined in Australia's Net Zero Plan for delivering net emissions reductions in agriculture and more broadly, allowing those who reduce their net emissions to sell the reductions as offsets (including through the Safeguard Mechanism). Total ACCUs under the Scheme to date are over 169 million (equivalent to 169 Mt CO2eq of abatement). The 2022 Review of Australian Carbon Credit Units made 16 recommendations to improve the integrity of the scheme and implementation is on-going. Recent reviews by the Climate Change Authority, independent experts, and the Australian National Audit Office have found the Scheme is well designed, well administered, and contributing to Australia's transition to net zero.

Funding to develop technological solutions to reduce emissions focuses on methane emissions from livestock, which represent about 80% of Australia's agricultural emissions. However, the extent to which technologies, such as feed supplements, can be feasibly deployed at scale to grazing cattle and sheep remains uncertain. Australia's red meat industry recently abandoned its target of carbon neutrality by 2030, acknowledging that it was unrealistic, although it remains committed to investing in research on emissions reduction. A stronger policy response, comprising a mix of abatement subsidies, emissions taxes, standards and regulations is likely to be needed to create sufficient incentives for farmers to adopt low-emission technologies. This could draw inspiration from other countries that are developing approaches to reducing agricultural emissions, including Denmark, which is introducing a carbon tax for farms, alongside a range of support measures.

1.6.6. The energy transition is an opportunity for Australia to develop green industries

Australia is well placed to supply many of the critical minerals used in modern technologies, such as electric vehicles, battery storage, solar energy and wind farms, as well as its high potential for renewables generation. Australia is already the world's largest producer of lithium and the fourth largest producer of cobalt and rare earth elements. Although China is by far the leader in rare earths production and processing, Australia may benefit from attempts to derisk supply chains by diversifying away from Chinese rare earth element supplies. Similarly, Australia has great potential to be a supplier of green hydrogen and metals, given its endowments of renewable energy and minerals (Box.1.5).

Box.1.5. The potential for green iron[1]

A central component of the Future Made in Australia agenda are green metals, including green iron, combining both industrial policy and climate ambitions. Australia possesses a rare combination of resources and conditions that could make it a global leader in green iron, defined here as direct reduced iron (DRI) using (or being compatible with the future use of) low or zero-emission energy sources such as hydrogen, including iron ore deposits and exceptional solar and wind potential.

This is a growing policy framework to support green metals. However, the industry is still in its formative phase. While some studies project an annual export opportunity worth AUD 96–304 billion by mid-century, the current portfolio of projects remains modest.

A recent OECD case study assessed the opportunities for Australia to further develop a green iron industry (OECD, 2025), focusing on the strategies of three groups of key players in the green iron market and the factors that influence these.

- ***Iron ore producers*** remain largely focused on their profitable export-oriented "dig-and-ship" model, though some are exploring downstream processing and green DRI production. These moves often depend on access to renewable energy in mining regions, and investment remains cautious due to infrastructure gaps and uncertain returns.
- ***Steel companies*** are pursuing a more incremental transition via natural gas or alternative lower-carbon technologies.
- ***Emerging players and consortia*** are developing export-oriented DRI plants, often integrated with renewable hydrogen production and targeting Asian and European markets. Their projects often rely on partnerships with foreign off-takers, though financing and infrastructure challenges remain.

Globally, the development of a green iron industry is taking its first steps with Europe, the Middle East and Brazil moving faster through strong policy support, integrated infrastructure planning and early public-private investment partnerships. The production route of low-emission DRI and its emissions intensity will vary across regions. A truly "green" iron industry is unlikely to take off in the very near future, given a current lack of international agreement on standards/definitions of green iron.

The viability of Australia's green iron sector will depend on global demand dynamics, the pace of decarbonisation policies in key markets and a successful reduction of global steel excess capacity. While steel demand in Japan and Korea is expected to remain stable, future demand for green iron will depend on these countries' policy incentives and willingness to import green inputs. Emerging markets in South-East Asia and India could offer growth opportunities, while carbon border measures in the EU may indirectly boost demand for green Australian inputs.

If Australia is to position itself as a hub for green iron production and exports, it is important to further develop an integrated national green iron strategy that combines hydrogen and renewable energy

production, infrastructure planning, and export market development and investment acquisition. In particular, this approach would require scaling up investment in renewable energy generation, as well as common-use transmission infrastructure in strategic areas, such as the Collie, Port Hedland and the Eyre Peninsula, to give confidence to prospective players. To secure a place in the global green iron trade, Australia should also consider accelerating project development timelines and engaging more assertively with key industrial partners abroad. Delays risk losing ground to more agile competitors already forging international supply chains and capturing early-mover advantages.

_____

[1] This Box was drafted by Gianpiero Mattera of the OECD's Science, Technology and Innovation Directorate.

The government's main initiative in this area is Future Made in Australia, which committed to spend close to AUD 23 billion over 10 years (approximately 0.1% of GDP annually, on average) to further the development of priority sectors including renewable hydrogen, green metals, low-carbon liquid fuels, clean energy technology manufacturing and critical minerals. The Hydrogen Headstart program, which provides revenue support for large-scale renewable hydrogen projects, is under implementation with AUD 814 million awarded to the Murchison Green Hydrogen Project and AUD 432 million awarded to the Hunter Valley Hydrogen Hub under Round 1 of the program. However, most other measures under the Future Made in Australia agenda have yet to begin. For instance, the AUD 1.5 billion Future Made in Australia Innovation Fund is only due to start this year, while the Hydrogen Production Tax Incentive and the Critical Minerals Production Tax Incentive will not be available until the 2027-28 fiscal year. The AUD 1 billion Green Iron Investment Fund, announced in February 2025, will support two streams of funding: AUD 500 million will be available to the support the transformation of the Whyalla Steelworks, and the National Development Stream includes at least AUD 500 million for early mover green iron projects across Australia. The AUSD 2 billion Green Aluminium Production Credit, announced in January 2025, is under design and will support Australia's aluminium smelters to transition to renewable electricity. The AUD 1.1 billion Cleaner Fuels Program, announced in September 2025, is under design and will offer grants to domestic producers of low carbon liquid fuels. Given the potential for waste in industrial policy initiatives, the cautious start and slow ramping up of spending may be warranted.

1.6.7. Australia is highly exposed to climate change and adaptation is a growing priority

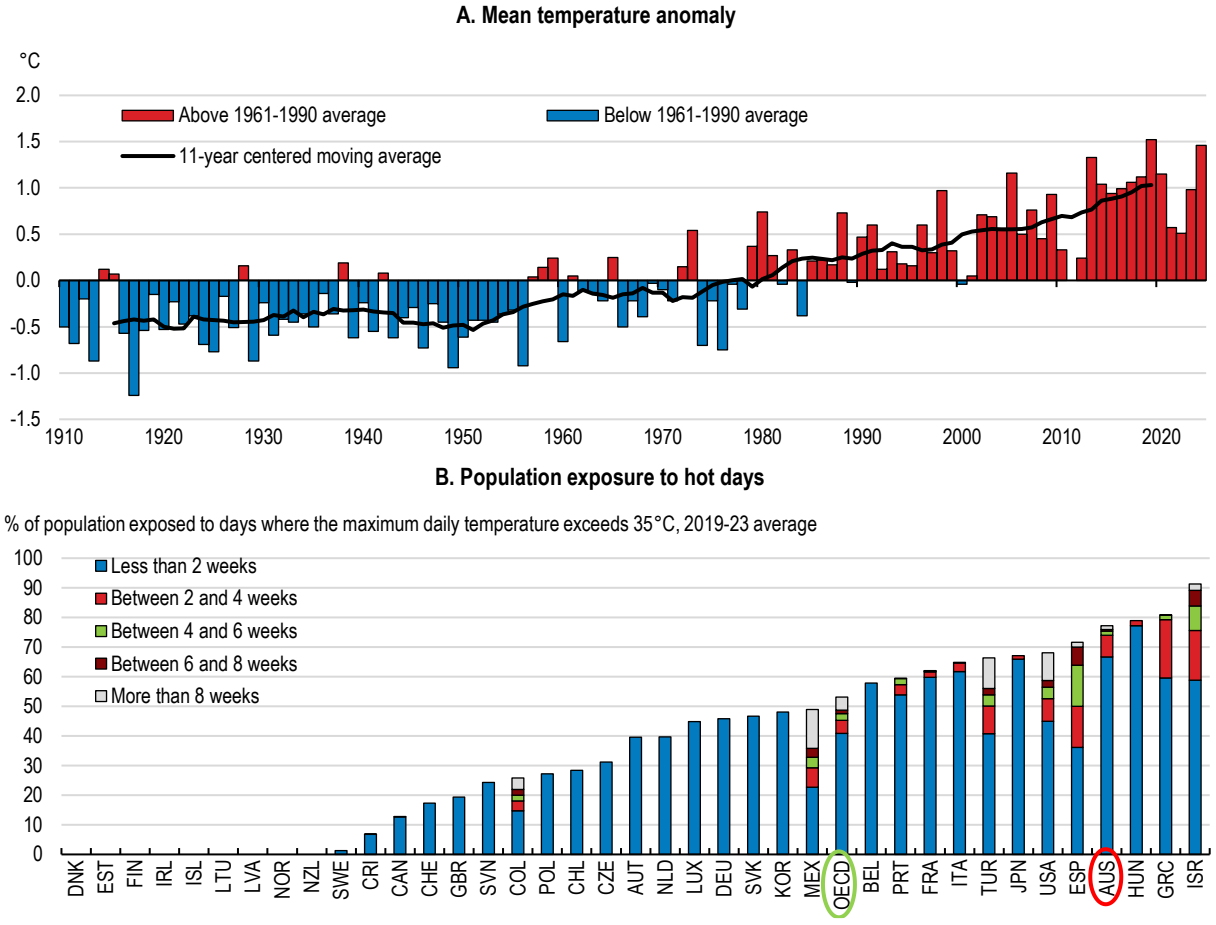
Climate adaptation policies, including investments in resilient infrastructure and community-focused initiatives, are gaining importance amid increasing climate risks (Figure 1.36). Rising temperatures and extreme weather events can damage infrastructure and other capital (including natural capital), while there is evidence from a range of advanced economies that an increase in the number of high-temperature days and the occurrence of heat waves negatively affect labour productivity (Costa et al., 2024). Climate-related disasters like major storms and floods can have persistent negative effects on activity in affected regions (Costa and Hooley, 2025). Australia is particularly exposed to these risks, including extreme heat, bushfires (as experienced in in the 2019-2020 bushfire season), drought, storms and coastal flooding. Many of the major cities, which are mainly coastal, are vulnerable to rising sea levels. The government has recently released a National Adaptation Plan (NAP) along with a National Climate Risk Assessment and an accompanying data explorer from the Australian Climate Service. The NAP describes the range of government action being undertaken across society, the economy and the environment, and provides a framework for national action to adapt to climate impacts. The National Climate Risk Assessment provides a shared evidence base to inform coordinated adaptation action across government for 11 nationally significant climate risks. The Commonwealth government will work with states, territories, and local government to create an action agenda under the NAP by the end of 2026.

While climate change impacts all of society, adaptation is especially imperative for Australian agriculture, which is increasingly vulnerable to the effects of climate change via increased variability of rainfall and temperatures along with greater frequency of extreme weather events, including drought, floods, and

bushfires. According to estimates from the Australian Bureau of Agricultural and Resource Economics and Sciences, changes in seasonal conditions over 2001-20 (relative to 1950-2000) reduced annual average farm profits by 23%. Northern Australia's agricultural output losses due to drought are estimated to average 19% each year. OECD research suggests that economic losses globally from droughts are increasing at more than 3% a year, implying that the average drought episode in 2025 is at least twice as costly as it was in 2000 (Tikoudis et al., 2025).

Australia is generally relatively well advanced on policies to enhance resilience to climate change in the agricultural sector (OECD, 2023d). The federal government has a range of platforms to provide data and services to agricultural enterprises. For example, the Farm Business Resilience Program provides adaptation-related information that helps to build the capacity of the agricultural sector to deal with future climate change. There is a particular focus on drought preparedness, including through the Australian Drought Plan, a National Drought Agreement with states and territories and Regional Drought Resilience Planning Program supports. The online platform My Climate View and the Drought Resilience Self-Assessment Tool are examples of tools encouraging long-term adaptation, which may also be useful in supporting the development of drought insurance markets. In addition, the Future Drought Fund provides AUD 100 million in returns from the fund each year to help farmers and communities build drought resilience. Sustainable management of water resources is essential for Australian farmers to adapt to climate change. Support currently goes to upgrading hydrological infrastructure and improving water-use efficiency at farm level and in wider water-management basins, but irrigation infrastructure subsidies should be weighed against alternatives such as direct purchases of water entitlements, which have proven to be more efficient and cost-effective for delivering environmental water recovery.

Figure 1.36. Air temperatures in Australia are trending upwards; a high proportion of Australia's population is exposed to extreme heat



Source: Australian Bureau of Meteorology; IEA/OECD, "Exposure to extreme temperature", OECD Environment Statistics.

StatLink https://stat.link/4xhoqn

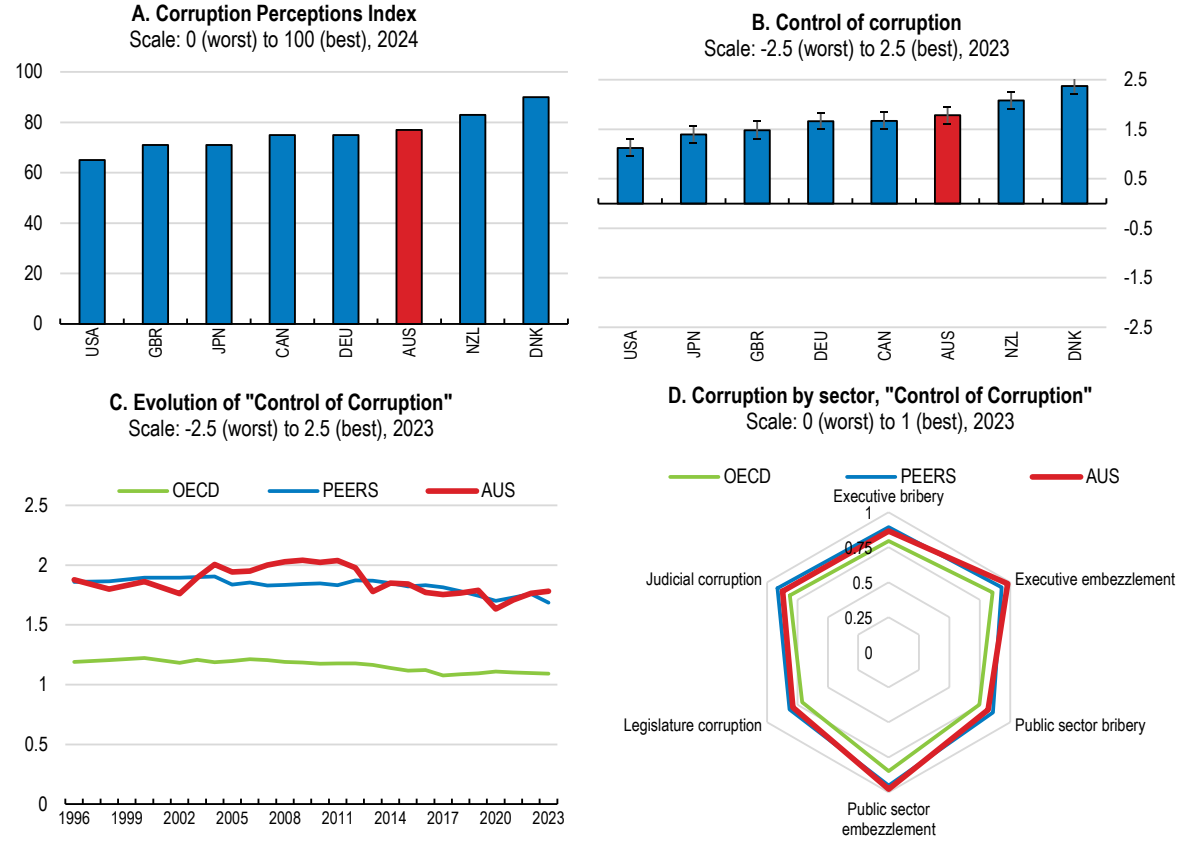
Adaptation is also needed to protect housing and property from climate hazards. Exposures need to be limited, buildings adapted and appropriate insurance available. One key policy area is provision of information on climate risks, which raises public awareness and helps the insurance industry price risks. To that end, the Commonwealth Scientific and Industrial Research Organisation (CSIRO) and the Bureau of Meteorology publish regular State of the Climate Reports with climate projections, and also provide this information on the Climate Change in Australia website along with various projection tools designed to help with planning for climate-related risk. The federal government has begun to phase in compulsory disclosure of climate risks by companies and financial institutions, but there is scope to go further and faster, including by making climate disclosures compulsory in the sale of residential or commercial properties. The AUD 1 billion Disaster Ready Fund is the Government's flagship initiative for disaster resilience and risk reduction, while the Australian Reinsurance Pool Corporation helps to ensure that insurance is available. However, land-use planning is the responsibility of states and territories and does not integrate climate hazard information in a systematic way in all cases (OECD, 2023d). Requiring such an assessment could help to limit building in vulnerable areas. The federal government is currently working with state and territory governments to develop a framework and guidance on nationally agreed principles for natural hazard and climate risk considerations in land-use planning decisions.

1.7. Enhancing the anti-corruption framework

An effective anti-corruption framework supports a strong business environment. Corruption – the abuse of public office for private gain – discourages business dynamism, reducing investment and innovation, and weighs on growth prospects (Jin, 2021). It also undermines equality of opportunity and erodes trust in government, which in turn makes it more difficult to implement effectively the structural reforms that support sustainable gains in living standards.

Australia generally scores similarly to high-income peers on corruption perceptions and control of corruption (Figure 1.37 Panels A to C). It is a top performer in some areas of the Varieties of Democracy Project indicators, including public and private sector embezzlement, but lags slightly behind peers in other areas such as judicial corruption and public sector bribery (Figure 1.37 Panel D). Australia's scores on corruption perceptions and corruption control have improved somewhat in recent years, reflecting in part the establishment of an independent National Anti-Corruption Commission (NACC), which commenced operations on 1 July 2023, to investigate serious or systemic corrupt conduct in the federal public sector. All the states and territories have similar commissions, with varying scope, independence and powers, to investigate corruption at the sub-federal level.

Figure 1.37. Australia performs relatively strongly in control of corruption



Note: Panel B shows sector-based subcomponents of the "Control of Corruption" indicator by the Varieties of Democracy Project.
Source: Panel A: Transparency International; Panels B & C: World Bank, Worldwide Governance Indicators; Panel D: Varieties of Democracy Project, V-Dem Dataset v12.

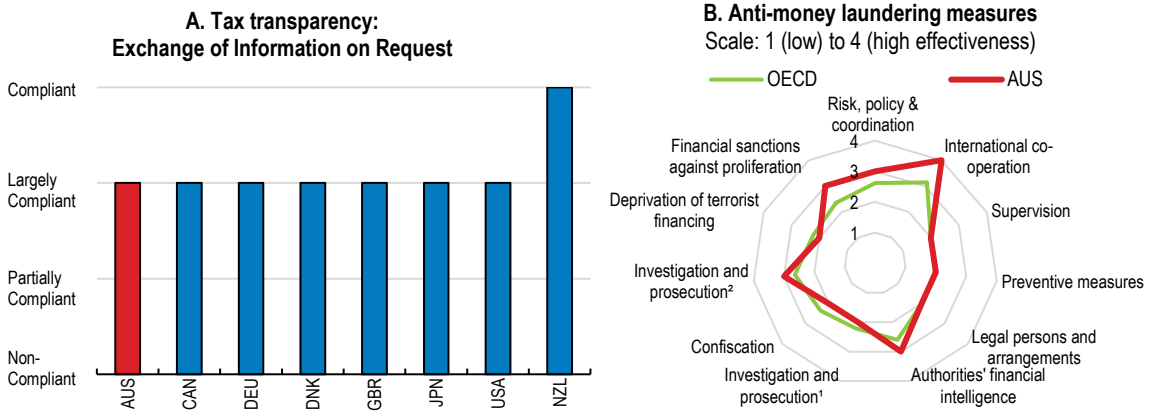
StatLink https://stat.link/76icf9

The latest OECD Anti-Corruption and Integrity Outlook (OECD, 2024) identifies a number of relative strengths and weaknesses in Australia's anti-corruption framework. Regulation is generally found to be well developed, especially as regards conflicts of interest and lobbying, but implementation in most cases is judged to fall short of OECD averages. Notably, while Australia has a strategic framework establishing objectives for mitigating

public integrity risks, there is no central coordination function for implementation, monitoring, reporting and evaluation, as no action plan is in force. While Australia has hitherto been found to have weaker safeguards than most peers on internal control, internal audit and political finance, from 1 July 2026, the Electoral Legislation Amendment (Electoral Reform) Act makes several changes to political financing and disclosure in Australian federal elections, including introducing donation caps and expenditure caps, reducing the donation disclosure threshold from AUD 16,900 to AUD 5,000 (indexed), requiring real-time disclosure of donations and reducing timeframes for lodging annual disclosure returns to 8 weeks. Compliance with these laws will be overseen by the statutorily independent Australian Electoral Commission.

