

# THE 2025-26 AUSTRALIAN GOVERNMENT BUDGET – AN ASSESSMENT

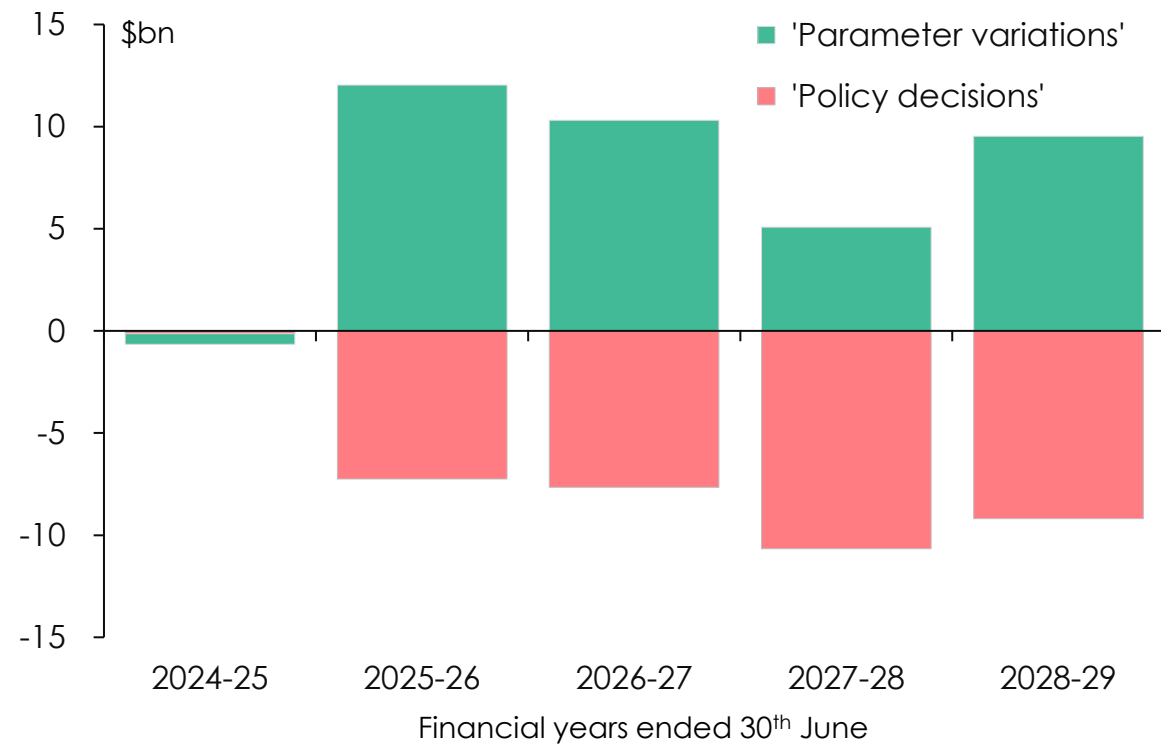
26<sup>TH</sup> MARCH 2025

**SAUL ESLAKE**

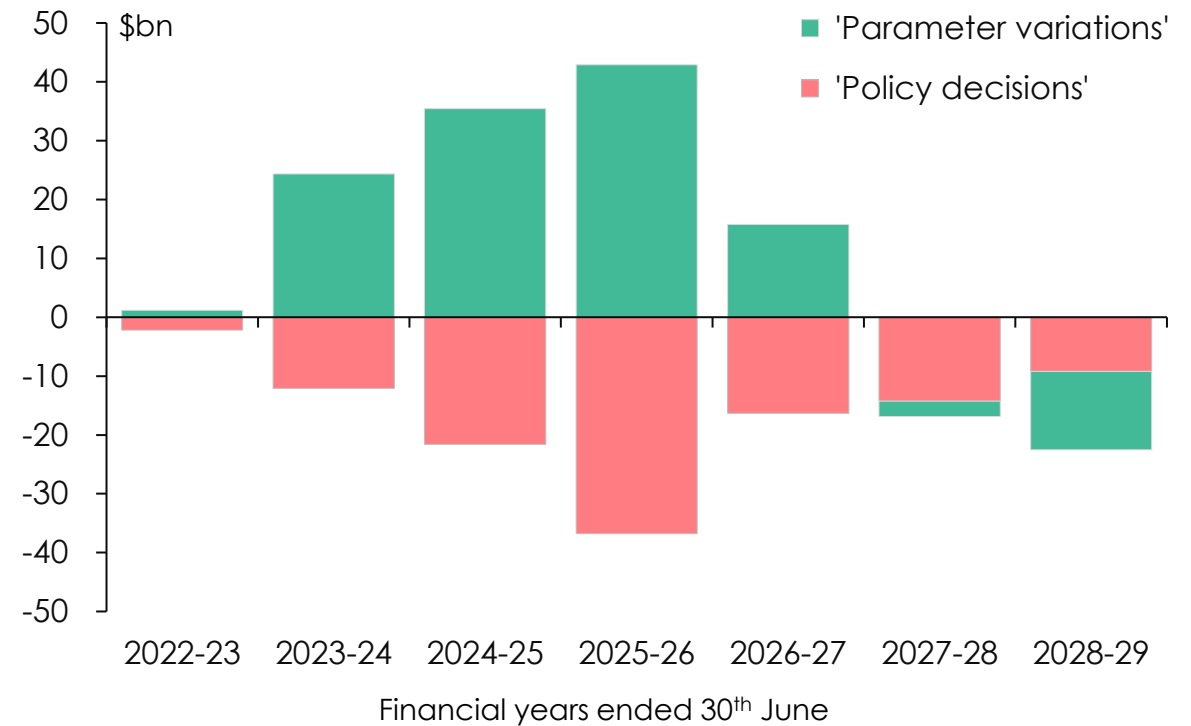
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# The 2025-26 Budget marginally improves the 'bottom line' over the five years to 2028-29 – thanks to more revenue 'windfalls'

Drivers of movements in the 'underlying' cash balance between the December 2024 Mid-Year Economic & Fiscal Outlook (MYEFO) and the 2025-26 Budget



Drivers of movements in the 'underlying' cash balance between the 2022 Pre-Election Economic & Fiscal Outlook (PEFO) and the 2025-26 Budget



From last December's MYEFO to this year's Budget, 'windfall gains' improved the 'bottom line' by \$36.4 bn while 'policy decisions' worsened it by \$34.9 bn

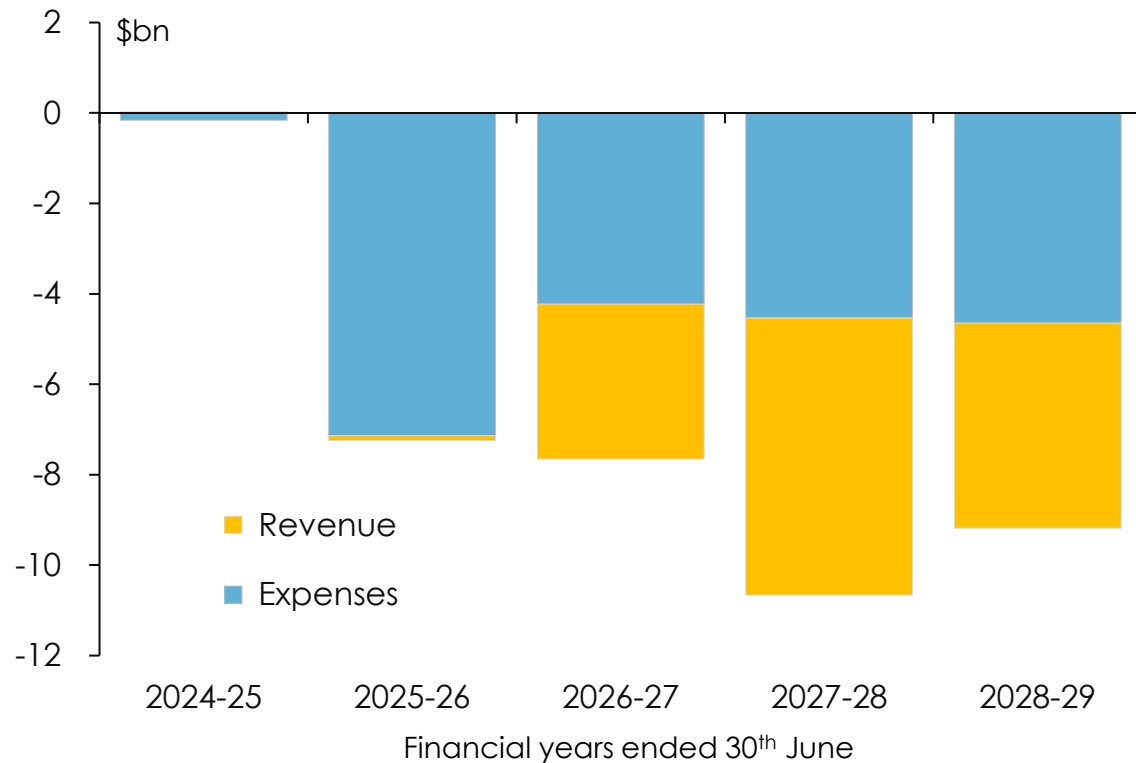
Since the 2022 election, 'windfall gains' have improved the 'bottom line' by a total of \$289 bn while policy decisions have worsened it by a total of \$112 bn

Note: 'Parameter variations' are changes in estimates of payments or receipts resulting from changes in economic and other assumptions underpinning the forward estimates; 'policy decisions' are changes in estimates of payments or receipts resulting from decisions made by the Government.

Source: Australian Government, [2025-26 Budget Paper No. 1, Statement 3: Fiscal Strategy and Outlook](#) and previous issues.

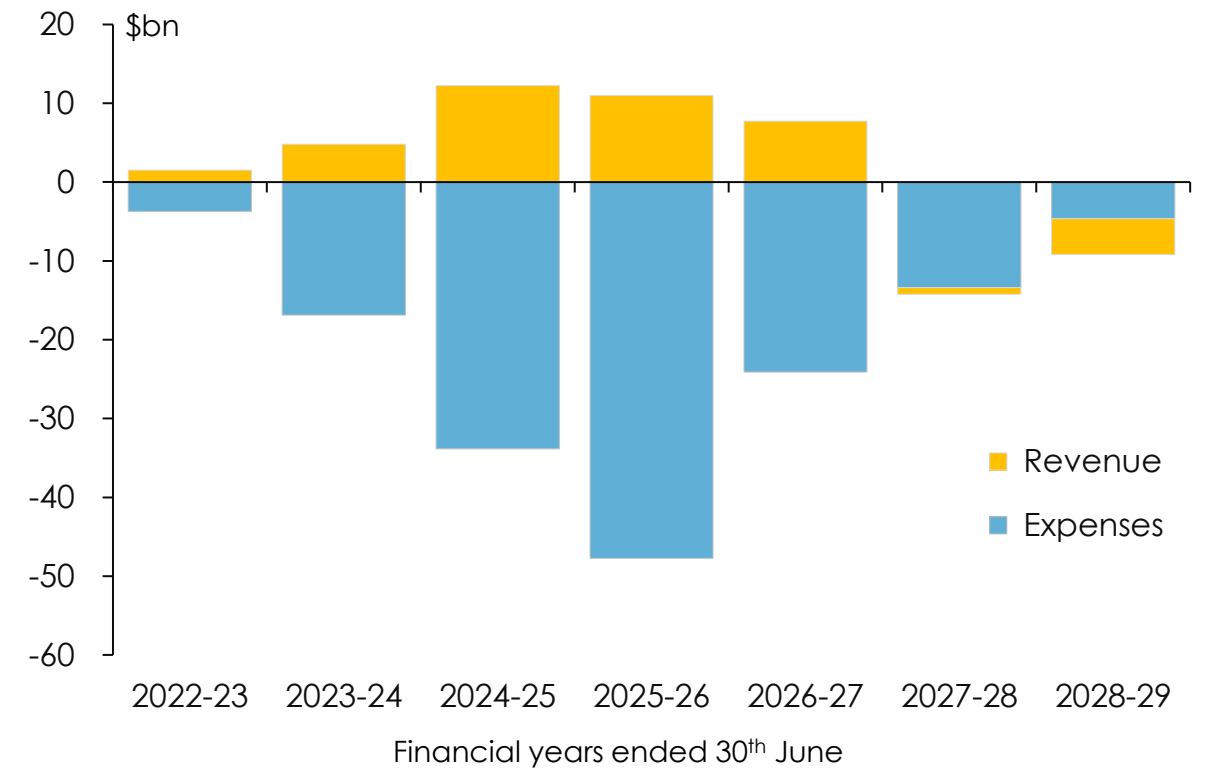
# In contrast to its first two Budgets, the 2025-26 Budget worsens the 'bottom line', by a total of \$24bn over the four years to 2027-28

Impact of revenue and expense 'policy decision' taken between last December's MYEFO and the 2025-26 Budget on the 'underlying' cash balance



Between last December's MYEFO and the 2025-26 Budget, 'policy decisions' cut revenues by \$14 bn and increased spending by \$21 bn (over the five years to 2028-29)

Impact of revenue and expense 'policy decisions' taken between the 2022 election and the 2025-26 Budget on the 'underlying' cash balance



Since the 2022 election, 'policy decisions' have increased revenues by a total of \$32 bn but increased spending by \$144 bn (over the seven years to 2028-29)

Source: Australian Government, [2025-26 Budget Paper No. 1, Statement 3: Fiscal Strategy and Outlook](#) and previous issues.

