

Australia outlook report

Third quarter of 2023



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Index

The objective of Australia's quarterly report is to provide a comprehensive and summarized overview of the main indicators of the country's banking sector, as well as the macroeconomic situation at the end of each quarter.

1. International overview	4
2. Macroeconomic view	7
3. Banking sector	8
4. Glossary	9
5. Appendix	10

1. International overview

In 3Q23, the slowdown in the world's major economies intensified due to tighter financial conditions, weak trade growth and lower business and consumer confidence. The outlook is for lower growth in 2024 and inflation is expected to be on target by the end of 2025.

Macroeconomic outlook

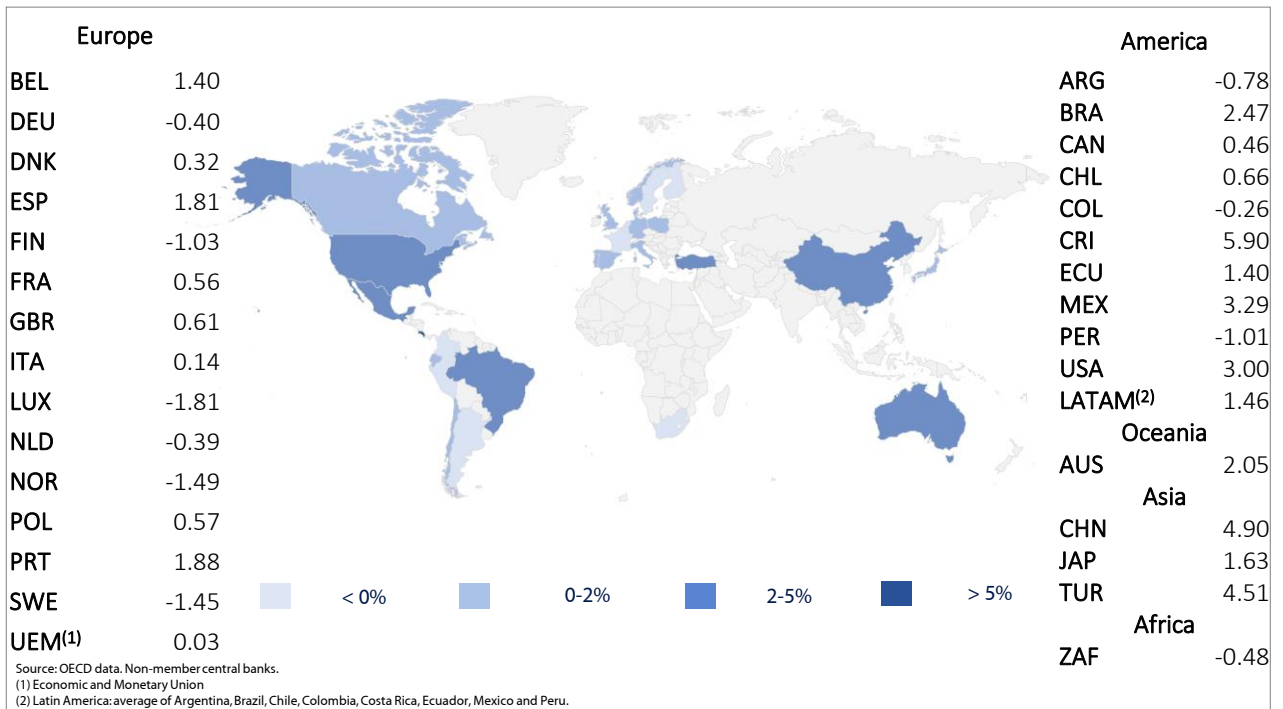
- ▶ During 3Q23, the Eurozone recorded a slight year-on-year growth of 0.03%, compared to the 0.47% recorded in 2Q23, consolidating the economic stagnation of the zone. Germany recorded its third consecutive quarter of decline, as did Finland and Luxembourg. The average CPI in the Eurozone decreased by 1.25 p.p. compared to 2Q23 to 4.95%, also highlighting the fall in core inflation, while the average unemployment rate remained constant at 6.4%.
- ▶ Regarding the American region, the slight economic growth of the Latam¹ region with respect to the previous quarter (1.46% versus 1.22%) was noteworthy, partly due to the recovery of the growth rate of some countries such as Argentina by 2.25 p.p. and Chile by 1.75 p.p. As for the US, growth continued to consolidate at a rate of 2.93% (2.56% in 2Q23). As for inflation, in the US it fell to 3.51%, while the Latam¹ average stood at 20.88% (excluding Argentina (125.89%) the average stood at 5.88%, down from 2Q23 (7.07%)). Unemployment rates on the continent were generally stable compared to the previous quarter's baseline.
- ▶ In the Asian region, China continued to post strong growth, but lower than the previous quarter, at 4.90% (6.30% in 2Q23), as did Japan, which reached 1.63% (1.73% in 2Q23).
- ▶ For its part, Australia recorded year-on-year growth of 2.05% (2.07% in 2Q23), continuing its economic slowdown, with a relatively stable unemployment rate of around 3.66% and falling but still high inflation, which closed the third quarter of the year at 5.37%.
- ▶ South Africa, on the other hand, recorded a negative growth rate of -0.48% (compared to 1.68% in the previous quarter), albeit with a declining inflation rate of 5.02% and a high unemployment rate of almost 33%.
- ▶ The IMF expects global growth to decline 3.5% from that recorded in 2022 to an estimated 3.0% in 2023 and to 2.9% in 2024, in the face of the continuing economic drag from rising interest rates as part of central banks' monetary policy to combat inflation. Meanwhile, global inflation is forecast to fall from 8.7% in 2022 to 6.9% in 2023 and 5.8% in 2024, while core inflation is expected to decline more gradually. Inflation is expected to reach the target levels of individual central banks by the end of 2025.
- ▶ ECLAC forecasts that the economies of the Latin American region will maintain low levels of growth during this and next year, affected by a negative global and very complex regional economic outlook, estimating an average regional GDP growth of 1.7% in 2023, while for 2024 it projects a slight decline to 1.5%. By sub-regions, South America is estimated to grow by 1.2%, Central America and Mexico by 3% and the Caribbean by 4.2%.