As concerns tax transparency, which limits the scope for tax evasion, peer reviews show Australia to be largely compliant with internationally agreed standards and similar to other high-income countries (Figure 1.38 Panel A). On anti-money laundering measures, Australia's performance is generally in line with or better than that of its peers (Figure 1.38 Panel B). As of the most recent assessment, it remains technically non-compliant in four areas of the Financial Action Task Force recommendations on combating money laundering and the financing of terrorism: customer due diligence for designated non-financial businesses and professions (DNFBPs); reporting of suspicious transactions for DNFBPs; regulation and supervision of DNFBPs; and transparency and beneficial ownership arrangements (FATF, 2024). The Anti-Money Laundering and Counter-Terrorism Financing Amendment Act 2024 passed in November 2024, amongst other things expanded the AML/CTF regime to additional high-risk services provided by DNFBP entities. The new AML/CTF obligations apply from 1 July 2026 for these entities. The Government has also committed to implementing a public beneficial ownership register. A FATF Mutual Evaluation is due to be conducted over 2026-27. With regard to the OECD Anti-Bribery Convention, the latest follow-up report on Australia by the OECD Working Group on Bribery (OECD, 2021) found that there remain several areas where Australia remains non-compliant with the Convention's obligations and expressed concern about the low level of enforcement of measures to combat bribery of foreign officials by Australian enterprises. Since that time, the Crimes Legislation Amendment (Combatting Foreign Bribery) Act 2024 has strengthened Australia's existing foreign bribery offences and added a new corporate offence of 'failure to prevent foreign bribery'.

Figure 1.38. Australia's performance on anti-money laundering is in line with most peers



Note: Panel A summarises the overall assessment on the exchange of information in practice from peer reviews by the Global Forum on Transparency and Exchange of Information for Tax Purposes. Peer reviews assess member jurisdictions' ability to ensure the transparency of their legal entities and arrangements and to co-operate with other tax administrations in accordance with the internationally agreed standard. The figure shows results from the ongoing second round when available, otherwise first round results are displayed. Panel B shows ratings from the FATF peer reviews of each member to assess levels of implementation of the FATF Recommendations. The ratings reflect the extent to which a country's measures are effective against 11 immediate outcomes. "Investigation and prosecution¹" refers to money laundering. "Investigation and prosecution²" refers to terrorist financing.

Source: OECD Secretariat's own calculation based on the materials from the Global Forum on Transparency and Exchange of Information for Tax Purposes; and OECD, Financial Action Task Force (FATF).

StatLink https://stat.link/jcpw8o

Table 1.8. Key policy insights recommendations

MAIN FINDINGS	RECOMMENDATIONS (Key recommendations in bold)
Maintaining macroeconomic and fiscal stability	
The economy is projected to remain near full employment with growth close to potential and inflation stable within the target range.	**Maintain a data-dependent and flexible approach to monetary policy given the prevailing uncertainties.** To safeguard central bank independence, use the opportunity of the next review of the central bank law to remove the Treasurer's right to override decisions of the Monetary Policy Board.
There is a sizeable general government structural deficit in a context of rising long-term fiscal pressures related to population ageing and climate change.	**Steadily reduce budget deficits as planned through using a well-designed combination of expenditure restraint and revenue-enhancing tax reforms**. Maintain a system of regular reviews of spending to help improve efficiency, and consider conducting regular reviews of the tax system.
Australia's tax system relies heavily on labour taxes rather than more efficient consumption, property and environmental taxes.	**Broaden the base of the Goods and Services Tax by reducing exemptions and consider increasing the rate, while at the same time reducing reliance on taxes on labour.** Index income tax thresholds to reduce the risk of additional increases in the income tax burden. Further reduce superannuation tax concessions for high-income, high-balance individuals.
Australia's existing macroprudential framework has served it well, but needs to continue to evolve to address new risks and improve monitoring of non-bank credit providers.	Consider how to extend the existing regulatory framework for non-bank credit providers.
Improving housing affordability	
The key factor in the long-term shortfall in housing supply is restrictive land-use regulations, often in the form of building height restrictions and/or minimum lot sizes.	**Ease planning restrictions to increase supply and facilitate higher density construction, particularly around transport connections.** Provide incentives to local authorities, possibly in the context of the National Competition Policy, to engage in land-use expansion**.**
Social housing accounts for about 4% of the housing stock in Australia, down from 6% in 1990 and only about half the OECD average	**Raise the target for social housing and increase public funding**.
Favourable tax treatment of housing and subsidy schemes add to demand, which ultimately increases property prices. Stamp duties (imposed at the state level) are high while recurrent taxes are relatively low and buy-to-let is favourably taxed.	**Replace state-based transaction taxes on real estate (stamp duty) with recurrent land taxes, set at levels that align taxation of real estate more closely to that of other assets.** Over time, remove the ability to deduct negative gearing on buy-to-let properties from tax liabilities on other income.
Addressing the climate transition	
While emissions are falling in line with 2030 targets, particularly in the energy sector, further efforts will be needed to reduce emissions over the long term, including in transport and agriculture.	Continue to monitor the implementation of the Safeguard Mechanism and consider more ambitious targets and a move to a system based on the level of emissions. **Develop a strategy to reduce emissions from agriculture, drawing on experience in the leading countries.**
Transport emissions remain high and taxes on motor fuels are relatively low, contributing to the low take-up of low emission vehicles.	**Set out plans to gradually raise taxes on motor fuels, including reducing concessions for business fuel purchases.** Continue to invest in public transport and charging infrastructure for electric vehicles.
A high and growing share of renewables creates risks for the stability of electricity supply. Investments in the grid and battery storage are coming online.	Strengthen pricing mechanisms on the demand side and the framework for the wholesale market and long-term contracts, while making further investments in the grid and ensuring a balanced energy mix.
Australia is highly exposed to climate risks, including extreme heat, drought, wildfires, storms and coastal flooding. Adaptation plans and insurance mechanisms are relatively well-developed, but gaps remain.	Continue to develop and implement existing plans to manage climate adaptation.
Enhancing the anti-corruption framework	
The anti-corruption framework is relatively well developed, but campaign finance rules are less strict than in some countries.	Monitor the implementation of the new federal limits on political contributions when they come into effect in mid-2026.

References

Boadway, R. and F. Flatters (1993), "The taxation of natural resources: principles and policy issues", Policy Research Working Paper Series 1210, The World Bank.

Cavalleri, M.C., B. Cournède and E. Özsöğüt (2019), "How responsive are housing markets in the OECD? National level estimates", OECD Economics Department Working Papers, No. 1589, https://doi.org/10.1787/4777e29a-en .

CEDA (2025), "Size matters: Why construction productivity is so weak"

Chiswick, B. (1978), "The effect of Americanization on the earnings of foreign-born men", Journal of Political Economy, vol. 86(5), 897-921.

Ciccone, A. and R. Hall (1996), "Productivity and the Density of Economic Activity", American Economic Review, vol. 86(1): 54–70.Commonwealth of Australia (2009), Australia's Future Tax System: Report to the Treasurer

Commonwealth of Australia (2024), Working for Women: a Strategy for Gender Equality, Canberra. https://genderequality.gov.au/sites/default/files/2024-03/working-for-women-a-strategy-for-gender-equality.pdf

Commonwealth of Australia (2025), Budget 2025-26. http://www.budget.gov.au/

Costa, H. et al. (2024), "The heat is on: heat stress, productivity and adaptation among firms", OECD Economics Department Working Papers, No. 1828, OECD Publishing, Paris.

Costa, H. and J. Hooley (2025b), "The macroeconomic implications of extreme weather events", OECD Economics Department Working Papers, No. 1837, OECD Publishing, Paris.

D'Amico L. et al. (2024), "Why has construction productivity stagnated? The role of land-use regulation", NBER Working Paper 33188, November 2024. https://www.nber.org/papers/w33188

Dustmann, C. (2000), "Temporary migration and economic assimilation", Swedish Economic Policy Review, 7(2), 213-244.

e61 (2025), "Where NDIS price caps bite and what that tells us about the market", plus61 Newsletter, 1 August 2025, https://e61.in/where-ndis-price-caps-bite-and-what-that-tells-us-about-the-market/

FATF (2024), Anti-money laundering and counter-terrorist financing measures – Australia, 4th Enhanced Follow-up Report, FATF, Paris. https://www.fatf-gafi.org/content/fatf-gafi/en/publications/Mutualevaluat

ions/australia-fur- 2024.html

Filippucci, F., P. Gal and M. Schief (2024), "Miracle or Myth? Assessing the macroeconomic productivity gains from Artificial Intelligence", OECD Artificial Intelligence Papers, No. 29, OECD Publishing, Paris, https://doi.org/10.1787/b524a072-en .

Grattan Institute (2019), "Why it's time for congestion charging", Grattan Institute Report No. 2019-10, October 2019, https://grattan.edu.au/wp-content/uploads/2019/10/923-Why-its-time-for-congestion-charging.pdf

Grattan Institute (2025), Orange Book 2025: Policy priorities for the federal government, Grattan Institute report no. 2025-03. https://grattan.edu.au/wp-content/uploads/2025/03/Orange_Book_2025.pdf

Hanappi, T., V. Millot and S. Turban (2023), "How does corporate taxation affect business investment?: Evidence from

aggregate and firm-level data", OECD Economics Department Working Papers, No. 1765, OECD Publishing, Paris, https://doi.org/10.1787/04e682d7-en .

IEA (2025), Electricity 2025, IEA, Paris, https://www.iea.org/reports/electricity-2025

IMF (2025), Global Financial Stability Report: Shifting Ground beneath the Calm, October 2025.

Kearns, J., M. Major and D. Norman (2020), "How Risky is Australian Household Debt?", Reserve Bank of Australia Research Discussion Paper 2020-05.

Johansson, A. et al. (2008), "Taxation and economic growth", OECD Economics Working Papers, No. 620, OECD Publishing, Paris. DOI: http://dx.doi.org/10.1787/241216205486 .

OECD (2021), Phase 4 Follow-up Report: Australia, Implementing the OECD Anti-Bribery Convention Phase 4 Follow-Up Report Addendum: Australia (EN)

OECD (2023a), OECD Economic Surveys: Australia 2023, OECD Publishing, Paris.

OECD (2023b), "The impact of migration on regional labour markets in Australia", OECD Regional Development Papers, No. 64, OECD Publishing, Paris.

OECD (2023c), Brick by Brick (Volume 2): Better Housing Policies in the Post-COVID-19 Era, OECD Publishing, Paris, https://doi.org/10.1787/e91cb19d-en

OECD (2023d) Agricultural Policy Monitoring and Evaluation 2023, https://www.oecd.org/en/publications/agricultural-policy-monitoring-and-evaluation-2023_b14de474-en/full-report.html

OECD (2025b), "Green iron opportunities in Australia: a case study within the OECD's Global Green Iron project", OECD Science, Technology and Industry Policy Papers, No. 186, OECD Publishing, Paris. https://doi.org/10.1787/bbd1e2b8-en

Productivity Commission (2018), Horizontal Fiscal Equalisation, Report no. 88, Canberra. https://assets.pc.gov.au/inquiries/completed/h``orizontal-fiscal-equalisation/report/horizontal-fiscal-equalisation.pdf

Productivity Commission (2024), Advances in measuring healthcare productivity, Research paper, Canberra

Productivity Commission (2025a), Closing the Gap: Annual Data Compilation Report July 2025, Canberra. https://assets.pc.gov.au/2025-10/closing-the-gap-annual-data-compilation-july2025.pdf?VersionId=9X7LLZW8iMzuSBI2bw8hblQodXZD108C

Productivity Commission (2025b), Housing construction productivity: can we fix it? Research paper, Canberra.

Productivity Commission (2025c), Investing in cheaper, cleaner energy and the net zero transformation: interim report, Canberra, August 2025.

Scanlon Institute (2024), 2024 Mapping Social Cohesion Report

Tikoudis I., M. Gabriel and W. Oueslati (2025), "The toll of droughts: Environmental impacts, economic costs, and international consequences", OECD Environment Working Papers No. 260 https://dx.doi.org/10.1787/2f7891b9-en

2 Revitalising competition in the Australian economy

David Cashin, OECD

Competition has waned across the Australian economy over the past two decades. Business dynamism is declining, while market concentration and profit margins have risen. To boost flagging productivity growth and reduce cost-of-living pressures on consumers, reforms are needed to encourage greater competition. The government's Competition Review that began in 2023 has taken promising steps towards these objectives, including the introduction of a mandatory notification merger regime and an agreement between the Commonwealth, state and territorial governments—aided by incentive payments to the subnational governments—to revitalise the country's National Competition Policy (NCP). However, additional measures to improve competition will be needed, including successful implementation of the new merger regime, a strengthening of abuse-of-dominance enforcement, boosting the powers of the Australian Competition and Consumer Commission (ACCC) and tackling barriers to competition due to regulatory fragmentation within Australia's federal system.

2.1. Competition across the Australian economy has waned in recent years

Strong competition is vital for sustaining productivity growth and containing cost-of-living pressures. Business dynamism—as measured by firm entry and exit—plays a key role in productivity growth via creative destruction and resource reallocation, with OECD analysis showing that a sizeable share of aggregate productivity growth comes from the expansion of more productive firms and the displacement of less productive ones (OECD, 2016a). In contrast, rising market concentration and mark-ups in the presence of weak contestability are associated with slower productivity growth—mainly by choking diffusion from frontier firms and dampening creative destruction (OECD, 2018a). Declining competitive pressures stifle reallocation, allowing weaker firms to survive, and limit price discipline, thereby contributing to cost-of-living pressures.

In Australia, competition has waned across different areas of the economy over the past two decades. Measures of business dynamism, such as firm entry rates and labour mobility, have declined. At the same time, measures of market concentration, markups and profit margins have risen. Headline productivity growth has slowed and cost-of-living pressures are high. In the decade preceding the COVID pandemic, average annual labour productivity growth averaged 1.1%. It has slowed further since the COVID pandemic, largely due to declining productivity in the mining sector and the expansion of the labour intensive nonmarket sector. The price level in Australia is among the top quarter of OECD countries, accentuated by recent shocks, and housing costs are high.

Flagging competition is of particular concern for Australia, as it faces unusual challenges in sustaining competition because of its geographical distance from other countries, highly dispersed population and the relatively small size of local markets. Moreover, Australia's heavy dependence on natural resource extraction relative to most other advanced economies likely weakens price pressures in the non-tradeable sector.

Formerly a leader among OECD countries in pro-competitive polices, Australia has fallen behind with the last major reform effort being the successful implementation of its National Competition Policy (NCP) over the second half of the 1990s and early 2000s. The government's Competition Review, launched in 2023, has taken promising steps towards strengthening competition, including reform of the merger regime and revitalising the NCP. However, additional measures to improve competition will be needed.

Section 2 shows how economic dynamism and competitive pressures have weakened as Australia's competition policy framework has fallen from the frontier relative to its OECD peers. Section 3 discusses additional steps, beyond the introduction of the new merger regime, that should be taken to enforce competition policy more robustly. Section 4 highlights the barriers to competition created by regulatory fragmentation within Australia's federal system. Section 5 focuses on sector-specific barriers to competition in highly concentrated or fragmented sectors.

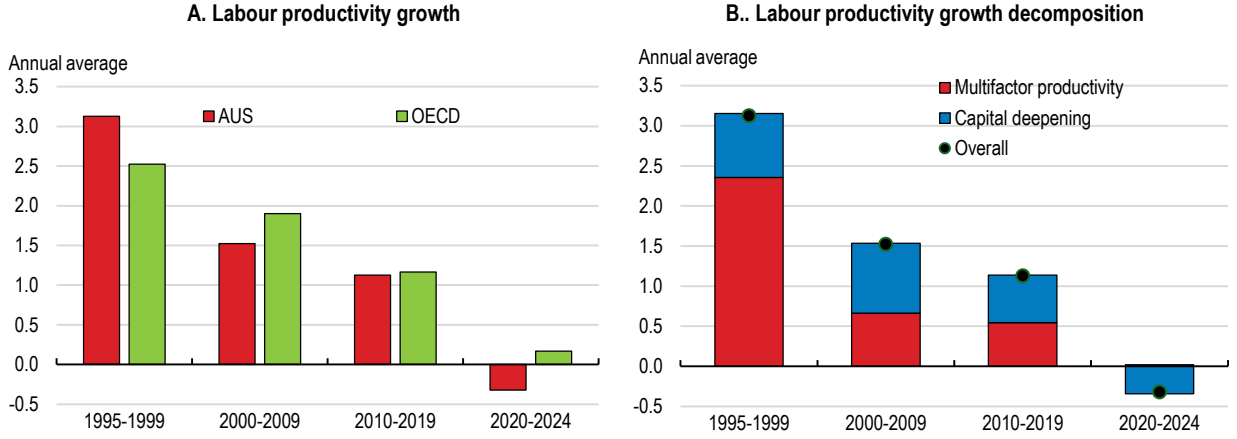
2.2. Business dynamism and price competition have weakened, while Australia faces unusual challenges in fostering competition

2.2.1. Productivity growth has slowed notably and cost-of-living pressures are high

Growth in Australian labour productivity—measured as GDP per hours worked—was robust during the mid-1990s to early-2000s, averaging around 2.5%, in part driven by deep microeconomic reforms, including those associated with the Hilmer National Competition Policy Review. In the mid-2000s, productivity growth began to slow and over the decade prior to the onset of the pandemic, average annual productivity growth was 1.1% (Figure 2.1A). Headline productivity performance over the 2020-2023 pandemic period has been notably weak, although attributable to cyclical and idiosyncratic factors, including pandemic effects specific to the Australian labour market (Productivity Commission, 2025). Australia's post-2000 productivity growth slowdown is broadly in line with other advanced economies and its level of labour productivity relative to its OECD peers has changed little over the past quarter century, remaining slightly above the OECD average

(Figure 2.2). Slower productivity growth since 2000 has been driven by multifactor productivity (MFP), a measure of the overall efficiency with which labour and capital inputs are combined in the production process (Figure 2.1B). OECD cross-country analysis finds that diffusion from frontier firms to laggards slows where product market regulations and weak contestability reduce competitive pressures, directly dragging on MFP (OECD, 2015; OECD, 2016b).

Figure 2.1. Productivity growth has slowed

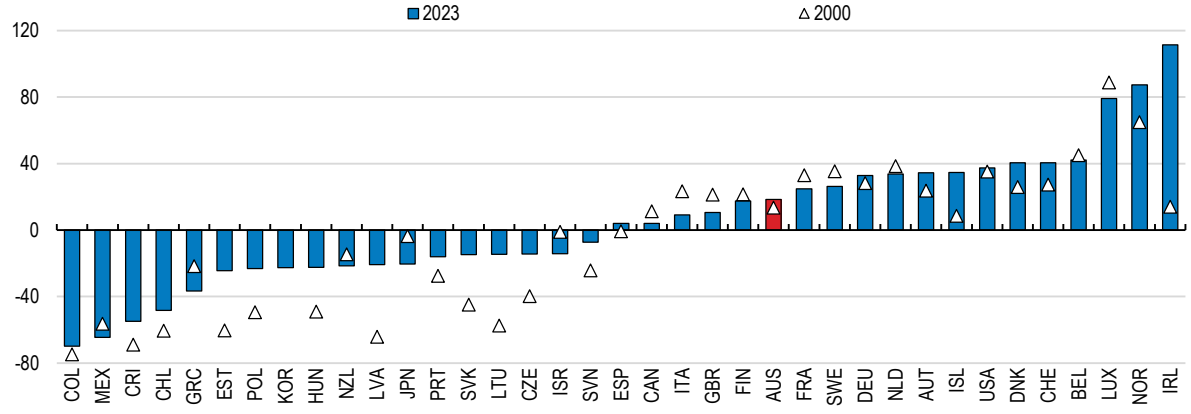


Source: OECD Analytical Database.

