



Federal Budget October 2022-23

Difficult decisions
deferred

25 October 2022

From the Chief Economist

The Treasurer said he is prepared to make difficult decisions in difficult times, but instead we saw that he'd prefer to defer them. These deferred decisions are only going to become harder as Australians spend their pandemic savings buffers, prices go up and the Reserve Bank slows the economy.

The ferocity of the inflation problem - which has been confirmed in the Budget by upgraded inflation forecasts - meant the Government could not add net spending and risk increasing price pressure. The Budget has, accordingly, been carefully curated to ensure new policy spending did not fall into the current financial year when the inflation risk is most acute. Only a net \$1.6 billion was added to the policy spend in 2022-23 and \$130 million to direct capital spending. But stimulatory policy flows again from 2024-25, when the forecasts safely park inflation in the Reserve Bank's 2-3 per cent target band.

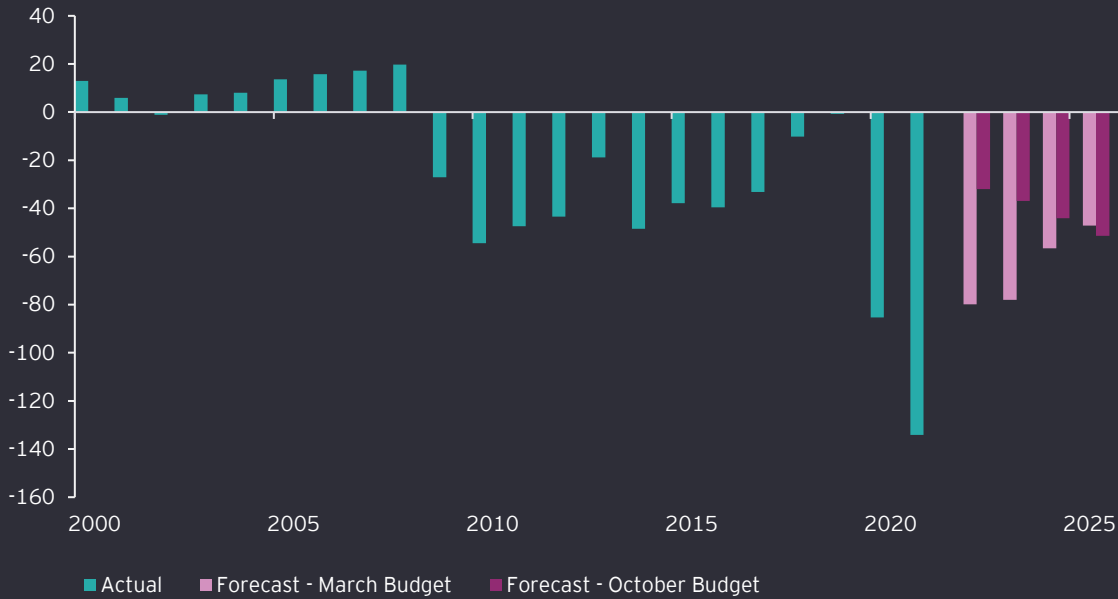
The underlying cash balance expectations for the current and next financial year provided a much-needed cushion, showing huge improvements from the March Budget due mainly to better than expected commodity prices and a strong labour market. That also bought down net debt.

The Government hasn't made the Reserve Bank's job harder with fiscal policy in this Budget, but neither has it done what we had hoped - and what the economy needs - which is tighten policy and remove some inflationary pressure. Dive in to capture our key takeaways in ten charts.

Cherelle Murphy | EY Oceania Chief Economist
25 October 2022

1. Despite the strong economy resulting in a significantly improved budget bottom line, the underlying cash balance is expected to remain in deficit