# Unsurprisingly, for a pre-election Budget, there was a lot more by way of new spending and tax cuts than there was by way of savings

## Major spending & revenue 'initiatives' in the Budget

Initiatives <sup>(a)</sup>	2024-25 (\$m)	2025-26 (\$m)	2026-27 (\$m)	2027-28 (\$m)	2028-29 (\$m)	Total (\$m)
Personal Income Tax – new tax cuts for every Australian taxpayer	0.0	0.0	-3,000.0	-6,700.0	-7,400.0	-17,100.0
Strengthening Medicare	0.0	-1,448.8	-2,067.9	-2,378.3	-2,502.0	-8,397.0
Building a Better Future Through Considered Infrastructure Investment	-12.7	-117.6	-195.1	-690.5	-825.0	-1,841.0
PBS New and Amended Listings <sup>(b)</sup>	-76.2	-312.2	-417.9	-479.6	-511.3	-1,797.3
Energy Bill Relief Extension	0.0	-1,776.1	-0.4	0.0	0.0	-1,776.5
National Health Reform Agreement – 2025-26 Uplift	0.0	-1,766.0	0.0	0.0	0.0	-1,766.0
Even Cheaper Medicines <sup>(c)</sup>	0.0	-96.2	-190.4	-197.7	-204.8	-689.1
Personal Income Tax – increasing the Medicare levy low-income thresholds	0.0	-207.0	-152.0	-145.0	-144.0	-648.0
Building Australia's Future – Improving Outcomes in Australian Schools	NFP	NFP	NFP	NFP	NFP	-407.5
Treasury Portfolio – additional resourcing	0.0	-87.8	-125.9	-0.9	0.0	-214.6
Protecting Our Environment	0.0	-51.4	-52.0	-50.8	-57.7	-212.0
Building Australia's Future – Support for Australian Made Metals	-178.0	-32.7	0.0	0.0	0.0	-210.7
Supporting the Hospitality Sector and Alcohol Producers	0.0	-10.0	-45.0	-55.0	-55.0	-165.0
Illicit Tobacco Compliance and Enforcement Package – direct and targeted enforcement to counter profits from illicit tobacco	0.0	-79.8	-76.9	0.0	0.0	-156.7
Implementation of Aged Care Reforms <sup>(d)</sup>	10.5	-102.6	-10.6	-11.7	-12.8	-127.2
Supporting Social Cohesion	-16.6	-59.6	-26.4	-15.4	-6.3	-124.3
Attorney-General's Portfolio – additional resourcing	12.1	-102.7	-15.8	-2.9	-2.4	-111.7
Restricting Foreign Ownership of Housing <sup>(e)</sup>	-10.0	-48.7	-38.8	-3.9	-3.3	-104.6
Supporting Border Security <sup>(f)</sup>	10.0	-93.4	0.0	0.0	0.0	-83.4
Funding Pay Increases for Aged Care Workers – Nurses	-3.5	-36.4	-41.5	-0.3	-0.3	-82.0

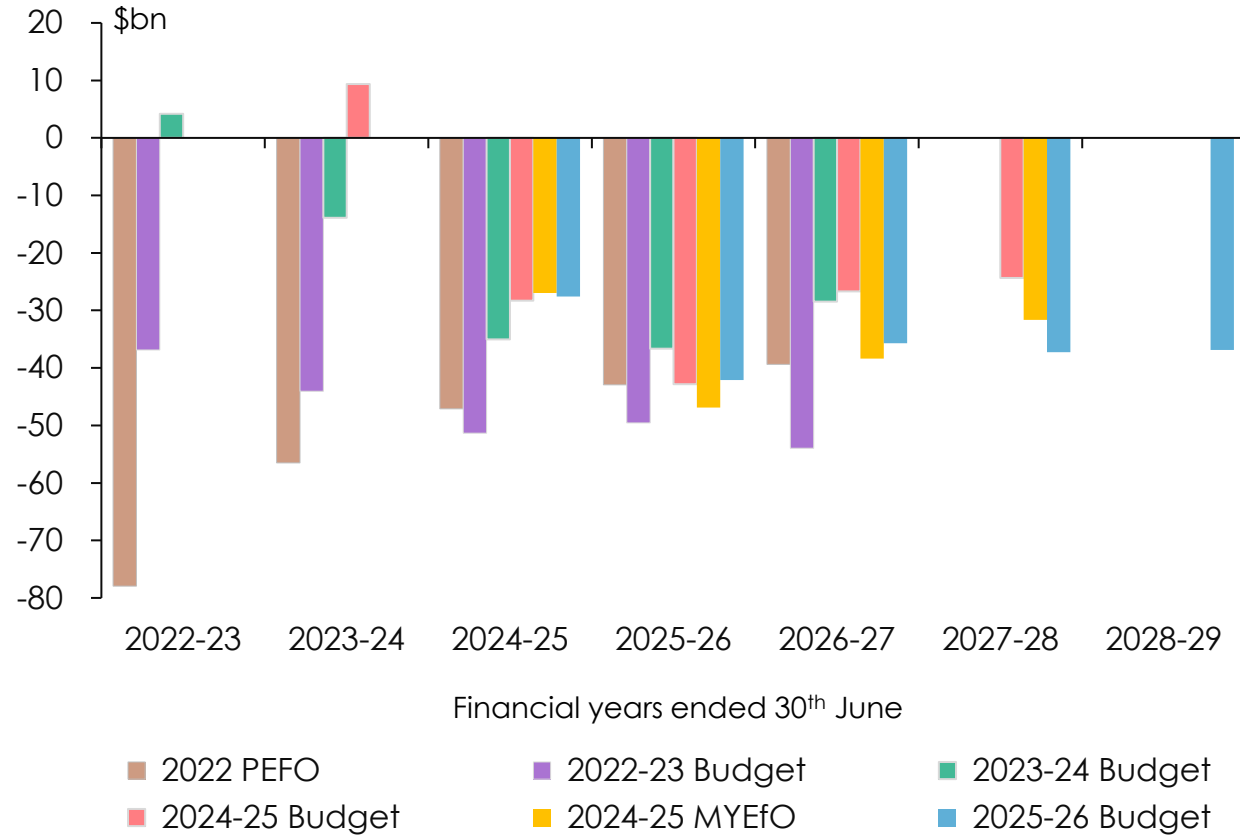
## 'Savings' measures in the Budget

Initiatives <sup>(a)</sup>	2024-25 (\$m)	2025-26 (\$m)	2026-27 (\$m)	2027-28 (\$m)	2028-29 (\$m)	Total (\$m)
Strengthening Tax Integrity <sup>(b)</sup>	0.0	-23.4	178.8	414.8	1,211.5	1,781.6
Savings from External Labour – further extension	0.0	0.0	0.0	0.0	718.8	718.8
Enhancing Tax Practitioner Regulation and Compliance <sup>(b)</sup>	0.0	-5.6	-3.6	8.2	20.7	19.6

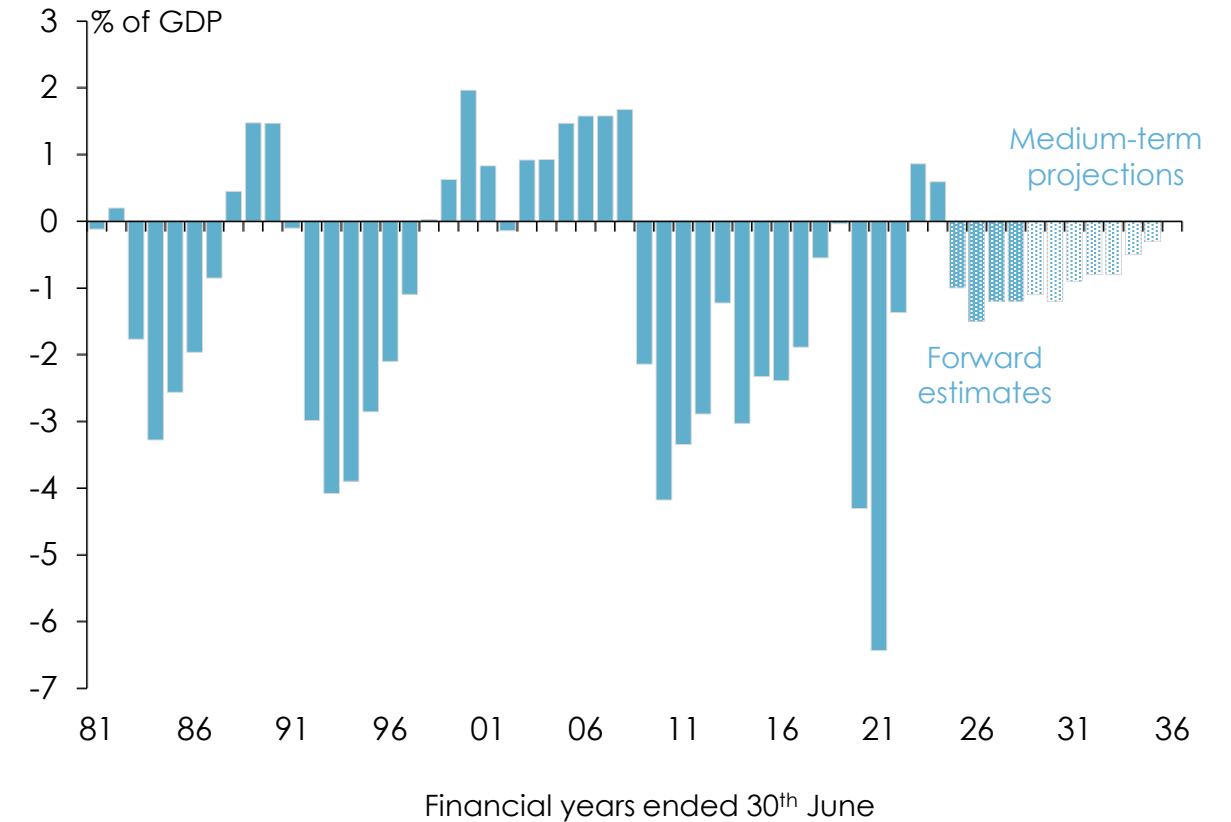
- ❑ This is a pre-election Budget, so it's hardly surprising that there are a lot more 'initiatives' (increases in spending or tax cuts) than 'savings'
- ❑ A lot of the initiatives 'announced' in this Budget were actually announced in recent weeks (when it seemed likely that the election would be called for April 12, in which case there wouldn't have been a Budget)
  - some of these were funded by drawing down the \$11.7 bn allocation in last year's Budget for 'decisions taken but not yet announced' (of which \$7.2 bn was still there at last December's MYEFO)
  - the allocation in this year's Budget for 'decisions taken but not yet announced' was only \$2.4 bn – suggesting that there aren't going to be a lot more Government announcements during the election campaign

