



Federal Budget 2025-26

Cost-of-living relief at the expense of
fiscal repair

25 March 2025

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From the Chief Economist

The 2025-26 Federal Budget was firmly targeted at helping households ahead of the soon-to-be-announced election, with additional tax cuts and new spending all about easing the cost of living. But this came at the cost of fiscal repair and business assistance. Some minor fiscal repairs were welcome, but not enough to prevent net debt from rising further or the structural deficit from worsening.

As with all the Albanese Government Budgets, the broad strategy has been to give back upside surprises to the bottom line. This means the overall fiscal profile is largely unchanged from that outlined in the Mid-Year Economic and Fiscal Outlook (MYEFO) in December last year, although there is some additional “off-balance sheet” spending which make the overall impact of the fiscal policy on the economy slightly more stimulatory. A \$27.6 billion underlying cash deficit in the current fiscal year grows to a \$42.1 billion deficit next year. The deficit is expected to improve slightly to \$35.7 billion in 2026-27 and remain similar in the next two years as well.

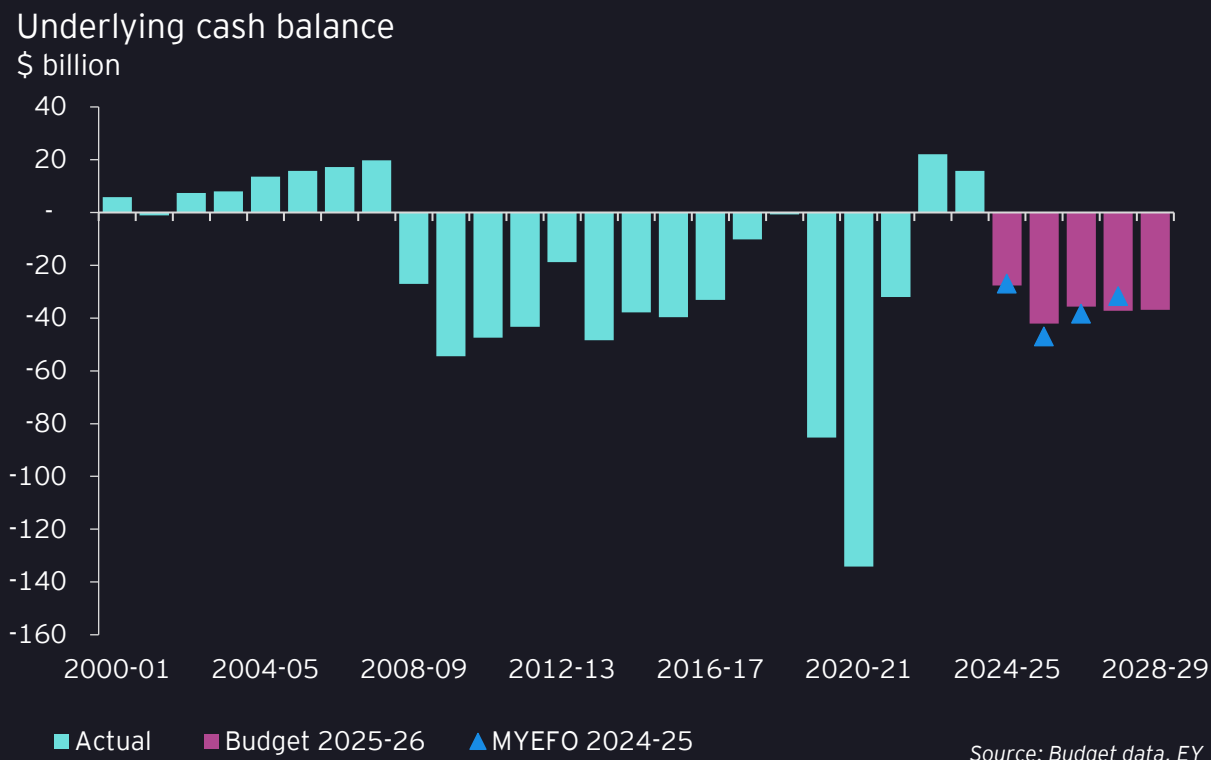
Over the five years to 2028-29, there will be an extra \$34.9 billion of additional spending or tax cuts, which has been facilitated by \$36.4 billion of upward revisions due to the better than forecast economy.