Other indicators and main risks

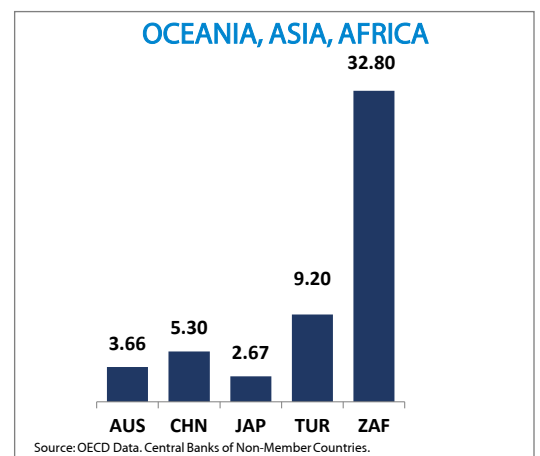
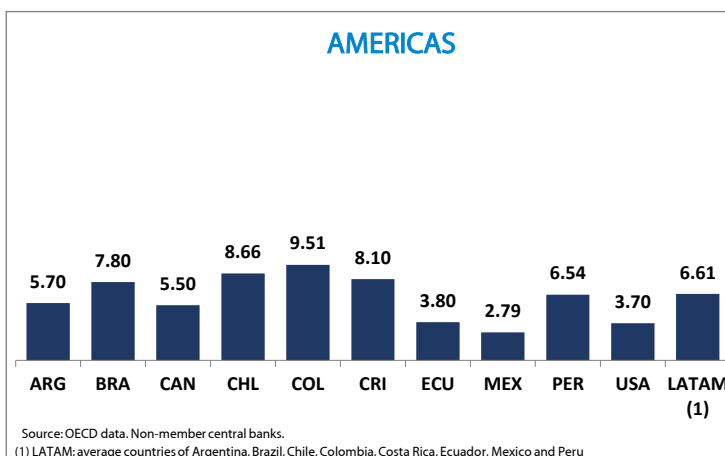
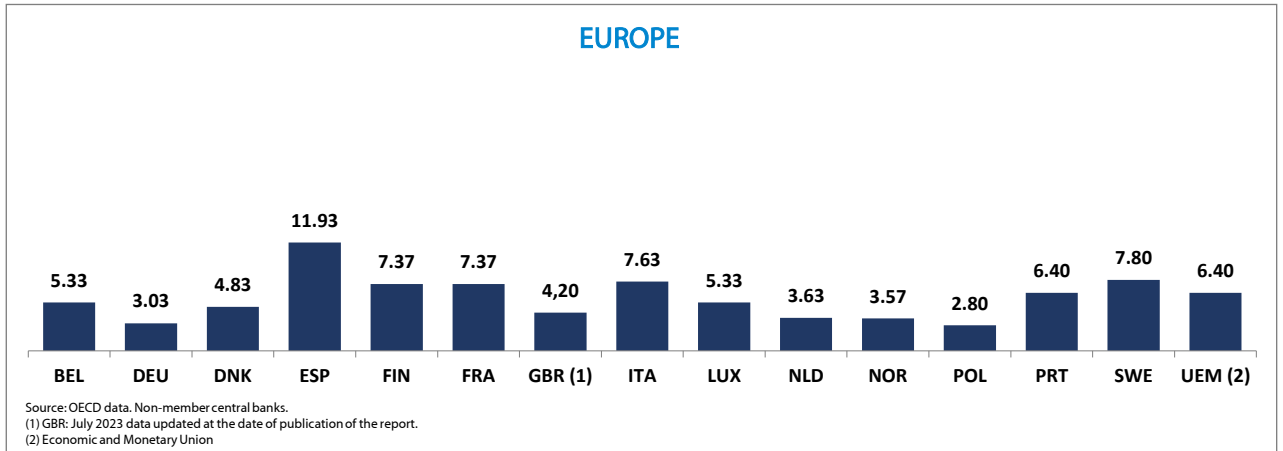
- ▶ The euro has depreciated very slightly against the dollar in the last quarter, although it has remained strong, standing at €0.92 per dollar in the third quarter. The OECD expects the US dollar to appreciate against most currencies in the last six months of 2023, aided by the safe-haven effect amid rising geopolitical tensions. Significant currency depreciations have also occurred in some emerging market economies with relatively high or rising inflation.