# As a result, budget deficits over the next four years will be \$22bn larger than forecast in last December's Mid-Year Economic & Fiscal Outlook

## Successive forward estimates of the 'underlying' cash balance



## Long-term actuals, forward estimates and 'projections' of the 'underlying' cash balance



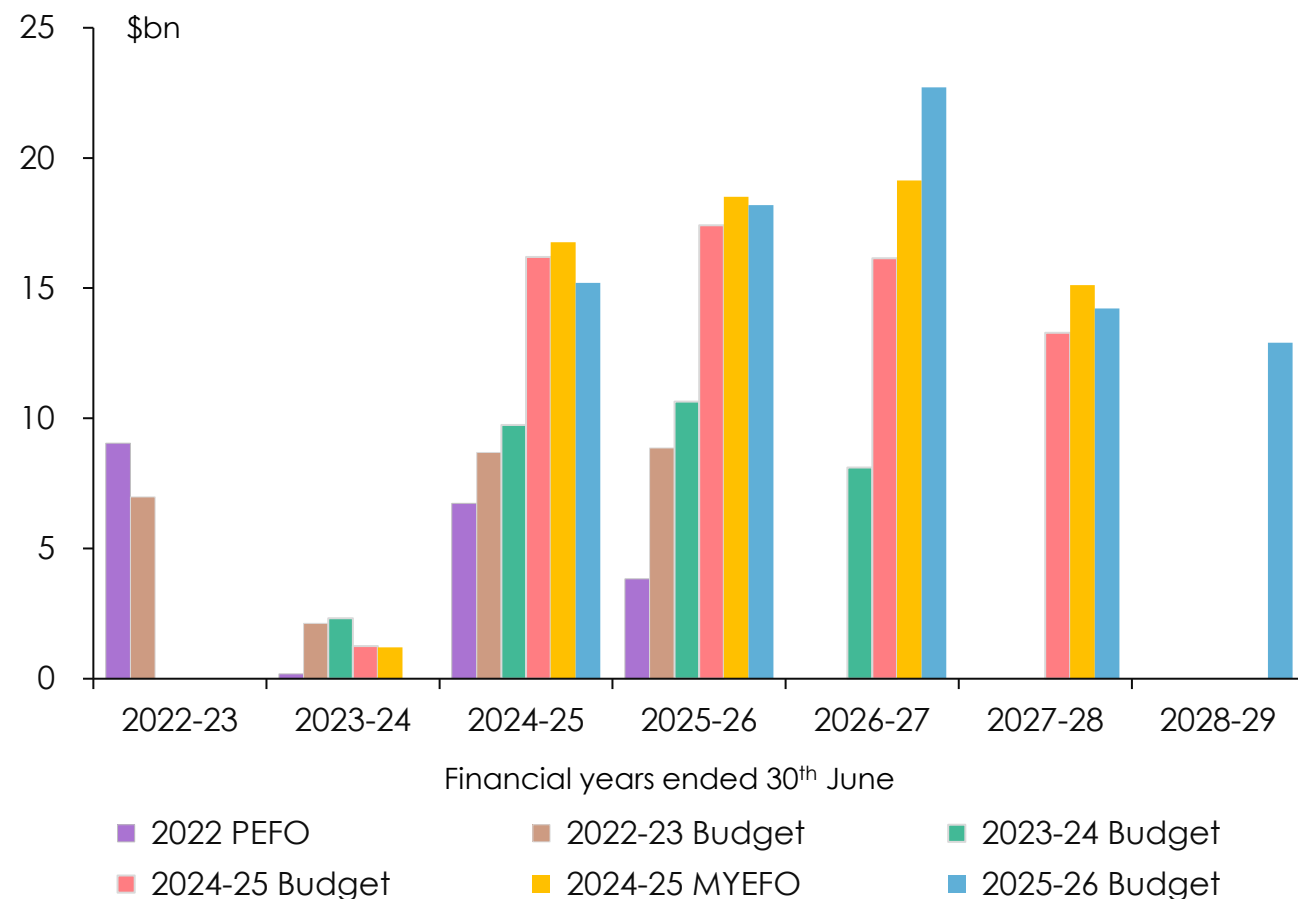
**'Underlying' cash balances over the five years to 2028-29 now sum to \$173bn, compared with \$171bn in last December's MYEFO**

**The Budget is expected to remain in deficit all the way through 2035-36 – although not nearly as much as had been projected two years ago**

Note: The 'underlying' cash balance is the difference between receipts and 'underlying' payments, which exclude 'net investment in financial assets for policy purposes' (see next slide). Source: Australian Government, [2025-26 Budget Paper No. 1, Statement 3: Fiscal Strategy and Outlook](#) and [Statement 11: Historical Australian Government Data](#).

# This government is doing a lot of spending in a way that doesn't count towards the 'underlying' budget balance – but still needs to be funded

## Successive estimates of 'net investment in financial assets for policy purposes' (excluding student debt)



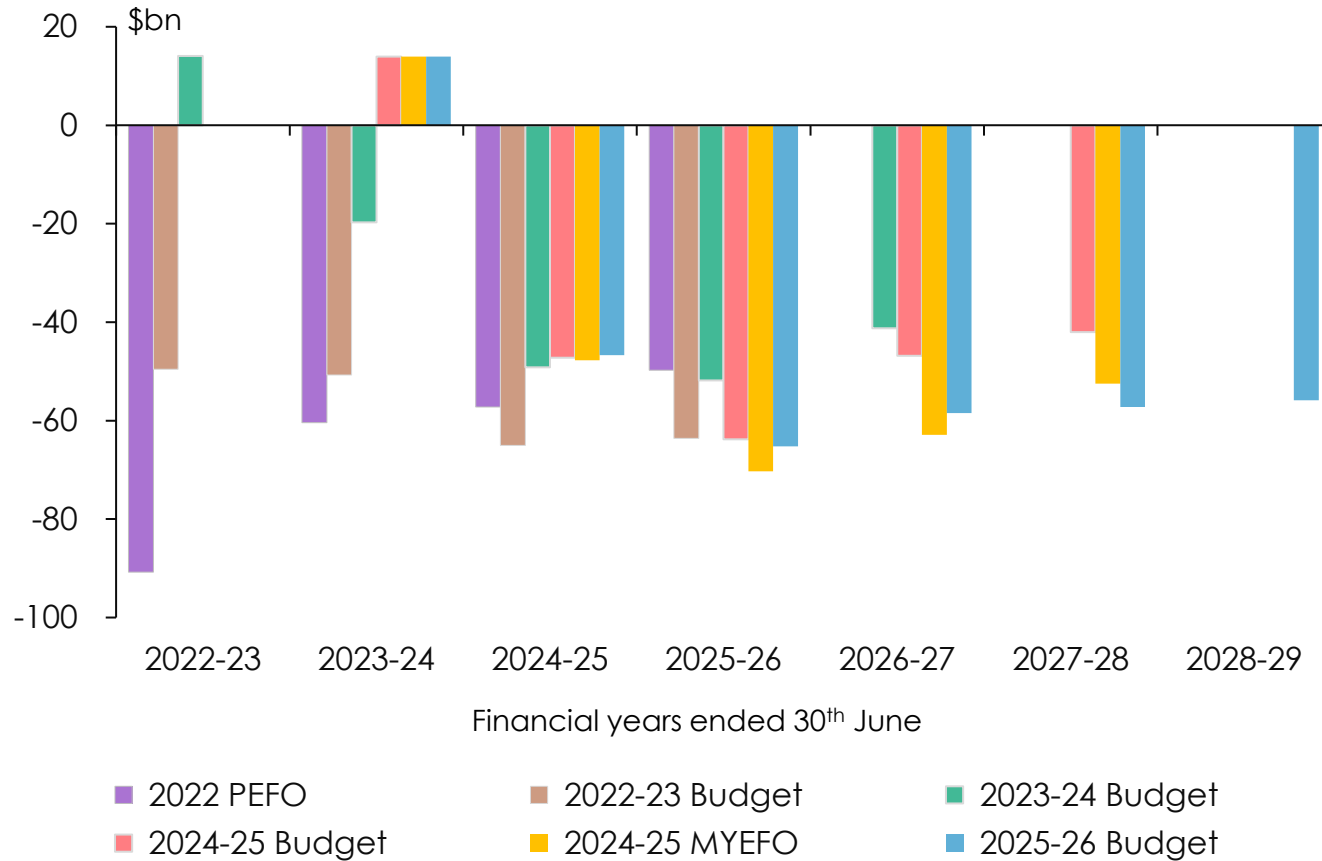
**'Spending' under this heading is now expected to total \$104 bn over the five years to 2028-29, or almost \$21bn per annum – compared with \$9bn pa over the previous decade**

## Components of 'net investments in financial assets for policy purposes'

	Estimates					Total
	2024-25	2025-26	2026-27	2027-28	2028-29	
	\$m	\$m	\$m	\$m	\$m	\$m
Student loans	-3,869	-4,881	-5,334	-5,747	-6,098	-25,928
NBN investment	-1,473	-1,050	-186	0	0	-2,709
Snowy Hydro Limited loan	-150	-1,450	-1,450	-1,450	0	-4,500
Snowy Hydro Limited investment	-1,625	-975	0	0	0	-2,600
Australian apprenticeship support loans	-114	-161	-179	-186	-193	-834
CEFC loans and investments	-3,106	-3,071	-4,784	-5,539	-4,668	-21,168
Northern Australia Infrastructure Facility	-492	-959	-851	-540	-295	-3,138
NRFC loans and investments	-1,299	-1,913	-2,338	-2,959	-3,467	-11,975
Australian Business Securitisation Fund	-563	-151	-101	-101	-2	-918
Structured Finance Support Fund	153	0	0	0	0	153
Drought and rural assistance loans	-334	-281	147	163	60	-244
Official Development Assistance - Australian Development Investments	-102	-37	-8	0	0	-146
Official Development Assistance - Multilateral Replenishment	-142	-195	-170	-186	-176	-869
Home Equity Access Scheme	-179	-232	-289	-335	-364	-1,399
Housing Australia	-913	-3,467	-4,369	-1,954	-1,588	-12,291
Indigenous Business Australia home and business loans	-104	-217	-111	-114	-114	-660
National Interest Account loans and investments	-886	-1,097	-530	9	323	-2,181
COVID-19 Support for Indonesia – loan	100	100	100	100	100	500
Financial Assistance to Papua New Guinea – loan	-415	169	169	169	169	262
Net other(b)	-3,561	-3,209	-2,476	-1,292	-2,688	-13,226
	<b>-19,076</b>	<b>-23,076</b>	<b>-22,759</b>	<b>-19,961</b>	<b>-18,999</b>	<b>-103,871</b>