StatLink https://stat.link/kazgjv

Figure 2.2. The labour productivity gap relative to the OECD average is little changed

Gap in GDP per hour worked relative to the OECD average (in current prices and current PPPs)



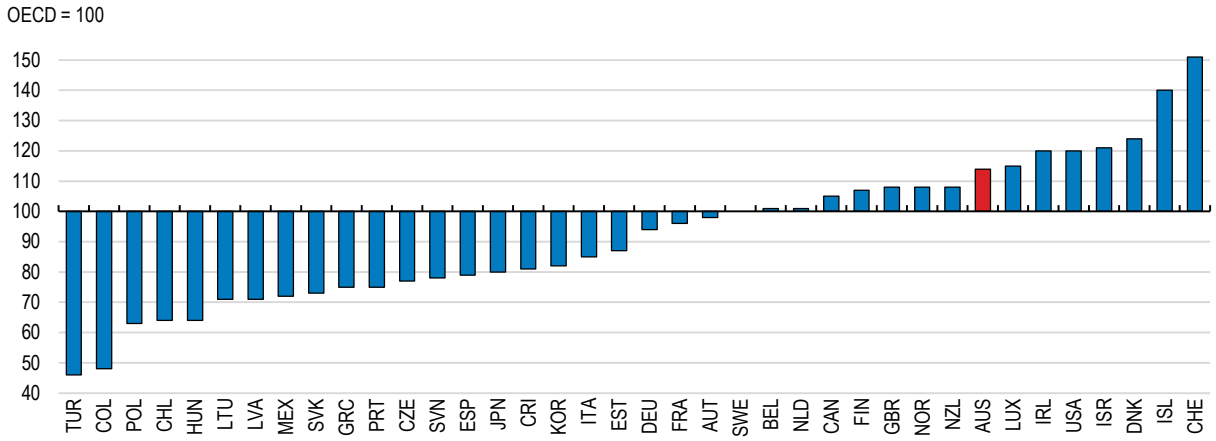
Source: OECD Productivity Database (2025).

StatLink https://stat.link/l4zrg1

In addition to slower productivity growth, cost-of-living pressures in Australia are high. Taking into account purchasing power parity, the price level for a representative basket of household goods and services is well above the OECD average (Figure 2.3). Home ownership is expensive, with the median mortgage burden as a share of disposable income higher than any other OECD members save France and Luxembourg (OECD, 2024b).

Figure 2.3. The price level is high relative to most other OECD members

Household final consumption expenditure, price index level, 2024



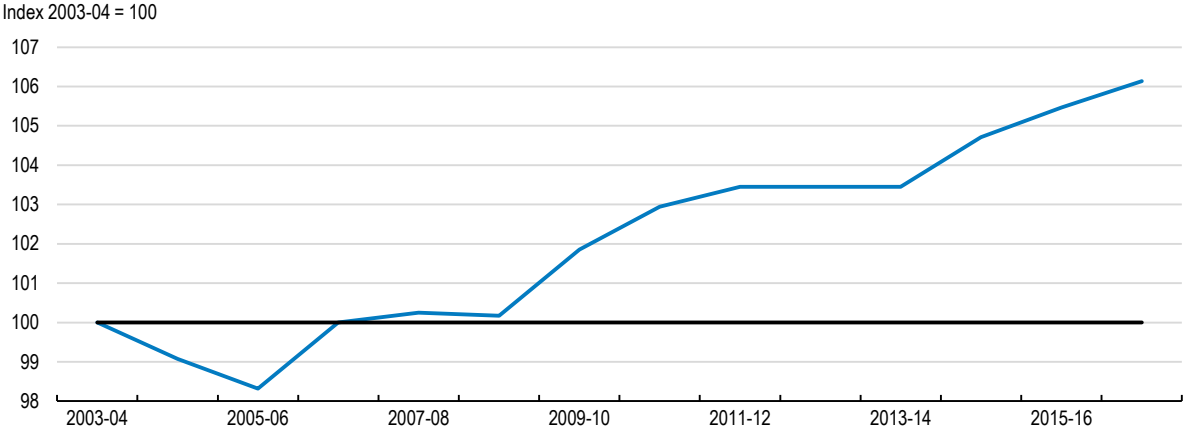
Note: Price level indices reflect the relative price levels of countries by comparing purchasing power parities to market exchange rates.
Source: OECD PPP detailed results, 2020 onwards database.

StatLink https://stat.link/dxts1p

2.2.2. Weakening competition has likely played a role in rising market power and reduced economic dynamism

Market power in product markets, the ability of a firm to influence the price at which it sells its product, has risen in Australia over the past quarter century. This phenomenon, which has also been at play in other advanced economies, is reflected in various measures of market power. A firm's mark-up, or the ratio of the sales price to a firm's marginal cost of production, is a key measure of market power as it is directly related to a firm's elasticity of demand function and thus its pricing power. Hambur (2021) documents that, over the 2003-2017 period, average firm-level mark-ups in Australia rose by 6% (Figure 2.4). Industry concentration, another measure of market power, captures the extent to which a small number of firms dominate an industry. One way of measuring this is the proportion of sales accounted for by the largest four firms in each industry. By this measure, industry concentration in Australia is notably higher than in the United States and has been rising over the past two decades (Figure 2.5).

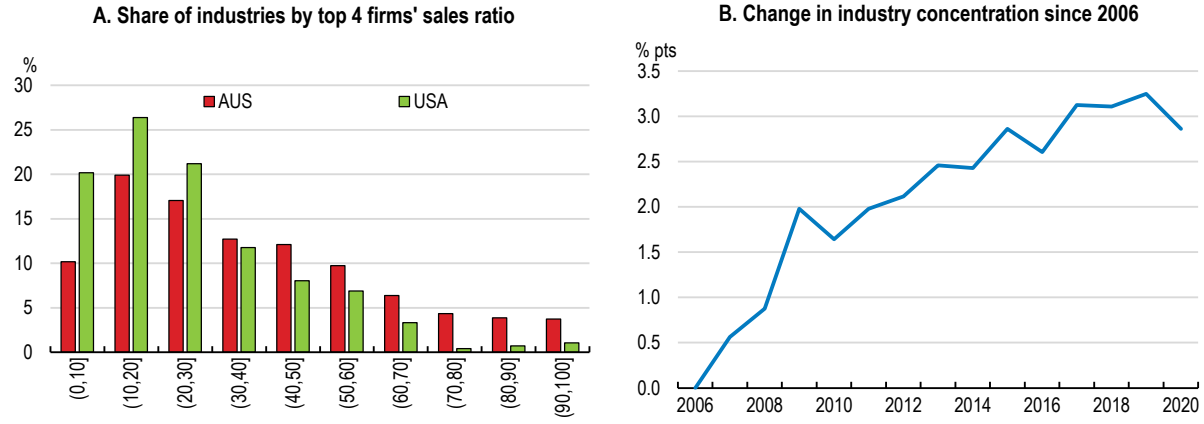
Figure 2.4. Average firm-level mark-ups have increased



Note: Index = 100 in 2003-2004.
Source: Hambur (2021).

StatLink https://stat.link/txn47s

Figure 2.5. Industry concentration is relatively high and has been rising over time

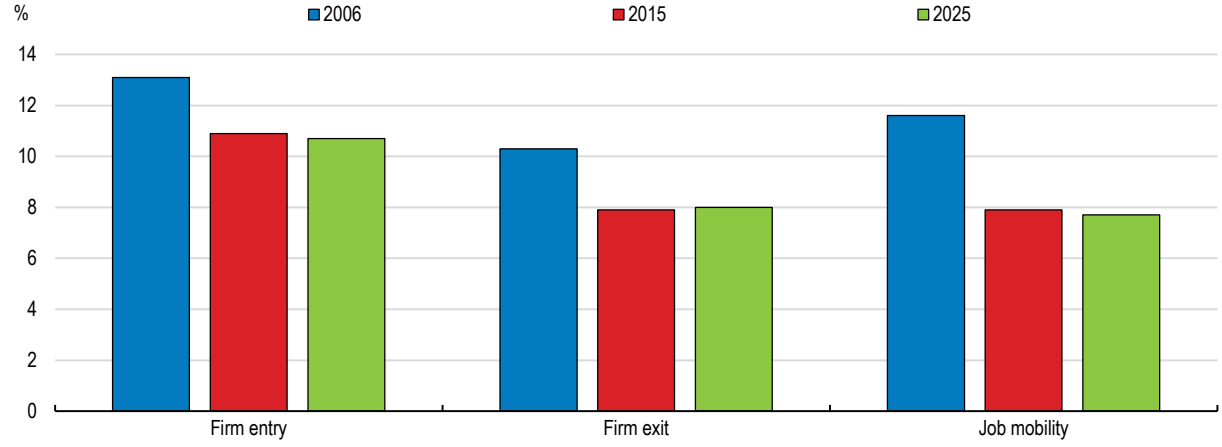


Source: Andrews, Dwyer and Triggs (2023).

StatLink https://stat.link/6ealp2

At the same time, measures of business dynamism have declined, though they remain relatively high. Declining firm entry rates suggest that fewer entrepreneurs are starting new firms, leading to less experimentation and innovation, while falling exit rates suggest that unproductive firms survive longer, reducing the resource reallocation necessary for a dynamic economy. From the mid-2000s through 2015, both entry and exit rates fell in Australia and they have not recovered since (Figure 2.6). The same pattern is evident for job mobility rates, the proportion of labour force participants who switch jobs in a year. When this rate is falling, as has been the case in Australia, it suggests a less efficient allocation of workers, as workers are more likely to stay in mismatched jobs or industries and less likely to move to higher-productivity firms. Nevertheless, business dynamism in Australia remains relatively high compared to several peers, including the United Kingdom. (See Box 2.1.)

Figure 2.6. Measures of business dynamism have declined



Source: Australian Bureau of Statistics.

StatLink https://stat.link/2x0wr9

Box 2.1. Benchmarking business dynamism and productivity in Australia with the OECD MultiProd and DynEmp microdata projects

MultiProd and DynEmp are two OECD projects that leverage firm-level microdata to provide a granular understanding of productivity and business dynamics that cannot be captured with aggregate or industry-level data alone. The two projects, implemented by the Directorate for Science, Technology and Innovation (STI), focus on complementary dimensions of economic dynamism. MultiProd analyses the microeconomic determinants of productivity with indicators of firm productivity growth, allocative efficiency, and creative destruction, and their links to labour market outcomes. DynEmp focuses on business demography and employment dynamics, and assesses the role of young firms in job creation.

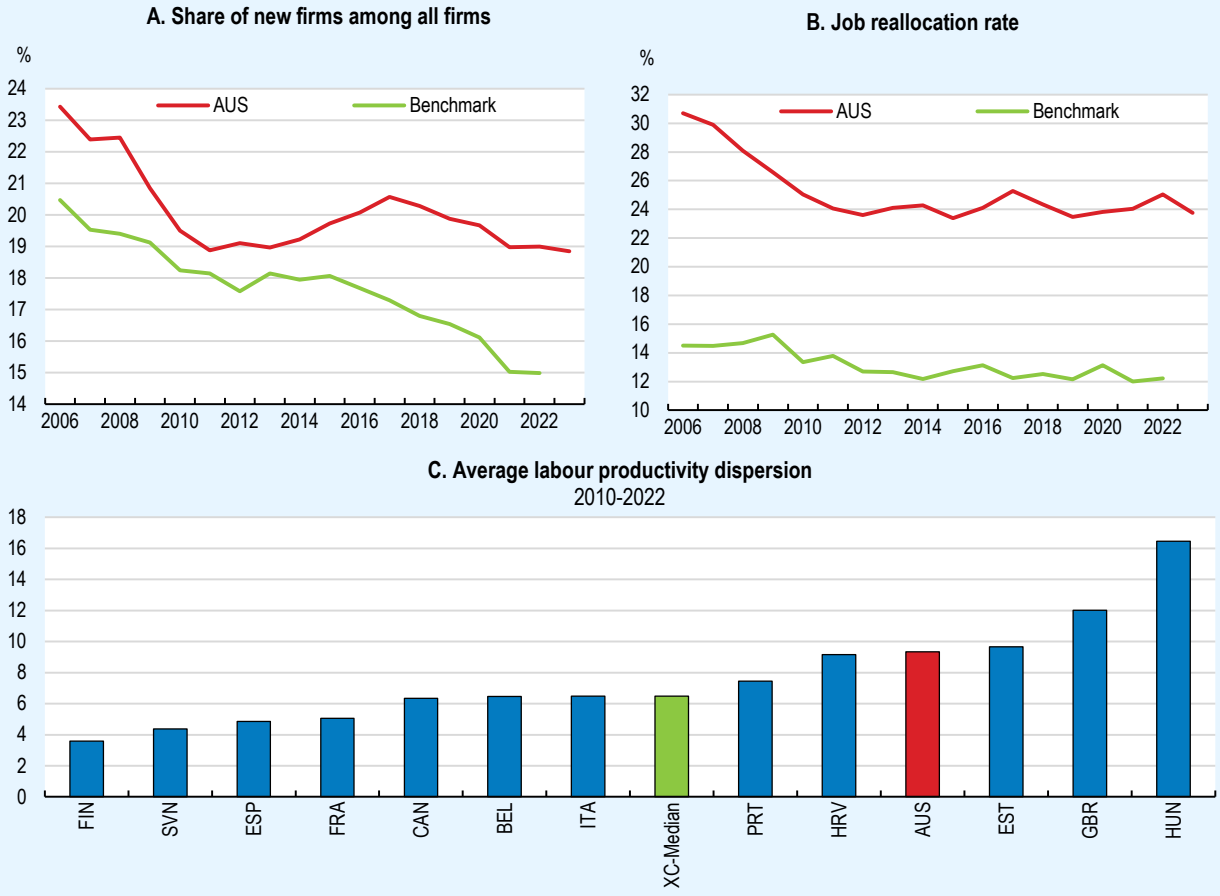
The projects rely on administrative and statistical firm-level data, including business registers, social security records, tax data, production surveys and datasets combining multiple sources. To address the legal, administrative and comparability constraints associated with the use of confidential national microdata in a cross-country setting, both projects adopt a distributed microdata analysis approach. Harmonised statistical codes prepared by the OECD are executed by national experts with authorised data access. (The e61 Institute and Australian Bureau of Statistics recently updated MultiProd and DynEmp for Australia, and their contributions are gratefully acknowledged.) The resulting micro-aggregated database enables detailed and consistent cross-country analysis of productivity and business dynamics, while ensuring confidentiality requirements and improving cross-country comparability. Further details on methodology and metadata are available in OECD (forthcoming).

The estimates generated by DynEmp point to high levels of business dynamism in Australia relative to the median among OECD members participating in the project. Panel A in Figure 2.7 shows that the share of new firms in Australia—defined as firms that are no more than two years old and have at least one employee—has consistently been higher than the sample median ("Benchmark"). This share is an important proxy for business dynamism because it reflects several core mechanisms through which dynamic economies renew themselves, including low barriers to entry, startup innovation, and opportunity-driven entrepreneurship.

Job reallocation rates in Australia are relatively high. This rate, defined as the sum of job creation and destruction divided by average employment (excluding firm entry and exit) during a year, is an important measure of employment dynamism. It indicates how well an economy adjusts to change and how efficiently labour is utilised. As shown in panel B, the rate in Australia has consistently been above the benchmark. Moreover, the rate for Australia is well above those of other large advanced economies in the sample, including the United Kingdom, Germany and France.

The labour productivity gap between the most and least productive firms in Australia, estimated using MultiProd (which includes Canada in addition to the aforementioned countries), is high relative to most of its peers. Panel C shows that, after controlling for industry and year, the average productivity of a firm in the 90th percentile of the distribution is 9.3 times higher than it is for a firm in the 10th percentile, above the cross-country median value of 6.5 ("XC-median"). High productivity dispersion is generally viewed negatively, as it often reflects low diffusion of knowledge and technology across firms. However, it may also reflect a higher share of new firms, for which productivity is both lower, on average, and more dispersed (Lee et al., 2025).

Figure 2.7. Australia has relatively high levels of business dynamism and productivity dispersion



Note: Panel A reports the evolution of the share of new firms (aged 0-2 years) in the business population. Panel B reports the evolution of job reallocation rates, calculated as the sum of job creation and job destruction divided by average employment of incumbent firms, i.e. excluding job flows from entering and exiting firms. The cross-country evolutions in Panels A and B are derived from within-country–industry regressions to compute aggregate changes. These estimates are combined with the value of the cross-country median in the first year to present the cross-country medians ("Benchmark") over time. The cross-country estimates cover 11 countries (AUS, DEU, ESP, FIN, FRA, GBR, HUN, ITA, PRT, SVN, TUR) over the period 2006–2022 (unbalanced panel) for firms operating in manufacturing and non-financial market services (ISIC Rev. 4, sections C and G–N, excluding K). Indicators focus on the business population with at least two persons engaged or one employee, excluding firms with only one worker or zero employees. Panel C reports productivity dispersion measured as the ratio between the 90th and 10th percentiles of the (log) labour productivity distribution. Dispersion, which is computed for each country SNA-A38 industry and year, is first averaged over years over the period 2010-2022. It is then aggregated to the country level using average industries' share of units as weights. The figure focuses on manufacturing and non-financial market services, excluding Coke and refined petroleum and Real estate.

Source: DynEmp v3_3, December 2025 (Panels A and B); calculations based on the OECD MultiProd v2.1 database, December 2025 (Panel C).

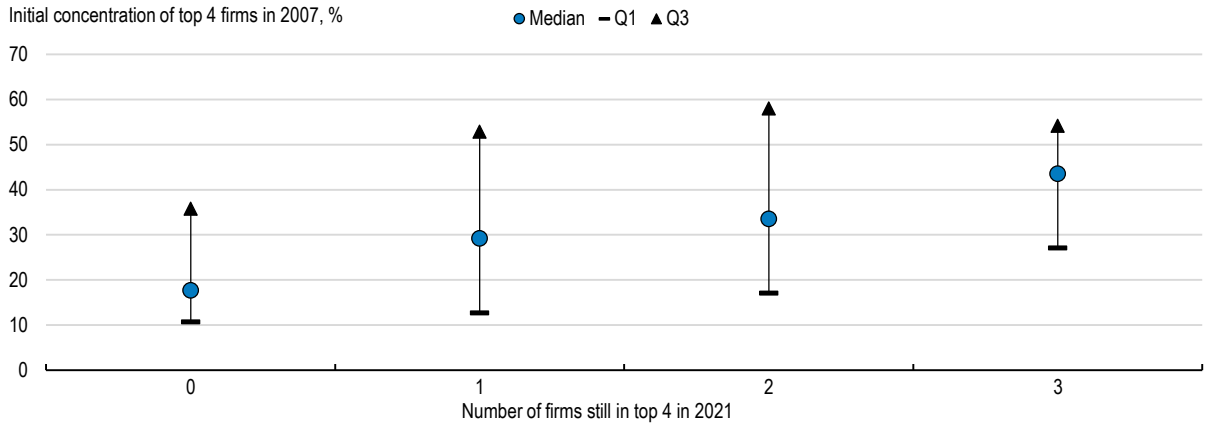
StatLink https://stat.link/juvbg6

Rising market power and declining business dynamism might not necessarily imply that competition has weakened. For example, productivity-driven "superstar" effects, where technological change and scale economies allow the most productive firms to gain market share and earn higher mark-ups at the expense of their rivals, reflect efficiency and innovation advantages. Relatedly, firms with high fixed costs may need to charge higher mark-ups to recoup those costs when marginal costs are negligible. Scale economies are also associated with lower business dynamism, as fewer firms enter and exit but those that remain compete on innovation, quality and speed. In addition, global competition can lead to a few highly competitive international leaders dominating sectors, with domestic market concentration rising in turn.

However, there are clear indications that rising market power and declining business dynamism reflect weakening competition. Under normal circumstances, industries with intense competition would witness turnover among market leaders and the emergence of new entrants. High levels of concentration could be benign given this dynamic. However, over the 2007-2021 period, industries that exhibited greater retention of the top firms from 2007 had a higher median initial concentration (Figure 2.8). Moreover, fewer new firms were found to enter an industry after that industry experienced an increase in concentration (Andrews et al., 2023). Firms operating in more concentrated industries were also found to be more prone to infringements from the competition regulator, the Australian Competition and Consumer Commission (ACCC).

Figure 2.8. Entrenched incumbency is higher in industries with higher initial concentration

Number of firms still in top 4 in 2021 by concentration of top 4 firms in 2007



Source: Andrews, Dwyer and Triggs (2023).

StatLink https://stat.link/7a0m1d

Disaggregated evidence on mark-ups also suggests a role for flagging competition in Australia. Hambur (2021) finds a broad-based increase in the distribution of mark-ups over time, suggesting average or low-productivity firms face little pressure to lower prices. The study also finds that the rise in mark-ups over time has been driven by within-firm increases as opposed to reallocation from low- to high-productivity firms, consistent with waning competition (Figure 2.9). While the empirical evidence points to a role for weakened competition in contributing to rising market power and reduced business dynamism, it is important to note that it does not establish which specific barriers to entry, such as anticompetitive conduct by incumbents, regulatory burdens or financing frictions, are responsible, and thus where competition policy should be strengthened.