The political barriers to keeping spending tight were lower in this Budget than the last three, given the inflation forecasts were right in middle of the Reserve Bank’s target band at 2.5 per cent by the June quarter. Economically though, with deficits forecast for many years, and the economy not entirely out of the inflation woods, indiscriminate cost-of-living help, such as the electricity rebates and a policy to lower the cost of PBS prescriptions, were not well enough targeted.

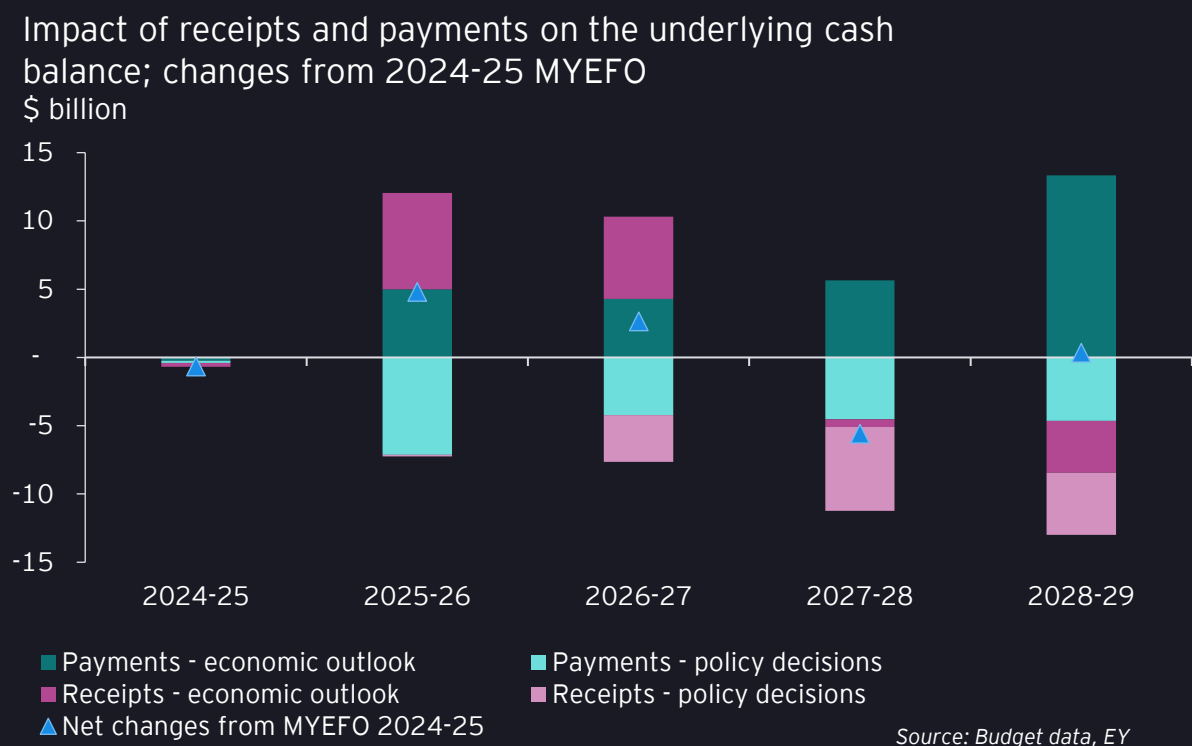
Disappointingly, there was no substantial assistance to make Australian businesses more competitive in the global economy. Nor were there tax incentives for innovation practices. We would like to have seen the Treasurer acknowledge the need for a better tax system in the current tough environment and lay out some ambitions for the next term of Government. The trade war, geopolitical strife, climate change and ageing population are all hurdles that are taking a toll on the business sector, which means pro-productivity reforms are increasingly important.