- ▶ However, the main Latin American currencies appreciated slightly against the dollar in 3Q23, with the exception of the Chilean peso and the Argentine peso, whose exchange rate increased compared to 2Q23, to 839.20 Chilean pesos per dollar and 334.66 Argentine pesos per dollar.
- ▶ The IMF expects overall debt to increase.

¹ The average for Latam countries is based on macroeconomic data for Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico and Peru

GDP (% , year-on-year growth)

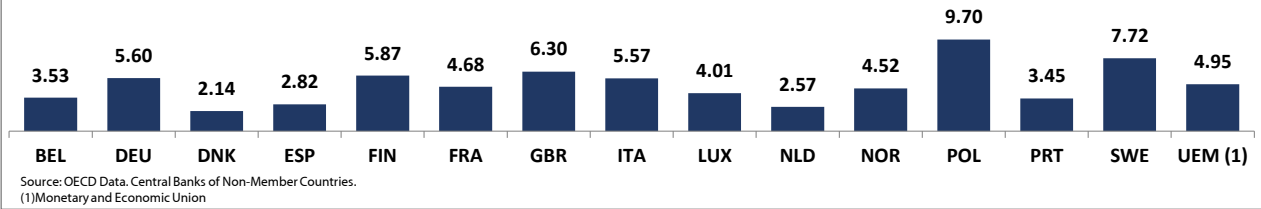


Unemployment rate (%)

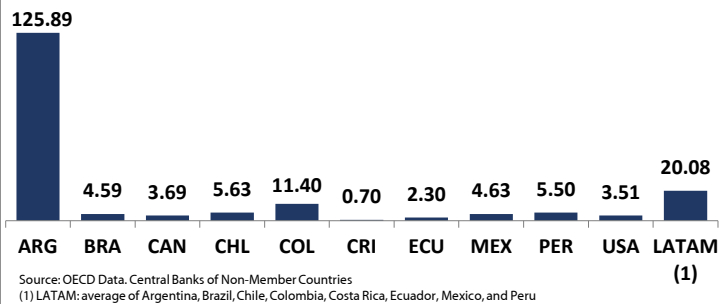


Inflation rate (%)