Figure 2.9. Rising mark-ups have been broad based and driven by within-firm increases

Decomposition of % change in average firm-level markup since 2004

Source: Hambur (2021).

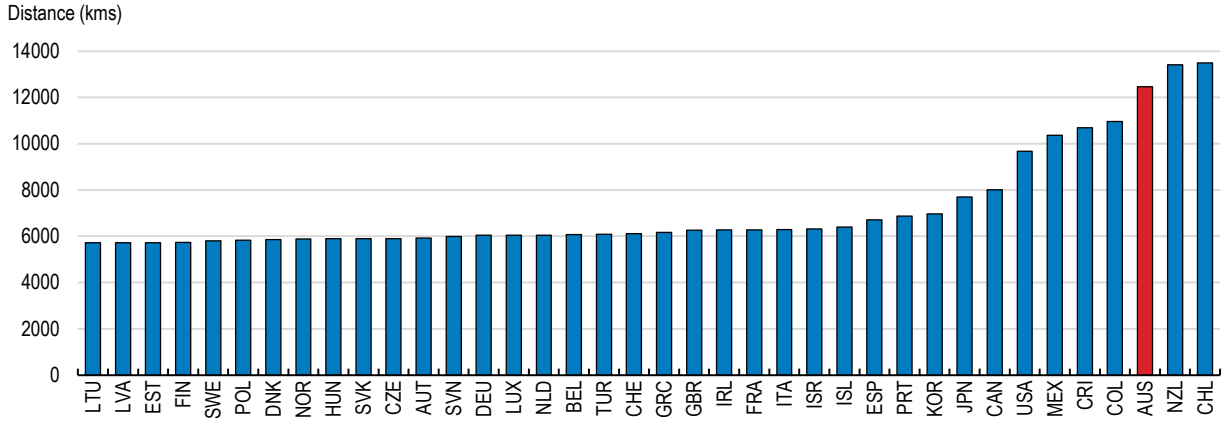
StatLink https://stat.link/ko4u3r

2.2.3. Australia faces unique challenges in fostering economic competition

Australia faces unusual challenges in fostering and sustaining competition. Australia is one of the most geographically remote economies among its OECD peers. In terms of average distance from world economic activity, Australia is more remote than any country other than New Zealand and Chile (Figure 2.10). This remoteness, or 'tyranny of distance', creates natural barriers to trade that can stymie competition. Australia's trade intensity—the ratio of exports and imports to GDP—is lower than in most other OECD countries (Figure 2.11), due in large part to its remoteness. All else equal, Australia's trade intensity would be 50% higher if it were as close to other economies as the United Kingdom is to its neighbours (Battersby and Ewing, 2005). Because geographical remoteness lowers international trade, it may provide natural protection from competition for Australian industries.

Figure 2.10. Australia's distance from world economic activity is high

2024



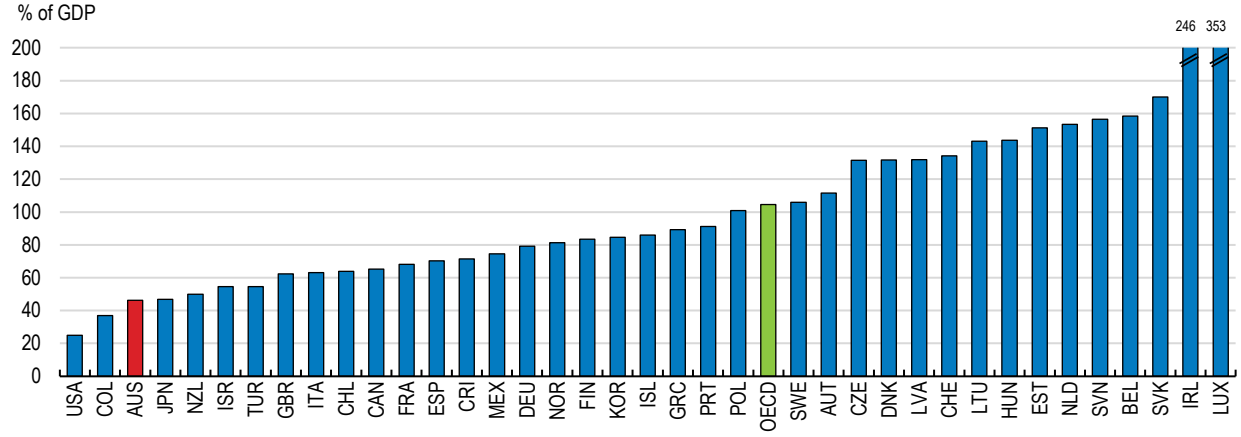
Note: Country i's distance from world economic activity is calculated as the average of the distances (in kms) between the capital of country i and the capitals of all other countries, with the distance to each other country j weighted by j's share of purchasing-power-parity adjusted world GDP (excluding the GDP of country i).

Source: OECD calculations.

StatLink https://stat.link/yp012v

Figure 2.11. Trade intensity is relatively low

Sum of exports and imports of goods and services, 2024



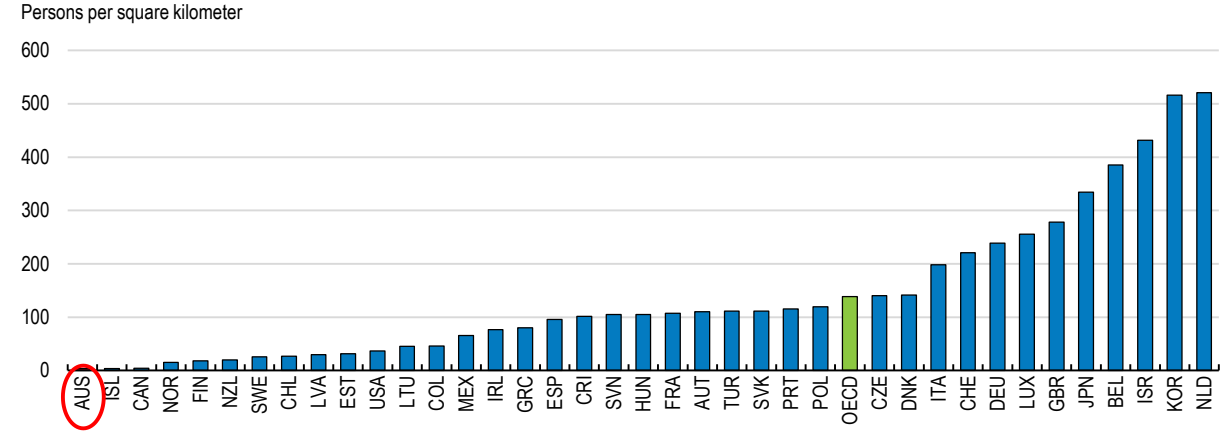
Source: OECD Analytical Database.

StatLink https://stat.link/fm9ek2

The Australian population is also highly geographically dispersed within the country's borders, which likely further inhibits competition and productivity. Australia has the lowest population density among OECD countries (Figure 2.12). Moreover, its population is highly dispersed relative to other OECD members with similar population magnitudes. The high level of dispersion reduces the benefits of agglomeration, such as knowledge spillovers and labour mobility, which can in turn limit competition and productivity. Indeed, Australia's external and internal geographic remoteness have been found to account for around 45% of the gap in the level of labour productivity between Australia and the United States (Battersby, 2006). Because of its geographic remoteness and highly dispersed population, Australia is predisposed to high barriers to entry and fragmented, highly concentrated markets relative to its OECD peers.

Figure 2.12. Australia has the lowest population per square kilometre among OECD members

2023



Source: OECD Regions and Cities databases http://oe.cd/geostats

StatLink https://stat.link/fuen3q

Australia's dependence on natural resource extraction has plausibly contributed to diluted competitive pressures in the non-tradeable sector. The strength of the mining sector has sustained a strong real exchange rate, reallocating labour and capital away from trade-exposed manufacturing and into construction and local services (Downes, Hanslow and Tulip, 2014). This shift expanded demand for non-tradables, many of which are shielded from foreign competition, likely reducing contestability and allowing weaker firms to survive.

2.2.4. Australia has fallen behind the frontier in competition policy

A country's competition policy, including competition law enforcement and the policies, such as regulations, that affect the competitive environment, is critical to keeping markets open and contestable, driving innovation, efficiency, productivity growth and lower margins. From the late 1990s through the early 2000s, Australia was a global leader in competition policy reform, with its landmark National Competition Policy (NCP), which derived from the Hilmer Competition Policy Review (Box 2.2), often cited as an international good practice. In 2005, the OECD lauded Australia for creating a deep-seated "competition culture" and serving as a model for other countries seeking to improve their economic performance (OECD, 2004). Australia was among the OECD leaders in the competition-friendly nature of its product market regulation (PMR) settings through the early-2000s with relatively few competition-limiting restrictions on setting up and doing business (Figure 2.13). However, over the past two decades, Australia's policies have remained largely unchanged in this area as more recent reform efforts have been less successful (Box 2.3). As a result, its relative position compared to best practices in other countries has slipped as others have undertaken more vigorous reforms. While its legal framework remains robust on paper, enforcement effectiveness and regulatory efficiency now lag peer OECD economies.

Box 2.2. The Hilmer review and subsequent competition policy reforms

In 1992, the Australian Government commissioned the National Competition Policy Review, chaired by Professor Fred Hilmer. The Review sought to respond to concerns that Australia's relatively closed, regulated economy was underperforming. Its purpose was to recommend reforms that would promote economy-wide competition, particularly by extending competition law to sectors traditionally exempt, such as public monopolies and regulated industries. This was intended to drive productivity growth, lower prices for consumers, and improve international competitiveness.

The Hilmer Review recommended a comprehensive framework, including:

- Extending the Trade Practices Act (now the Competition and Consumer Act) to all businesses, including government enterprises.
- Reforming monopoly sectors by promoting third-party access to essential infrastructure (the "access regime").
- Reviewing and removing unnecessary restrictions on competition in regulation and licensing.
- Establishing national institutions to oversee reforms, including the National Competition Council (NCC).

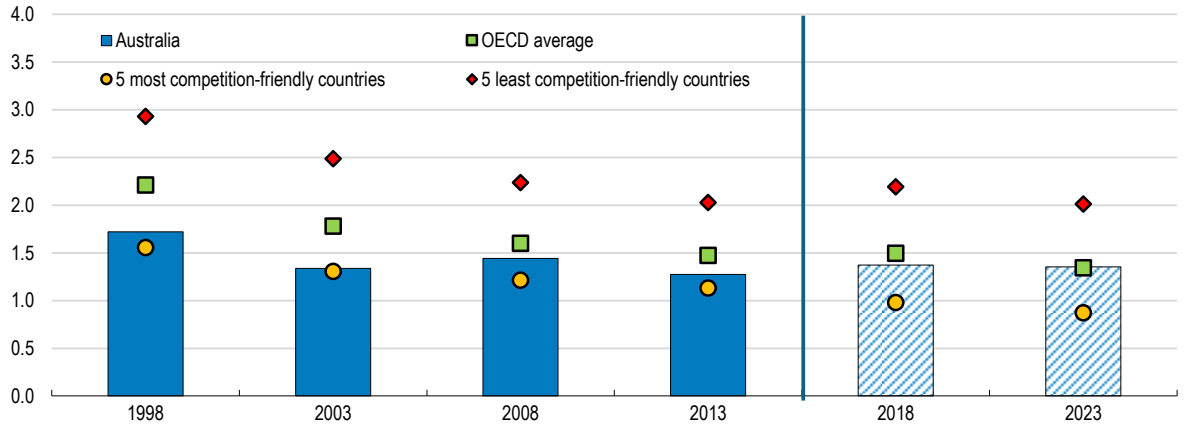
Following the Review, the Commonwealth, states and territories entered into three intergovernmental agreements in 1995 to implement the National Competition Policy (NCP). This included the implementation of National Competition Principles aimed at achieving and maintaining consistent and complementary competition laws and policies that apply to all businesses across Australia regardless of ownership. To incentivise reform, the federal government provided Competition Payments to states and territories that met reform benchmarks. This "carrot" approach proved highly effective in encouraging cooperation across jurisdictions. With the cessation of the Competition payments to states and territories in 2006, the NCP reform program effectively concluded.

The macroeconomic impacts of the Hilmer reforms were significant. Estimates suggest the NCP and related reforms increased Australia's GDP by at least 2.5% at over the long term, equivalent to over AUD 20 billion annually in today's terms (Productivity Commission, 2005). Productivity growth strengthened notably during the late 1990s and early 2000s, with competition reforms cited as a key contributor. However, there is some debate over the precise size of the reforms' impact. While competition reforms were important, macroeconomic conditions and other structural reforms related to trade policy, labour markets, and financial markets also played major roles, making attribution difficult (OECD, 2005). Nevertheless, there is broad consensus that the Hilmer reforms materially lifted Australia's economic performance.

Source: Productivity Commission (2005), OECD (2005).

Figure 2.13. Australia has fallen to the middle of the pack on PMR indicators

Economy-wide PMR indicators, index scale 0 to 6 from most to least competition-friendly regulation



Note: Hashed bars indicate a methodological change to the OECD PMR indicators beginning with the 2018 release.
Source: OECD PMR database.

StatLink https://stat.link/z49m3f

Box 2.3. The Harper competition policy review and lessons learned

More than two decades after the Hilmer review, the Harper Review was commissioned to refresh Australia's competition policy framework for a new economic era. Chaired by Professor Ian Harper, the Competition Policy Review (2014–2015) recognised that Australia's economy had evolved into a more services- and knowledge-based system, with emerging challenges from digital platforms, ageing populations, and slower productivity growth.

The Harper review proposed a broad set of reforms, including:

- Strengthening competition laws, notably introducing an "effects test" for misuse of market power to better address anti-competitive conduct by dominant firms.
- Encouraging competition in human services such as health, education, and aged care.
- Modernising the regulatory framework for small business and agriculture.
- Promoting competition in road transport markets through user charging reforms.

Several recommendations were implemented, the most significant of which was the amendment, in 2017, of Section 46 of the Australian Competition and Consumer Act (CCA) to include an effects test that would prohibit a firm with substantial market power from engaging in conduct that has the *purpose, effect,* or *likely effect* of substantially lessening competition. However, progress on promoting competition in human services and road transport was slower and more uneven across jurisdictions.

Unlike the Hilmer reforms, the Harper reforms have not been associated with a measurable macroeconomic boost. The Australian Treasury (2015) noted that while the reforms were important for strengthening the foundations for long-run productivity, the short-term economic effects were expected to be modest. The Productivity Commission (2017) similarly suggested that the full potential of Harper reforms would depend on broader service sector reforms that were, at the time, only partially implemented.

Several factors explain why the Hilmer Review had a more profound economic and political impact than the Harper Review. A critical difference was the structure of incentives for states and territories: no

equivalent Competition Payment scheme was attached to the Harper reforms, reducing the motivation for states and territories to implement difficult changes, particularly in politically sensitive sectors like human services.

While the Hilmer reforms targeted monopolistic and infrastructure sectors where reform payoffs were clearer and more immediate, the Harper reforms focused on services sectors, where the benefits of competition are more diffuse and harder to quantify. Furthermore, the political environment was more favourable during the Hilmer era with bipartisan support for economic reform, whereas political fragmentation in the 2010s made comprehensive implementation more difficult.

Source: Australian Treasury (2015), Productivity Commission (2017).

2.3. Competition policy is being significantly strengthened, but more vigorous enforcement and market oversight are needed

Australian competition policy is well-established through a number of key pieces of legislation and the ACCC, set up in 1995, is well-respected in Australia and internationally. Nevertheless, the framework has not kept up with developments in other jurisdictions, particularly in the area of merger control. A recent reform driven by the Competition Review is addressing this issue. However, more efforts will be needed to tackle market power that is already entrenched. The high risks of weak competition given Australia's circumstances require robust enforcement of competition law and greater scrutiny of highly concentrated markets.

2.3.1. The new mandatory notification merger regime is a major step forward, but effective implementation will be key

Merger control constitutes a central element of competition policy, as it is the primary tool enabling authorities to prevent anti-competitive market structures from emerging. This ex-ante function makes merger control an indispensable feature of an effective competition framework. In recognition of its significance, the OECD adopted the 2005 Recommendation on Merger Review (revised in 2024), which reflects established international good practices and seeks to promote convergence of procedures and enhanced cooperation among competition authorities. The Recommendation emphasises the importance of ensuring that merger review processes are effective, efficient and timely.

Australia's merger regime until its recent reforms was relatively permissive. Based on a voluntary-notification regime, it allowed numerous transactions to proceed without ACCC scrutiny. While merging firms were incentivised to seek informal ACCC clearance to avoid running afoul of the CCA, the system possessed the potential to allow firms to gain excessive market power through consolidation unnoticed. The ACCC estimated between 1,000 and 1,500 mergers occur annually, yet only around 330 were notified as there was no statutory threshold for notification. The previous regime also lacked provisions to prevent "stealthy" mergers—whereby a series of small, incremental acquisitions occur below a competition authority's radar. Due to the lack of an automatic suspensory requirement, private parties could complete deals before the ACCC was able to make an assessment, even after an informal notification was filed. These shortcomings in the merger control regime likely allowed some mergers to go ahead that increased concentration and lowered competition without effective oversight. More generally, the system made enforcement difficult and costly, as problematic mergers would have to be unwound ex-post.

Australia's merger regime was also characterised by prosecutorial review rather than administrative review by the ACCC. Under prosecutorial review, the ACCC could investigate a merger but only a court could ultimately block or unwind it. Under an administrative review system, the competition authority decides the outcome of merger cases in the first instance—subject to review by the courts. Prosecutorial systems are generally slower and less predictable than administrative review, potentially weakening enforcement effectiveness (OECD, 2019a). With this relatively weak regime of merger control, many mergers have taken

place that have led to substantial market concentration among a few players in sectors like grocery retail and financial services (ACCC, 2024).

As part of the current National Competition Policy review, a new legislative framework for merger control has been put in place. It commenced on a voluntary basis in July 2025 and will commence on a mandatory basis at the beginning of 2026. Under the new framework, transactions exceeding defined thresholds related to the revenue of the controlling and target firms will require prior ACCC approval before closing (Table 2.1). This mandatory-notification regime will bring Australia in line with OECD best practices and most of its OECD peer economies (OECD, 2025). The regime also includes automatic suspensory procedures and administrative rather than prosecutorial review. The legislation is highly prescriptive with careful analysis required for key concepts, such as the meaning of control, the calculation of revenue and the application of numerous exceptions. The ramifications for failure to file a notifiable transaction are significant, including the voiding of the transaction, as well as considerable financial penalties for both corporations and individuals.

Table 2.1. Australia's old and new merger control regimes

Regime characteristic	Old regime	Regime from 2025/26
Enforcement	Required Federal Court proceedings to stop or undo deals.	ACCC is the first-instance administrative decision-maker; determinations subject to limited merits review by a specialist body, the Australian Competition Tribunal (ACT).
Notification thresholds	No statutory thresholds; notification was optional.	Mandatory notification above set thresholds: (i) Combined AUS turnover > AUD 200m and target turnover ≥ AUD 50m or AUD250m global deal value. (ii) "Very large" acquirer with AUS turnover > AUD 500m buying target ≥ AUD 10m AUS turnover (iii) 3-year cumulative threshold to capture serial acquisitions: ≥ AUD 50m (or AUD 10m for very large acquirers) in the same/substitutable goods or services.
Suspensory requirements	ACCC had to seek injunctions to stop deals from closing.	Notified deals are stayed until ACCC decides; ACCC can remove the obligation to notify by granting a notification waiver; putting a stayed/notifiable deal into effect renders it void until a court orders otherwise.
Stealthy mergers	Higher risk; no duty to file; ACCC only learned of many deals through Foreign Investment Review Board referrals.	Lower risk; mandatory filing, a public register of notified deals, and serial-acquisition thresholds increase visibility of small "roll-up" transactions.
Penalties	Civil penalties through the courts applied for putting acquisitions into effect in contravention of Section 50 of the CCA	Civil penalties apply for failing to notify and breaching the standstill during the suspensory period. False or misleading info and other breaches are also penalised. The maximum penalty for corporations is the greater of AUD 50m, 3 x gain from contravening conduct, or 30% of turnover.
Divestiture orders	Federal court on ACCC or other third-party application.	Federal court retains divestiture powers.
Review timelines	None	Statutory clocks: Notification waiver: Up to 25 business days, with no minimum timeframe Phase 1: Up to 30 business days, with fast-track possible after 15 days. Phase 2: Up to 90 business days, with limited "clock-stops".
Transparency	ACCC maintained a public register, though there was no statutory obligation to do so.	ACCC public register of notified acquisitions.
Commencement	N/A	1 Jan 2026, with voluntary use from 1 Jul 2025 to ease the transition.