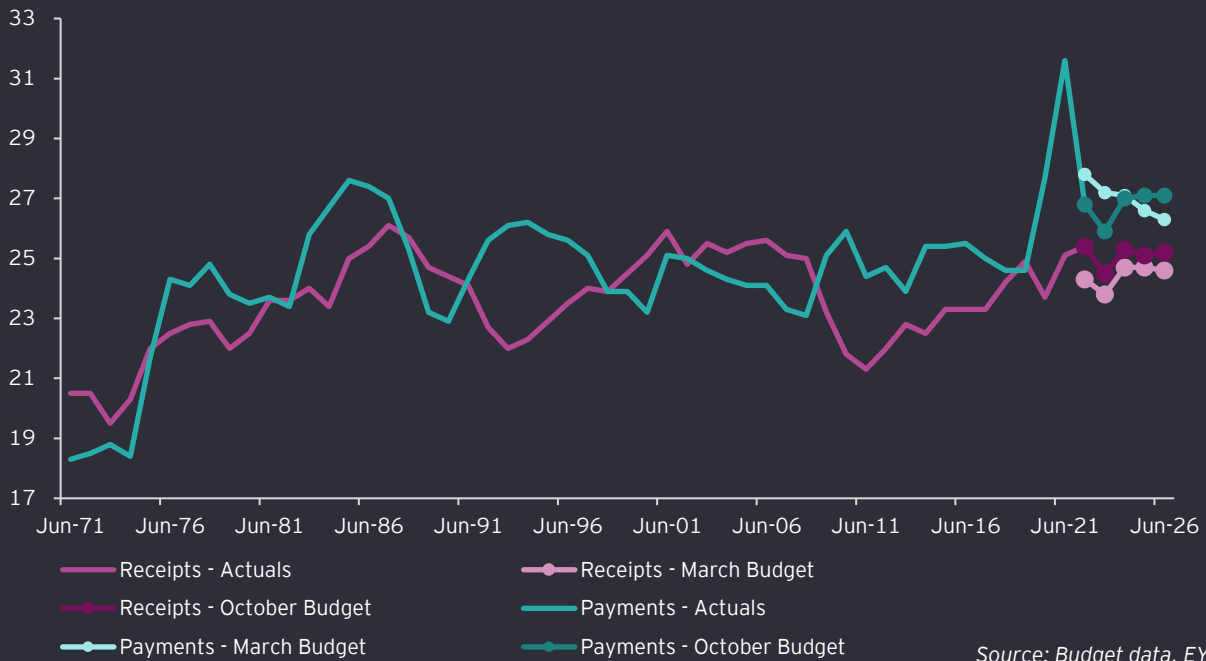
Underlying Cash Balance
\$, billion



Source: Budget data, EY

2. Stronger than expected receipts and lower payments will not last as commodity prices fall and the economy is expected to slow