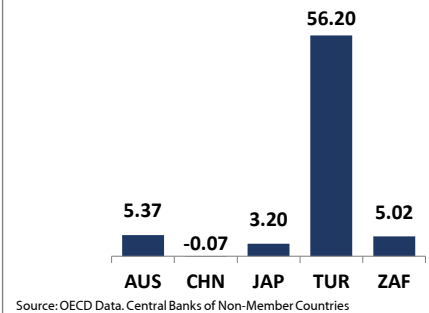
EUROPE



AMERICAS



OCEANIA, ASIA, AFRICA



Global Ratings and Exchange Rates

LONG-TERM RATES Q3 23

	MOODY'S	S&P	Fitch
EUROPE			
BEL	Aa3	AA	AA-
DEU	Aaa	AAA	AAA
DNK	Aaa	AAA	AAA
ESP	Baa1	A	A-
FIN	Aa1	AA+	AA+
FRA	Aa2	AA	AA-
ITA	Baa3	BBB	BBB
LUX	Aaa	AAA	AAA
NLD	Aaa	AAA	AAA
NOR	Aaa	AAA	AAA
POL	A2	A-	A-
PRT	A3▲	BBB+	BBB+
GBR	Aa3	AA	AA-
SWE	Aaa	AAA	AAA
AFRICA			
ZAF	Ba2	BB-	BB-
OCEANIA			
AUS	Aaa	AAA	AAA
ASIA			
CHN	A1	A+	A+
JAP	A1	A+	A
TUR	B3	B	B
AMERICAS			
ARG	Ca	CCC-	C
BRA	Ba2	BB-	BB-
CAN	Aaa	AAA	AA+
CHL	A2	A	A-
COL	Baa2	BB+	BB+
CRI	B1▲	BB-▲	BB-
ECU	Caa3	B-	B-
MEX	Baa2	BBB	BBB-
PER	Baa1	BBB	BBB
USA	Aaa	AA+	AAA

▲ Increased from Q2 23

▼ Decreased from Q2 23

Source: Investing

EXCHANGE RATES Q3 23 (\$⁽¹⁾)

EUROPE	3Q22	4Q22	1Q23	2Q23	3Q23	2023
EUR	1.00	0.97	0.93	0.92	0.92	0.92
DKK	7.59	6.95	6.91	6.85	6.85	6.86
NOK	10.91	9.80	10.27	10.81	10.48	10.56
SEK	11.09	10.45	9.58	10.63	10.81	10.35
GBP	1.12	1.21	0.82	0.80	0.79	0.81
PLN	4.96	4.38	4.36	4.15	4.14	4.23
AMERICAS	3Q22	4Q22	1Q23	2Q23	3Q23	2023
ARG	135.79	176.71	197.70	239.22	334.66	219.09
BRL	5.41	5.29	5.10	4.94	4.89	5.00
CLP	965.90	849.41	805.80	805.20	839.20	796.01
COP	4,597.52	4,849.39	4,725.30	4,438.83	4,043.78	4,611.09
PER	3.99	3.80	3.79	3.66	3.66	3.71
MXN	20.10	19.50	18.38	17.59	17.06	17.88
AFRICA	3Q22	4Q22	1Q23	2Q23	3Q23	2023
ZAR	18.15	17.00	17.76	18.94	18.64	18.82
OCEANIA	3Q22	4Q22	1Q23	2Q23	3Q23	2023
AUS	1.56	1.47	1.47	1.51	1.53	1.49
ASIA	3Q22	4Q22	1Q23	2Q23	3Q23	2023
RMB	7.11	6.90	6.85	7.09	7.24	6.93
TRY	18.21	18.62	18.94	22.09	26.81	19.40

Source: Investing, OECD projections, November 2023.

(1) The base currency used is the US dollar against each local currency quoted

2. Macroeconomic view

Despite cost-of-living pressures and higher interest rates, the Australian economy displays unexpected resilience, supporting business demand. The outlook for growth has improved in the near term compared to previous expectations.