Note: All dollar values reported in millions (m) of AUD.
Source: Australian Treasury (2024), Australian Government (2024).

Australia has made tangible strides in transitioning to the new regime, but it is a major shift and will require the ACCC to deliver a system that prioritises an effective, timely and transparent review process. The government recently finalised the details of notification thresholds, the notification waiver process, forms, filing fees and exemptions. The ACCC has doubled its merger review staff and rolled out process and analytical guidelines, short- and long-form notification applications and interim assessment timelines. While notification waivers—which can be granted in a matter of days—should provide an expedited pathway for low-risk mergers, there remain some concerns over the complexity and regulatory burden of the new regime more generally, as the new notification forms require more upfront work compared with previous practice. The ACCC will need to successfully transition from a prosecutorial regime to an administrative one. To ensure the successful implementation of the new notification regime, notification thresholds should be periodically reassessed to ensure regime efficiency. Moreover, the ACCC should have sufficient financial resources and human capital needed to meet its objectives of transparent risk-based assessments delivered in just a few weeks.

2.3.2. Competition enforcement needs to be more robust

Given that Australia has highly concentrated markets and relatively weak competition, an effective framework to address abuses of market power and anti-competitive practices is critical. While the merger reform should help to avoid undue further increases in market concentration, it will not directly address existing market power. Australia's existing market structures often remain skewed: sectors such as supermarkets, domestic aviation, banking and railways continue to exhibit oligopolistic characteristics, with some incumbents having been accused of anti-competitive behaviour. There is a risk that, in these highly concentrated markets, entrenched firms may engage in anti-competitive conduct such as abuse of dominance, cartels or blocking access to critical infrastructure like pipelines or electricity grids. (See Box 2.4 for more details on these types of anti-competitive activities.)

Competition laws in Australia are comprehensive and broadly similar to those in North America and Europe. The Australian Competition and Consumer Act (CCA) forbids cartels via criminal and civil penalties. It also prohibits misuses of market power, such as exclusive dealing regimes, and enables third parties to request access to essential facilities of national significance like pipelines or electricity grids that are owned by a dominant firm. In 2017, as the most significant reform to emerge from the Harper review, the CCA was updated to include an "effects-based" test that would prohibit a firm with substantial market power from engaging in conduct that has the purpose, effect, or likely effect of substantially lessening competition. In addition, the CCA provides compulsory information gathering powers that allow the ACCC to obtain information, documents and evidence under a variety of circumstances.

While Australia's competition laws are robust on paper, recent experiences suggest that more active enforcement of these laws is required to forestall anti-competitive practices. As has been the case in other advanced economies, the number of abuse-of-dominance investigations and decisions has fallen in Australia. Even when investigations have been pursued, Australia's record in prosecuting complex criminal cases has suffered setbacks—most notably the high-profile ANZ bank criminal cartel case, which collapsed in 2022 due to evidentiary and procedural flaws. The judge in the case noted that the criminal cartel provisions in the law were overly complex.

Despite prohibitions against exclusive dealing and other vertical-agreement abuses, enforcement appears to have been relatively light. Over the past decade, the ACCC has brought only a handful of court cases alleging abuses of market power, with mixed results. Although the effects-based test for misuse of market power has been in place for several years now, it has had limited practical enforcement impact thus far. The ACCC initiated its first enforcement proceedings under the effects provision in 2019, but few cases have followed and the courts have yet to fully interpret or apply the provision.

When firms have been found to be in breach of competition law, penalties have generally been smaller than in comparable OECD jurisdictions and not necessarily proportional to the size of the offending firm, impeding

deterrence (OECD, 2018b). And whereas in most OECD countries financial penalties are imposed according to a set methodology including sales of the infringing company's product, the penalties in Australia are determined by the Federal Court following an "instinctive synthesis" of various factors.

Aware of these shortcomings, the government has since amended the CCA to significantly increase the maximum penalty allowable for anti-competitive behaviour and certain breaches of competition and consumer law. These maximum penalties are now more aligned with peers like the European Union, the United Kingdom, the United States and Canada. Making use of these expanded penalties, in 2025 a federal court upheld a record fine of AUD 57.5 million against BlueScope, a steel supplier and manufacturer, in civil cartel proceedings brought by the ACCC. Nevertheless, it remains the case that average penalties have historically been lower than elsewhere and less consistently applied.

The access regime for infrastructure and its oversight have proven to be problematic, with dominant infrastructure owners—such as ports and energy networks—having been accused of impeding third-party access to their services (ACCC, 2021). In addition, the process of recognising declarations to access by third parties and reaching arbitration decisions when negotiations fail between the infrastructure owner and third party is often lengthy. For example, after a coal exporter applied for declaration of a shipping canal service at the Port of Newcastle in 2015, it took over four years and multiple levels of review—including the ACT, Federal Court and High Court—before the service was ultimately not declared. Unnecessarily prolonged processes may increase regulatory uncertainty or delay business investment (Treasury, 2021b).

To dissuade abuses of existing market power, competition law should be enforced more vigorously and consistently. Steps are needed to increase the ACCC's enforcement capacity (even while it gears up for the new merger regime) and make more active use of its investigatory and data-gathering powers. Not only is this important given Australia's tendency towards oligopoly and weak competition, but also to properly gauge whether the 2017 introduction of the effects-based test for misuse of market power has had its intended effect. Reforms are needed to address legal ambiguity in complex abuse cases and, more generally, to simplify the legal framework. In cartel cases, a redrafting of cartel definitions should simplify cartel conduct and reserve criminal sanctions for "hard-core" conduct like price-fixing or output restrictions (OECD, 2019c). Average penalties for anti-competitive practices should be increased and the penalties should be imposed more consistently, based on a set methodology. A simpler legal framework and more consistent application of penalties could presumably lead the ACCC to move forward with more cases as well. Revisions to the access regime should focus on simplified declaration criteria, as well as a streamlined declaration and arbitration process that includes fewer procedural steps.

Box 2.4. Key concepts in Australia's competition laws

Australia's competition laws primarily consist of behavioural prohibitions that address anti-competitive conduct after it occurs. They operate ex-post, sanctioning a firm that exploits its market power abusively or firms that engage in collusive agreements and practices such as price-fixing, bid rigging or market sharing with other market players. These ex-post competition laws cover the following areas:

- Abuses of dominance: These abuses are typically divided into exploitative abuses that take advantage of customers and exclusionary abuses that hinder rivals. They include selling below cost to eliminate competitors (predatory pricing); denying rivals access to essential inputs or pricing upstream/downstream in a way that squeezes rivals' margins (refusal to supply/margin squeeze); and forcing customers to buy a secondary product alongside the dominant product (tying and bundling). It also includes exclusive dealing, tying customers to one supplier and foreclosing rivals. One common example is a supplier agreeing to sell goods to a retailer only if the retailer does not stock competing products. Exclusive dealing is not illegal in all cases in Australia—it becomes unlawful when it has the purpose, effect or likely effect of substantially lessening competition in a market.

- Cartel provisions: Laws that prohibit certain forms of collusive conduct between competitors which restrict competition, including price fixing, output restrictions, the divvying up of markets (for example by geographic area), and bid rigging. As of 2009, cartel conduct is both civilly and criminally prohibited, bringing it in line with global leading practices. Australia maintains an Immunity and Cooperation Policy for cartel conduct under which eligible applicants may obtain immunity or "flexible leniency" from prosecution in return for cooperation in enforcement matters.

Beyond Australia's ex-post competition laws are access regimes, legal frameworks that enable third parties—typically competitors—to gain access to essential infrastructure services that are owned or controlled by another firm, often a monopoly or dominant provider. These regimes are designed to prevent the owners of critical infrastructure such as rail networks, telecommunication networks, airports and ports from using their control to block or restrict competitors' access. Third parties must apply with the NCC to have a service "declared" based on specific criteria like economic efficiency. If the NCC recommends declaration, a designated Minister (often the Federal Treasurer) is then assigned to formally declare the service. Once declared, the third party must negotiate access with the infrastructure owner. Should negotiations fail, the third party must then seek binding arbitration through the ACCC or another designated body such as the ACT.

2.3.3. The ACCC and the Productivity Commission should make more active use of market studies

OECD analysis stresses that Australia's size and distance heighten the challenge of ensuring enough actual or potential rivals in each market (OECD, 2023). A practical way for government to verify that the relatively few firms operating in critical sectors are competing vigorously, and to identify frictions to entry and expansion, is systematic use of market studies.

Market studies are fact-finding, economy-wide or sectoral reviews that diagnose competition problems and recommend remedies. Many advanced economies use them intensively and most have compulsory information-gathering powers. The United Kingdom's Competition and Markets Authority conducts market studies and—where problems persist—can escalate to a market investigation with remedies and it can compel information throughout under the Enterprise Act framework. The European Commission runs sector inquiries backed by legally binding requests for information. The US Federal Trade Commission issues Section 6(b) orders to require firms to file detailed "special reports" for market studies. Canada amended its Competition Act in December 2023 to introduce a formal market-study power with compulsory information-gathering (OECD, 2025). Denmark's experience with sector reviews provides a useful model (Box 2.5).

Australia has seen more limited use of market studies than in some jurisdictions. In Australia, the ACCC only gains compulsory powers for price inquiries when directed under Part VIIA of the CCA. Self-initiated market studies rely largely on voluntary cooperation. The Productivity Commission (PC) similarly relies primarily on submissions and hearings, using its statutory powers selectively rather than for routine economy-wide data compulsion.

A workable Australian model could combine the ACCC's competition expertise with the PC's economy-wide policy lens. The ACCC is well placed to understand where best to initiate studies and be granted compulsory information-gathering powers. Lead responsibility can be determined case-by-case: the ACCC when issues turn on market structure, conduct and remedies; the PC when problems are system-wide and require deep cost-benefit analysis. Where compulsory evidence is essential, the Treasurer could trigger a Part VIIA inquiry to equip the ACCC with the requisite powers. This architecture would move Australia closer to peer practice—frequent, data-rich, and action-oriented market studies that underpin productivity growth.

Box 2.5. Proactive Sector Investigations and Reviews by the Danish Competition and Consumer Authority

Denmark's Competition and Consumer Authority (DCCA) has been praised by the OECD as a well-managed, strategically focused agency with strong government access and public profile. A particular strength of the DCCA lies in its ability to proactively initiate sector investigations and comprehensive reviews, which are formally integrated into its mandate and enable systematic monitoring of key markets.

Sector investigations

Recent amendments to the Danish Competition Act empower the DCCA to launch market investigations when the Competition Council identifies structural or behavioural features "clearly impairing effective competition". Although the framework does not permit structural remedies such as divestiture, the DCCA can secure behavioural orders or binding commitments from offending firms. Moreover, the findings of these investigations often play a key role in legal action against anti-competitive conduct. Notable investigations have occurred in the following sectors in recent years:

- Digital platforms and mail delivery: In 2020, DCCA found that FK Distribution, Denmark's largest distributor of unaddressed advertising brochures and newspapers, abused dominance by tying unaddressed mail services to promotions on its digital platform. The resulting behavioural order eliminated exclusivity conditions and restored entry pathways for competing advertisers.
- Railways: A DCCA investigation into Deutz AG, a German engine manufacturer, and Diesel Motor Nordic, its exclusive distributor in Denmark, led to a major Danish Supreme Court decision in 2024 that concluded the denial of spare parts to another firm that had won a contract to maintain the Danish national rail operator's diesel engines constituted illegal abuse, reinforcing market-access principles.
- Ambulance services: Following a DCCA investigation, in 2019 the City Court of Copenhagen fined the ambulance services company, Falck, DKK 30 million for actions, such as disparagement and recruitment interference, aimed at excluding its competitor BIOS from providing services in the southern region of Denmark.

Sector reviews

The DCCA also conducts comprehensive sector-wide market studies, identifying structural competition issues before formal enforcement steps. Unlike formal investigations, these reviews do not lead to behavioural orders or binding commitments but instead inform policymakers and encourage market adjustment. Below are a few examples of impactful reviews.

- Public sector commercial activity: In 2016, a DCCA review demonstrated how government procurement distortions hampered private competition in health, construction, and public services, prompting policy reforms by government ministries.
- Pharmaceutical distribution: A 2019 sector study exposed barriers in medicine distribution chains and low-price competition. The findings informed proposed regulatory amendments to deregulate wholesaling and enhance market entry.
- Mortgages and dental services: Applying behavioural economics, a pair of 2017 DCCA analyses designed "nudges" to increase consumer awareness and competition in dental services and the mortgage market. These targeted studies contributed to reform proposals in consumer choice frameworks.

2.4. Regulatory fragmentation and anti-competitive restrictions hinder competition

Administrative and regulatory burdens in Australia are relatively high by OECD standards, in part because rules often differ significantly across states and territories in the federal system. Regulations can create barriers to competition by restricting or increasing the costs of entry or by entrenching certain anti-competitive practices as addressed in the OECD Recommendation on Competition Assessment. The fragmentation of regulation imposes costs on businesses of entering new markets, increasing the market power of incumbents, particularly in the context of Australia's relatively small and distant markets. Encouragingly, the government has begun to respond through the refreshed NCP agenda with incentive payments to states and early reforms on occupational licensing, recognition of trusted overseas standards, streamlined planning and pilots to scale modern methods of construction. Australia should continue to pursue a robust, nationally coordinated reform framework that delivers consistent, risk-based rules across jurisdictions, eliminates duplicative requirements, and ensures transparent accountability for progress.

2.4.1. Efforts to reduce regulatory fragmentation should be prioritised

Regulatory fragmentation within Australia's federal system is a significant barrier to competition. Differences in state-level regulation of occupations, transport, infrastructure access, environmental approvals and consumer standards raise costs for firms, limit labour mobility and reduce competitive pressure, all of which reduce the benefits of a national market. This fragmentation is likely to have a particularly strong impact on small and medium-sized businesses (SMEs) that are less likely to have the ability to comply with multiple regulatory requirements. For example, tradesmen often face different state licensing requirements, fees and renewals, making it difficult to operate in other markets. State- and council-specific heavy vehicle regulations and permits create route-approval delays that lift logistics cost for small operators. Despite the existence of national performance and safety standards for solar panels, state-level differences increase compliance costs for SMEs and solar businesses operating across jurisdictions (Table 2.2). And even if substantive differences in the regulatory stance across jurisdictions are small, the requirement to comply with different local standards imposes costs on businesses.

Table 2.2. Jurisdiction-specific solar panel regulations impose costs on businesses

Jurisdiction/Issue	Unique regulatory requirements	Business impact
South Australia	Requires both electrical and building licences to install solar PV systems; installation on heritage properties triggers additional approvals.	Installers need multiple, overlapping licences—raising administrative burdens, costs, and barriers to multi-jurisdiction operations.
Queensland	In 2019, introduced requirement for licensed electricians to lift and bolt solar panels onto frames.	SME installers face project delays and staffing issues.
DNSP / Grid Connection Rules	Distribution Network Service Providers (DNSPs) enforce region-specific grid-connection rules. Each DNSP operates differently.	Installers must navigate diverse connection requirements—time-consuming and error-prone when operating across DNSP areas.
Building permits & structural systems	Varied building-permit rules—e.g., NSW permits exempt for ≤10 kW residential systems; Queensland often self-assessable; cyclonic areas in WA and NT mandate structural engineer certification; heritage sites across jurisdictions require inner approval.	Complexity increases for installers managing projects across regions—risks delays, additional engineering costs, and planning uncertainty.

Source: SolarQuotes (2024).

Regulatory fragmentation imposes tangible costs on economic performance. In Australia, the PC estimates that incomplete implementation of mutual recognition and differing state licensing and regulatory frameworks result in billions of dollars annually in forgone growth (Productivity Commission, 2015). High costs have also been found for fragmentation in other economies: in Canada, estimates suggest that the complete removal of internal trade barriers would boost GDP per capita by about 4% (Alvarez et al., 2019). In the European Union (EU), even with the Single Market, the potential benefits of removing obstacles to free intra-EU services are estimated at between 1.5% and 2.5% of GDP (European Commission, 2023).

Australia has relied in the past on important ad hoc initiatives to achieve harmonisation in specific areas, which have been less systematic and structural than in other jurisdictions (Box 2.6). These include the Hilmer review that recommended sweeping regulatory and licensing reforms across a host of professions and business types. To achieve these reforms, among others, the Commonwealth government relied on intergovernmental agreements incentivised by competition payments. These payments were made after the NCC assessed a jurisdiction's reform progress. However, there were no formal punitive penalties or binding dispute resolution mechanism beyond withholding future competition payments. Thus, the system relied on political rather than legal enforcement. To date, Australia lacks a permanent institutional framework to oversee regulatory reform and a comprehensive dispute resolution mechanism as in Canada and the European Union, which creates risks of backsliding.

Box 2.6. Mechanisms to achieve regulatory harmonisation

A range of mechanisms have been used to encourage a more competitive and integrated market within federal systems across the OECD. These include harmonisation of standards across jurisdictions, mutual recognition of local standards (both binding and non-binding) and "coalitions of the willing". Harmonisation is the strongest mechanism, though the most politically difficult to achieve, with harmonised product standards across all EU member states as part of the Single Market programme providing a canonical example. In the event of non-compliance, supranational enforcement by the European Court of Justice provides strong deterrence in the form of lump-sum and daily fines against offenders until compliance is achieved.

In contrast, the Canadian Free Trade Agreement (CFTA) of 2017, which replaced a patchwork of provincial regulations, relies on a binding mutual recognition framework for occupational licenses and consumer standards in many areas. It establishes a "negative list" approach, whereby all measures that restrict internal trade are prohibited unless specifically exempted, as well as non-discrimination obligations that generally allow any good or service sold in one province to be sold in another. In this framework, independent dispute panels under the CFTA Secretariat hear complaints brought by provincial governments or private parties. If a province or territory is found to have breached the CFTA, the panel can order it to bring measures into compliance and impose monetary penalties of up to CAD 10 million to create a credible deterrent to divergence.

When harmonisation or mutual recognition frameworks are not politically palatable, OECD members have often pursued coalitions of the willing to reduce regulatory fragmentation. For example, the Schengen Agreement of 1985 on border-free travel was initially signed by five European countries outside the formal EU framework but was later integrated into EU law. Similarly, prior to the enactment of the CFTA in 2017, the New West Partnership Trade Agreement of 2010, which includes Canada's four westernmost provinces, represented a deeper regional accord addressing labour mobility and regulatory alignment that went beyond national commitments at the time. In the United States (US), California and a group of states have formed alliances on vehicle emissions standards that effectively harmonise climate policy beyond federal baselines.

Given institutional constraints, Australia should ensure that it vigorously pursues the current approach under the new NCP (Box 2.7) to secure harmonisation through incentive payments to states, as was true following the Hilmer review. It should, over time, set ambitious goals for the areas where alignment could be achieved. Expanding NCP incentive payments to states and territories for achieving verified milestones may help: incentive payments to subnational governments currently on offer from the Commonwealth government—AUD 900 million over 10 years (averaging 0.005% of GDP per year) are far smaller than the incentive payments distributed during the decade following the Hilmer review (cumulatively around AUD 5 billion over a period when Australia's economy was about one-half its current size). The Commonwealth government should strengthen national oversight by mandating a standing independent body, possibly within the PC, to monitor progress on NCP reforms and evaluate their competition impacts. To promote regulatory transparency, the

government should develop a digital platform—a regulatory map—that enables businesses to easily compare and navigate regulatory requirements across jurisdictions.

Regulatory harmonisation could also be promoted through wider use of binding mutual recognition frameworks with narrow, evidence-based exceptions (building on the recent occupational licensing reforms discussed in the next section). This would require states to agree to accept each other's standard but provides a relatively simple way to achieve harmonisation. To prevent a race to the bottom, some minimum federal benchmark would help. This system could be supported by establishing an independent internal market panel allowing for fast-track rulings and public remedies like fines, as with the dispute resolution panel associated with the Canadian Free Trade Agreement. In other cases, coalitions of the willing may be the best option for Australia, especially when national agreement is not yet attainable. For example, in the late-1990s reform of electricity markets began with Victoria and New South Wales creating the National Electricity Market, with other eastern and southern states joining later, while Western Australia and the Northern Territory opted out.

Box 2.7. Revitalised national competition policy

In 2024, Australian jurisdictions agreed to Australia's most comprehensive competition policy reform agenda in over two decades. This initiative—framed as a revitalisation of the 1990s National Competition Policy (NCP)—aims to reverse slowing productivity and wages growth, reduce cost-of-living pressures and address rising market concentration.