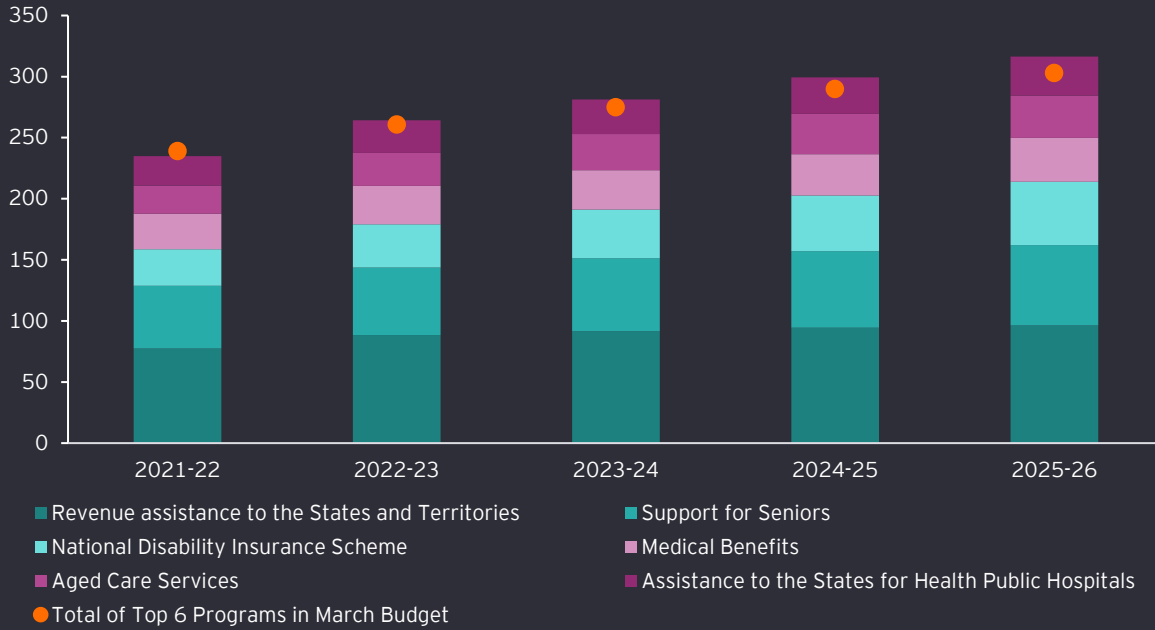
Receipts and Payments
% of nominal GDP



Source: Budget data, EY

3. Spending on health care and social assistance will rise faster than GDP, and has been upwardly revised since March

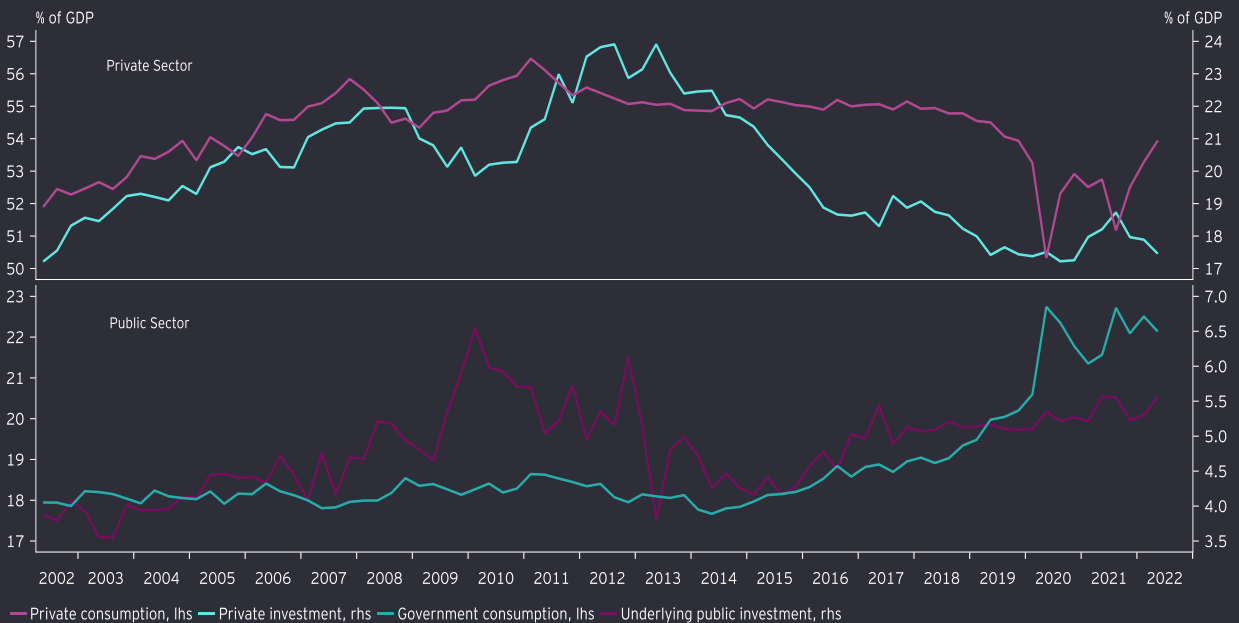
Cost of Top Spending Programs
\$ billion