Main Macroeconomic Indicators (%)

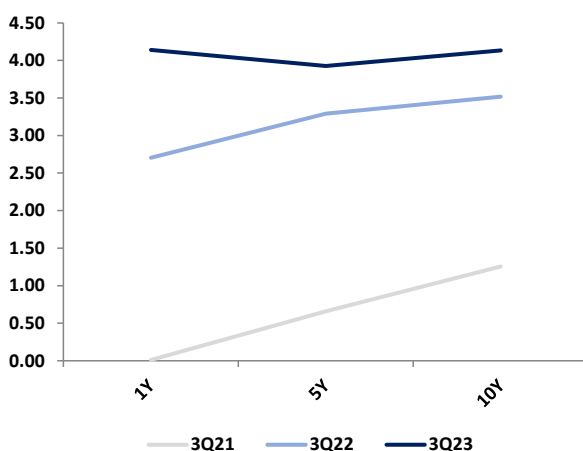
ACTIVITY	3Q22	4Q22	1Q23	2Q23	3Q23	Var. p.p.2Q23	Var. p.p.3Q22	2023	2024
GDP	5.99	2.62	2.27	2.07	2.05	-0.02	-3.94	1.87	1.36
DOMESTIC DEMAND	8.83	4.30	2.38	1.45	4.81	3.36	-4.02	0.92	0.88
HOUSEHOLD CONSUMPTION	11.56	5.18	3.50	1.48	0.37	-1.11	-11.19	1.71	1.17
PUBLIC CONSUMPTION	3.05	2.34	-0.09	1.36	2.61	1.25	-0.44	0.92	0.96
CAPITAL FORMATION	6.62	0.71	-1.79	0.39	10.54	10.15	3.92	0.12	0.78
EXTERNAL DEMAND									
EXPORTS	6.39	8.14	10.84	9.83	6.84	-2.99	0.45	9.28	4.54
IMPORTS	19.15	12.40	5.06	4.42	2.17	-2.25	-16.98	4.18	3.01
INFLATION									
CPI	7.27	7.83	7.02	6.03	5.37	-0.66	-1.90	5.65	3.44
LABOUR MARKET									
UNEMPLOYMENT RATE	3.51	3.48	3.59	3.58	3.66	0.08	0.15	3.66	4.11
EMPLOYMENT⁽¹⁾	5.16	4.38	3.02	2.70	3.13	0.43	-2.03		

(1) The employment variable represents the year-on-year change in employment growth.

Source: Organisation for Economic Co-operation and Development (OECD). OECD projections November 2023.

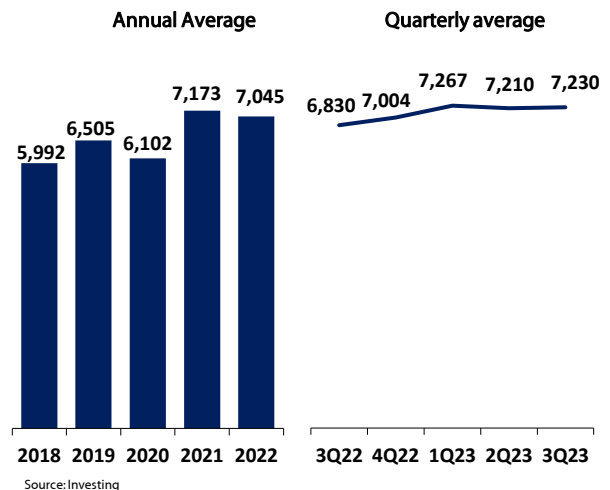
- ▶ The Australian economy is forecast to grow below trend in 2023 (1.87%) and 2024 (1.36%) compared to previous quarters, as ongoing cost of living pressures and higher interest rates dampen demand. However, recent quarters have shown unexpected resilience, supporting demand conditions for businesses in the country.
- ▶ Consumer price inflation is expected to decline over the forecast period, but at a slower pace than initially anticipated in August. The deceleration is due to domestic inflationary pressures dissipating more gradually than previously thought. Underlying inflation was stronger than expected in September, suggesting elevated demand and ongoing cost pressures.
- ▶ The near-term employment outlook is improving, with stronger domestic activity and expected growth in the working-age population leading to higher employment.