At the heart of the modernised NCP agenda is reforms to target regulatory barriers across sectors and facilitate a single national market, as well as a commitment to implement updated National Competition Principles. Coordinated by a dedicated branch within the Treasury, and part of the broader 2023 Competition Review that delivered mergers reform, the current effort builds on lessons from the Hilmer and Harper reviews.

The revitalised NCP revives several key features of the original, including rolling reform tranches, multilateral agreements between Commonwealth and state and territory (state) governments, and incentive payments to states to reward implementation of agreed reform benchmarks. The central tenet of NCP is that jurisdictions that undertake the reform effort should share in the benefits of reform. To support this, reforms are modelled for their expected benefits (often by the PC), and this informs the payments to the states. States can choose which reforms to implement, and are only paid after reforms are implemented, as assessed by the independent National Competition Council. Reforms are ambitious to allow all states to make progress, with payments for prior progress unlocked where a state delivers material additional reform.

In contrast to the Harper Review—which lacked fiscal incentives and saw patchy implementation—the current effort is more embedded in government and features clearer political and fiscal commitments. Moreover, the broad bipartisan support for competition reform likely enhances the prospects of success.

NCP is backed by an AUD 900 million National Productivity Fund. The first tranche of reforms, agreed in 2024, target the following areas, with up to AUD 400 million in payments available for states that implement reforms in the following areas:

- Commercial planning and zoning: to streamline approvals and support new retail, commercial and industrial development in high-demand areas (for state implementation).
- Modern methods of construction: to support prefabricated and modular construction, which could boost housing supply and affordability (for state implementation).
- Product safety standards: to improve the uptake of trusted international standards unless there is a compelling local justification for divergence, to reduce compliance costs (Commonwealth led).
- Right to repair: reviewing the Motor Vehicle Information Scheme to inform development of rights to repair for a broader range of consumer products (Commonwealth led).

- Worker mobility in the care economy: a first-pass business case for a national worker screening check for workers in the care economy (Commonwealth led).

The government has committed to additional NCP reform tranches over the next several years, including by the end of 2025. The government is currently working on the following reforms:

- Heavy vehicle access reforms: to improve transport productivity and reduce or remove regulations that disadvantage electric heavy vehicles.
- Greater recognition of international standards: in key sectors like building and construction and electrical products to support a single national market for goods.
- Occupational licencing: to remove unnecessary mobility barriers for trades relevant to construction and housing, starting with electrical trades, to support a single national market for workers.

The PC estimates that NCP reforms could raise GDP by approximately 1.5% over the long term.

2.4.2. Simplifying occupational licensing and permit systems would reduce administrative burdens

While the overall restrictiveness of regulation in Australia is around the OECD average, some regulations are more restrictive of competition than in most OECD economies. Australia performs relatively poorly compared to the best performers in terms of licensing and permitting requirements (Figure 2.14). Australia's lack of action in reducing these barriers is primarily responsible for its relative decline in the PMR rankings over time, as it has moved from a top-5 country with respect to barriers to entrepreneurship—of which licenses and permits are a major component—in the late 1990s to a below average country in recent years (Figure 2.15).

Occupational licensing in Australia, particularly for personal and professional services, has historically been more stringent than in top-performing peer economies, raising barriers to entry and limiting labour mobility without offering clear benefits in return. For example, in several Australian states, hairdressers must hold a certificate in Hairdressing, typically requiring a 3–4-year apprenticeship, and obtain a license or registration before practicing. In some jurisdictions, businesses must also be licensed, creating a two-tier licensing requirement. Moreover, hairdressing has historically lacked mutual recognition across states. By contrast, New Zealand and the United Kingdom impose no mandatory license for hairdressers, relying instead on voluntary accreditation and general consumer law. In Canada and the US, licensing exists in most provinces/states but is generally less onerous, often requiring 9-12 months of training rather than multi-year apprenticeships. Beyond personal services, regulatory barriers to entry in professional services, which includes lawyers, architects, civil engineers and real estate agents, are high, with Australia lagging well behind top OECD performers (Figure 2.16).

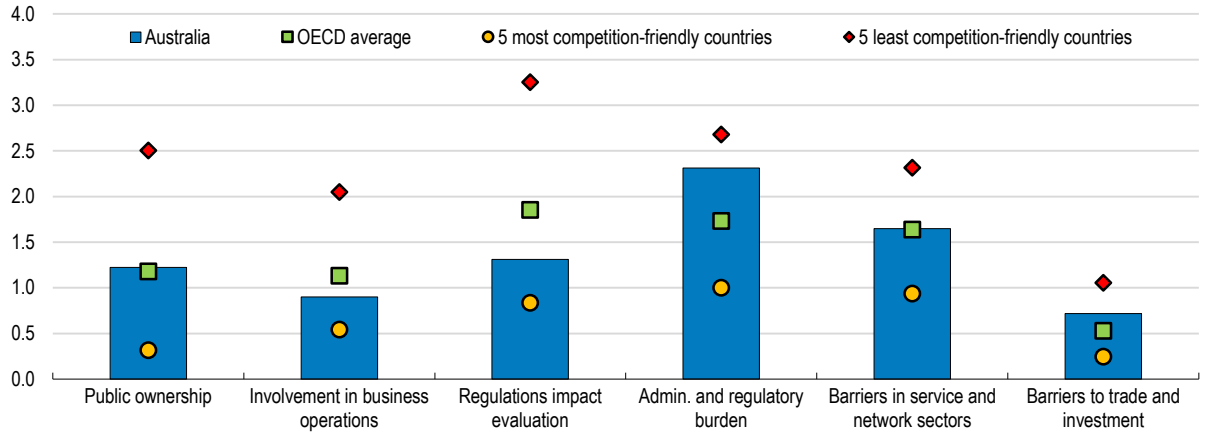
Permitting systems in Australia are also onerous relative to other advanced economies. For instance, the heavy vehicle permit system, which covers both vehicles and their operation on the road, is characterised by a patchwork of rules across jurisdictions, despite the existence of a Heavy Vehicle National Law which is meant to standardise permits. In addition, the PC found that approvals for oversize or overmass vehicles often takes weeks or months, whereas it takes hours or days in best-practice jurisdictions overseas (Productivity Commission, 2020). IT systems are fragmented as no single digital portal exists nationwide, forcing operators to deal with separate state road authorities and in some cases individual local councils. Inconsistent interpretation of safety and infrastructure rules between jurisdictions creates uncertainty for logistics companies. In contrast, in the US, the Federal Surface Transportation Assistance Act establishes uniform federal size and weight limits for interstate highways with states generally recognising permits from others. Canada and the European Union feature similar common standards.

Beyond the often-cumbersome process of obtaining licenses and permits, Australia's system is characterised by fewer of the streamlining features that are generally viewed as best practice. These include comprehensive

license inventories that are regularly reviewed to remove outdated or duplicative requirements, as well as risk-proportionality, whereby licensing processes are tailored to risk with streamlined or automatic approvals for low-risk activities. Australia also lacks end-to-end digitalisation of the system with one-stop portals, open APIs, and public dashboards of processing times.

Figure 2.14. Administrative and regulatory burdens are high

Economy-wide PMR indicators, breakdown by major components, 2023
Index scale 0 to 6 from most to least competition-friendly regulation

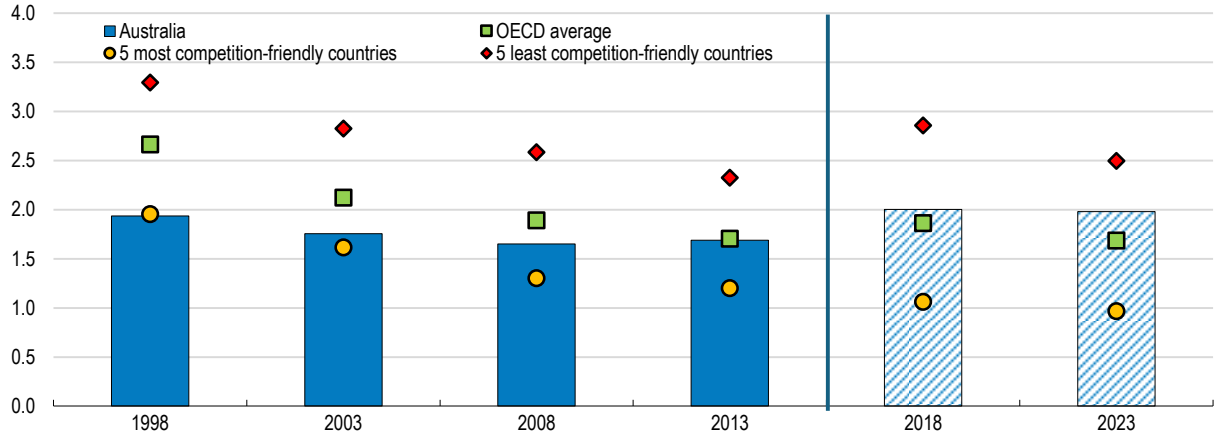


Source: OECD PMR 2023 database.

StatLink https://stat.link/8j31gr

Figure 2.15. Barriers to entrepreneurship have precipitated Australia's relative PMR decline

PMR subcomponent, Barriers to entrepreneurship, index scale 0 to 6 from most to least competition-friendly regulation



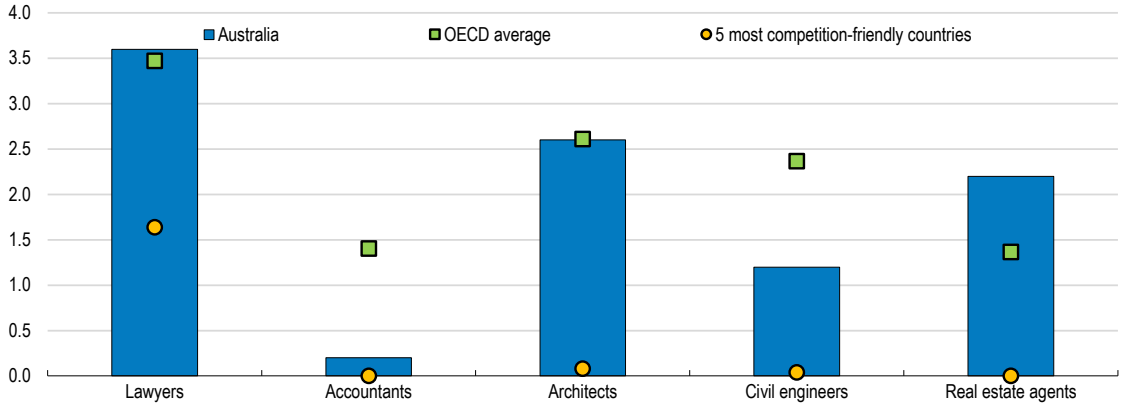
Note: Hashed bars indicate a methodological change to the OECD PMR indicators beginning with the 2018 release.
Source: OECD PMR database.

StatLink https://stat.link/2hq3tx

Reforms have been attempted at both federal and state levels. The Commonwealth's Regulatory Reform Agenda has emphasised reducing "red tape"—explicitly targeting licensing and permits as a core pain point (Australian Government, 2025). States such as New South Wales have piloted digital licensing platforms. While these initiatives represent steps forward, licensing should focus on areas where it is needed for a public interest reason such as consumer safety. Requirements should reflect current needs, be proportionate and the administrative burden and delays should be minimised.

Figure 2.16. Barriers to entry in professional services lag top OECD performers

PMR by sector subcomponent, entry regulation, index scale 0 to 6 from most to least competition-friendly regulation



Source: OECD PMR database.

StatLink https://stat.link/vl90o4

2.4.3. Occupational licensing is fragmented, but reforms are in progress

Australia has pursued renewed occupational-licensing harmonisation in recent years and it is a key piece of the revitalised NCP agenda. Building on the long-standing Mutual Recognition Act (MRA) of 1992, a 2021 reform introduced Automatic Mutual Recognition (AMR), giving a licensee a legal right to practise in another participating jurisdiction through "automatic deemed registration" without re-applying or paying duplicate fees. AMR is binding in law, with states retaining a safety valve—ministerial exemptions for specified occupations on public-protection grounds. Implementation has progressed in stages. AMR commenced in July 2021 in NSW, Victoria, ACT and NT; South Australia and Tasmania followed in 2022. Western Australia has since implemented AMR for a growing set of occupations, with notable carve-outs, such as teaching. Only Queensland remains outside AMR, still relying on the legacy "apply-and-recognise" process.

In practice, exemptions and transitional limits have tempered the benefits to date. The Competition Review frames further progress on licensing reform as a core lever to lift productivity and labour mobility going forward, along with progress already made on limiting the use of non-compete clauses and other worker restraints. (See Box 2.8.) Priority tasks, incentivised by Competition Payments, should include narrowing exemptions—especially in the trades and health or health-adjacent roles; improving cross-jurisdictional data sharing to support compliance and extending coverage to additional professions as risk-based safeguards mature.

Box 2.8. Australia's recent ban on non-compete clauses for most workers

The Australian Government announced in March 2025 an intention to ban the use of non-compete clauses for employees earning below Australia's statutory high-income threshold (currently AUD 183,100)—the vast majority of Australia's workforce. This reform is on track to take effect from 2027.

Non-compete clauses prevent or deter employees from switching to a competitor or starting their own business. Recent survey data indicate one-fifth of Australian workers are currently subject to these clauses which are common across occupations, industries and income levels.

Research using detailed microdata suggests workers with non-competes experience 4 per cent lower wages than other workers, on average, and that these clauses reduce job mobility. The PC found that reforms to limit non-compete clauses could lift long-run aggregate productivity by 0.2 per cent, reflecting better job matching and greater business entry that would result from greater mobility.

2.4.4. Adopting expedited recognition of trusted overseas standards would foster competition from abroad

Competition from overseas is hindered by differences in Australian regulatory standards, in addition to physical distance from other countries and market size. For example, Australia maintains its own safety standard for sunscreen products that has been incorporated into regulation. As a result, sunscreens approved under a relevant International Standards Organization standard may need to be retested to enable them to be sold in Australia. The objective—sun protection—is similar, but non-recognition of trusted overseas approvals can force suppliers to undertake separate testing, certification and in some cases re-design of their products.

While all standards must balance economic, environmental, health, and safety priorities, differences in standards increase the costs of servicing the Australian market, deter entry by foreign suppliers, and limit model variety. Differences in technical standards and certification requirements mean firms face duplicative compliance burdens to operate in Australia, even if Australian standards are not greatly different in substance to those applied in other countries. Beyond the international differences, a recent PC report found that, of the nearly 900 Australian regulatory standards incorporated into legislation, just one-quarter are consistently applied by the states, territories and Commonwealth.

Australia would benefit from recognising trusted overseas standards, for example from other major OECD economies with robust regulatory frameworks, in many areas where they are equivalent to or higher than domestic standards. Canada recently reformed its regulatory system to adopt international standards by default in sectors, such as medical devices and consumer goods, unless a clear case can be made for divergence by regulators. Australia has made incremental progress to date, notably through the Trans-Tasman Mutual Recognition Agreement with New Zealand and participation in international standard-setting bodies. In certain sectors, like pharmaceuticals and aviation, regulators already recognise trusted overseas approvals. However, adoption remains piecemeal, and many sectors—including construction products, medical technologies and digital services—still require full re-certification even when equivalent international standards exist.

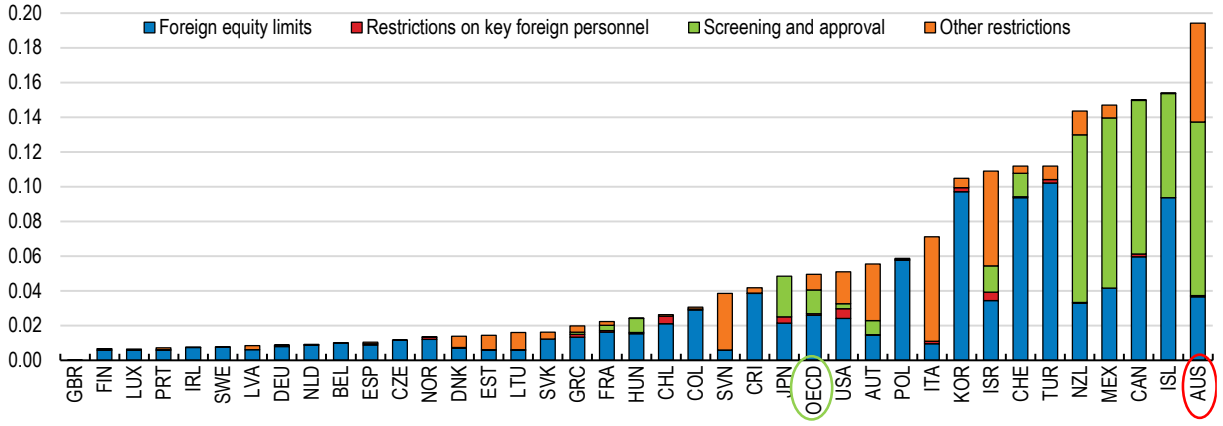
Encouragingly, among the reform priorities eligible for the first tranche of NCP payments to be distributed in 2025 is work by the states and territories on reforms to lower barriers to the adoption of international and overseas standards. Australia has noted that recognition of trusted overseas standards needs to balance economic, environmental, health and safety priorities. That said, the formal mechanisms for mutual recognition are not yet in place. Australia should fast-track the development of mutual recognition frameworks, especially in sectors where equivalence with overseas standards is clear.

2.4.5. Ease FDI restrictions to boost investment and productivity

Foreign direct investment (FDI) regulations remain comparatively restrictive in Australia, reducing the ability of foreign firms to enter and compete in key sectors of the economy. On the OECD's FDI Regulatory Restrictiveness Index (FDIRRI), Australia recorded the most restrictive score among OECD members, reflecting broad, economy-wide screening under the Foreign Acquisitions and Takeovers Act, including a "national interest/security" test; sector-specific foreign-equity limits for sensitive sectors; constraints on key personnel in selected sectors; and other restrictions such as conditions on land and real-estate for business purposes (Figure 2.17).

Figure 2.17. FDI regulatory restrictiveness is the highest in the OECD

Index (0-1): 1 = maximum restrictions



Source: OECD FDI Regulatory Restrictiveness Index Database.

StatLink https://stat.link/1j9e5i

While some safeguards are warranted, these need to be balanced against their economic costs and should be relatively narrow in their scope, even if Australia has typically not applied the requirements in a restrictive manner. International evidence suggests that FDI restrictions dampen investment. An OECD study found that reforms liberalising FDI restrictions by 10% as measured by the FDIRRI could increase bilateral FDI stocks by 2.1%, with the liberalisation of services yielding especially large spillovers to productivity (OECD, 2019). To boost FDI while continuing to safeguard the national interest, Australia should narrow screening to clear national-security risks and raise monetary thresholds. In addition, the government should remove or relax sectoral foreign-equity caps where competition and prudential goals can be met by non-discriminatory regulation. Restrictions on key foreign personnel, such as executives and professionals, should be eased and duplicative licensing reduced.

2.5. Obstacles to competition remain high in some sectors

While reforms of framework conditions and competition policy can help to address Australia's competition challenges, a number of key sectors appear to have high concentration, significant barriers to entry and a lack of competition. Australia has made progress in identifying the challenges and begun to respond—signalling action across aviation, banking and payments, and telecommunications—yet reforms remain uneven and at an early-stage.

2.5.1. Reforming slot allocation regimes in domestic aviation

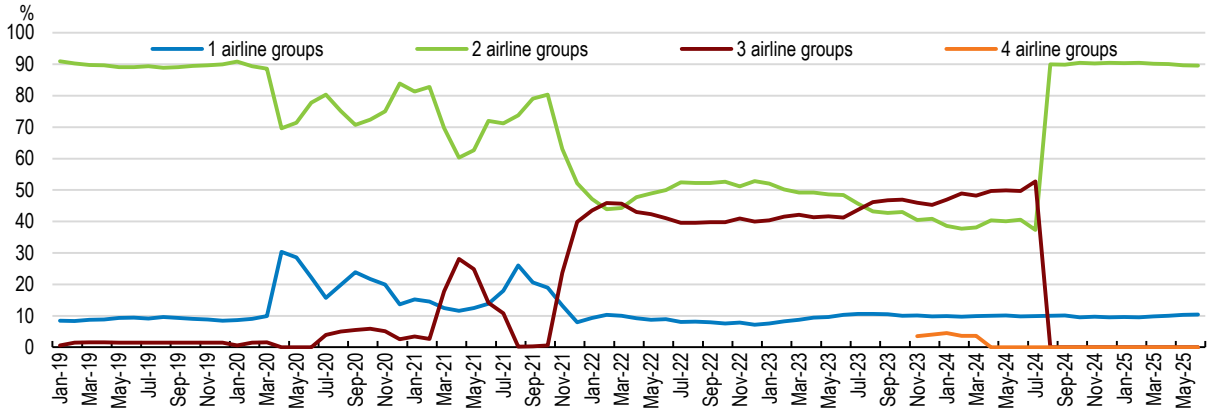
Australia's domestic aviation sector, already among the most concentrated in the OECD, has become even more concentrated over the past couple of years. Two incumbent carriers dominate key trunk routes, while new entrants face institutional barriers, such as restrictive slot allocation at Sydney and Melbourne airports, and limited access to regional feeder networks, leading to reduced competition, high airfares and poor service reliability.