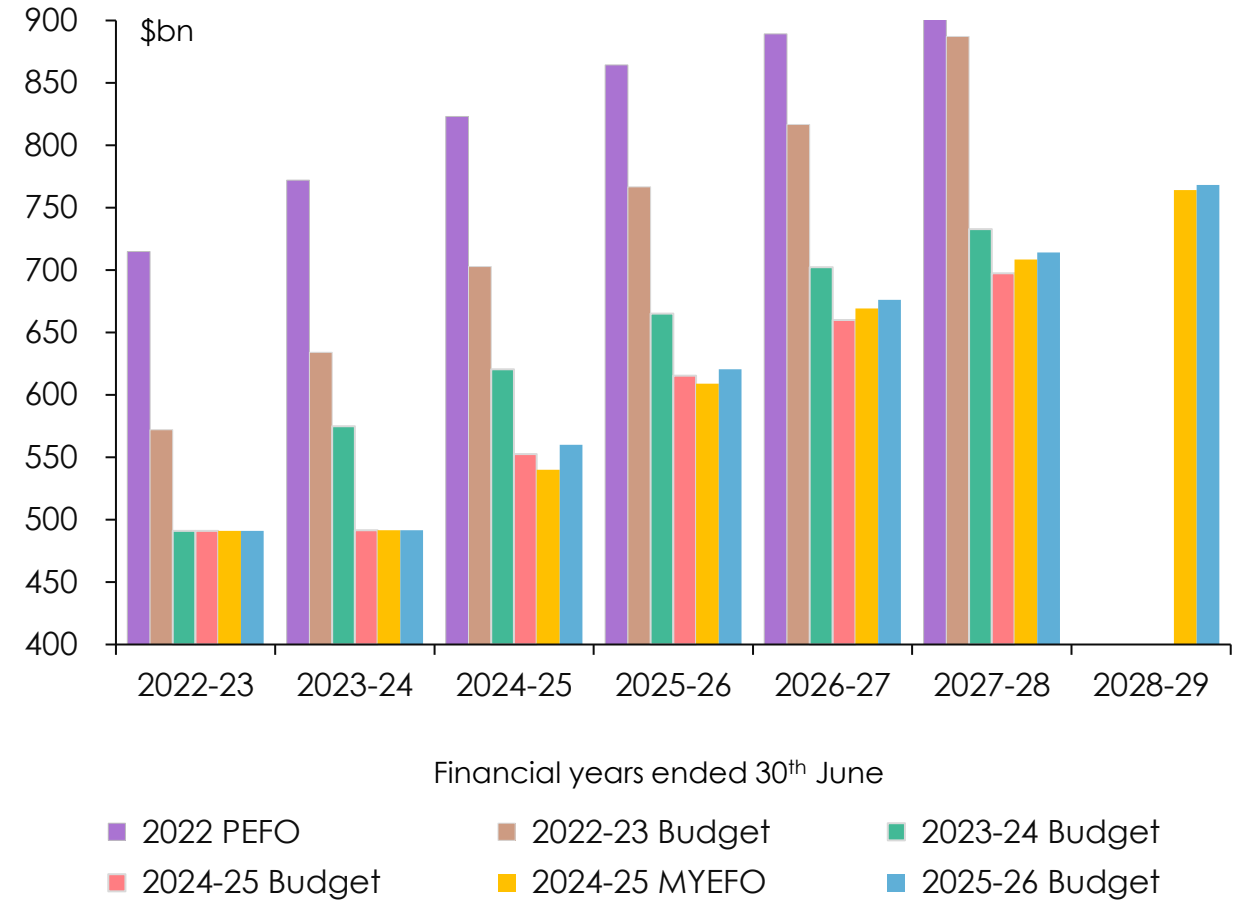
# It is movements in the 'headline' balance which drive movements in estimates of net debt

## Successive forward estimates of the 'headline' cash balance



Whereas 'underlying' cash deficits over the four years to 2027-28 were little changed, forward estimates of the 'headline' deficit were revised up by \$4.7bn

## Successive forward estimates of net debt

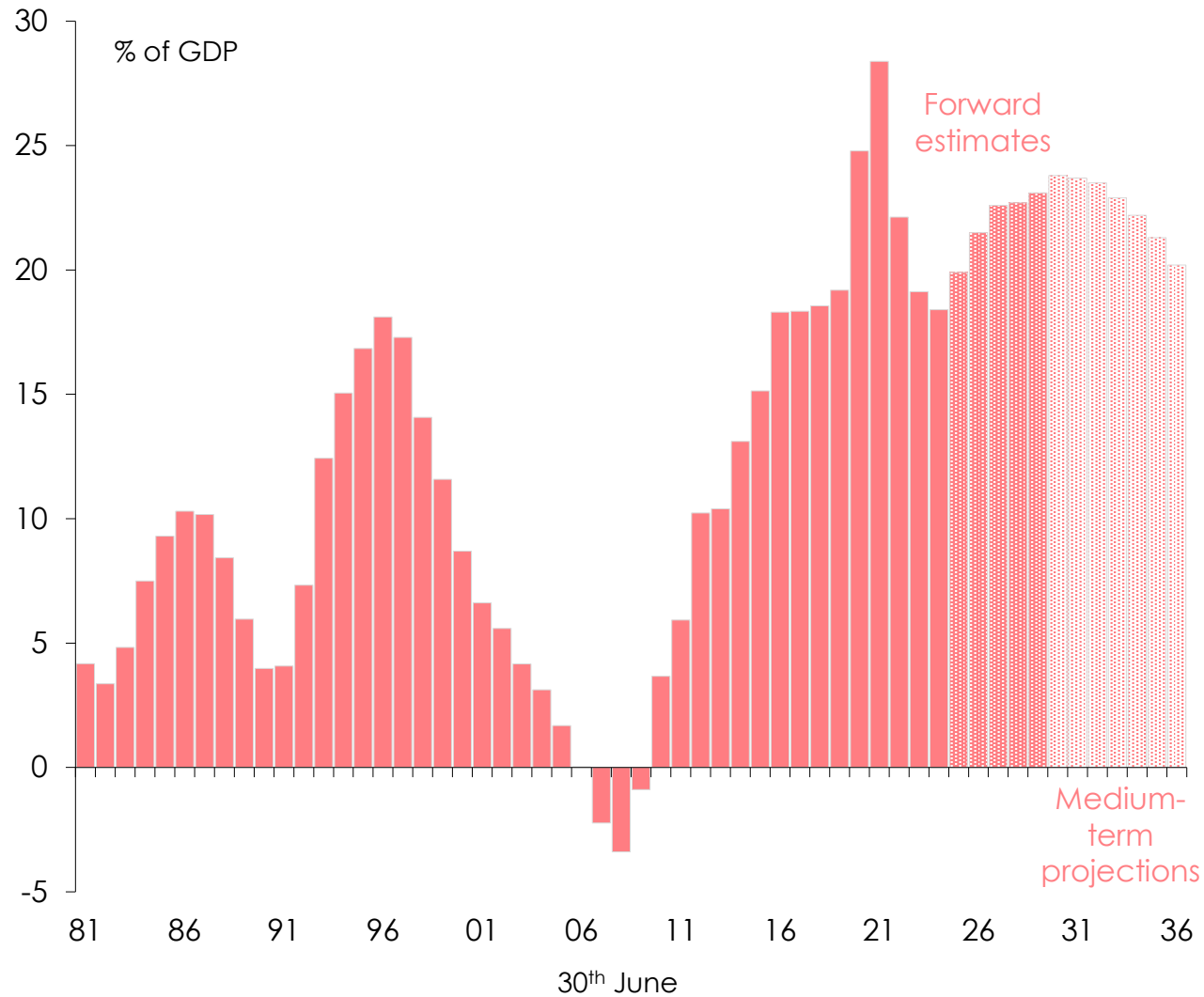


After being substantially lowered in the first two Budgets of this Government, forward estimates of net debt have since begun to creep upwards again

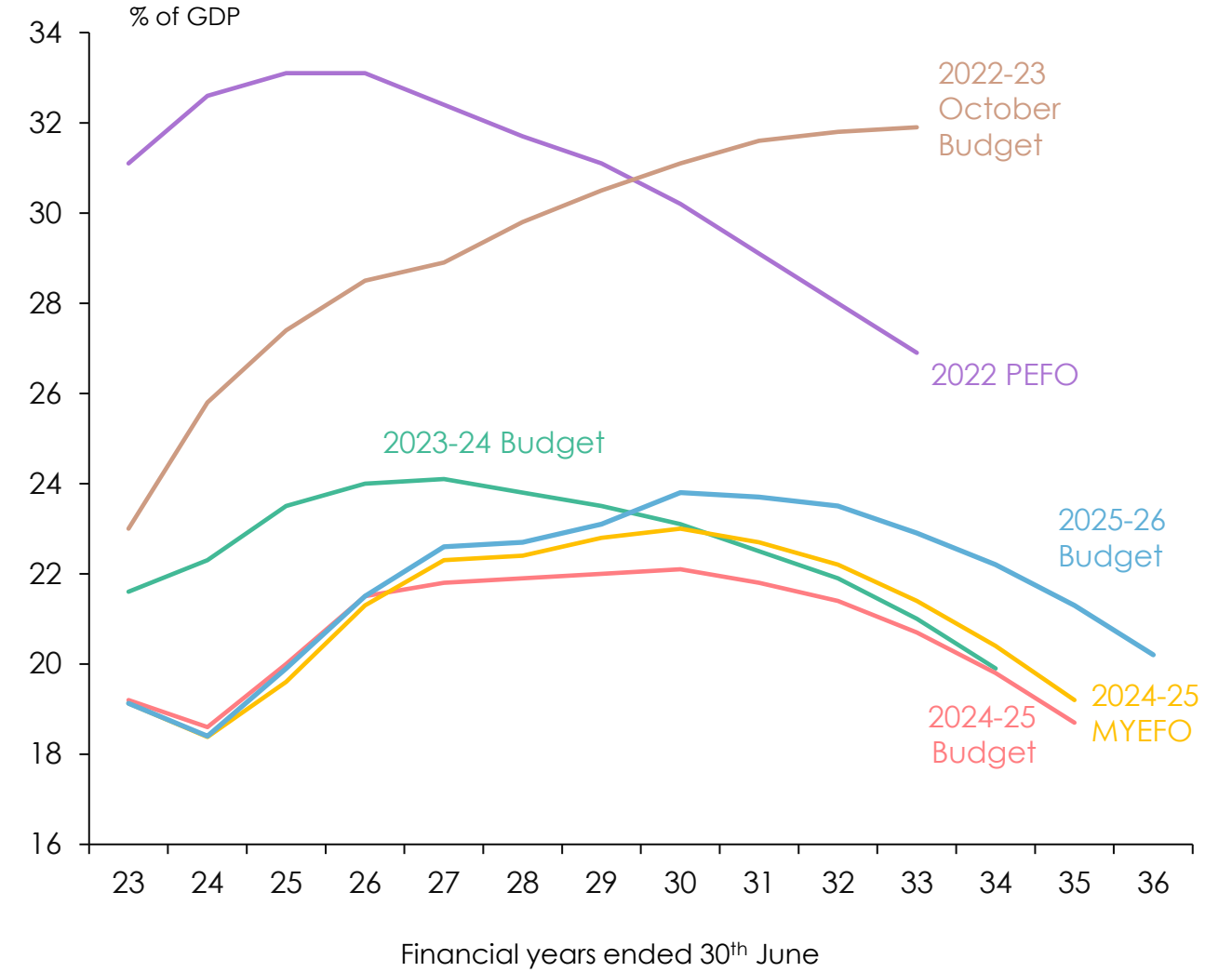
Source: Australian Government, [2025-26 Budget Paper No. 1, Statement 3: Fiscal Strategy and Outlook](#).

# The medium-term outlook for net debt is nowhere near as bad as it was three years ago, but it has deteriorated since last December

## Forward estimates and 'projections' of net debt



## Successive medium-term projections of net debt

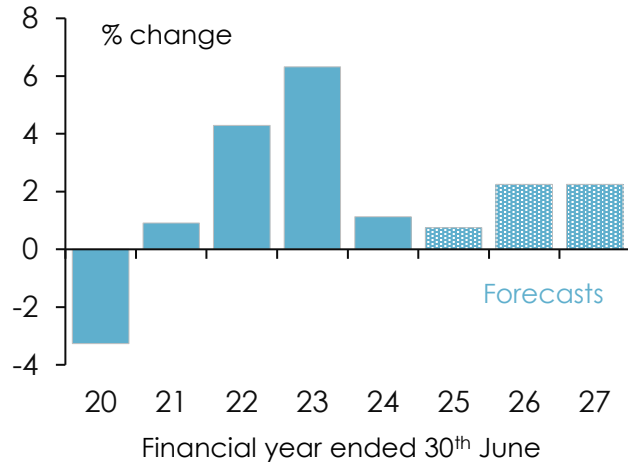


Source: Australian Government, [2025-26 Budget Paper No. 1, Statement 3: Fiscal Strategy and Outlook](#), and [Statement 11: Historical Australian Government Data](#).