Source: Budget data, EY

4. Total public sector spending is historically high as a share of GDP

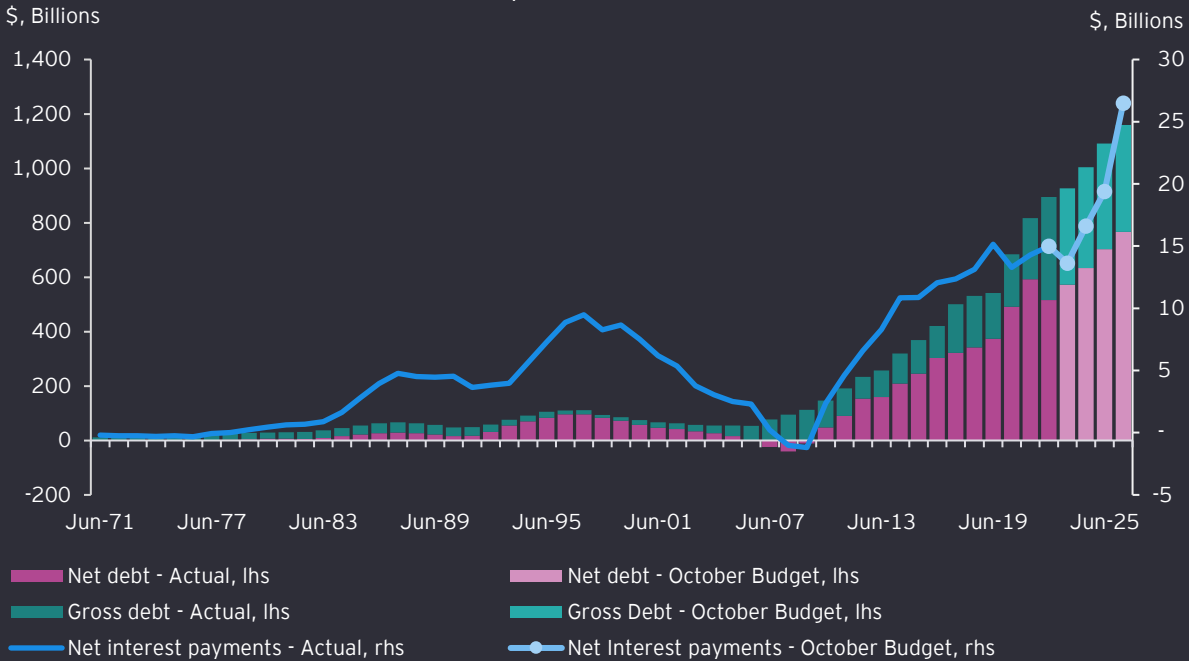
Public vs Private Sector Investment and Consumption



Source: ABS, Macrobond, EY

5. Government debt to top \$1 trillion as interest costs rise

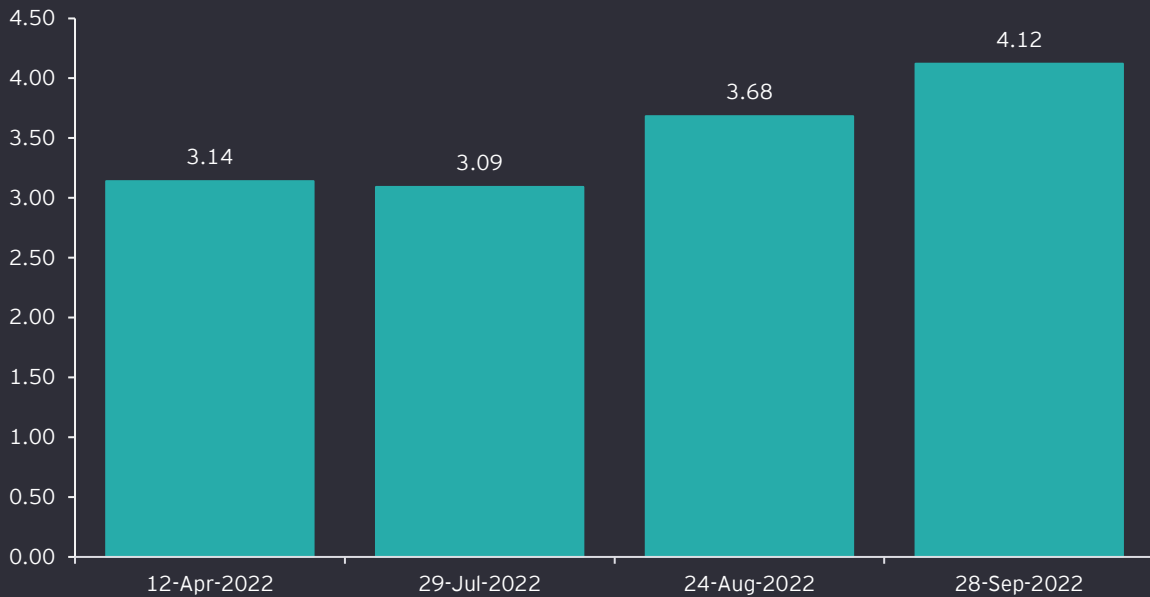
General Government Debt and Interest Payments