After regional carrier Rex entered voluntary administration in mid-2024, 90% of passengers flew on routes with just the two major airlines competing. This compares to early 2024, when roughly one-half of domestic passengers flew on routes with three competing airline groups (Figure 2.18). As a point of contrast, in the US, even the smallest routes—as measured by city-pair market size—average three competitors and the largest routes average nearly 4.5 competitors (GAO, 2014). Average domestic airfares on major routes increased by 13% over just a couple of months after Rex entered voluntary administration and some routes, like Adelaide-

Melbourne, saw fares nearly double (ACCC, 2024). Moreover, delay and cancellation rates are well above their long-term averages.

Figure 2.18. Share of passengers on routes serviced by 1, 2, 3 and 4 airline groups

Share of monthly passengers



Source: Data collected by the ACCC from Bonza (up to March 2024) Jetstar, Qantas, Rex and Virgin Australia.

StatLink https://stat.link/kz0y9u

International experience shows that transparent and contestable slot allocation is central to ensuring competitive entry. Reforms to the EU Slot Regulation introduced "use-it-or-lose-it" rules and periodic slot reallocation, with studies showing lower fares and increased route frequencies where new entrants gained access. Similarly, strategic allocation of new capacity to low-cost carriers at Tokyo's Haneda Airport led to a measurable reduction in average fares on affected routes (NILIM, 2022). In the United States, the Department of Transportation has historically reserved slots for new entrants at congested airports, contributing to greater competition and lower prices.

Australia has recognised these challenges, most recently in its 2024 Aviation White Paper. The White Paper highlighted problems with Sydney Airport's slot management system, including slot misuse by incumbents, and recommended more transparent allocation and independent monitoring. It also acknowledged the importance of supporting regional aviation, given thin markets and their role in enabling entry onto trunk routes. Some state-level programs, such as Queensland's Regional Airline Support package during and after the COVID-19 pandemic, helped to maintain basic regional connectivity, but their impact has been limited and they have not improved regional connectivity relative to pre-COVID times (Queensland Government, 2021).

In response to the Aviation White paper, reforms to the Sydney Airport Demand Management (SADM) framework were implemented in 2025. These reforms strengthen the slot compliance regime by introducing new slot-misuse offences, enhanced monitoring powers for the Slot Manager, and an independent Compliance Committee with an external chair and members. Tougher "use-it-or-lose-it" provisions and expanded performance monitoring, including publication of cancellation and delay data, support early detection of systemic breaches and reduce incentives for slot hoarding. Preferential access and broadened eligibility for new entrants, alongside ministerial oversight of scheme design, are expected to increase contestability and promote more efficient use of scarce Sydney slots across the domestic network. Going forward, other airports could benefit from similar reforms.

2.5.2. Ensuring open markets in the banking and payments sectors

Australia's banking and payments sectors remain highly concentrated, with the four largest banks holding 72% of total resident assets. Stringent licensing and capital requirements for authorised deposit-taking institutions (ADIs) and payments providers are designed to protect consumer welfare and financial stability but also create high barriers to entry. As a result, digital challengers and fintechs face difficulties achieving scale, which limits competition, innovation and downward pressure on fees. From 2018 through mid-2025, there have been 17

new banking entrants, composed of 9 new foreign branches and 8 domestic start-ups. Only one domestic start-up has emerged as a significant presence (in lending to small and medium-sized businesses), with most others having exited or been acquired by a major bank. These challenger banks cite difficulties with prudential requirements, access to capital, customer acquisition and staff recruitment as major struggles (OECD, 2021b).

Open data regimes, regulatory sandboxes, and proportional licensing frameworks in finance should balance system resilience with contestability. In the United Kingdom, the Open Banking initiative, which mandates open application programming interfaces (APIs) for core banking data, has spurred fintech innovation and reduced transaction fees, with over 7 million consumers and SMEs now using open banking-enabled products. Meanwhile, the European Union's revised Payment Services Directive, PSD2, has improved competition by obliging banks to share customer data securely with licensed third parties, leading to increased innovation in payments and lower consumer costs.

Australia has made important strides in aligning with best practices in recent years. The Australian Prudential Regulation Authority, or APRA, introduced a new licensing framework in 2018, which has provided some boost to the level of competition in parts of the banking sector. The Consumer Data Right (CDR) framework facilitates secure data portability across banking and energy and will begin expansion to the non-bank lenders sector from July 2026. While adoption in banking was modest initially, it has recently seen substantial growth. Moreover, The Australian Securities and Investments Commission (ASIC) operates an innovation sandbox to allow limited testing of financial services without full licensing. In addition, the Treasury is designing a new payments licensing framework to apply proportionality, tailoring requirements to the risks posed by different payment providers. Despite these initiatives, entry barriers remain high, and several neobanks—including Xinja, Volt, and 86 400— have exited the market or been acquired by incumbents in recent years, citing capital constraints and licensing complexity.

To lower barriers to entry, promote innovation and enhance consumer choice and competitive pressure in financial services, Australia should continue its push towards ensuring proportionality in the payments licensing framework, with lighter requirements for low-risk providers. ADI licensing can be simplified by introducing a staged pathway to full authorisation along with lower initial capital requirements for small, digital-only entrants. The government can also strengthen and expand the CDR, with streamlined consent mechanisms and broader uptake, with CDR rule changes that commenced in November 2024 representing a promising first step. Similarly, ASIC should enhance regulatory sandboxes, offering clearer pathways to full licensing for successful trials. Finally, open APIs across banking and payments should be mandated, ensuring interoperability.

On the consumer side, switching rates for transaction accounts, mortgages and savings products have generally been low by OECD standards, though they have improved in recent years. Many consumers face significant barriers to switching, including lack of awareness of better offers, difficulties comparing products and "loyalty penalties", where existing customers receive worse rates than new ones. Without effective tools and incentives to switch, incumbent banks can sustain higher margins and weaker innovation.

Global leading practices in retail financial markets highlight that mandatory rate change notifications, easy product comparability and transparent government-backed comparison platforms are key to improving consumer mobility. For example, the United Kingdom's Financial Conduct Authority mandates timely interest rate change notifications. In the Netherlands, standardised mortgage and deposit product disclosure enables side-by-side comparisons, facilitating switching. In New Zealand, government-backed comparison sites present mortgage and savings rates updated daily from major providers.

In Australia, the introduction of the CDR in banking has laid the groundwork for improved product comparability and third-party switching services. Some banks now issue notifications before term deposit rollovers or rate changes, but practices vary and are not mandated sector wide. ASIC's Moneysmart website provides educational material but lacks comprehensive, real-time comparison tools. The Treasury has consulted on reforms to strengthen consumer mobility, and the ACCC has advocated for more consistent notification requirements and data-driven comparison tools. All retail banking products, especially mortgages

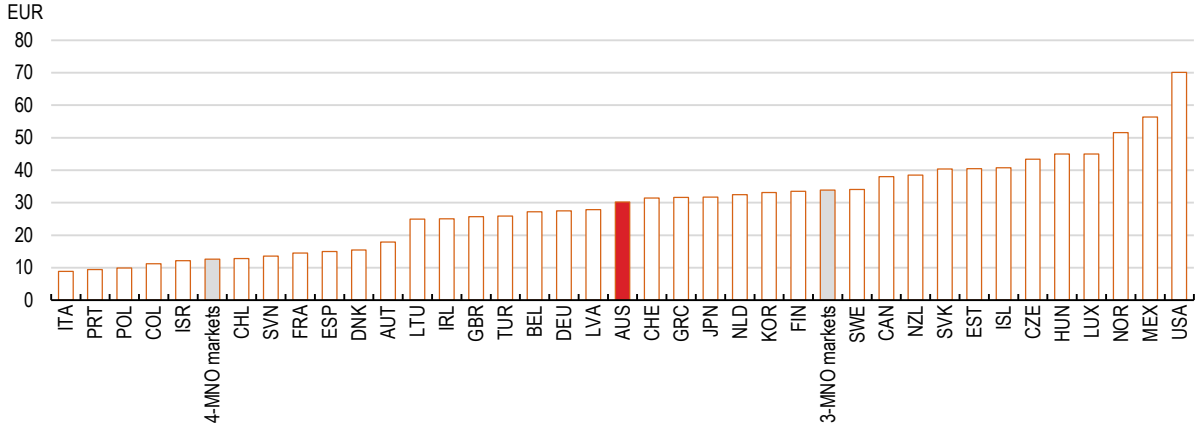
and savings accounts, should require standardised, timely notifications of rate changes and maturity events. The government should mandate standardised disclosure templates, which would support accredited third-party aggregators of this information. Alternatively, a central, government-backed platform could present up-to-date, comparable rates for all major retail banking products. Collectively, these reforms would enhance consumer choice, increase switching and exert downward pressure on the profit margins of the four largest banks.

2.5.3. Encouraging a fourth mobile network operator via infrastructure sharing and spectrum reform

Australia's mobile telecommunications sector is dominated by three firms, which collectively control nearly the entire market. Barriers to entry are particularly high in regional areas, where coverage is often limited to a single provider's network infrastructure. This lack of competitive pressure has contributed to relatively high retail prices and limited service quality improvements relative to OECD peers (Figure 2.19).

Figure 2.19. Mobile retail prices are high relative to countries with 4-MNO markets

Median monthly mobile market retail price



Note : Includes VAT & TAX.
Source: Rewheel Research.

The OECD has highlighted that infrastructure-sharing obligations and pro-competitive spectrum allocation are essential to lowering entry barriers in mobile markets, with several members making strides in this area in recent years. In France, spectrum auctions reserved blocks for new entrants, enabling Free's entry in 2012. Within two years, prices fell by around 20% and consumer satisfaction improved (Box 2.9). Meanwhile, mandatory roaming and tower-sharing obligations in Canada have facilitated the survival of smaller regional operators, boosting coverage and lowering consumer prices. In Japan, pro-competitive reforms allowed Rakuten Mobile to enter in 2020, supported by national roaming rights, forcing incumbents to cut tariffs significantly and expand data offerings.

Australia has taken steps in recent years to improve competition in telecommunications. The ACCC has advocated for greater infrastructure sharing, and the Australian Communications and Media Authority (ACMA) has incorporated competition assessments into recent spectrum allocation processes. Some spectrum auctions have also reserved allocations for smaller operators. Meanwhile, the government's Mobile Black Spot Program has expanded coverage but largely reinforced incumbent dominance.

Australia's telecommunications market has on occasion supported four providers, but the available capital has been unable to consistently sustain this many competitors. In 2020, Vodafone and TPG merged following a Federal Court decision, which found the reduction from four providers to three providers would not substantially lessen competition in the Australian mobile market.

It is open to Australia's independent competition regulator, the ACCC, to mandate infrastructure sharing—both roaming and towers—in underserved regional areas to lower entry costs. In spectrum allocation, the ACMA could consider reserving capacity explicitly for new entrants, allowing for competition benefits, balanced with other policy objectives, with enforceable rollout obligations. To ensure new entrants can achieve scale quickly, wholesale access rules should be strengthened. The ACCC has examined this approach in the past but determined that such intervention would have a negative impact on infrastructure deployment, particularly in high cost, low population density areas. And finally, regional coverage subsidies could be linked to pro-competitive outcomes rather than reinforcing incumbent market power.

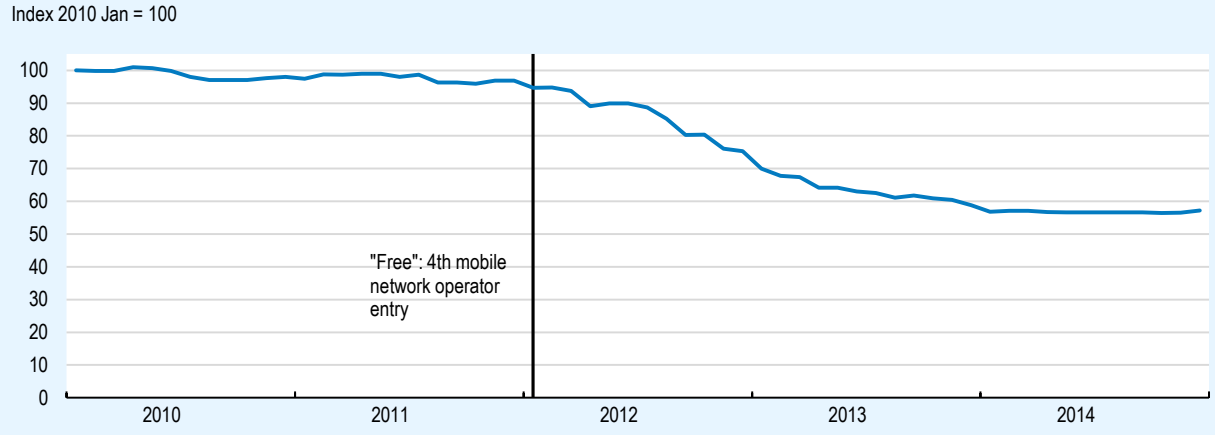
Box 2.9. How fourth entrants reshaped mobile markets in France and Japan

France

Regulatory steps that lowered entry barriers—most notably pro-competitive spectrum assignment and national roaming—enabled Iliad to launch as the fourth mobile network operator (MNO) in January 2012. Retail prices fell sharply: France's telecoms price index dropped by 11 points between 2011 and 2012, and press data recorded 11% lower prices in 2012 and a further 8–10% in 2013 as Free Mobile captured roughly a 10% market share within two years (Figure 2.20). Service variety increased (e.g., "unlimited" plans), and investment held up as rivals upgraded networks to compete. These outcomes align with OECD findings that a credible fourth entrant, supported by contestable spectrum and access to essential inputs (e.g., roaming), exerts strong, persistent price discipline.

Figure 2.20. Average monthly mobile expenditure in France fell upon Free's entry

France mobile services price index



Note: Monthly mobile plans and prepaid cards.
Source: French Autorité de régulation des communications électroniques et des postes et de la distribution de la presse (Arcep).

StatLink https://stat.link/q2hcx3

Japan

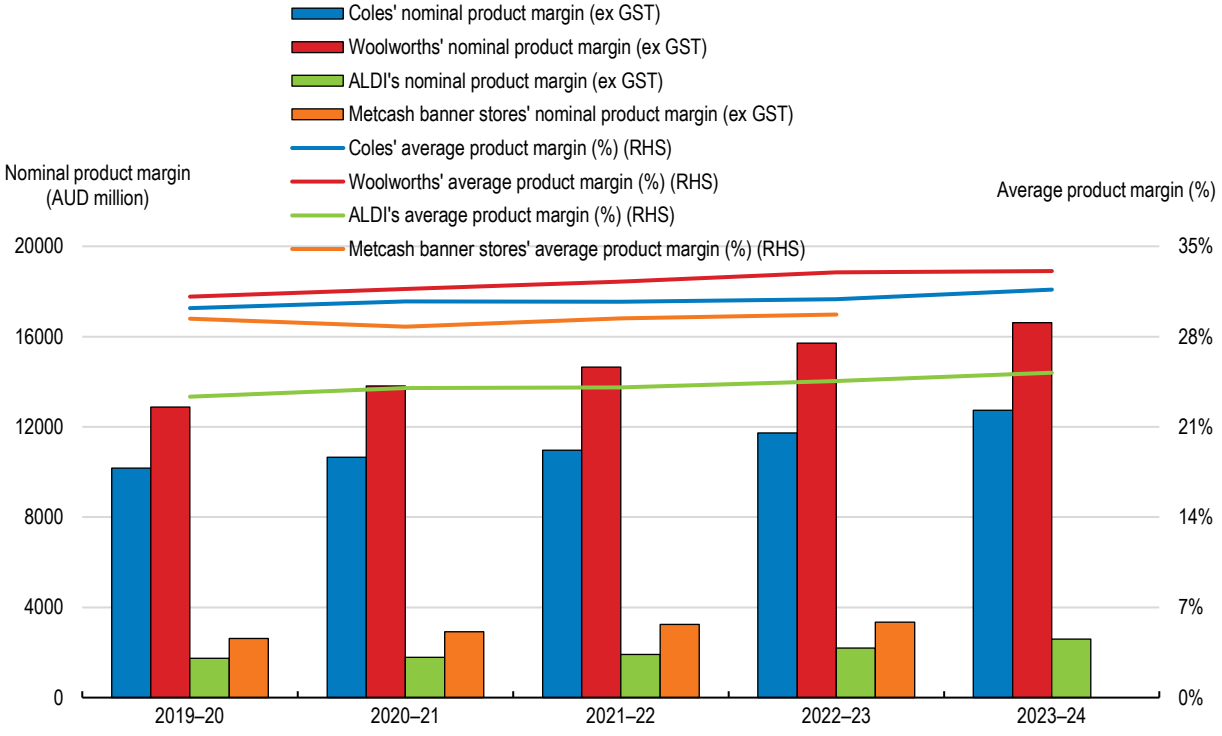
Japan combined entry of a fourth MNO (Rakuten Mobile)—backed by national roaming rights—with a policy push for tariff simplification and lower prices. Within the first full year of commercial service, average monthly plan prices fell by more than 60% compared with March 2020 as incumbents cut headline tariffs and introduced lower-cost digital sub-brands; authorities framed these steps as part of a broader strategy to boost competition and affordability. Rakuten's cloud-native network model also intensified non-price competition (e.g., larger data allowances). While financial sustainability for a greenfield fourth operator can be challenging, the consumer price and quality gains illustrate how entry—when paired with roaming, spectrum access, and policy pressure—can shift market outcomes quickly.

2.5.4. Increasing pricing transparency in the supermarket sector

Australia's supermarket sector is among the most concentrated in the OECD, with two major chains— Coles and Woolworths—accounting for the vast majority of sales and those chains boasting profitability that is among the highest of supermarkets in relevant comparator countries (ACCC, 2025). Moreover, in recent years, average product margins have risen, raising concerns about sustained market power (Figure 2.21). The ACCC has highlighted that certain retail practices—such as inconsistent unit pricing, complex discount schemes and "shrinkflation" (reducing package sizes without lowering prices)—can confuse consumers and impede their ability to make informed purchasing decisions. Such opacity reduces price competition and can contribute to higher household grocery costs.

Figure 2.21. Product margins have risen for Australia's two largest supermarket chains

Nominal product margin and average product margin (expressed as a % of sales revenue) by supermarket between 2019-20 and 2023-24 financial years



Source: Australian Competition & Consumer Commission.

StatLink https://stat.link/4pl2hn

Clear, comparable and timely pricing information is central to consumer welfare and competition in grocery markets. Best practices include mandatory real-time price reporting tools accessible to the public as mandated by the Competition and Markets Authority in the United Kingdom; consistent and legible unit pricing across all formats, and disclosure of product size changes to counter shrinkflation, as in France.

The government has taken steps to review the Unit Pricing Code and consider amendments, while some private platforms have piloted supermarket price comparison services. However, no comprehensive, mandated real-time reporting platform yet exists, leaving consumers reliant on in-store or online checks or limited private tools.

2.5.5. Establishing national standards to promote modern methods of construction

Australia's construction sector faces deep structural challenges that contribute to the high cost of housing, as discussed in Chapter 1. Planning and building regulations often vary greatly across jurisdictions and industries and are highly prescriptive. This has contributed to the construction industry itself being highly fragmented, characterised by small firms with limited capacity to innovate or achieve economies of scale. Streamlining planning frameworks and the adoption of modern methods of construction (MMC)—including prefabrication, modular design, and digital tools such as Building Information Modelling (BIM)—to raise productivity and boost supply should be a priority, with several OECD countries and other non-members having already made great strides in recent years (See Box 2.10).

Australia has begun to recognise the potential of MMC. Several states have piloted modular housing projects to address shortages, particularly in regional and social housing markets. For example, Victoria has invested in modular social housing units, while New South Wales has trialed prefabricated classrooms to address education infrastructure needs. At the national level, the 2022 Housing Accord acknowledged the role of innovation and scale in boosting housing supply. A national voluntary certification initiative for manufacturers of MMC, which proposes to provide uniform national definitions of MMC for inclusion in the National Construction Code and streamline compliance, is also underway.