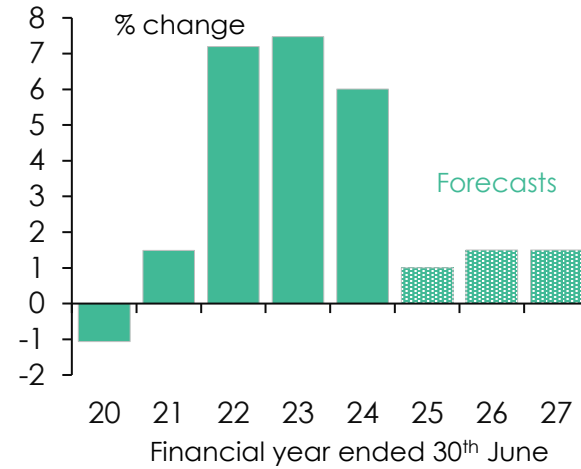


# Treasury is forecasting a pick-up in economic growth led by household consumption and dwelling investment, despite slower population growth

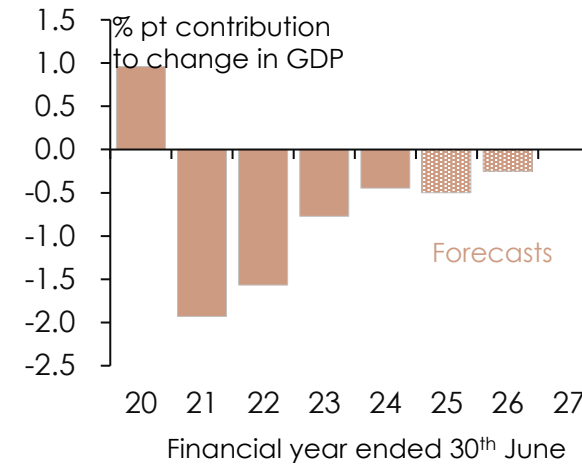
## Household consumption



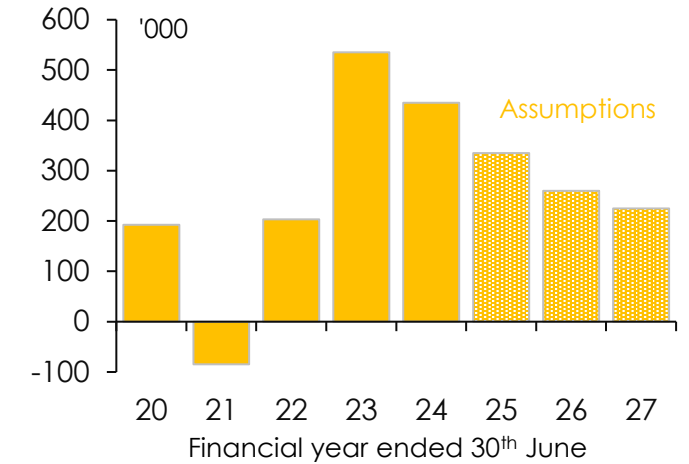
## Business investment



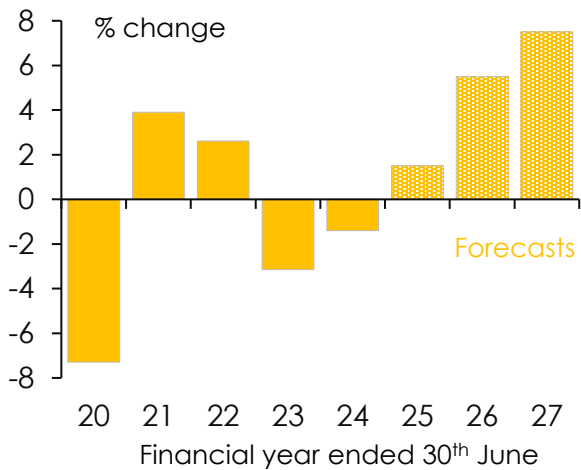
## Net exports



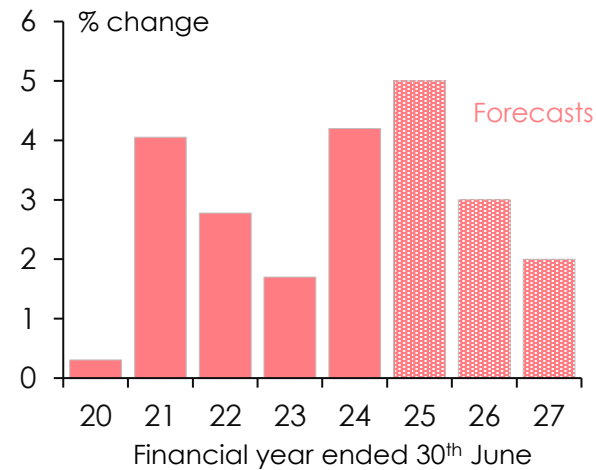
## Net migration



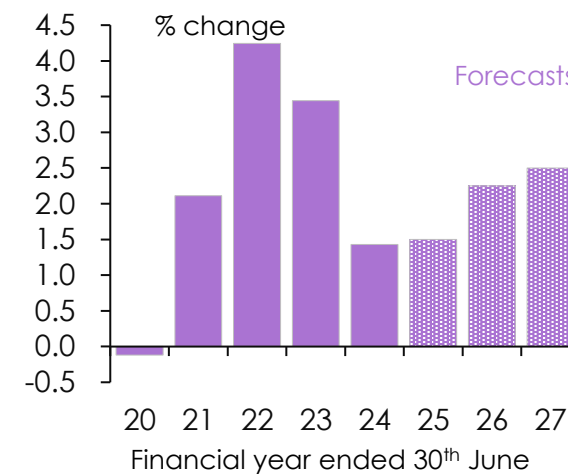
## Dwelling investment



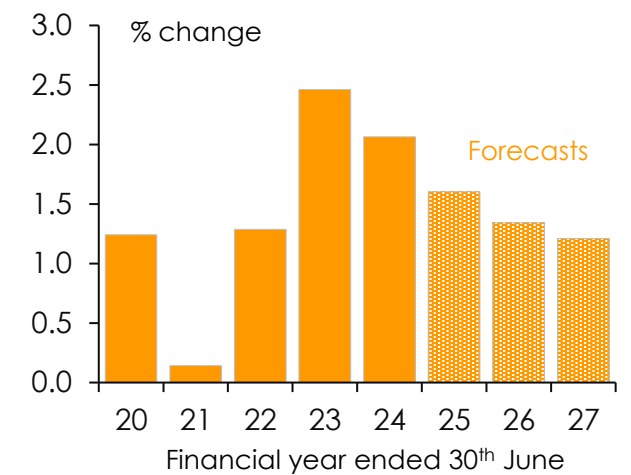
## Public spending



## Real GDP



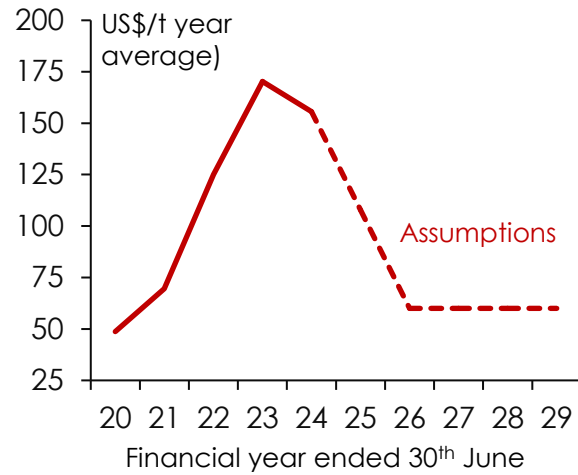
## Population



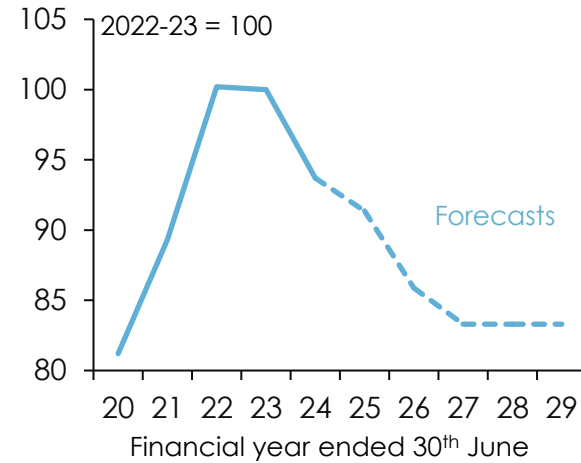
Source: Australian Government, [2025-26 Budget Paper No. 1, Statement 2: Economic Outlook](#), and [2025-26 Budget Paper No. 3: Federal Financial Relations, Appendix A: Parameters and further information](#).

# As always, Treasury makes conservative assumptions about commodity prices – it expects unemployment to rise a little, and inflation to fall a bit