Source: ABS, Budget data, EY

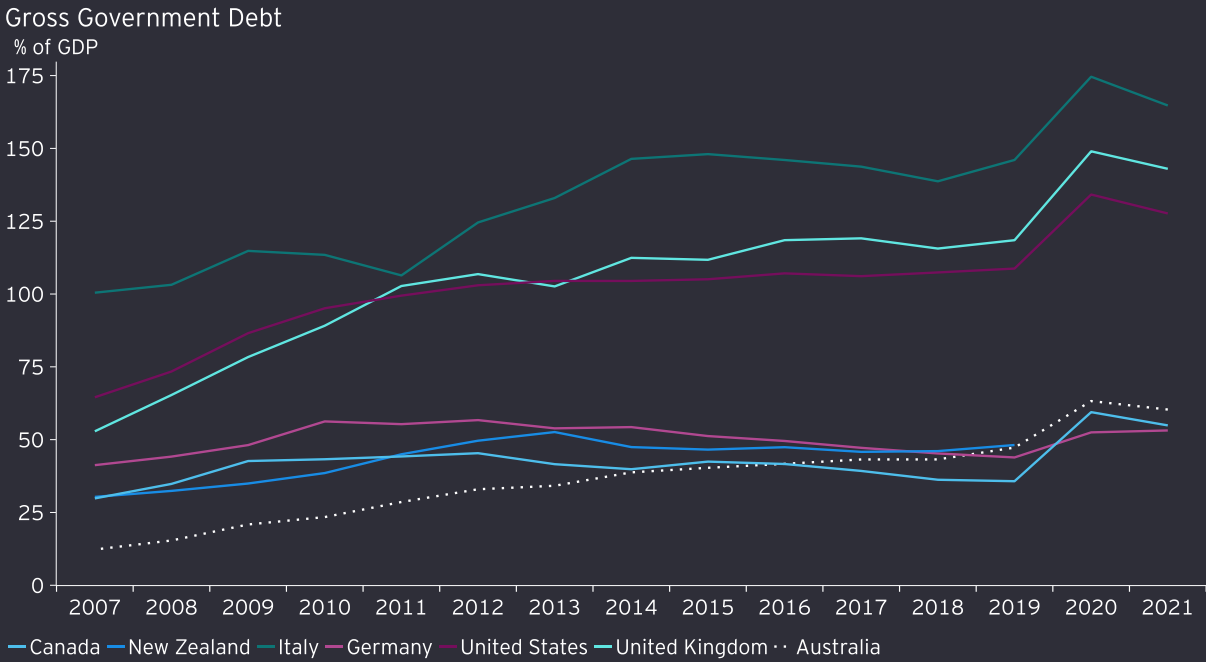
6. The government now faces higher interest costs in the face of rising interest rates