Cherelle Murphy | EY Regional Chief Economist, Oceania

1. The underlying cash balance is in deficit from now on, and projections changed little from MYEFO

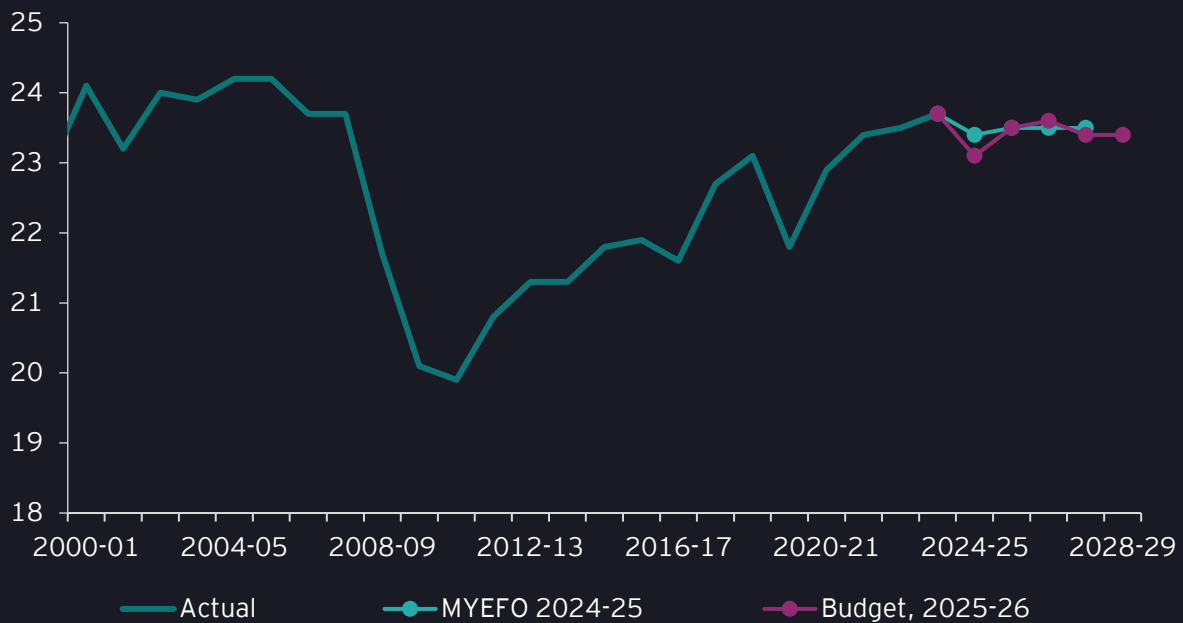


2. Economic strength boosts bottom line, but most of the benefit is spent or given back in the form of tax cuts