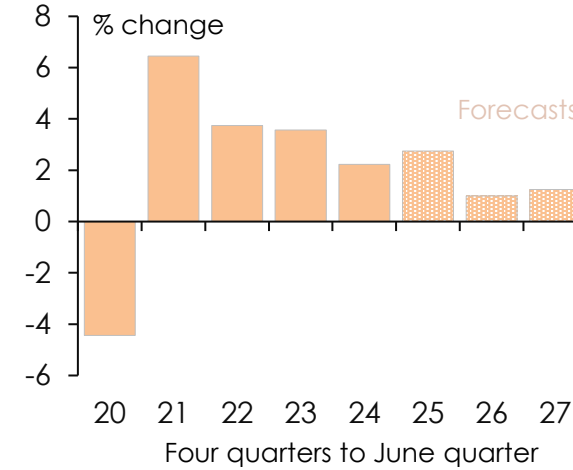
## Iron ore prices



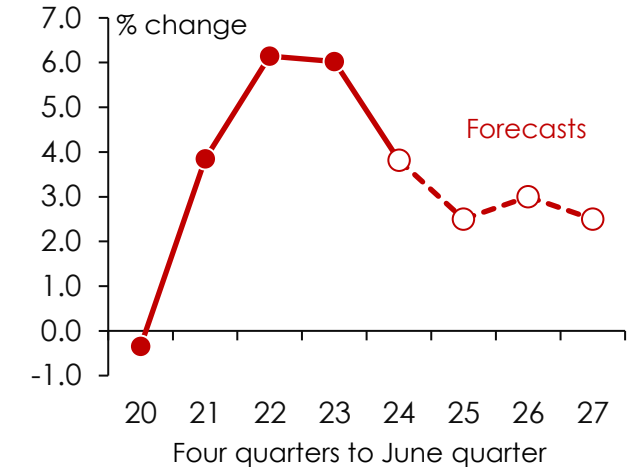
## Terms of trade



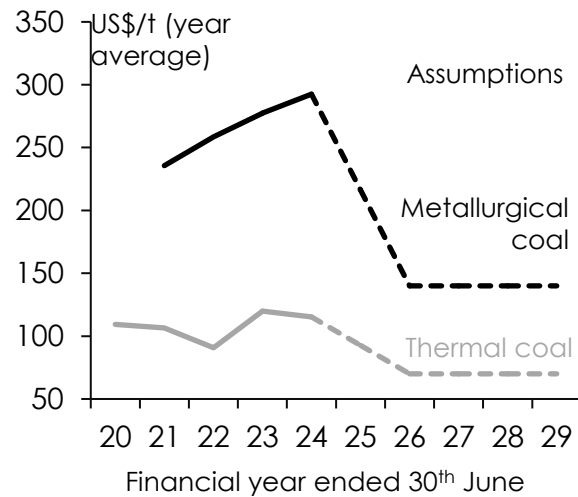
## Employment



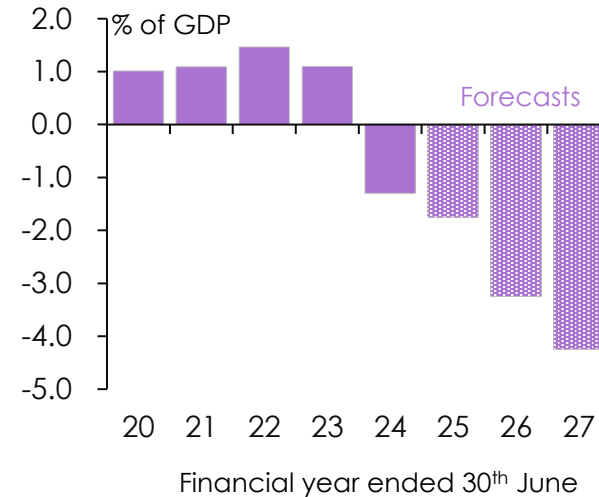
## Consumer price index



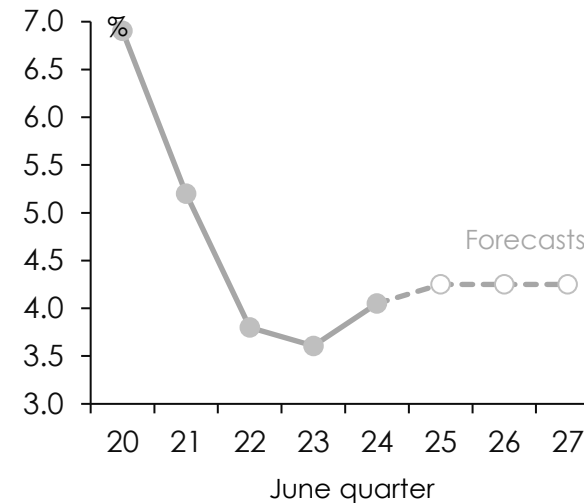
## Coal prices



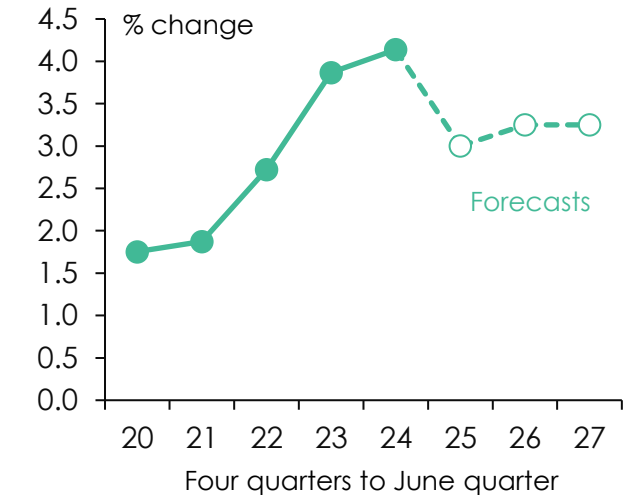
## Current account balance



## Unemployment

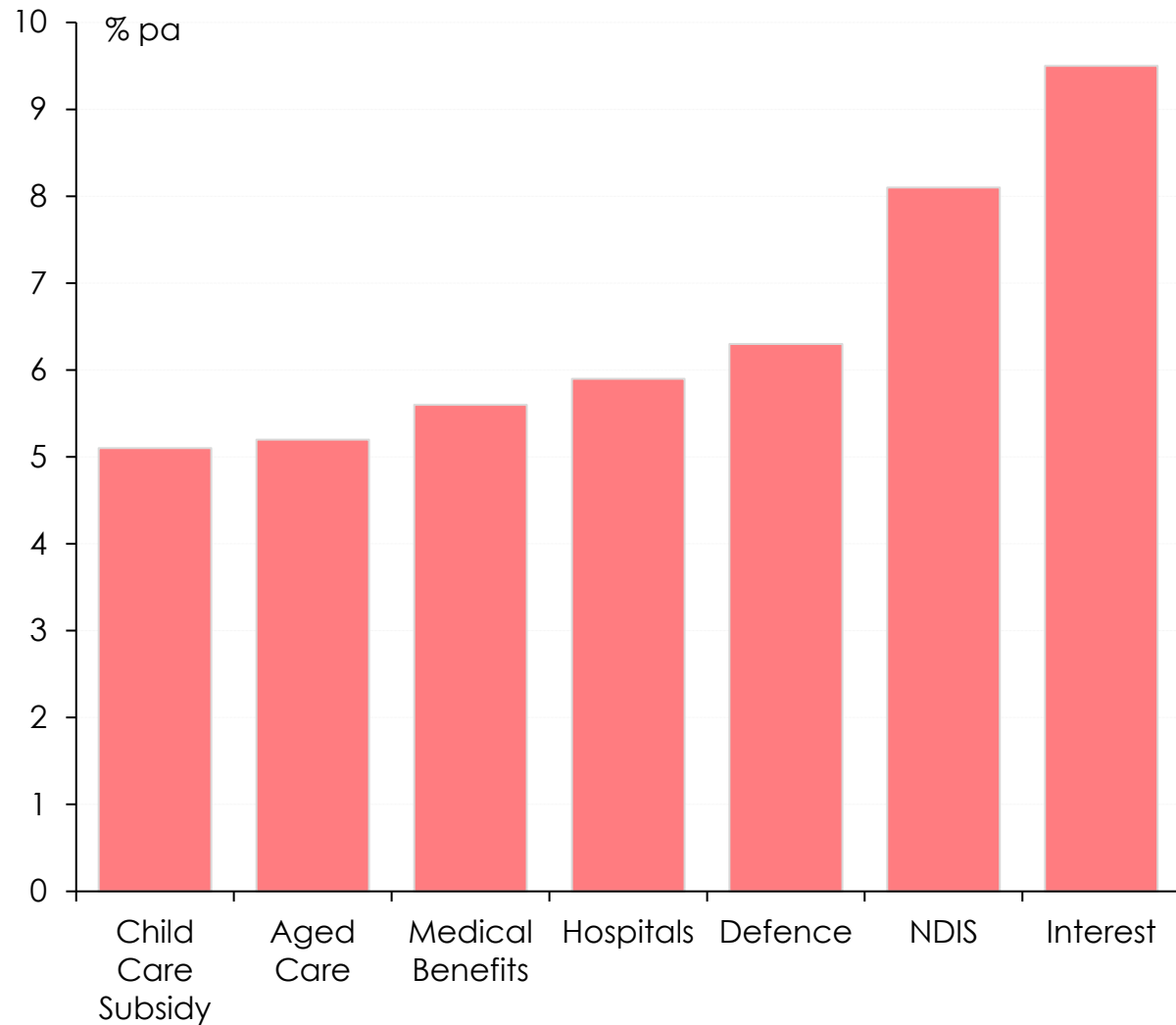


## Wage price index

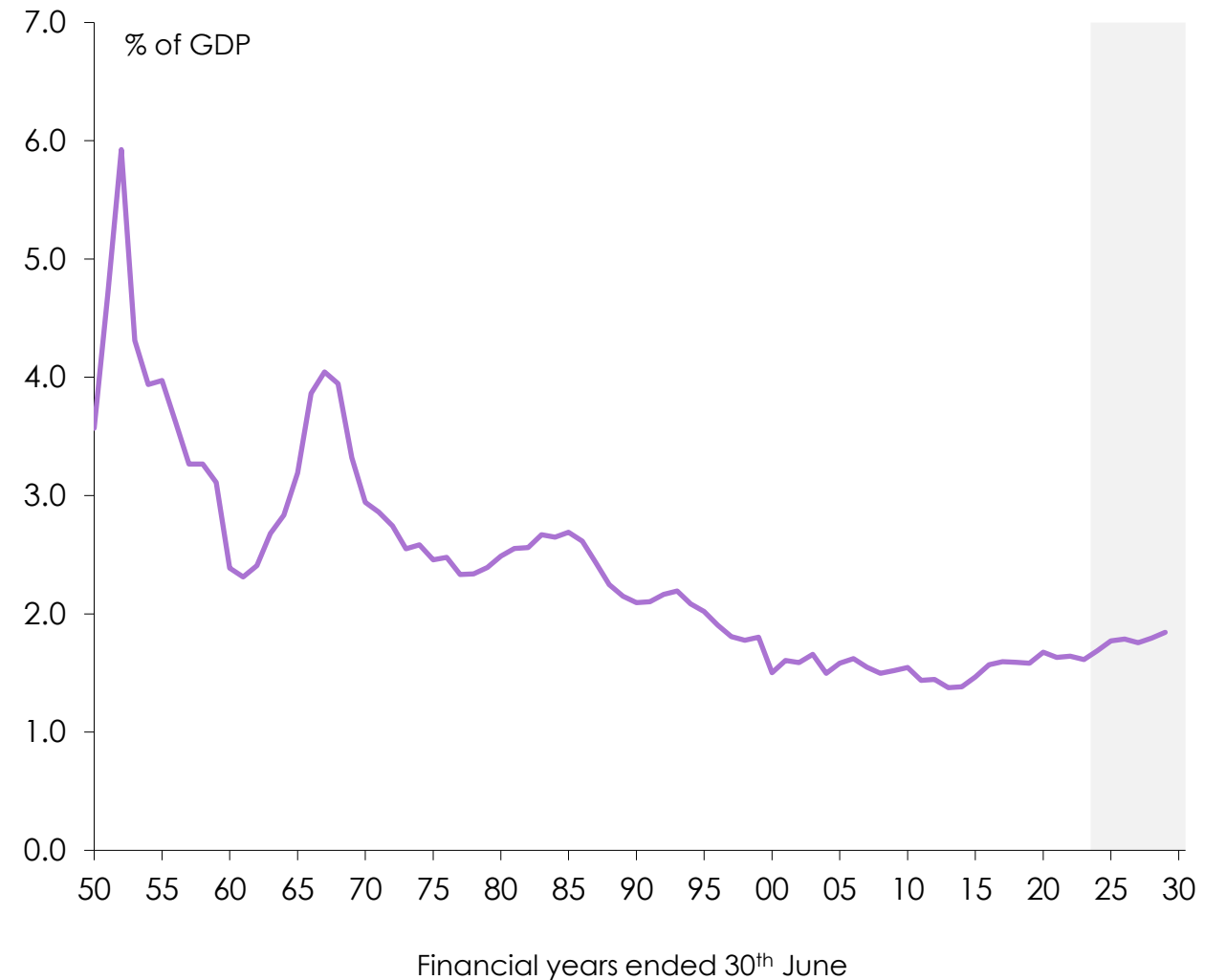


# Pressure for more spending on health, aged, disability & child care, defence and interest isn't going to go away

## Projected growth in spending, 2024-25 to 2028-29



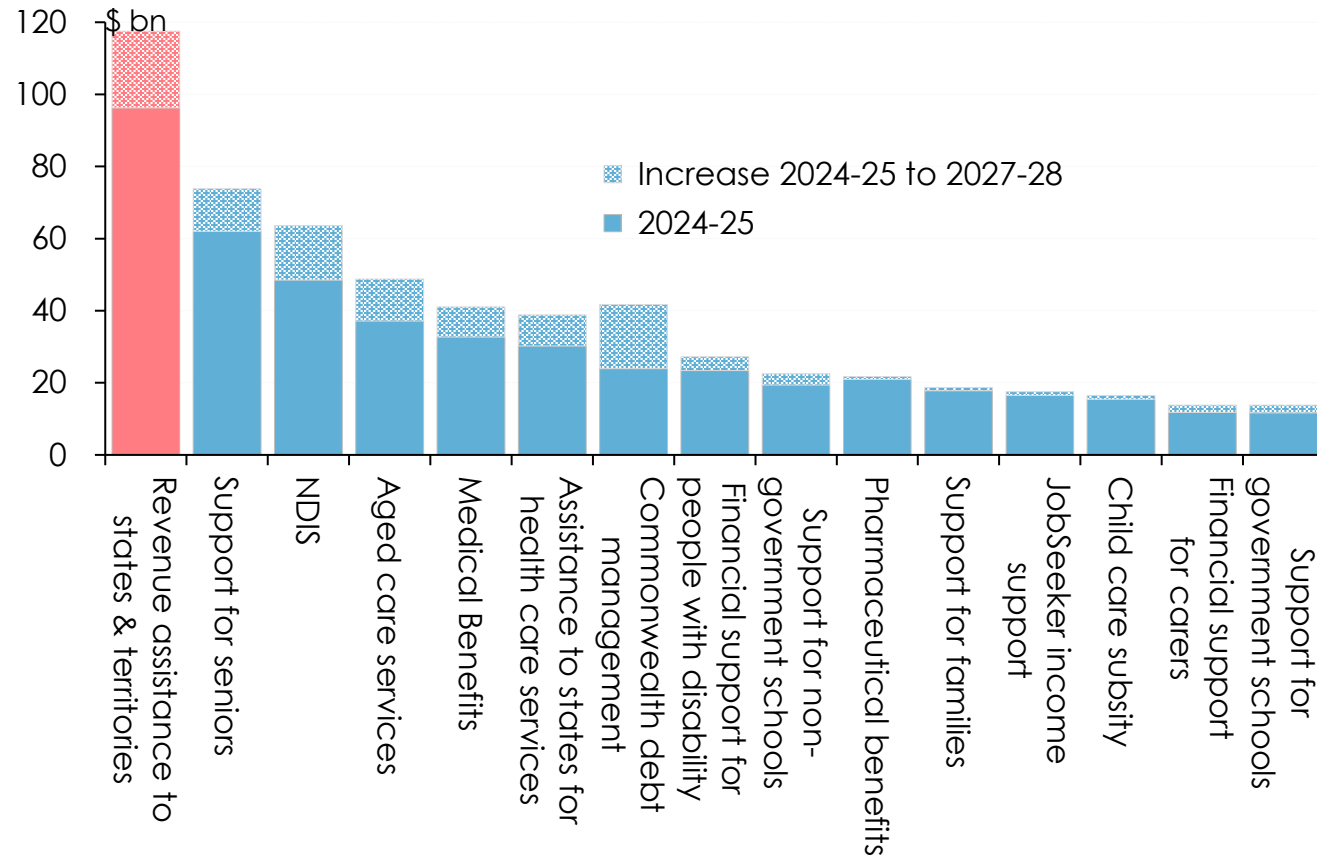
## Defence spending as a pc of GDP



Sources: Australian Government, [2025-26 Budget Paper No. 1, Statement 5: Expenses and Net Capital Investment](#).