Rising interest rates on government debt
%, weighted average issuance yield



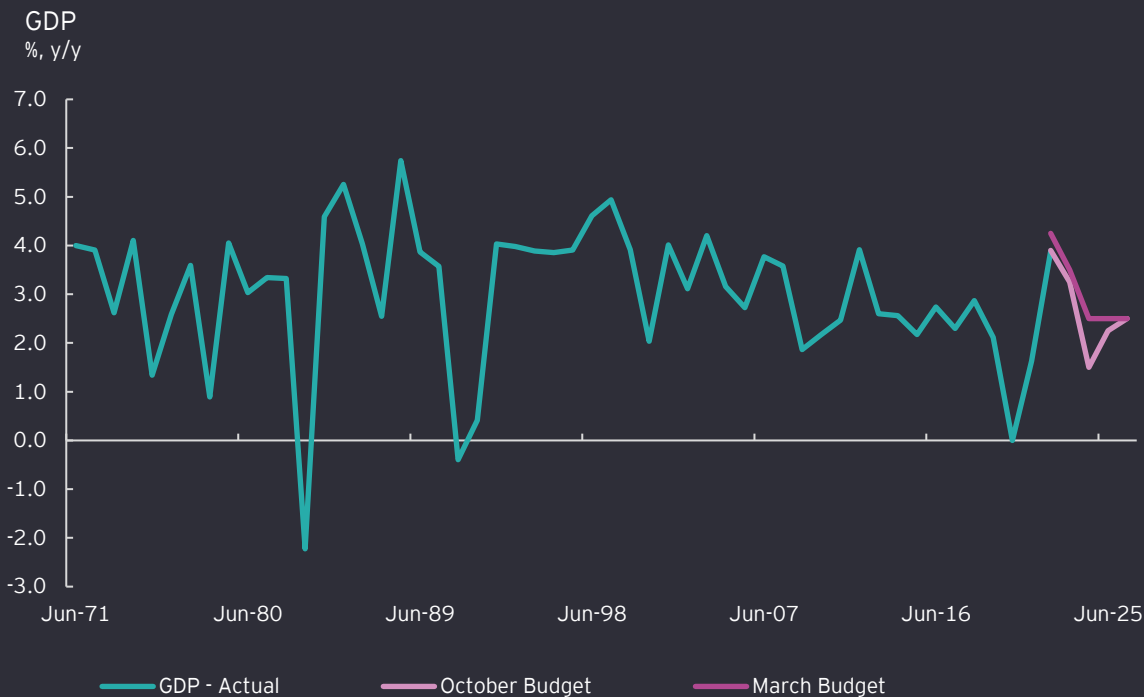
Source: AOFM, 21-Nov-2033 bond line

7. Australia's debt levels remain low compared to other developed nations



Source: OECD, Macrobond, EY

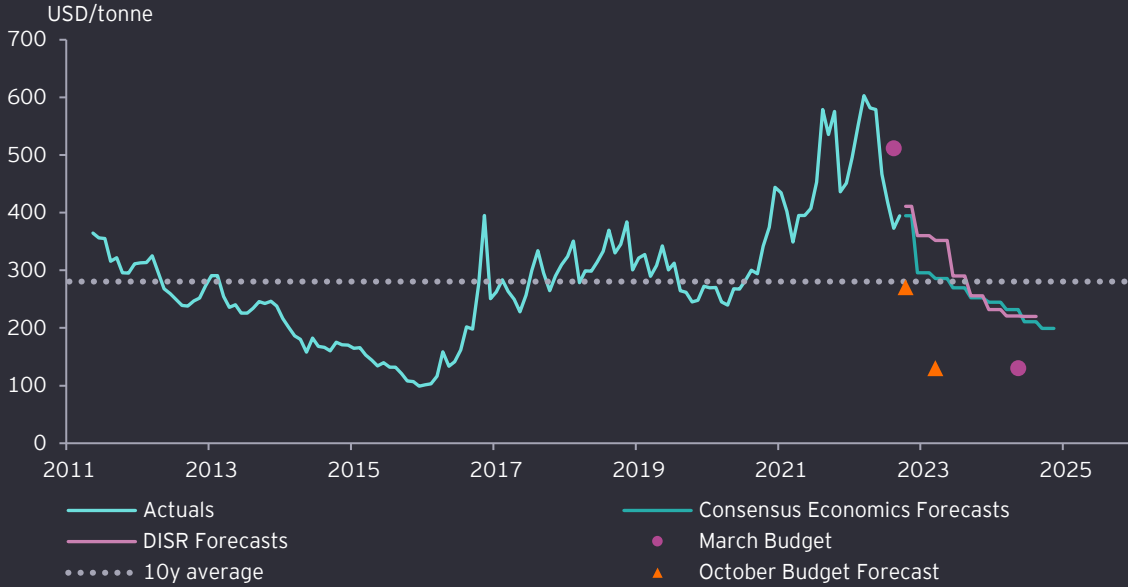
8. Economic growth has been revised down as monetary policy tightens, the international economy weakens and floods take a toll



Source: ABS, Budget

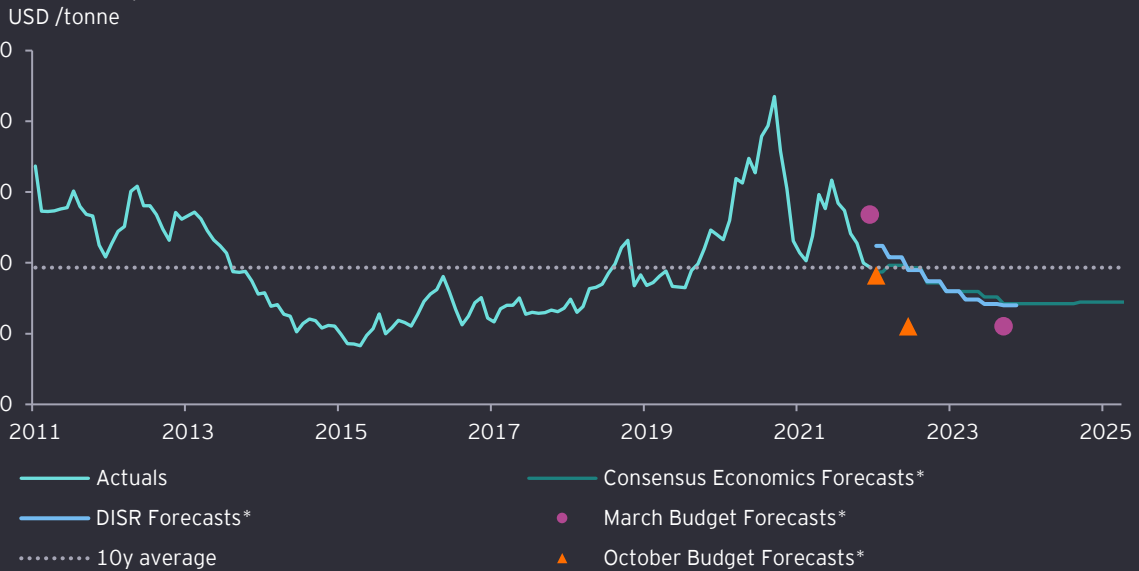
9. The Government continues to conservatively forecast commodity prices