3. Tax receipts are temporarily reduced due to personal income tax cuts

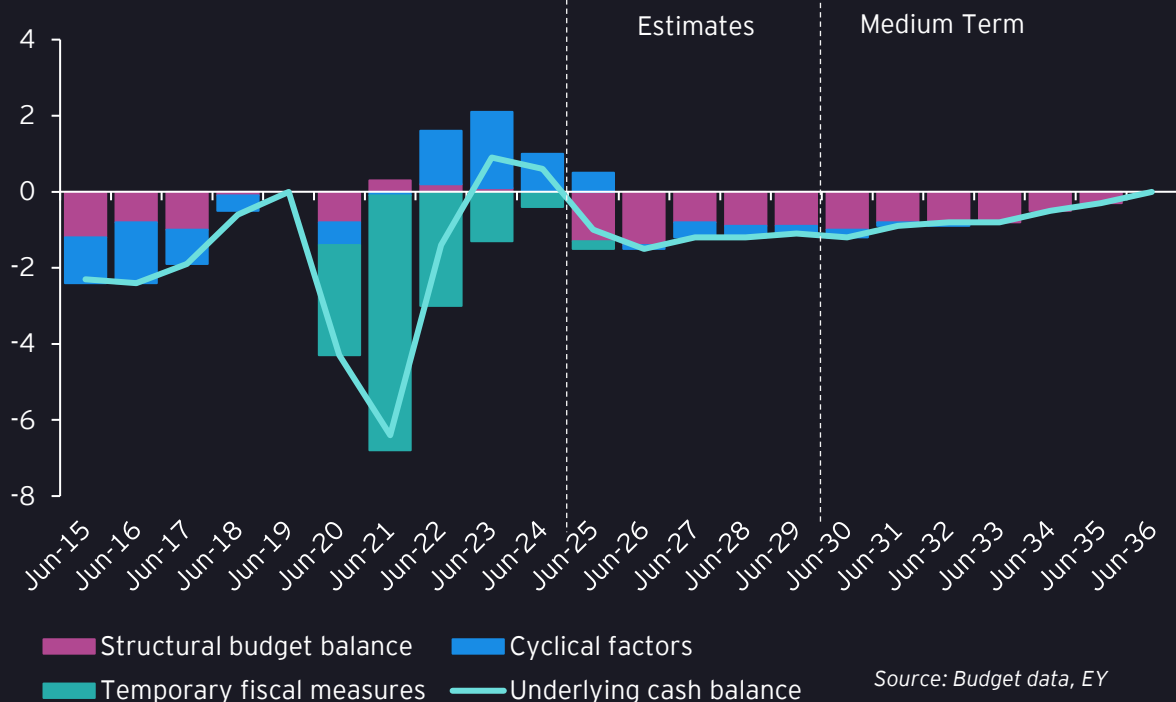
Tax receipts
% of nominal GDP



Source: Budget data, EY

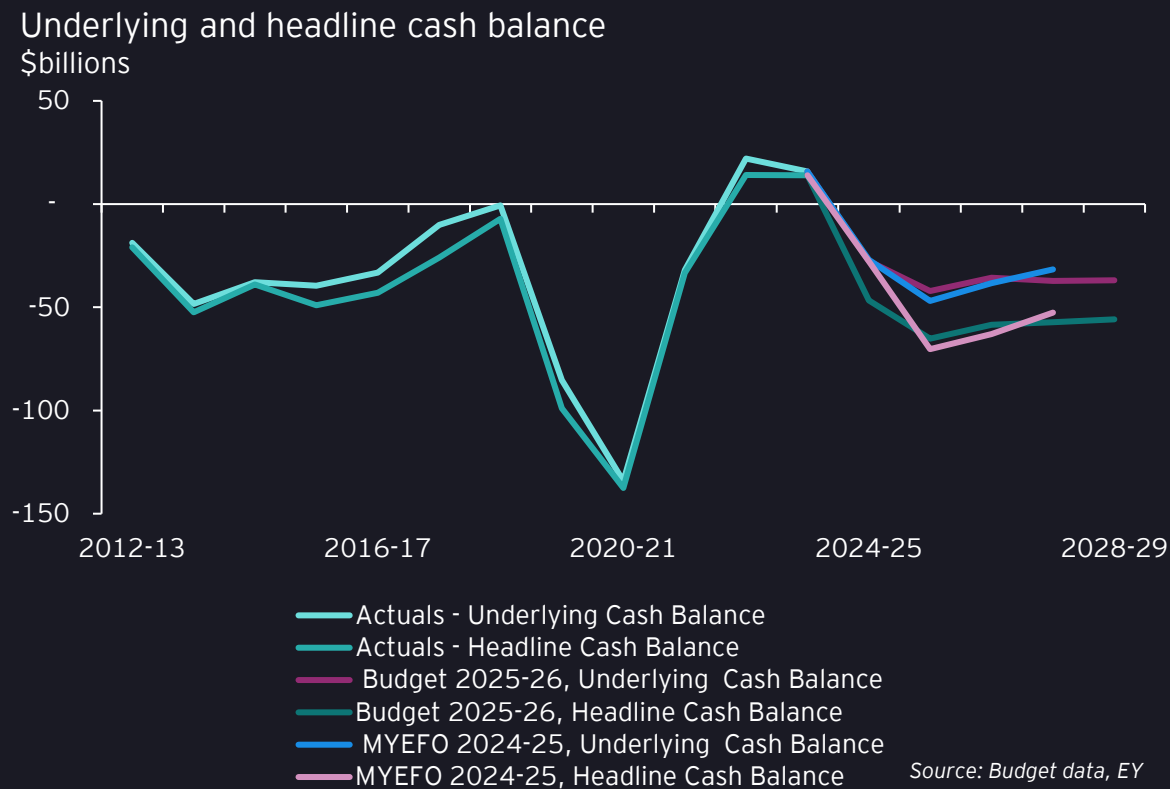
4. The long-term structural outlook for the Budget is marginally worse than at MYEFO