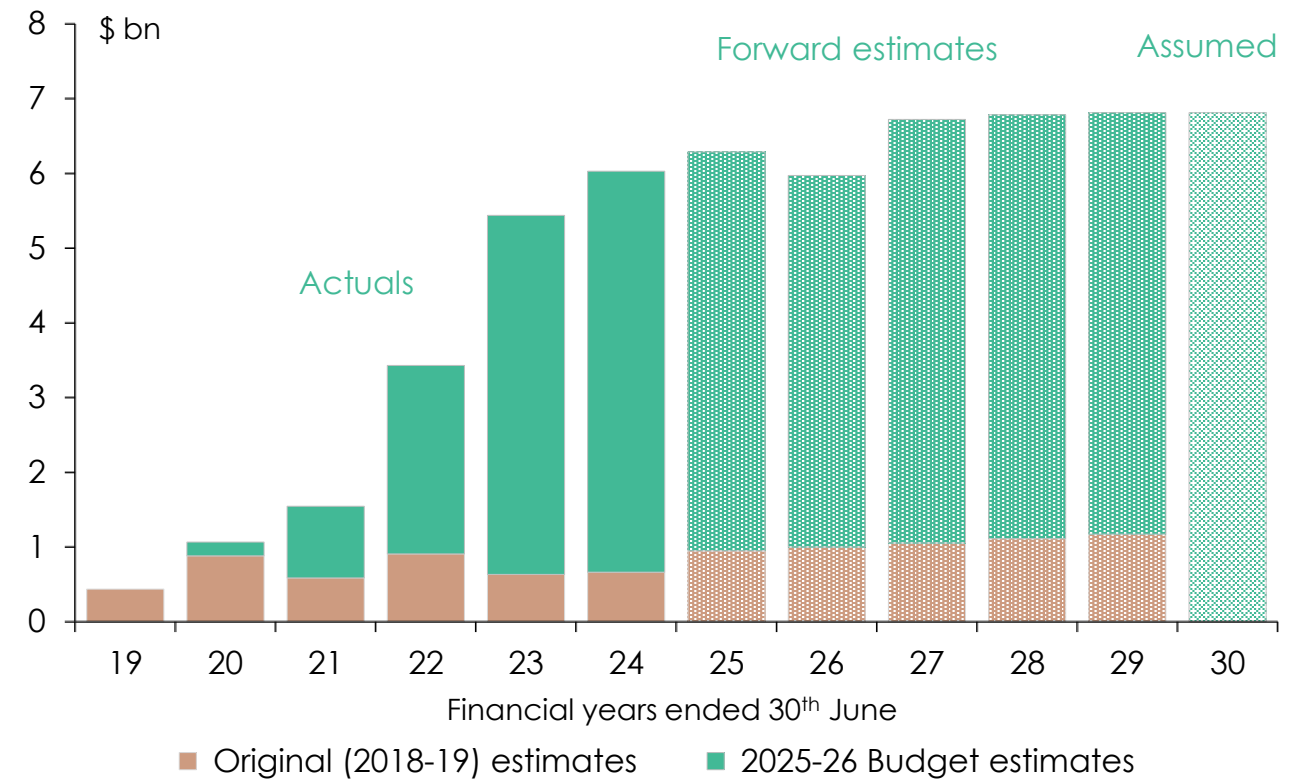
# The cost of the Worst Policy Decision of the 21<sup>st</sup> Century (the WA GST deal) has blown out to \$57bn over 11 years!

## The Budget's 20 largest spending programs



- ❑ **Distribution of GST revenue to the states & territories is the biggest single spending program in the budget**
  - its long-standing purpose (to equalize the 'fiscal capacity' of the states & territories) has been corrupted by the 'WA GST deal'

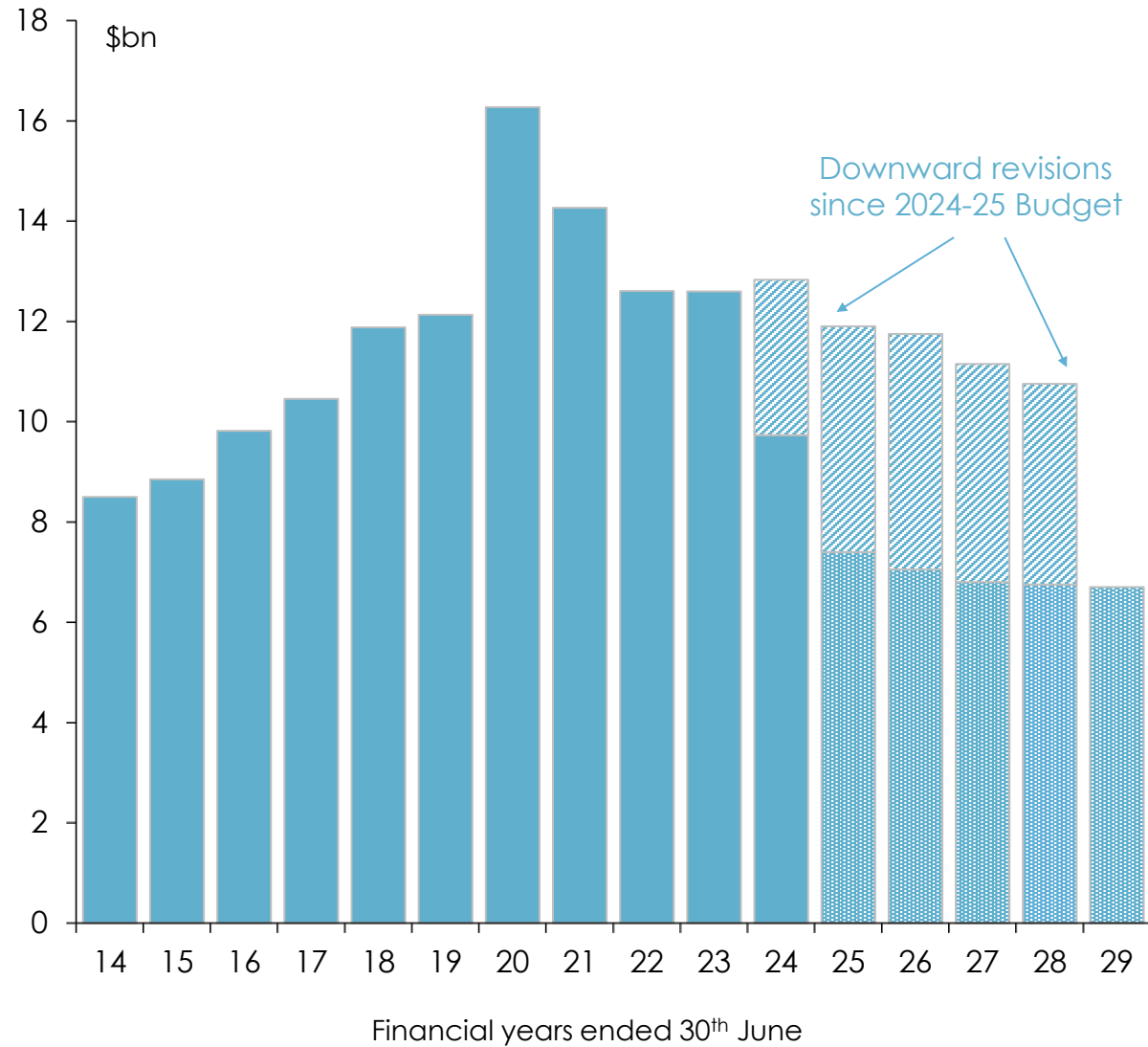
## Additional GST received by WA



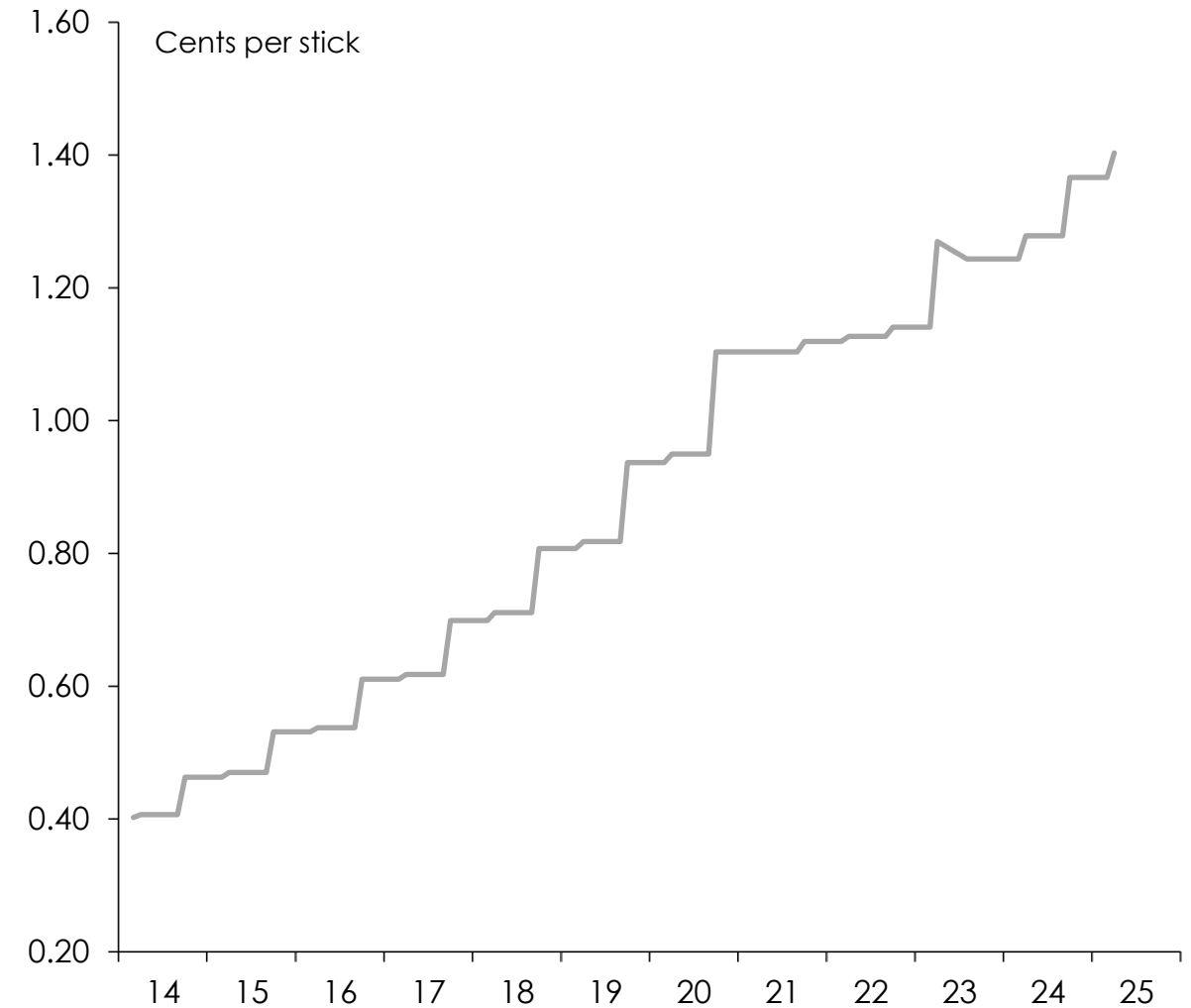
- ❑ **The cost to the Federal Budget of this 'deal' has now blown out to \$57.4bn over the eleven years to 2029-30**
  - from the originally estimated cost (back in 2018) of \$8.9bn over eight years