Despite these efforts, progress remains piecemeal. Uptake of MMC in Australia is constrained by a lack of consistent standards, fragmented building codes across states and insufficient scale to reduce costs. Currently, the NCC lacks a nationally consistent definition or certification of MMC, forcing manufacturers to navigate state-specific approval pathways that were designed around traditional on-site construction rather than off-site modular systems. For instance, while bathroom pods are now accepted under universal WaterMark certification, broader MMC technologies lack clear "deemed-to-satisfy" pathways, impeding adoption. Prefabrication accounts for under 5 percent of new residential builds, keeping production volumes too low to unlock returns to scale, especially given that small, less technically adept firms dominate the sector. In addition, training and accreditation systems for MMC are underdeveloped, and public procurement does not systematically encourage innovative construction.

To revitalise construction productivity and boost supply, there are several steps the Australian government should take. First, and related to the issue of regulatory fragmentation, planning and zoning frameworks must be streamlined. Prioritising performance-based rather than prescriptive rules would reduce regulatory delays and improve national consistency to facilitate economies of scale. Second, and as is being proposed, the government should establish a national voluntary certification scheme and set of MMC standards to provide more regulatory certainty and facilitate economies of scale. To create stable demand for MMC, the government can leverage public procurement, especially in social housing and infrastructure. Third, to ensure sufficient MMC supply, the government should strengthen training and accreditation systems in partnership with industry. Fourth, the government can promote interoperability and digital adoption by mandating BIM for government-funded projects and supporting its uptake among smaller firms.

Box 2.10. Sweden's success with prefabricated housing and lessons for Australia

Sweden is widely recognised as a global leader in prefabricated timber-based housing and MMC. More than 80% of new single-family homes are factory-produced, the highest share in the OECD. Sweden achieved this success through a nationally harmonised building code, which is performance-based rather than prescriptive, thereby enabling innovation in timber modular construction. Uniform standards, applied consistently across municipalities, have provided certainty for manufacturers and allowed factory-built housing to achieve economies of scale. Moreover, sustainability-linked incentives require developers to disclose embodied carbon, indirectly promoting prefabricated solutions that minimise emissions.

Industrialised timber construction has been central to this model. Supported by Sweden's abundant forest resources and policies encouraging sustainable building, manufacturers developed sophisticated

volumetric and panelised systems that reduce waste and carbon emissions. These methods have improved efficiency: studies suggest that industrialised housing production has reduced construction times by up to 50% and contributed to moderate productivity gains in a sector that, across the OECD, has lagged behind manufacturing. Prefabrication has also supported a steady flow of new housing supply, though Swedish housing affordability challenges largely remain linked to planning and rent regulation rather than construction capacity.

There are important differences between Sweden and Australia that present barriers to replication, however. Australia's housing market is dominated by detached suburban dwellings (over 70% of stock), often built by small-scale builders using traditional on-site methods. Regulatory authority is fragmented across states and territories, making harmonisation more difficult than in unitary Sweden. Unlike Sweden, Australia lacks a strong domestic industrial base in timber-based modular manufacturing, and its construction culture has historically emphasised bespoke rather than standardised housing.

Australia could nonetheless adapt the Swedish approach by looking to examples in countries with more comparable housing markets. In New Zealand and the United Kingdom, modular housing has gained traction through national building code reforms and government procurement in social housing. In the United States, panelised construction is expanding in suburban markets, supported by digital design and federal green building incentives. In Singapore, the government has created a reliable pipeline of MMC projects by mandating their use for selected high-density projects, coupled with government-led training and certification schemes to ensure supply meets demand.

These cases suggest that Australia could foster uptake by creating a voluntary national certification scheme for MMC manufacturers (currently under development by the Australian Building Codes Board), embedding performance-based carbon and productivity criteria in the National Construction Code, and leveraging procurement in Commonwealth- and state-funded housing programmes to create scale for domestic manufacturers. By aligning fragmented standards, incentivising sustainability, and creating stable demand, Australia could gradually achieve productivity and supply gains from MMC—albeit through a model adapted to its federal system and housing culture.

2.5.6. Removing parallel import restrictions for motor vehicles

In Australia, parallel import restrictions (PIRs) for motor vehicles effectively prohibit the import of a car by any agent other than the original manufacturer. This limits competition in the domestic automotive market, constrains consumer choice and places upward pressure on retail prices. Removing parallel import restrictions generally reduces prices without compromising safety or quality when supported by adequate standards frameworks (OECD, 2002). Several OECD members—including New Zealand—allow parallel imports of vehicles, resulting in increased affordability and diversity in available models, especially in the used car market. An analysis of the liberalisation of New Zealand's market for motor vehicles in the mid-1980s attributes a significant portion of the decline in new car prices over that period to the removal of import restrictions on used cars (MBIE, 2012).

Australia has debated liberalising parallel vehicle imports for over a decade. In 2015, the Commonwealth proposed reforms to allow personal imports of new vehicles, but these were abandoned in 2017 after lobbying from car manufacturers and dealer networks. Current reforms focus instead on the Specialist and Enthusiast Vehicle Scheme, which allows limited imports under narrow conditions. While this scheme marginally expands choice, it does not amount to comprehensive removal of PIRs.

To bring Australia in line with global peers, reduce car prices and support broader competition policy objectives, Australia should remove PIRs entirely, while adopting rigorous compliance and safety checks as in New Zealand. To complement these reforms, Australia should also consider introducing transparency tools, such as online price comparison platforms, to amplify the competitive effects.

Table 2.3. Policy recommendations for revitalising competition

MAIN FINDINGS	RECOMMENDATIONS (Key recommendations in bold)
Enforce competition policy more robustly	
The previous voluntary notification merger regime allowed many deals to close without ACCC scrutiny.	**Ensure successful implementation of the new merger regime, including periodic reassessment of notification thresholds, as well as sufficient resources for the ACCC to meet its objectives.**
There are relatively few successful competition law cases and penalties are low by international standards.	**Enforce competition law more vigorously and consistently by enhancing ACCC enforcement capacity, simplifying the legal framework and increasing average penalties.**
With widespread competition challenges, market studies are needed to identify barriers to competition and anti-competitive practices.	**The ACCC and Productivity Commission should make systematic use of market studies.**
Reduce regulatory fragmentation across the federal system	
Differences in state-level regulation reduce competition, raise costs for firms—especially SMEs—and limit labour mobility.	**Continue to pursue regulatory harmonisation across states and territories through the National Competition Policy (NCP).** Strengthen national oversight by mandating a standing independent body to monitor progress on NCP reforms and their impact on competition.
As revealed in Australia's PMR scores, licensing and permitting systems are relatively cumbersome compared to best practice and differ across states.	**Remove licensing requirements that are no longer necessary and base requirements on risk.** Keep an inventory of licenses and regularly review it.
Competition from foreign entrants or suppliers is hindered by Australia maintaining different regulatory standards compared to larger international markets.	**Adopt an expedited approach to recognising trusted overseas standards and reduce regulatory restrictions on FDI.**
Remove barriers to new entrants in highly concentrated or fragmented sectors	
The domestic aviation sector is dominated by two firms and barriers to entry are high, resulting in high prices and poor service. Slot allocation at major airports lacks transparency and contestability.	Extend independent oversight of slot allocation, "use-it-or-lose-it" rules and preferential allocation for new entrants. Continue to support socially necessary but commercially unviable regional routes through well-designed, pro-competitive subsidies.
The banking and payment sectors rely on stringent licensing and capital requirements to safeguard system resilience. However, these requirements result in high barriers to entry.	**Ensure proportionality with lighter licensing requirements for low-risk financial services providers and staged pathways to full authorisation for smaller entrants.**
The banking sector is characterised by low switching rates and weak consumer empowerment.	Mandate standardised, timely notifications of rate changes for all retail banking products.
Three firms dominate the mobile telecommunications sector and, in regional areas, network infrastructure often supports only one carrier.	Mandate infrastructure sharing—both roaming and towers—in underserved areas to lower entry costs. Reserve spectrum allocation explicitly for new entrants.
The supermarket industry is highly concentrated, and margins have increased. Some supermarkets may be engaging in practices that make it difficult to make informed decisions about purchase and sales prices.	Require supermarkets above a size threshold to publish daily price and product size data in standardised formats, with meaningful penalties for non-compliance.
Planning and zoning systems often vary greatly across location and industry and are overly prescriptive, contributing to a construction sector that is highly fragmented and plagued by low productivity growth.	Streamline planning and zoning frameworks as part of the NCP, prioritising performance-based rules. Establish a national voluntary certification scheme for modern methods of construction.
Parallel import restrictions effectively prohibit the import of a motor vehicle by any agent other than the vehicle's manufacturer, limiting competition and placing upward pressure on prices.	Remove parallel import restrictions for motor vehicles, while adopting rigorous compliance and safety checks.

References

ACCC (Australian Competition and Consumer Commission) (2021), TasPorts declared to have misused its market power, ACCC, Canberra. URL: https://www.accc.gov.au/media-release/tasports-declared-to-have-misused-its-market-power ACCC (2024), Domestic airfares increase amid reduced airline competition, Media Release, 12 November, ACCC,

Canberra. URL: https://www.accc.gov.au/media-release/domestic-airfares-increase-amid-reduced-airline-competition

ACCC (2024), Merger reform submission, ACCC, Canberra. URL: https://www.accc.gov.au/system/files/merger-reform-submission.pdf

ACCC (2025), Supermarkets inquiry 2024–25, ACCC, Canberra. URL: https://www.accc.gov.au/system/files/supermarkets-inquiry_1.pdf

Alvarez, J. A., Krznar, I., & Tombe, T. (2019), Internal Trade in Canada: Case for Liberalization, IMF Working Paper No. 2019/158, International Monetary Fund, Washington, DC. URL: https://www.imf.org/-/media/Files/Publications/WP/2019/WPIEA2019158.ashx

Andrews, D., Dwyer, E., & Triggs, A. (2023), The State of Competition in Australia, e61 Research Note No. 9, e61 Institute. URL: https://e61.in/wp-content/uploads/2023/08/The-State-of-Competition.pdf

Australian Government (2024), Treasury Laws Amendment (Mergers and Acquisitions Reform) Act 2024, No. 137, Caberra, URL: https://www.ato.gov.au/law/view/pdf/acts/20240137.pdf

Australian Treasury (2015), Australian Government response to the Competition Policy Review, Commonwealth of Australia, Canberra. URL: https://treasury.gov.au/publication/p2015-cpr-response

Australian Treasury (2024), Merger reform for a more competitive economy, Canberra. URL: https://treasury.gov.au/publication/p2024-589891

Australian Treasury/FIRB (2025). Australia's Foreign Investment Policy. https://foreigninvestment.gov.au/sites/foreigninvestment.gov.au/files/2025-03/australias-foreign-investment-policy-v2.pdf

Australian Government, Regulatory Reform Division (2025), Progressing Australia's Regulatory Reform Agenda,

Department of the Prime Minister and Cabinet, Canberra. URL: https://regulatoryreform.gov.au

Battersby, B. (2006), Does distance matter? The effect of geographic isolation on productivity levels, Treasury Working Paper No. 2006-03, The Treasury, Canberra.

Battersby, B., & Ewing, R. (2005), International trade performance: The gravity of Australia's remoteness, Treasury Working Paper No. 2005-03, The Treasury, Canberra.Downes, P., K. Hanslow & P. Tulip (2014), The Effect of the Mining Boom on the Australian Economy, RBA RDP 2014-08. URL: https://www.rba.gov.au/publications/rdp/2014/pdf/rdp2014-08.pdf

European Commission (2023), ASMR 2023, European Commission, Brussels. URL: https://single-market-economy.ec.europa.eu/system/files/2023-01/ASMR%202023.pdf GAO (Government Accountability Office) (2014),

Airline competition: The U.S. Department of Transportation's 1993 policy on unfair exclusionary practices in computer reservation systems should be rescinded, GAO-14-515, U.S. GAO, Washington, DC. URL: https://www.gao.gov/assets/gao-14-515.pdf

Hambur, J. (2021), Product Market Power and its Implications for the Australian Economy, Treasury Working Paper No. 2021-03, The Treasury, Canberra. URL: https://treasury.gov.au/sites/default/files/2021-06/p2021-177591_product_market_power_implications_0.pdf

Lee, R., Rankin, E., & Vass L. (2025). The young and the restless: The contribution of young firms to the economy, e61 Micro Note No. 28, e61 Institute. URL: https://e61.in/wp-content/uploads/2025/09/The_young_and_the_restless.pdf .

MBIE (Ministry of Business, Innovation and Employment) (2012), Costs and benefits of preventing parallel imports into New Zealand, New Zealand Government, Wellington. URL: https://www.mbie.govt.nz/dmsdocument/2441-costs-benefits-preventing-parallel-imports-into-nz-pdf

NILIM (National Institute for Land and Infrastructure Management), MLIT (2022), Analysis of domestic airfares after the start of LCC service in Japan, Airport Department, Airport Planning Division, Tokyo. URL: https://www.nilim.go.jp/english/annual/annual2022/pdf_file/2_010.pdf

OECD (2002), Parallel imports: Economic and legal aspects, COM/DAFFE/COMP/TD(2002)18/FINAL, OECD Publishing, Paris. URL: https://one.oecd.org/document/COM/DAFFE/COMP/TD(2002)18/FINAL/en/pdf

OECD (2004), OECD Economic Surveys: Australia 2004, OECD Publishing, Paris. URL: https://www.oecd.org/en/publications/oecd-economic-surveys-australia-2004_eco_surveys-aus-2004-en.html

OECD (2005), Product Market Competition and Economic Performance in Australia, OECD Publishing, Paris. URL: https://www.oecd.org/content/dam/oecd/en/publications/reports/2005/10/product-market-competition-and-economic-performance-in-australia_g17a171b/018570574720.pdf

OECD (2015), Frontier Firms, Technology Diffusion and Public Policy: Micro Evidence from OECD Countries, OECD Publishing, Paris. URL: https://www.oecd.org/en/publications/frontier-firms-technology-diffusion-and-public-policy_5jrql2q2jj7b-en.html

OECD (2016a), The Best versus the Rest: The Global Productivity Slowdown, Divergence across Firms and the Role of Public Policy, OECD Publishing, Paris. URL: https://www.oecd.org/en/publications/the-best-versus-the-rest_63629cc9-en.html

OECD (2016b), Regulations in services and their impact on downstream industries: The case of energy, transport and communications, OECD Publishing, Paris. URL:

OECD (2018a), Mark-ups in the Digital Era, OECD Publishing, Paris. URL: https://www.oecd.org/en/publications/mark-ups-in-the-digital-era_4efe2d25-en.html

OECD (2018b), Pecuniary penalties for competition law infringements in Australia, OECD Publishing, Paris. URL: https://www.oecd.org/content/dam/oecd/en/publications/reports/2018/06/pecuniary-penalties-for-competition-law-infringements-in-australia_5840459a/1dd0cd09-en.pdf

OECD (2019a), Summary record of the roundtable on competition and deregulation in goods and services markets, DAF/COMP/WP3/M(2019)1/ANN1/FINAL, OECD Publishing, Paris. URL: https://one.oecd.org/document/DAF/COMP/WP3/M%282019%291/ANN1/FINAL/en/pdf

OECD (2019b), The determinants of Foreign Direct Investment: Do statutory restrictions matter?, OECD Publishing, Paris. URL: https://www.oecd.org/content/dam/oecd/en/publications/reports/2019/03/the-determinants-of-foreign-direct-investment_c371303e/641507ce-en.pdf

OECD (2019c), Recommendation of the Council concerning Effective Action against Hard Core Cartels, OECD Publishing, Paris. URL: https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-0452

OECD (2021a), Ex ante regulation in digital markets, DAF/COMP(2021)15, OECD Publishing, Paris. URL: https://one.oecd.org/document/DAF/COMP(2021)15/en/pdf

OECD (2021b), The role of the Australian financial sector in supporting a sustainable and inclusive recovery, OECD Publishing, Paris. URL: https://www.oecd.org/content/dam/oecd/en/publications/reports/2021/12/the-role-of-the-australian-financial-sector-in-supporting-a-sustainable-and-inclusive-recovery_67171745/b262744b-en.pdf

OECD (2023), OECD Economic Surveys: Australia 2023, OECD Publishing, Paris. URL: https://www.oecd.org/content/dam/oecd/en/publications/reports/2023/10/oecd-economic-surveys-australia-2023_3cd07bc2/1794a7c9-en.pdf

OECD (2024a), Competition policy in digital markets: The combined effect of ex ante and ex post instruments in G7 jurisdictions, OECD Publishing, Paris. URL: https://www.oecd.org/content/dam/oecd/en/publications/reports/2024/10/competition-policy-in-digital-markets_554eb7d5/80552a33-en.pdf

OECD (2024b), OECD Affordable Housing Database – indicator HC 1.2. Housing costs over income, https://oe.cd/ahd. Productivity Commission (2005), Review of National Competition Policy Reforms, Inquiry Report No. 33, Commonwealth of Australia, Canberra URL: https://www.pc.gov.au/inquiries/completed/national-competition-policy/report/ncp.pdf

OECD (2025 a), Market Studies and Other Market Analysis Tools, OECD Roundtables on Competition Policy Papers, No. 327, OECD Publishing, Paris. URL: https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/10/market-studies-and-other-market-analysis-tools-for-competition-authorities_803872bc/66ed0da7-en.pdf

OECD (2025b), Recommendation of the Council on Merger Review, OECD Publishing, Paris. URL: https://legalinstruments.oecd.org/public/doc/195/195.en.pdf

OECD (forthcoming), The 2024-2025 MultiProd and DynEmp data collection: Metadata sources and methodologies.

Productivity Commission (2015), Mutual recognition schemes, Research Report, Commonwealth of Australia, Canberra. URL: https://www.pc.gov.au/inquiries/completed/mutual-recognition-schemes/report/mutual-recognition-schemes.pdf

Productivity Commission (2017), Shifting the dial: 5 year productivity review, Inquiry Report No. 84, Commonwealth of Australia, Canberra. URL: https://www.pc.gov.au/inquiries/completed/productivity-review/report

Productivity Commission (2020), National transport regulatory reform, Inquiry Report, Commonwealth of Australia, Canberra. URL: https://www.pc.gov.au/inquiries/completed/transport/report/transport.pdf

Productivity Commission (2025), Productivity in Australia before and after COVID-19, Commonwealth of Australia, Canberra. URL: https://www.pc.gov.au/research/completed/productivity-before-after-covid/covid-productivity.pdf Queensland Government (2021), Rebuilding aviation connections, Media Statement, Brisbane. URL:

https://statements.qld.gov.au/statements/92499

SolarQuotes (2024), Australian Solar Standards, Regulations, Rules & Guidelines Explained. URL: https://www.solarquotes.com.au/blog/solar-guide-to-regulations/

The Treasury (2015), Australian Government response to the Competition Policy Review, Commonwealth of Australia, Canberra. URL: https://treasury.gov.au/publication/p2015-cpr-response

The Treasury (Australia) (2021a), Automatic mutual recognition of occupational registrations – Consultation paper, Commonwealth of Australia, Canberra. URL: https://treasury.gov.au/sites/default/files/2021-03/c2021-160653-consultation-paper.pdf

The Treasury (Australia) (2021b), Timeliness of processes under the National Access Regime – Consultation paper, Commonwealth of Australia, Canberra. URL: https://treasury.gov.au/sites/default/files/2021-03/c2021-160653-consultation-paper.pdf

The Treasury (Australia) (2022), Budget overview 2022–23, Commonwealth of Australia, Canberra. URL: https://treasury.gov.au/sites/default/files/2022-10/p2022-325290-overview.pdf

OECD Economic Surveys: Australia 2026

January 2026
Volume 2026/03

Australia enjoys high living standards, but experienced weak growth in recent years and real disposable incomes declined markedly as the post-pandemic inflation surge eroded real wages and entailed bracket creep and rising mortgage payments. The economy is normalising, but long-standing challenges of slow productivity growth, strained housing affordability and high carbon emissions should be addressed. Competition has waned across the economy over the past two decades, as business dynamism has declined and market concentration and profit margins have risen. With economic growth returning to potential and inflation expected to stabilise within the target range, fiscal policy should focus on steadily reducing the budget deficit while improving the efficiency of the tax system. To address high housing costs in many Australian cities, land-use restrictions should be eased to allow more and denser housing construction. To make further progress in addressing the climate transition, the government should develop a strategy to reduce emissions from agriculture and gradually raise taxes on motor fuels. The government's Competition Review has taken promising steps towards revitalising competition, but additional measures, including strengthened competition policy enforcement and reduced regulatory fragmentation across states, are needed.

SPECIAL FEATURE: REVITALISING COMPETITION IN THE AUSTRALIAN ECONOMY

PRINT ISBN 978-92-64-37920-6
PDF ISBN 978-92-64-73141-7