Structural Budget Balance
% of GDP



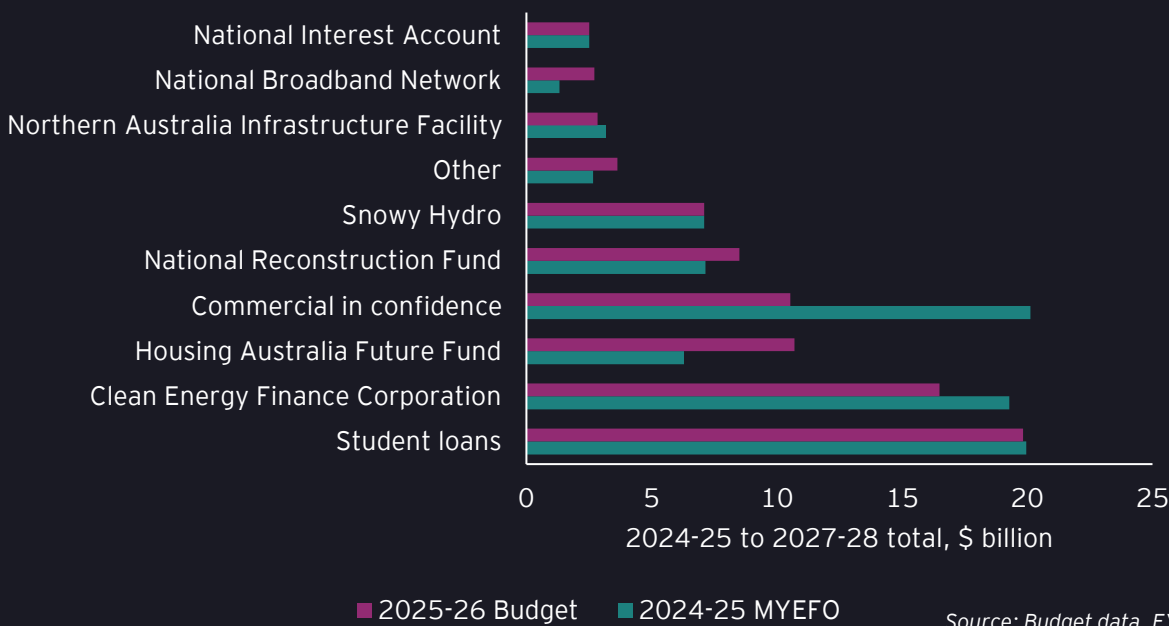
Source: Budget data, EY

5. The headline cash deficit forecasts deteriorated by more than the underlying due to 'off-balance sheet' spending



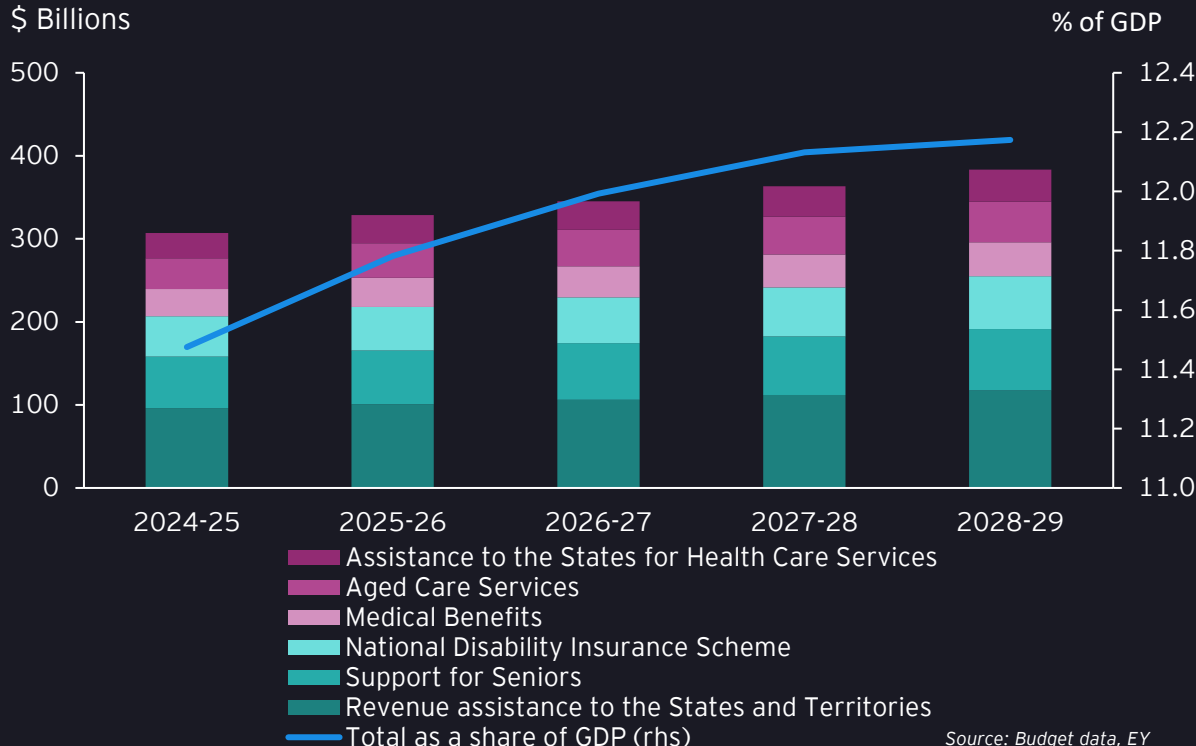
6. There were additional commitments to the NBN, National Reconstruction Fund and Housing Australia Future Fund