Treasury Yield Curves Rates (%)



Source: Investing

S&P/ASX 200 (AXJO)



Source: Investing

3. Banking sector

The Australian banking sector, during 3Q23, experienced an increase in loan YOY growth rates. Nevertheless, deposits experienced a decrease in its YOY growth rate with respect to 3Q22 and the efficiency ratio worsened in comparison to 3Q22. Lastly, in 3Q23 the RBA kept interest rates unchanged from 2Q23.

BUSINESS	BANKING SECTOR CONTEXT 3Q23 (%)					Var p.p. 2Q23	Var p.p. 3Q22
	3Q22	4Q22	1Q23	2Q23	3Q23		
TOTAL LOANS ⁽¹⁾	8.21	8.85	7.71	26.02	27.98	1.96	19.77
TOTAL DEPOSITS ⁽¹⁾	9.03	6.72	7.81	4.16	3.95	-0.21	-5.08
LTD RATIO	12.51	12.55	12.41	15.26	15.49	0.23	2.98
EFFICIENCY							
EFFICIENCY RATIO	52.40	46.80	49.40	50.40	53.70	3.30	1.30
GM/ATA	0.47	0.55	0.51	0.52	0.49	-0.03	0.02
OE/ATA	0.25	0.26	0.25	0.26	0.26	0.00	0.01
CREDIT RISK							
NPL RATIO	0.80	0.80	0.80	0.90	0.90	0.00	0.10
SOLVENCY							
Capital Ratio	17.70	17.70	19.60	19.70	19.80	0.10	2.10
CET1	11.70	11.70	12.60	12.60	12.60	0.00	0.90
TIER 1	13.50	13.40	14.50	14.50	14.60	0.10	1.10
RBA INTEREST RATE							
INTEREST RATE	2.35	3.10	3.60	4.10	4.10	0.00	1.75

Source: Australian Banking Association (ABA).
 (1) The values for loans and deposits reflect their year-on-year growth rates

- ▶ Regarding total loans, the Australian banking sector recorded an increase on total loans growth rate of 19.77 p.p., in comparison to the same quarter of the previous year. However, total deposits growth rate showed a decline of 5.08 p.p. with respect to the same quarter of the previous year. In addition, LTD ratio increased compared both quarterly and interannually by 0.23 p.p. and 2.98 p.p., respectively, reaching a rate of 15.49%.
- ▶ During the third quarter of the year, the efficiency ratio worsened by 1.30 p.p. with respect to the third quarter of 2022, reaching a ratio of 53.70%, and decreased by 3.30 p.p. if compared to the previous quarter. In terms of GM/ATA, it improved by 0.02 p.p. with respect to 3Q22, while it worsened by 0.03 p.p. in comparison to 2Q23. However, the OE/ATA worsened by 0.01 p.p. compared to 3Q22, but it remained the same with respect to 2Q23.
- ▶ The NPL (non-performing loans) ratio reached a rate of 0.90%, meaning an increase of 0.10 p.p. in comparison to 3Q22, but it remained unchanged in comparison to the third quarter of 2022.
- ▶ During the third quarter of 2023, the solvency ratios experienced an interannual improvement in general terms. Regarding Capital Ratio, it improved by 0.10 p.p. and 2.10 p.p. with respect to 2Q23 and 3Q22, respectively. Moreover, CET1 ratio showed an increase of 0.90 p.p. when compared to 3Q22. Finally, TIER 1 increased by 1.10 p.p. and by 0.10 p.p. in comparison to 3Q22 and 2Q23, respectively.
- ▶ The Reserve Bank of Australia (RBA) kept the interest rate unchanged (from 2Q23) for 3Q23, in order to assess the effect of the interest rate hike due to the high inflation recorded. As a result, the Australian interest rate remained at 4.10%, the same as in 2Q23, although it increased by 1.75 percentage points compared to 3Q22.