# Plummeting tobacco excise collections despite (or because of) steeply higher tax rates are a becoming a budgetary problem

## Tobacco excise collections



## Tobacco excise rates



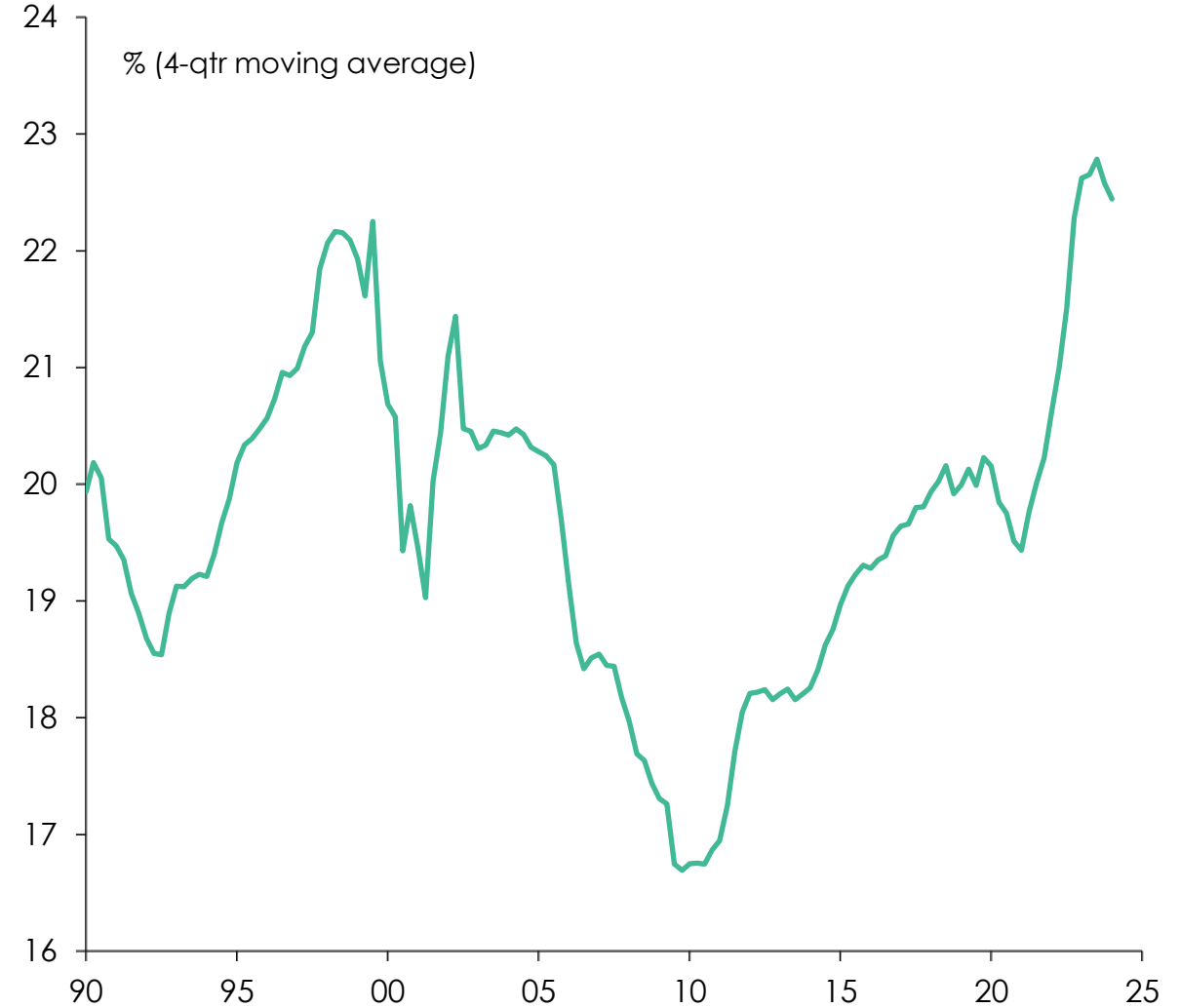
Sources: Australian Government, [2024-25](#) and [2025-26 Budget Paper No. 1, Statement 4: Revenues](#), and Australian Taxation Office, [Historical excise rates](#).

# The personal income tax cuts in the Budget won't make 'bracket creep' go away

## Income tax collections as a pc of total revenue



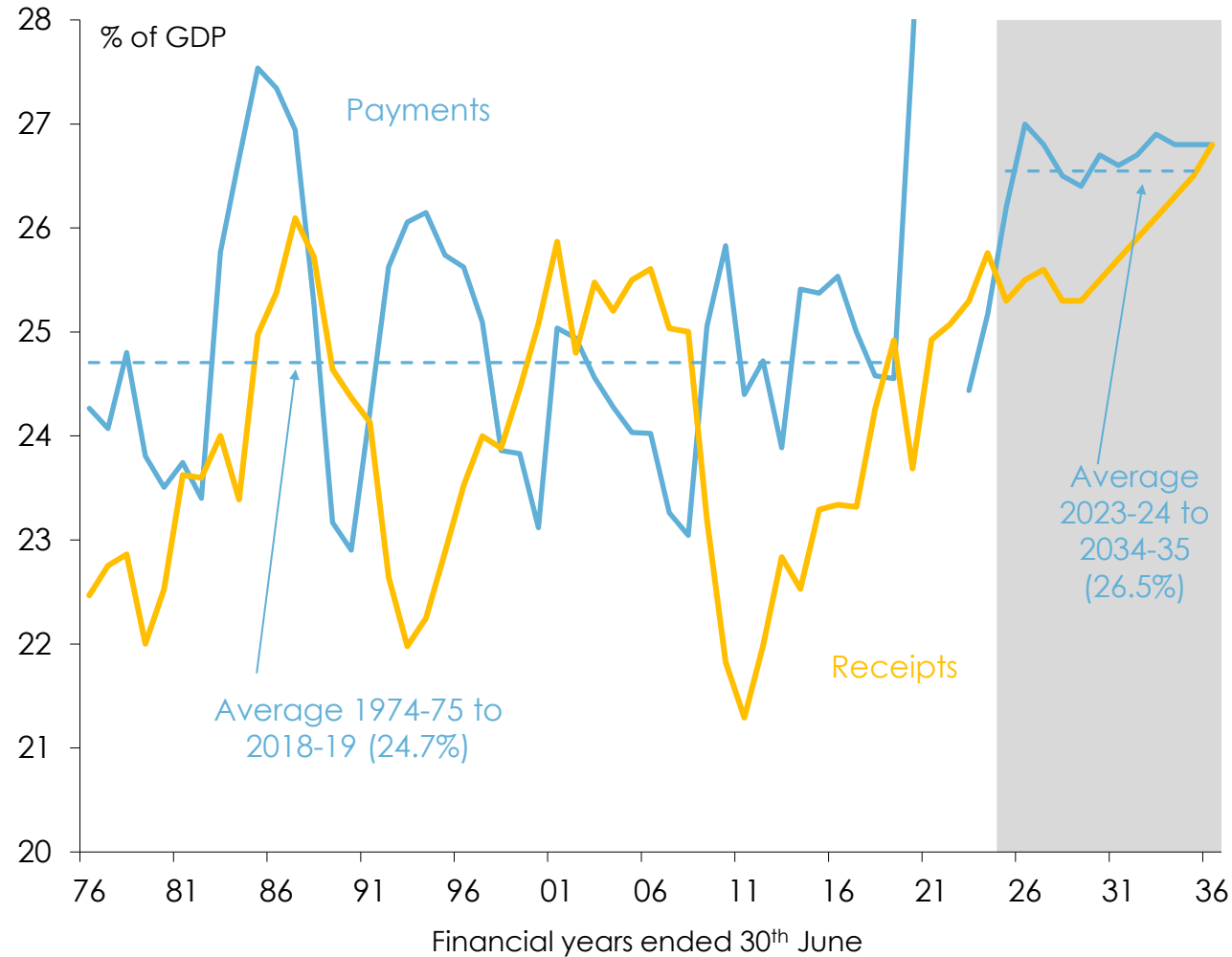
## Income tax payments as a pc of personal income



Note: 'personal income' in the right-hand chart is gross household income excluding gross operating surplus of dwellings, workers' compensation premiums and deductible interest expense. Sources: Australian Government, [2025-26 Budget Paper No. 1, Statement 4: Revenues](#); ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2024.

# Commonwealth Government spending seems to have settled on a plane that's 1½-2 pc pts of GDP above the average for 1974-75 through 2018-19

## Forward estimates and 'projections' of 'underlying' payments and receipts



- ❑ Federal government spending in the post-Covid era appears to have settled at about 1¾ pc points of GDP higher than the 1975-2019 average
  - that reflects the Australian public's evident demand for more spending on health, aged, disability and child care ...
  - ... the consensus among the major political parties that Australia needs to spend more on defence (whether the public wants that or not)
  - and the inevitability of more spending on interest as a result of the \$531bn increase in net debt since 2008
- ❑ It's not at all clear that this additional spending can be offset by reductions in other areas of the Budget
  - although scrapping the outrageous GST 'deal' done at the behest of Western Australia would be a good start
- ❑ Neither side of politics appears willing to have an 'adult conversation' with the Australian public about how this additional spending should be paid for
  - which leaves the 'default options' of on-going deficits, and 'bracket creep' pushing up personal income tax

# Conclusions

- ❑ **The 2025-26 Budget is more-or-less what you would expect a ‘pre-election’ budget to be**
  - the main focus is on addressing ‘cost-of-living’ pressures, which opinion polls have consistently indicated are the major concern of voters
  - so, not surprisingly, there is little attempt in this Budget to deal with longer-term fiscal challenges
- ❑ **The Government’s finances are in ‘better nick’ (as the Treasurer loves to say) than had been foreshadowed immediately before the last election in 2022**
  - but that’s entirely due to ‘windfall gains’ in the form of much stronger personal and company income tax collections than had been projected at the time of the 2022 election, thanks to stronger-than-forecast employment growth (resulting in more people paying tax), ‘bracket creep’ (resulting in taxpayers paying more tax than they would if the income tax scales were indexed for inflation), and much higher commodity prices (resulting in mining companies paying a lot more company income tax)
  - to its credit, the Government did direct most of these ‘windfalls’ to the budget ‘bottom line’ in its first two Budgets, enabling it to produce the first budget surpluses since before the onset of the global financial crisis
  - but that ‘discipline’ has weakened somewhat in the last two Budgets, which combined with smaller ‘windfall’ revenue gains has resulted in the budget slipping back into deficit, and (on current settings) remaining in deficit until 2035-36
- ❑ **Yes, the Government has found ‘savings’ (it claims, \$94 bn since 2022) – but those have been more than offset by new spending**
  - most of that new spending (with some glaring exceptions, including gifting \$57 bn to Western Australia over 11 years, and the spending or tax breaks designed to support otherwise uncompetitive manufacturing under the aegis of ‘Future Made in Australia’ can be defended as responding to unavoidable or genuine needs
  - but the Government appears to have been relatively unconcerned as to how that spending should be paid for
- ❑ **With one exception there’s little in this Budget to boost productivity**
  - the one exception is the decision to ban ‘non-compete clauses’ in employment contracts for workers earning less than \$175,000
- ❑ **The Budget is unlikely to have any material impact on the Reserve Bank’s decisions about interest rates**
  - there’s likely to be at most two further reductions in the RBA’s official cash rate



## Important information

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