Metallurgical Coke Prices



Source: Dalian Commodity Exchange, Consensus Economics, Department of Industry, Science and Resources (DISR), Commonwealth and QLD Budget Papers, EY

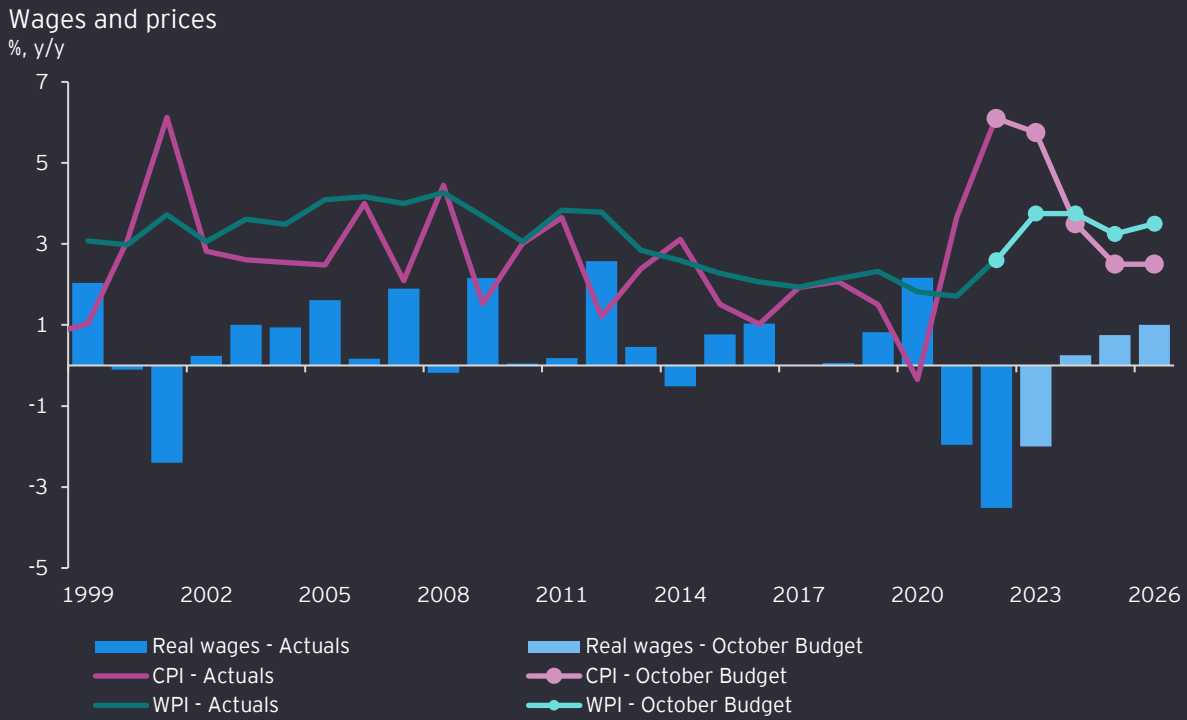
Iron Ore Price, 62% Fe



* Consensus Economics, DISR and Commonwealth Treasury forecast free on board (FOB) instead of cost, insurance and freight (CIF) prices.

Source: China Iron & Steel Association, Consensus Economics, Department of Industry, Science and Resources (DISR), Commonwealth and WA Budget Papers, EY

10. Wages forecasts are revised up mildly due to the tight labour market and high inflation is expected to persist for longer



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