Net cash flows from investments in financial assets for policy purposes

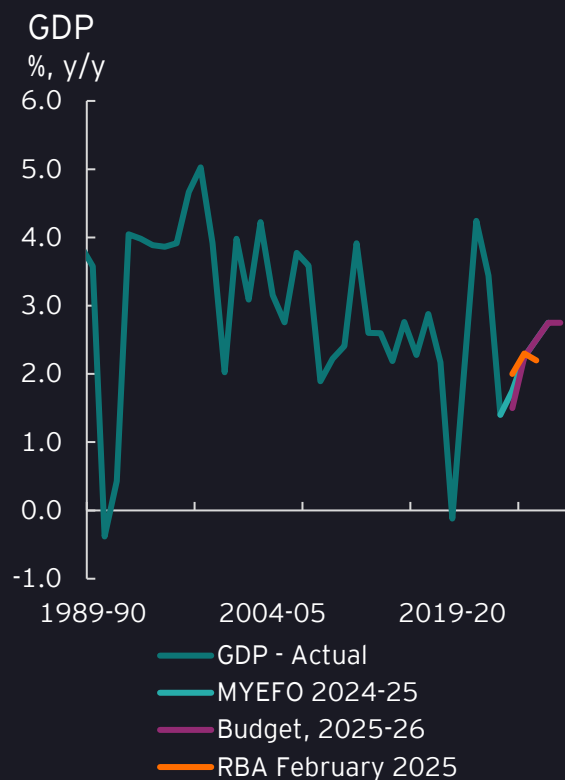


7. The top spending programs continue to rise as a share of GDP

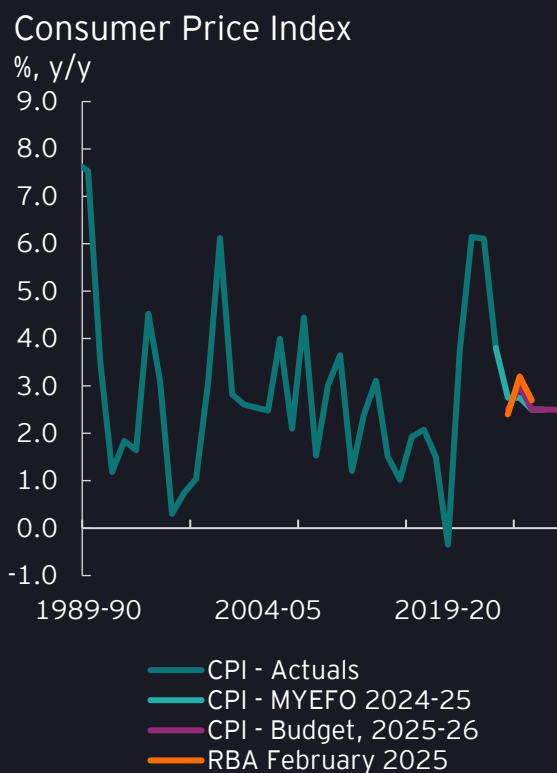
Cost of top spending programs
\$ Billions



8. Economic forecasts show GDP recovering and inflation within the target band