4. Glossary

- ▶ **ABA:** Australian Banking Association.
- ▶ **BUSINESS VOLUME:** The business volume is the set of activities that generate income for a bank, formed by financing (loans) plus customer resources (deposits).
- ▶ **CAPITAL RATIO:** the ratio of a bank's capital in relation to its risk weighted assets and current liabilities.
- ▶ **CET 1:** Common Equity Tier 1 capital is the highest quality of regulatory capital, as it absorbs losses immediately when they occur.
- ▶ **CPI:** The consumer price index is an indicator that measures the variation of prices of a basket of goods and services in a specific location during a certain period of time.
- ▶ **EFFICIENCY RATIO:** It is a ratio that measures the productivity of an entity. It is the result of the quotient between operating expenses and gross margin. In other words, it relates the income obtained with the expenses necessary for its achievement. As a conclusion, an entity will be more efficient the lower its efficiency ratio.
- ▶ **GDP:** Gross Domestic Product (GDP) is an economic indicator that reflects the monetary value of all final goods and services produced by a territory in a certain period of time. It is used to measure the wealth generated by a country.
- ▶ **GM/ATAs:** Gross Margin / Average Total Assets. Gross margin is composed of the set of revenues generated by a financial entity in its activity.
- ▶ **LEVERAGE RATIO:** The Tier 1 leverage ratio measures a bank's core capital relative to its total assets. The numerator consists of the most stable and liquid capital, as well as the most effective at absorbing losses during a financial crisis or recession. The denominator is a bank's total exposures, which include its consolidated assets, derivative exposures and certain off-balance sheet exposures.
- ▶ **LCR (Liquidity Coverage Ratio):** this ratio measures a bank's liquidity. It is calculated as the institution total liquid assets divided by its short-term obligations.
- ▶ **LTD RATIO:** The loan-to-deposit ratio (LDR) is used to evaluate a bank's liquidity by comparing the total loans of a bank with the total deposits during the same period.
- ▶ **NON-PERFORMING LOANS (NPL) RATIO:** The non-performing loan (NPL) ratio is an indicator used to measure the volume of operations that have been considered non-performing, in relation to the volume of loans and credits granted by said entity.
- ▶ **OE/ATAs:** Operating Expenses / Average Total Assets. Operating expenses are those that an entity incurs during the exercise of its activity.
- ▶ **OECD:** Organization for Economic Cooperation and Development.
- ▶ **p.p.:** percentage points.
- ▶ **ROA:** An indicator that measures the profitability of a company in relation to its total assets. It indicates the return that is being obtained for its assets. It is calculated as the quotient between profit and total assets. The profit used is that obtained before taxes and interests.
- ▶ **ROE:** Financial profitability is also known as return on equity, which relates the net profits obtained in a given investment operation with the own resources.
- ▶ **TIER 1:** Tier 1 capital refers to the core capital held in a bank's reserves and is used to fund business activities for the bank's clients. It includes common stock, as well as disclosed reserves and certain other assets
- ▶ **RBA:** The Reserve Bank of Australia

5. Appendix

MACROECONOMIC OVERVIEW

- ▶ Australian Banking Association:
<http://www.ausbanking.org.au>
- ▶ OECD Projections:
<https://data.oecd.org/>
- ▶ Reserve Bank of Australia:
<http://www.rba.gov.au>
- ▶ World Government Bonds:
<http://www.worldgovernmentbonds.com/>

FINANCIAL SECTOR

- ▶ Australian Banking Association:
<http://www.ausbanking.org.au>

ACRONYMS

▶ DEU - Germany	▶ LUX - Luxembourg	▶ TUR - Turkey	▶ ECU - Ecuador	▶ ZAF - South Africa
▶ BEL - Belgium	▶ NLD - Netherlands	▶ ARG - Argentina	▶ MEX - Mexico	▶ UEM- European Monetary Union
▶ DIN - Denmark	▶ NOR - Norway	▶ BRA - Brazil	▶ PER - Peru	
▶ ESP - Spain	▶ POL - Poland	▶ CAN - Canada	▶ USA- United States	
▶ FIN - Finland	▶ PRT - Portugal	▶ CHL - Chile	▶ AUS - Australia	
▶ FRA - France	▶ GBR- United Kingdom	▶ COL - Colombia	▶ CHN - China	
▶ ITA - Italy	▶ SUE - Sweden	▶ CRI - Costa Rica	▶ JAP - Japan	

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