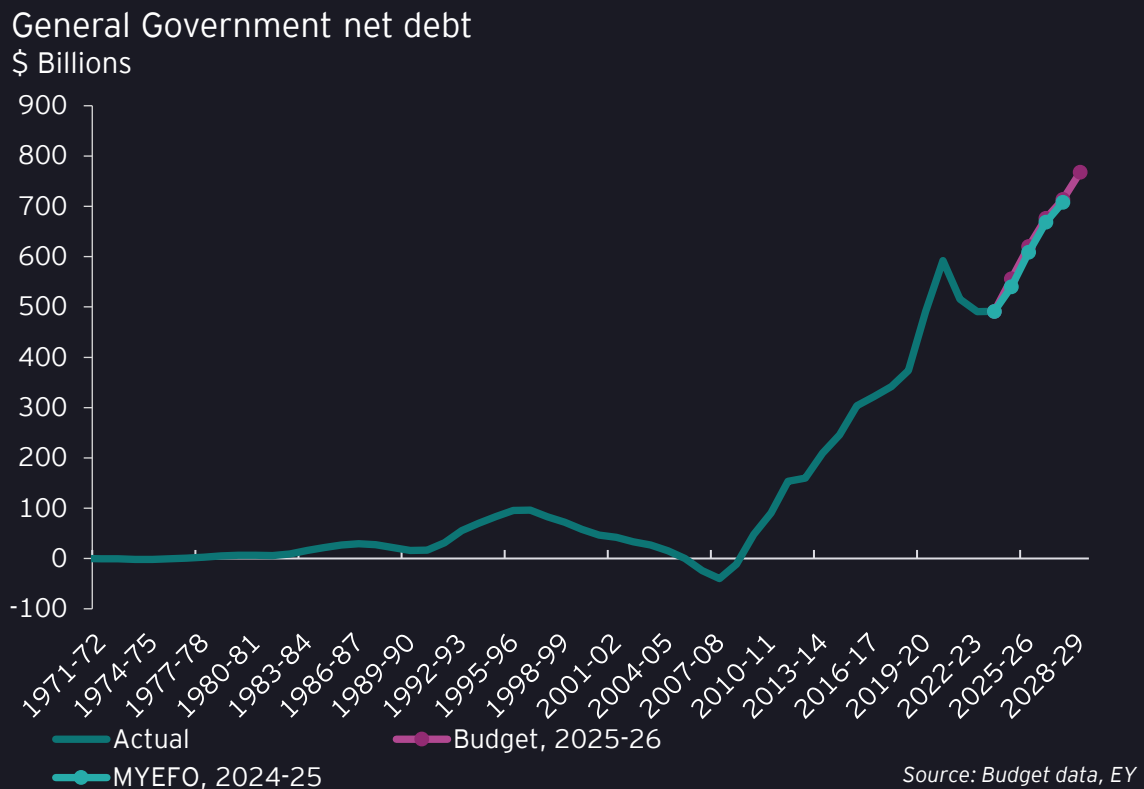


Source: Budget data, EY, ABS



Source: Budget data, EY, ABS

9. Net debt has been revised higher



10. Personal income tax is cut from 1 July 2026 as part of the Government's cost of living package



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